Zenith Economic Quarterly

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SDGs & EXTREME POVERTY: From Alleviation to ERADICATION?

INSIDE

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Nigeria: Improving Public Revenue Through Tax Reform

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Sustainability All the Way

As the world was moving closer to the terminal date of the Millennium Development Goals (MDGs) this year (2015), the term 'Sustainability' was similarly creeping into human consciousness. Yet, the possibility that human societies will achieve environmental sustainability has been, and continues to be, questioned—in light of environmental degradation, climate change, overconsumption, population growth and societies' pursuit of indefinite economic growth in a closed system.

However, since the 1980s *sustainability* has been used more in the sense of human sustainability on planet Earth and this has resulted in the most widely quoted definition of sustainability as a part of the concept *sustainable development*, that of the Brundtland Commission of the United Nations on March 20, 1987: "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." But there can be no development without first securing the survival and wellbeing of the human kind; and so, the first and foremost of the Sustainable Development Goals (SDGs) is to "end poverty in all its forms everywhere."

...today almost a billion people around the world still find themselves living precariously under extreme poverty: on below US$2.00 per day.

But today almost a billion people around the world still find themselves living precariously under extreme poverty: on below US$2.00 per day. From literature, the MDGs treated poverty and hunger as a developing or 'least developed countries' (LDCs) issue, and which is why all through the 15 years lifespan of the MDGs (2000—2015) much success was not made through the mantra of 'poverty alleviation and reduction.' Under the emergent SDGs however, poverty will be seen and treated as a global issue that affects all countries of the world, irrespective of their socioeconomic ranking. That is, 'sustainable treatment of global poverty.'

In appreciation and support for this new focus, our lead title, "SDGs &Extreme Poverty: From Alleviation to Eradication," explores and x-rays twists and turns in the efforts at dealing with extreme poverty on the surface of the earth. The author notes that abject poverty remains a global albatross that must be eradicated, not only because it dehumanizes but also because it constitutes a great threat to global peace and security. "Much of the global rebellions and armed conflicts around the world have their origins in economic exclusion and social deprivation," according to the writer. In sum, the author says: "it is in the global interest to end absolute poverty. As the history of the 2011 Arab Spring has shown, the abjectly poor does not believe that they have much to live for..."

Our second cover title focuses on the contemporary issue of using tax to raise more revenue for the Federal Government of Nigeria in the face of the fast dwindling oil income and other resources. The piece scrutinizes the Nigerian tax system and makes recommendations on how it could be leveraged for enhanced income generation and sustainable growth and development of the country. Yet another work examines the lingering problem of gas flaring in Nigeria, offering suggestions on how the age-long challenge could be turned around to create wealth for sustainable development.

There is also a review of the global market developments in the third quarter 2015, with focus on key market drivers and the likely direction for the rest of the year. We also have, as always, a periscopic analysis of the state of the Nigerian economy during the third quarter 2015 under the rubric: "Nigeria: Is the economy hitting the trough?" The 'Facts & Figures' and 'Policy' sections, as usual, complete the package for your delight.

Enjoy yourself!

Marcel Okeke

from our mailbox

I am directed to acknowledge with thanks, a receipt of copy of the July, 2014 Edition of Zenith Economic Quarterly (ZEQ) which focuses on "Global Oil Outlook: Is Nigeria in a Shrinking Market". Please accept the assurances of the Ambassador's highest regards.
J. O. Olarinde
For: Ambassador
Embassy of the Federal Republic of Nigeria, Arab Republic of Egypt

Your letter dated 5th January, 2015 but received in our office on 12th March, 2015 on the above subject refers. On behalf of the Honourable Minister of Works, I hereby acknowledge receipt of the Bank's Economic Quarterly and thank you for same. Please accept the assurances of the Honourable Minister's consideration and regards.
Benedict Eigbiluese
For: Honourable Minister
Federal Ministry of Works
Abuja, Nigeria

We acknowledge with thanks your letter dated July 20, 2015 on the above subject matter and a copy of the April 2014 edition of the Zenith Economic Quarterly which was received on 1st September, 2015. We believe that the journal will be useful to us and our library users. Thank you.
Yours faithfully,
Dike Anne
For: Director-General
Chartered Insurance Institute of Nigeria, Lagos, Nigeria

I write to acknowledge our receipt of a copy of your publication, the Zenith Economic Quarterly, Vol 11, No 2, April 2015. We appreciate your sending us this timely publication. It will undoubtedly enrich our learning, teaching, and research work in the key area of "ECOWAS Common External Tariff" as it pertains to Nigeria.
Yours sincerely
Okechukwu Nonyelum
The Librarian
Lagos Business School
Pan-Atlantic University, Lagos

The Department writes to acknowledge the receipt of your April 2015 edition. The Department appreciates your efforts in sending your publications which have always been found helpful in fostering knowledge of both staff and students in the Department. Thank you.
Yours faithfully
Dr. Mohammed Madawaki
Head of Department
Department of Finance
Faculty of Management Sciences
University of Maiduguri, Borno State.

" It will undoubtedly enrich our learning, teaching, and research work in the key area of "ECOWAS Common External Tariff" as it pertains to Nigeria."

Your letter dated July 20, 2015 on the above subject refers. We acknowledge with thanks the receipt of one copy of your April 2015 edition of the Zenith Economic Quarterly (ZEQ). The publication is undoubtedly rich in content and very educative.
Thank you.
Osuji Peter I.
Head, Branch Support
For: Branch Controller
Central Bank of Nigeria
Owerri Branch, Imo State.

I am directed to acknowledge receipt of a copy of the Zenith Economic Quarterly of April, 2015 under the cover of your letter dated July 20, 2015 addressed to Governor Adams Aliyu Oshiomhole and to convey his profound appreciation for the gesture. Please accept the renewed assurances of the highest esteem of Mr Governor.
Yours sincerely,
Yakubu Aliyu
Principal Private Secretary
Office of the Governor
Edo State Government of Nigeria

We receive with great appreciation, a copy of the April, 2015 edition of the Zenith Economic Quarterly. Professor Deji Adekunle, the Director General of Nigerian Institute of Advanced Legal Studies has directed me to convey his warm regards and to let you know that he found the articles in the ZEQ interesting and educative. Thank you.
Sincerely
Chukwuemeka Castro Nwabuzor
SA to the Director General
Nigerian Institute of Advanced Legal Studies, Lagos, Nigeria

I am directed to acknowledge with thanks the receipt of your letter dated 20th July, 2015 forwarding a copy of the April, 2015 edition of the Zenith Economic Quarterly (ZEQ) Journal to the Vice-Chancellor. No doubt, the Journal will provide the University with useful information on "ECOWAS Common External Tariff: Challenges and Gains for Nigeria", and also serve as a veritable reference material in the University Library. While commending the management of Zenith Bank Plc for the publication, kindly accept the assurances of our warm regards and best wishes.
Yours sincerely
Bayo Orukotan
Principal Assistant Registrar
Office of the Vice Chancellor
Bells University of Technology

PERISCOPE

NIGERIA: Is the Economy HITTING THE TROUGH?

By Marcel Okeke

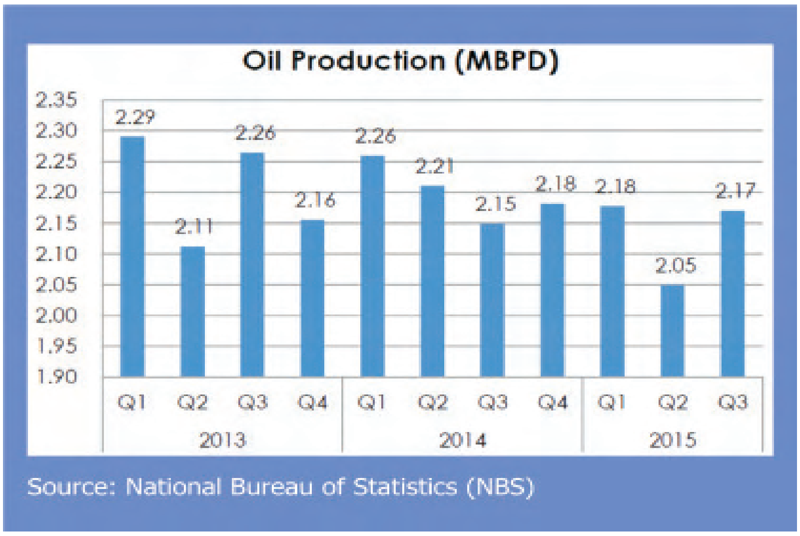
In a communique after its September 2015 meeting, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria gave an informed verdict on the state of the Nigerian economy as well as its prospects in the short-to-mid terms. According to the Committee, "having seen two consecutive quarters of slow growth, ... the economy could slip into recession in 2016 if proactive steps were not taken to revive growth in key sectors of the economy." Noting that the overall macroeconomic environment remained fragile, the MPC pointed out that the economy further slowed in the second quarter of the year, making it the second consecutive quarterly less-than-expected performance. The Committee noted that growth had come under severe strains arising from declining private and public expenditures. In particular, it noted the impact of non-payment of salaries at the state and local government levels as a key dampening factor on consumer demand.

In tune with the apprehension of the Committee, macroeconomic indices sustained the dismal trend of the first two quarters of the year into the third. Thus, year-on-year headline inflation kept rising; demand pressure in the foreign exchange market remained significant as oil prices continued to decline. Some policy measures of the Government during the third quarter inadvertently fostered or worsened the trend. For example, the MPC noted that liquidity withdrawals following the implementation of the Treasury Single Account (TSA), elongation of the tenure of state government loans (by turning them to bonds) as well as loans to the oil and gas sectors could aggravate liquidity conditions in banks and impair their financial intermediation role, thus affecting economic growth.

The MPC further observed that the impact of the persistent decline in global crude oil prices on the fiscal position of Government continued to reflect in rising credit to government. These worrisome trends apparently led to decision by JP Morgan to exclude the country from its Government Bond Index for Emerging Economies (GBI-EM); a measure that another global player, Barclays has also threatened to take against the country by the end of the third quarter 2015.

Indeed, virtually all economic indicators performed less-than-expected or achieved a completely negative turnout by the second and third quarters, 2015. Output growth in the first half 2015 trended downwards from the level in the fourth quarter of 2014, mainly on account of collapsing oil prices and other domestic challenges. Data from the National Bureau of Statistics (NBS) however show that the Nigeria economy expanded marginally in the third quarter 2015, rising to 2.84 per cent year-on-year, from 2.35 per cent in the second quarter 2015, but lower than the 6.23 per cent recorded in the corresponding quarter of 2014. The slight improvement, when measured against the preceding quarter, was largely due to faster growth in the oil sector while the non-oil sector was subdued somewhat. The oil sector grew by 1.06 per cent y-o-y in the third quarter as crude oil production rose to an average of 2.17 million barrels per day (bpd) in the third quarter, from 2.05 million bpd in the second quarter 2015. The non-oil sector grew by 3.05 per cent y-o-y in the third quarter, down 4.46 percentage points from the 7.51 per cent posted in the corresponding period of 2014. NBS highlights that crop production, financial services and telecommunications represented the main culprits in this regard. The fastest growing sub-sectors in the third quarter were: Cement (21.2%), Plastic & Rubber Products (16.3%), Chemical and Pharmaceutical Products (15.1%) and Broadcasting (14.9%).

Also, year-on-year headline inflation maintained an upward trend to 9.4 per cent in September, from 9.3 per cent in August and 9.2 in June and July, 2015. In all cases, the increase in headline inflation reflected rises in



Source: National Bureau of Statistics (NBS)

both the core and food components. This unexpected scenario in inflation was mainly traceable to higher energy prices, delayed harvests and pass through from imports. Inflation rate has been creeping, but steadily over the past months; in fact, the inflation rate has risen eight times in nine months this year.

The demand pressure at the foreign exchange market continued all through the third quarter, although

the CBN tried to maintain a stable foreign exchange rate at the official window. The demand pressure in the market, led to the apex bank drawing down from the external reserve to push towards achieving foreign exchange rate stability. Month-on-month, as at end-September 2015, the Naira appreciated by 1.51 per cent to close at N231.50/US$1 at the parallel market, compared with August 2015. The Naira closed unchanged at N199.08/US$1 and N197/US$1 at the inter-bank and official markets. The average exchange rate at the parallel market depreciated by 0.48 per cent to stand at N231.98/US$1 in September 2015. The average inter-bank market rate also depreciated by 0.07 per cent to N199.09/US$1; while at the official market, it closed unchanged at N197/US$1.

Efforts at achieving the stability of the Naira exchange rate by the CBN saw the nation's external reserves drop by 3.13 per cent to US$30.34bn at end-September 2015; an amount just enough to finance six months of imports. The CBN used the external reserves to meet the demand for foreign exchange. The external reserves decreased by 11.98 per cent to stand at US$30.34bn as at end-September 2015 from US$34.47bn as at end-December 2014. The average external reserve for the month of September 2015 stood at US$30.77bn, compared with the average of US$31.53bn in the month of August 2015.

With respect to crude oil, the Organization of the Petroleum Exporting Countries (OPEC) production level remained above the 30mb/d level agreed by its members in September 2015. The OPEC Monthly Report (OMR) for October 2015 showed that the daily crude oil production in Nigeria increased by 1.60 per cent to 1.90mbpd in September, from 1.87mbpd in August. The total OPEC crude oil production from secondary sources was 31.57mbpd in September 2015, an increase of 0.35 per cent from 31.46mbpd over the previous month. Crude oil production output increased mostly from Iraq, Nigeria, United Arab Emirates, Qatar, Kuwait, and Venezuela; while production dropped in Saudi Arabia, Libya, Ecuador, Iran and Algeria.

Equity Market

The equity market appreciated in the month of September 2015, compared with August 2015. The Nigerian Stock Exchange All Share Index (NSE ASI) appreciated by 5.16 per cent (a gain of 5.16% in US$) on a month-on-month basis to close at 31,217.77 points. The market capitalization also gained by 5.10 per cent (a gain of 5.10% in US$) to close at N10.73trn (US$54.46bn). But with respect to the three months—June to September, the All-Share Index (ASI) decreased by 9.3 per cent from 33,456.83 on June 01, 2015 to 30,332.68 on September 18, 2015. Similarly, Market Capitalization (MC) fell by 8.8 per cent from N11.42 trillion to N10.42 trillion during the same period. However, relative to end-December 2014, the indices decreased by 12.5 and 9.3 per cent, respectively.

Year-to-Date as at end-September the Index has decreased by 9.92 per cent. The decline in share prices (year-to-date) was largely due to subdued sentiments preceding the general elections, which held in March/April 2015 and concerns for the country's foreign reserves position due to declining global oil prices.

Even as the nation's foreign reserves and other economic indicators were declining, Nigeria's stock of public debt was rising. According to the Debt Management Office (DMO) in Nigeria, the nation's external debt profile stood at $11 billion (N2.178 trillion) with the domestic debt hitting 11 Trillion Naira (about $55.2 billion) as at September 2015. That is, the nations' total public debt rose to N13.15 trillion as at end-September 2015, up from N12.11 trillion as at end-June 2015. Also, the domestic component rose to N11.0 trillion, from N10 trillion as at the close of second quarter 2015. Further analysis of these shows that the states accounted for 18 per cent of the domestic debts while the Federal Government accounted for 82 per cent.

Apparently, this bourgeoning

Source: NBS

public debt trend engendered by diminishing oil revenue inflow reflected in the impoverishment of the sub-national governments. Thus, by the third quarter 2015, many state and local governments across the country were unable to pay salaries and wages to their civil servants. And to salvage or assuage this ugly situation the Federal Government arranged N413.7bn Bailout Fund for all tiers of government. Under the arrangement, the CBN is to package N300bn special intervention fund for the states; the DMO to restructure N660bn commercial loans of the States; and all tiers of Government were to share $1.7bn from Excess Crude Account (ECA).

New Employments

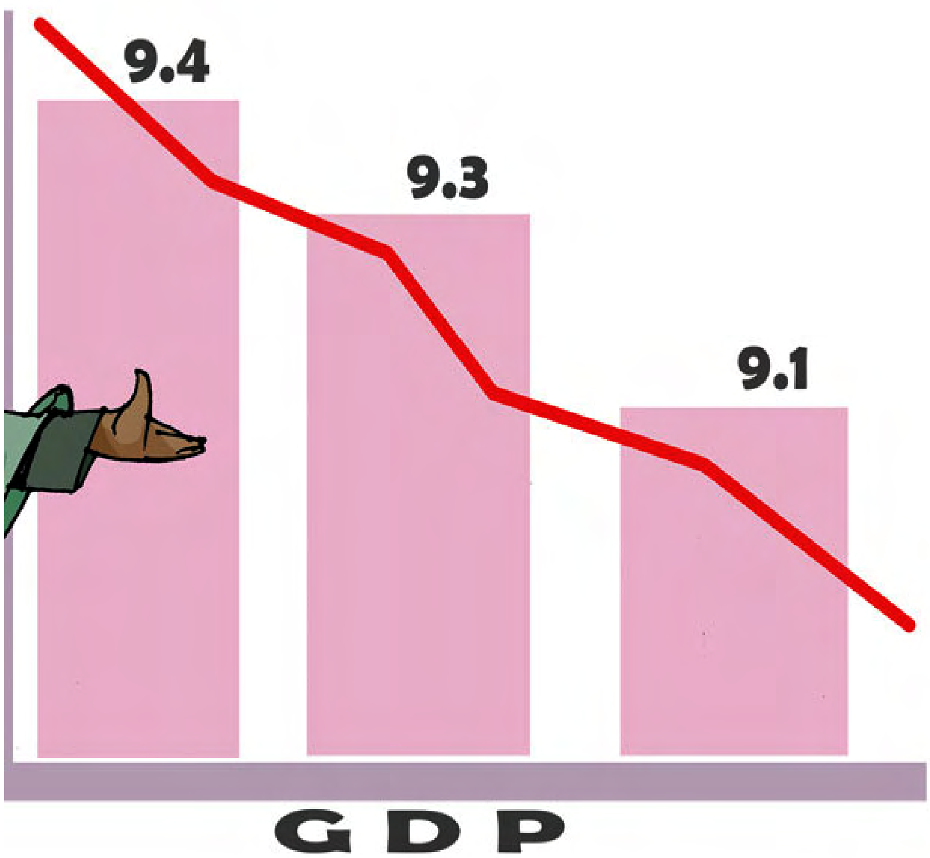
During the third quarter 2015 under review, the National Bureau of Statistics (NBS) data indicate the total number of jobs recorded in the Nigerian economy was 475,180 jobs; an increase of 236.1 percent (333,812) when compared with the previous quarter and 36 percent (125,837) when compared to the third quarter of 2014. The increase in the number of jobs in the third quarter was driven mainly by informal sector jobs, which accounted for 90.2 percent (428,690) of total jobs. It was followed by formal sector jobs, which accounted for 8.8 percent (41,672) of jobs in the third quarter, while the public sector generated 4,818 jobs, representing 1.01 percent of jobs in the quarter under review.

Under informal sector, which typically consists of jobs in individual or household businesses employing less than 10 and operating with little or no structures, the jobs generated in the informal sector during the third quarter 2015 (accounting for over 90 percent of total jobs), were predominantly in rural agricultural activities. Over 70 percent of the informal sector jobs created during the quarter were related to rural agriculture due to the beginning of the farming season where rural and subsistence farmers become fully engaged on their farms.

The third quarter of the year coincides with the planting season in Nigeria and has historically recorded higher job numbers when compared to other quarters, as farmers employ more hands to assist on the farms. Also accounting for the increase in informal jobs in the third quarter 2015, is the increase in the number of people previously not in labour force in the second quarter but now in the labour force and working in informal jobs due to their inability to find white

collar formal jobs. The survey showed more people who were not willing or available for work in the second quarter, are now working informal jobs in trade, catering services, tailoring and the likes.

Employment generation in the Formal sector recorded an 18.4 percent (9,398) decline in the third quarter when compared to the second quarter of 2015 continuing the steady drop in employment generation since the third quarter 2014. Employment generation which stood at 145,464 jobs in the second quarter 2014 dropped to 138,026 in the last quarter 2014; 130,941 in the first quarter 2015; 51,070 in the second quarter 2015 and 41,672 in the third quarter 2015. It is this continuous drop in the availability of typically better paying white collar formal jobs that has led to sharp rise in typically less paying, often menial jobs as graduates especially and other entrants into the labour force look for some form of livelihood in informal activities. Informal sector jobs have swelled continuously at the same time formal sector jobs have declined (except for Q2 2015 following end of elections) from 112,576 jobs in the second quarter 2012 to 227,072 in the last quarter 2014; to 332,402 in the first quarter 2015, and now 428,690 in the third quarter 2015.



Telecommunication/ICT

The main issue in the Telecommunication sector during the third quarter 2015 was the activity of the Compliance Monitoring and Enforcement Department of the Nigerian Communications Commission (NCC) which entailed the enforcement of what it termed "ethical market practices and optimal quality of service in the Nigerian telecoms industry". In this regard, the Commission sanctioned four (4) mobile network operators for sale of improperly registered SIM cards. The operators are: MTN, Airtel, Globacom and EMTS (Etisalat) a total sum of Four Million Naira for sales of pre registered SIM Cards. The breakdown of the fines is as follows: MTN : N21,800,000.00 (Twenty One Million, Eight Hundred Thousand Naira); Airtel : N3,800,000.00 (Three Million, Eight Hundred Thousand Naira); Globacom : N7,400,000.00 (Seven Million, Four Hundred Thousand Naira); EMTS : N7,000,000.00 (Seven Million Naira).

The NCC had at a meeting in Abuja with the representatives of the operators in August given them a seven-day ultimatum to de-activate all pre-registered SIM cards. According to the Commission, the directive was sequel to seemingly intractable security situation in the country and crimes committed against members of the public either by kidnappers, terrorists, robbers and threats to lives, through the use of such unregistered SIM cards across all the networks.

The statement read in part: "The meeting resolved that henceforth, all registrations must conform to the data dictionary, technical specifications on finger prints and facial images and the business rule agreed by all stakeholders; all registration records must be validated before sending to the commission; thus eliminating all invalid records that do not confirm new registrations and indicate same in the monthly reports sent to the commission. It was also resolved that operators will be held liable for cases of pre-registered SIMs."

The statement noted that while more than 120 million SIM cards have been registered and transmitted to the central database by the operators, about 45 per cent of the total numbers of registered SIMs, as at September 2014, were deemed invalid, adding that less than 30 per cent of the invalid records has been resubmitted for correction till date.

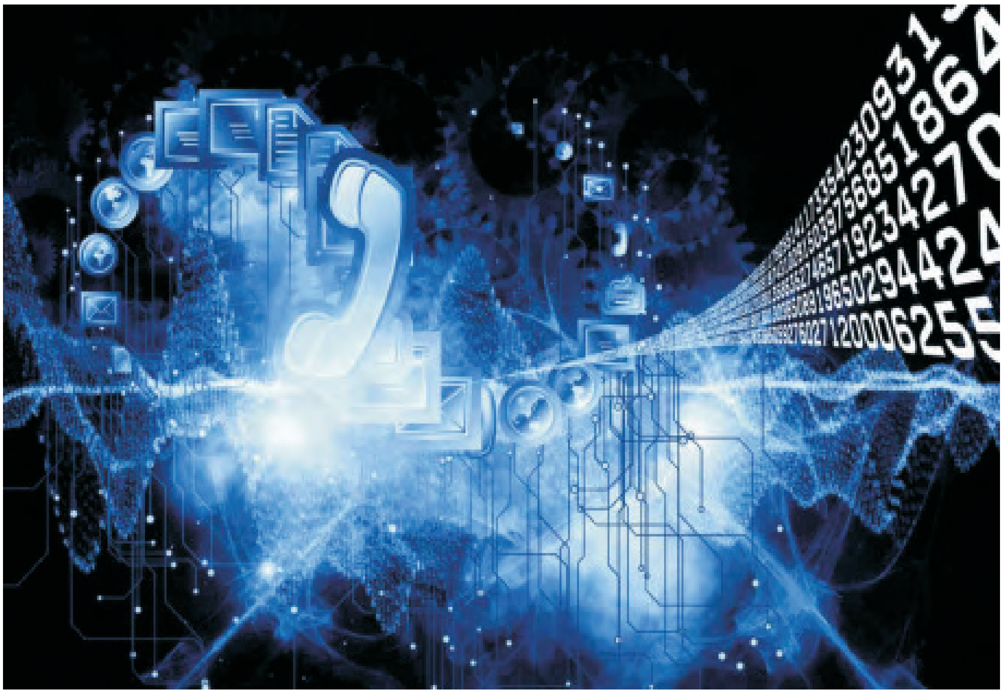
Sequel to the implementation of the sanction, and upon the de-activation of the affected phone lines, the telecom operators lost about 357,993 customers during the review period. Thus, according to the NCC active lines in the nation's telecommunications industry reduced to 150,660,631 in the month of September. Active lines in the country which was 151,018,624 for the month of August, reduced to 150,660,631 as at September 2015. According to NCC data, the Global System for Mobile Communications (GSM) network which had 148,708,160 in August, was now left with 148,427,043 active customers in September. The GSM network operators which comprises of MTN, Airtel, Globacom and Etisalat, lost 276,117 users, in the period under review.

The Code Division Multiple Access (CDMA) operators lost 83,926 active users, as their 2,125,941 customers recorded in the month of August reduced to 2,042,015 in September. However, the NCC monthly subscriber data showed that the Fixed Wired/Wireless networks' consumers increased to 191,573 as against 189,523 in August, hence, they added 2,050 customers to their networks in the month of September. The chart revealed that the teledensity of the country's telecommunications industry also reduced by 0.26 per cent, from 107.87 per cent in the month of August, to 107.61 per cent in September. Teledensity is the number of persons per 100 of the population that have telephone lines in 6the country. Nigeria's teledensity is currently calculated by the NCC on a population of 170 million people.

http://speysidecr.com/industry_sectors/technology-telecommunications-and-media/

As the teledensity of the country was rising, the number of Mobile Internet users was also inching up, hitting 97.21 millions as at September, 2015, according to NCC data. The figure represents an increase of about 1.85 million or 1.95 per cent from 95.37 million recorded in August 2015. According to the NCC data, the GSM segment continued its dominance of the mobile internet subscription. Similarly, MTN Nigeria maintained its dominance in the GSM segment in active mobile internet users while Visafone led in the CDMA segment.

The appointment of a new Executive Vice Chairman for the NCC was another major development in the ICT sector during the quarter under review. Specifically, Prof. Umar Garba Danbatta was on August 4, 2015 announced as the new Chief Executive of the telecoms regulatory agency. He had among other things been the Vice President of the Digital Bridge Institute (DBI)—a training agency of the NCC itself, before his appointment.



http://www.bluegraceholdings.com/telecommunications.html

Mobile Internet

A feature of the ICT sector in the country in the first three quarters of the year 2015 has been the continued rise in the number of mobile Internet users in Nigeria, which has hit over 93.4 million, according to a new report on Internet status in the country. The NCC report indicated that the country has recorded about 14 per cent growth in mobile internet subscriptions between January and end of July. According to the data, which show that Nigeria's mobile Internet ecosystem is gaining momentum, telecoms networks collectively boosted mobile Internet subscriptions on their networks from 81.8 million in January to 93.4 million in July, this year. According to the latest report, from 81.8 million in January, the number of GSM Internet subscriptions grew to 83.2 million in February; 85.3 million in March; 86.9 million in April 88.1 million in May and by the end of June, the figure rose to 92.6 million.

Over the seven months period, each of the GSM operators accumulated additional mobile Internet subscribers on their networks. Nigeria's fourth largest telecoms operator, Etisalat, with over 23 million subscribers on its network, recorded the highest number of additional mobile Internet subscriptions during the period.

According to the NCC data, Etisalat increased the mobile data subscriptions from 10 million in January to 15.3 million at the end of July, representing an increase of 5.3 million new data users during the period. Airtel came second by increasing its mobile Internet users from 14.9 in January to 17.6 million in June, representing an increase of 2.7 million new mobile data subscriptions on its network. Globacom came third in terms of the number of additional mobile Internet users recorded during the period. It increased its figure from 17.6 in January to 19.3 in June, representing additional 2.2 million users and this represents a 12.5 per cent growth. According to the data, from 39.1 million mobile Internet subscriptions in January, MTN increased to 41.4 million, representing additional 2.3 million users.

(Marcel Okeke is the Editor, Zenith Economic Quarterly)

Policy

Micro, Small and Medium Enterprises Development Fund (MSMEDF) Guidelines (Revised – August, 2014)

Development Finance Department
Central Bank of Nigeria

CHAPTER ONE

1.0 ESTABLISHMENT OF THE FUND

As part of its developmental functions and mandate of promoting a sound financial system in Nigeria, the Central Bank of Nigeria launched the Micro, Small and Medium Enterprises Development Fund (MSMEDF) on August 15, 2013. This was in recognition of the significant contributions of the Micro, Small and Medium Enterprises (MSME) sub-sector to the economy.

The sub-sector is characterized by huge financing gap which hinders the development of MSMEs. Section 6.10 of the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, stipulates that 'a Microfinance Development Fund shall be set up, primarily to provide for the wholesale funding requirements of MFBs/MFIs'. To achieve the provisions of Section 4.2 (iv) of the Policy, which stipulates that women's access to financial services should increase by at least 15 per cent annually to eliminate gender disparity, 60 per cent of the Fund has been earmarked for providing financial services to women.

This informed the decision of the Central Bank of Nigeria to establish the Micro, Small and Medium Enterprises Development Fund (MSMEDF).The Fund prescribes 50:50 ratio for on-lending to micro enterprises and SMEs respectively. Only new SMEs shall be allowed to be financed by DMBs under the MSMEDF.

Special consideration shall be given to Participating Financial Institutions (PFIs) that have signed Memorandum of Understanding (MoU) with the Central Bank of Nigeria's Entrepreneurship Development Centers (EDCs) to provide financial services to its graduates.

In addition, 2% of the wholesale component of the Fund shall go to economically active persons with disabilities (excluding mental disabilities).

1.1 Seed Capital

The Fund shall have a take-off seed capital of N220billion.

1.2 Objective

The broad objective of the Fund is to channel low interest funds to the MSME sub-sector of the Nigerian economy through PFIs to:

- Enhance access by MSMEs to financial services
- Increase productivity and output of microenterprises

- Increase employment and create wealth
- Engender inclusive growth

1.3 Components of the Fund

The Fund shall have Commercial and Developmental components.

1.4 Commercial Component

The Commercial Component shall constitute 90 per cent of the Fund which shall be disbursed in the form of Wholesale Funding to PFIs in the following ratio:

- 60% of the Fund: Women
- 40% of the Fund: Others

Objectives of Wholesale Funding are to:

a) Provide facilities to qualified and eligible PFIs for on-lending to MSMEs

b) Improve the capacity of the PFIs to meet credit needs of MSMEs

c) Reduce the cost of funds of the PFIs and ensure that this translates into reduced borrowing costs for the borrowers.

1.5 Developmental Component

The Developmental Component makes up the remaining 10 per cent of the Fund. It shall be earmarked for developmental programmes in the following categories:

- Grant (9.75%)
- Operational Expenses (0.25%) at take-off

1.5.1 Grant

The 9.75% Grant Component of the Fund shall support general development of the MSME sub-sector. It shall be incentives targeted at institutions that demonstrate good loan repayment culture to enable them attain more capacity for expanded outreach.

PFIs shall qualify for the grant component based on their performance rating in poverty reduction, job creation and financial inclusion. For institutions to benefit, they shall submit clearly defined projects and provide counterpart funding which shall be matched by the Funds grant support. An institution shall enjoy the grant once in three years up to a maximum of 25% of the project cost and subject to the discretion of the CBN.

The following activities shall be supported under the component:

a) Building capacity of staff of PFIs and their apex bodies

b) Development of appropriate regulatory regime for MSME lending

c) Financial literacy and entrepreneurship development

d) Mobilization, training and linking of MSMEs to financial services

e) Research and Development of MSME-friendly financial innovations and products

f) Business Development and Advisory Services

g) Building of financial infrastructure in support of MSMEs Other areas of technical assistance under the Grant subcomponent include support in the areas of internship, secondment, mentoring and registration with Mix Market, sponsorship of ratings, credit bureau and movable asset registry.

The Fund shall review all proposals taking into account the capacity, organization and the proposed programs of all applicants before they are considered for the Grant. Priority shall be accorded to PFIs based in the rural areas to promote financial inclusion.

In addition, special consideration shall be given to PFIs that have signed Memorandum of Understanding (MoU) with the Central Bank of Nigeria's Entrepreneurship Development Centers (EDCs) to provide financial services to its graduates.

1.5.2 Selection Criteria

a) PFIs shall submit request to the Fund in a format which shall be prescribed by the CBN from time to time..

b) Applications shall be processed on receipt of complete documentation.

c) The CBN shall communicate the terms and conditions for the approved Grant within one month of submission.

1.6 Management and Administration of the Fund

The Fund shall be managed by the CBN under the terms and conditions defined in the Guidelines. In addition, the office that is responsible for the administration of the women component of the Fund shall be headed by a woman.

The Fund shall have a Steering Committee constituted in line with its approved shareholding structure and chaired by the Governor, Central Bank of Nigeria. Other members shall include:

1. The Deputy Governor, Financial Systems Stability
Representatives of:

2. Federal Ministry of Finance Incorporated (MoFI)
3. Federal Ministry of Agriculture and Rural Development (FMA&RD) - RUFIN
4. Nigeria Deposit Insurance Corporation (NDIC)
5. National Association of Microfinance Banks (NAMB)
6. Association of Non-Bank Microfinance Institutions of Nigeria (ANMFIN)
7. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
8. The Banker's Committee
9. Ministry of Women Affairs and Social Development (MWA&SD)
10. Director, Development Finance Department of CBN
11. Head, MSME Development Fund Office, Development Finance Department, CBN (Secretary)

1.7 Eligible Enterprises

In line with the provisions of the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, enterprises to be funded under the Scheme include:

a) Micro Enterprises

b) Small and Medium Enterprises

The following are eligible activities under the Fund:
Microenterprises

- Agricultural value chain activities
- Cottage Industries
- Artisans
- Services to hotels, schools, restaurants, laundry etc.
- Renewable energy/energy efficient product and technologies
- Trade and general commerce
- Any other income generating enterprise as may be prescribed by the CBN

A maximum of 10% of the Commercial component of the Fund shall be channeled to trade and commerce. This is to ensure that productive sectors of the economy continue to attract more financing necessary for employment creation and diversification of the country's economic base.

Small & Medium Enterprises (SMEs)

- Manufacturing
- Agricultural value chain activities
- Educational institutions
- Renewable energy/energy efficient product and technologies
- Any other income generating enterprise as may be prescribed by the CBN

Note: Refinancing under this programme is strictly prohibited.

CHAPTER TWO

2.0 ELIGIBILITY AND TERMS FOR PARTICIPATION

The PFIs shall include all Microfinance Banks, Non-Governmental Organizations-Microfinance Institutions (NGO-MFIs), Financial Cooperatives, Finance Companies, Development Finance Institutions (Bank of Agriculture & Bank of Industries) and Deposit Money Banks. The Bank of Industries (BoI) and Deposit Money Banks (DMBs) will participate under the SMEs window only.

2.1 Microfinance Banks & Finance Companies

For a microfinance bank/finance company to be eligible for wholesale funding, it shall satisfy the following conditions:

a) Submission of latest CBN/ NDIC examination report
b) Submission of 2 years Audited/Management Accounts
c) Acceptable Risk Management Framework
d) Sound Corporate Governance Culture indicated by:
- Adherence to Ethical Values
- Degree of Separation of Ownership from Control/Management
- Number of non-performing insider-related facilities

e) Evidence of Membership of apex association and up-todate payment of annual subscription
f) Compliance with up-to-date and timely rendition of monthly returns to the CBN as stipulated in the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.
g) Any other condition as the CBN may stipulate from time to time.

2.2 Microfinance Institutions (NGO-MFIs and Financial Cooperatives)

a) Registration with Corporate Affairs Commission or Appropriate Ministries, Departments and Agencies (MDAs) of States/FCT.
b) Corporate, trustee and management profile
c) Acceptable Risk Management Framework
d) Third Party Guarantee of at least 2 trustees
e) Sound Corporate Governance
f) Submission of 6 months statement of account
g) Submission of two years audited accounts or management accounts
h) Membership of the apex association with evidence of up-to-date payment of subscription
i) Compliance with up-to-date and timely rendition of monthly returns to the CBN as stipulated in the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.
j) Any other condition as the CBN may stipulate from time to time.

2.3 Other Requirements for Borrowing by PFIs (Excluding DMBs & DFIs)

All applications shall be accompanied by the following:

a) Completed Application Form
b) Viable Business Plan
c) Board resolution or Trustee consent to access the Fund
d) List of prospective borrowers, addresses/telephone numbers
e) Evidence of submission of names of borrowers to licensed Credit Bureaux
f) Certificate of Incorporation or Registration
g) Evidence of due diligence on projects
h) Letter authorizing CBN to debit PFIs account with correspondent bank in case of default.

2.4 Deposit Money Banks (DMBs)/Development Finance Institutions (DFIs)

A DMB/DFI to be eligible for wholesale funding shall satisfy the following conditions:

a) Sign MOU with the CBN.
b) Undertake to bear all the credit risks of the loans they shall be granting.
c) Issue authority to the CBN to deduct the balance of the outstanding loan at source from its account with the Bank.
d) Set aside ten (10) per cent of SME fund accessed for financing start-up businesses.

2.5 Obl igor Limit per Cycle

Maximum loan amount per cycle of wholesale lending shall be as indicated in the table below or 50% of Shareholder’s Fund unimpaired by losses for MFBs and Finance Companies.

a) PFIs

S/No.	Financial Institution	Facility Limit
1	Unit Microfinance Bank	N10 million
2	State Microfinance Bank	N50 million
3	National Microfinance Bank	N500 million
4	NGO-MFIs	N10 million
5	Financial Cooperatives	N10 Million
6	Finance Companies	N10 Million

b) Borrowers

On-lending to clients shall be based on the assessment by the PFIs. The structure and limits for borrowers are as shown below:

Enterprise	%	% Enterprise Groupings		Loan Maximum per Application (₦)
		Others	Female	
Micro	50	20	30	500,000
SMEs (financed by other PFIs)	50	20	30	5,000,000
SMEs (funded by DMBs & DFIs)		40	60	50,000,000

2.6 **Loan Tenor**

The facility shall have a maximum tenor of one (1) year for micro enterprises and up to five (5) years for SMEs with option of moratorium. PFIs shall access the fund as many times as possible upon full repayment.

2.7 **Interest Rates**

The Fund shall be administered at an interest rate of 3% per annum under the wholesale funding to the PFIs with a spread of 6% bringing the lending rate to borrowers at a maximum of 9 % per annum inclusive of all charges. The interest charges shall be subject to review by the Steering Committee of the Fund from time to time

2.8 **Acceptable Collateral (from PFIs excluding DMBs)**

Any or a combination of the following collateral shall be accepted by the CBN as security for loans from PFIs (excluding DMBs) to cover a minimum of 75% of the loan amount:

a) Financial Assets including pledge of Treasury Bills, Placements, Bonds, etc.
b) Third Party Guarantee from at least two (2) Board Members/Trustees and/or Third Party Guarantee from high net worth individuals
c) Any other collateral acceptable by the CBN from time to time.

2.9 **Monitoring and Evaluation (M&E)**

To achieve the objectives of the Fund, a robust M&E framework has been developed to monitor the operations and utilization of the Fund. The following shall apply:

a) On-site verification and monitoring of projects under the Fund by the CBN and PFIs during the loan period.
b) Off-site ICT based reporting system to provide up-to-date information on the Fund's activities.
c) Reports of the monitoring exercise shall be shared with the concerned PFIs.
d) CBN shall leverage Apex Associations' capacities and information in monitoring and evaluation
e) CBN shall periodically evaluate the activities of the PFIs to ensure achievement of the objectives of the Fund.

2.10 **Discontinuation of the Facil ity**

All undisbursed funds or discontinued facilities shall be reported and repaid to the CBN within 5 working days.

To be continued next edition

SDGs & Extreme Poverty: From Alleviation to ERADICATION?

By Eunice Sampson

The Real Meaning of Extreme Poverty

Poverty could mean insufficiency in the basic necessities of life. But extreme poverty goes way beyond that. It is a socio-economic anomaly that is synonymous with hunger pangs, homelessness, absence of basic healthcare services, educational deprivation, shortened life expectancy, environmental squalor, and a sense of hopelessness, indignity and social exclusion.

In October 2015, the World Bank adjusted upwards its measurement of extreme poverty. From the USD1.25 yardstick that was set in 2008, the new definition of extreme poverty is living on or below USD1.90 a day. But even this new yardstick can only be applicable to the poorest of the poor. In the United States, the poorest person is expected to live on USD11,770 per annum or about USD33 per day. In the United Kingdom where poverty is defined as living on 60 percent of the median income, it is £9,333 per annum, or £25.5 per day (about USD 38.6). In most developed economies of the world, poverty is defined as living on about half of the median disposable income of the country. In Japan for example where the median disposable income is currently put at about ¥2.44 million per annum, those living on or below ¥1.22 million per annum (about USD9,904 per annum or USD27 per day), are considered to be poor.

Today, almost one billion people around the world, including infants and children, suffer extreme poverty and hunger, living on less than USD1.90 per day, going to sleep without food and confronting diverse curable diseases without access to ba-

sic medications and healthcare services.

If lessons learnt in Economics 101 are anything to go by, insufficiency is as old as humanity. But extreme poverty is another matter entirely. It is the evidence of a sloppy distribution of global wealth and resources and an indication of the urgent need for a collective action to reverse the menace. Wherever there is extreme poverty, someone, somewhere – families, communities, political leaders, policy makers, corporate institutions, and global leadership – has not done what they are supposed to.

Extreme Poverty Statistics

Since the year 2000 when the Millennium Development Goals were unveiled till now, some level of success has been recorded in the journey towards poverty eradication, not just in the reduction in the number of people that are extremely poor worldwide (from about 1.9 billion as at 1990 to about 900 million today), but also in an improvement in the overall standard of living of the poor, leading to the recent upward review of the poverty line measurement yardstick, from the previous USD1.25 per day, to USD1.90. While this is a notable improvement, extreme poverty is a dehumanizing reality that must be completely stamped out – not just alleviated.

According to the most recent UN and World Bank estimates, 12.7 percent of the world's population live on below USD1.90 a day. Thanks to the Millennium Development Goals initiative, this figure is a great improvement on the 37 percent level as at 1990 and 44 percent in 1981. But 12.7 percent of the current global population size of 7.3 billion means that a massive 900 million people still live way below the poverty line.

Even 1% of extreme poverty is unacceptable. Global wealth has been divinely structured to go round even if not 100 percent equally. While everybody cannot be extremely rich, nobody deserves to be extremely poor. Latest World Bank estimate puts global GDP at USD77.8 trillion. Using simple mathematics, current global GDP divided by current global population size equals USD10,657 per capita. While the real world wealth distribution formula may not be that simple, it at least demonstrates that global wealth is sufficient to go round and ensure that no one is extremely so poor that they go to sleep without sufficient food, shelter and clothing. Unfortunately, almost a billion people around the world still find themselves in this precarious, dehumanizing situation.

The new Agenda

On 25 September 2015, the 193 member countries of the UN General Assembly met in New York and adopted a new development agenda captioned 'Transforming our world'. The new agenda outlined plans and targets for ending extreme poverty and hunger in all countries of the world, protecting the physical environment and ensuring global sustainable growth and development. This marked the official unveiling of the UN championed Sustainable Development Goals. Armed with 17 Goals and 169 targets, the initiative which will become effective in January 2016 targets ending global poverty, inequality and environmental exploitation by 2030.

The idea of setting Sustainable Development Goals was first officially discussed at the United Nations Conference on Sustainable Development which held in Rio de Janeiro, Brazil, in June 2012 (Rio+20). At the summit, the 192 UN member states committed to the process of designing sustainable development goals while the communique that evolved from the Conference, captioned, "The Future We Want", asked that the goals take effect as a successor to the Millennium Development Goals (MDGs) which was to end by 2015. The summit also called for the formation of an open working group to

THE 17 SUSTAINABLE DEVELOPMENT GOALS

	GOALS (17)	SUMMARY OF TARGETS
1.	No Poverty	By 2030, end poverty in all its forms everywhere and eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.90 per day
2.	Zero Hunger	By 2030, end hunger, achieve food security and improved nutrition, and promote sustainable agriculture
3.	Good Health & Wellbeing	By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births; end preventable deaths of newborns and children under 5 years of age, with all countries aiming to reduce neonatal mortality to at least 12 per 1,000 live births and under - 5 mortality to at least 25 per 1,000 live births; ensure healthy lives and promote well - being for all at all ages
4.	Quality Education	By 2030, ensure inclusive and equitable quality education and promote life-long learning opportunities for all. Ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes; ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
5.	Gender Equality	Achieve gender equality and empower all women and girls. End all forms of discrimination against all women and girls everywhere; eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation; eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation; recognize and value unpaid care and domestic work
6.	Clean Water & Sanitation	By 2030, achieve universal and equitable access to safe and affordable drinking water for all; ensure availability and sustainable management of water and sanitation for all
7.	Affordable & Clean Energy	By 2030, ensure universal access to affordable, reliable and modern energy services for all; increase substantially the share of renewable energy in the global energy mix; double the global rate of improvement in energy efficiency; enhance international cooperation to facilitate access to clean energy research and technology
8.	Decent Work & Economic Growth	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries; promote development -oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro, small, and medium sized enterprises, including through access to financial services; eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers.
9.	Industry, Innovation & Infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020
10.	Reduced Inequalities	Reduce inequality within and among countries. By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average; empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status; ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices; reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent

Source: The United Nations

THE 17 SUSTAINABLE DEVELOPMENT GOALS

11.	Sustainable Cities & Communities	By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums; provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons; make cities and human settlements inclusive, safe, resilient and sustainable
12.	Responsible Consumption & Production	Ensure sustainable consumption and production patterns; by 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse; encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle; ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature
13.	Climate Action	Take urgent action to combat climate change and its impacts; integrate climate change measures into national policies, strategies and planning; improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning
14.	Life Below Water	Conserve and sustainably use the oceans, seas and marine resources for sustainable development; prevent and significantly reduce marine pollution of all kinds; prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing
15.	Life on Land	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss; promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
16.	Peace, Justice & Strong Institutions	Promote peaceful and inclusive societies for sustainable development; provide access to justice for all; build effective, accountable and inclusive institutions at all levels; end abuse, exploitation, trafficking and all forms of violence against and torture of children; promote the rule of law at the national and international levels and ensure equal access to justice for all; significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime; substantially reduce corruption and bribery in all their forms; develop effective, accountable and transparent institutions at all levels; strengthen the participation of developing countries in the institutions of global governance; provide legal identity for all, including birth registration
17.	Partnerships for the Goals	Strengthen the means of implementation and revitalize the global partnership for sustainable development; strengthen international support to developing countries, to improve domestic capacity for tax and other revenue collection; assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring; adopt and implement investment promotion regimes for least developed countries; enhance North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation and enhance knowledge sharing on mutually agreed terms

Source: The United Nations

come up with a draft agenda for the initiative. A 30-member Open Working Group (OWG) of the General Assembly was given the task of preparing a proposal on the SDGs.

The intergovernmental open working group held its inaugural meeting on March 14-15, 2013 in New York, and published its final draft of 17 suggested goals in July 2014. The document was presented to the UN General Assembly that September, triggering debates and negotiations on the proposals. According to reports, to arrive at the final position, the UN conducted a series of "global conversations" that included 11 thematic and 83 national consultations, and door-to-door surveys. An online survey (My World) was also launched requesting inputs from the global public on what the priority focus of the SDGs should be. The results of the consultations were integrated into General Assembly discussions. At the UN General Assembly meeting which held in New York on September 25-27, 2015, the harmonized Sustainable Development Goals were adopted and unveiled to the world.

The Goals were designed to function as a development compass for global stakeholders to ensure purposeful and guided strategies and actions for sustainable social, economic and ecological development.

Perhaps no UN initiative till date has received as much global input as the Sustainable Development Goals, explaining the enthusiasm and optimism among diverse stakeholders that this just might be the panacea for eliminating extreme poverty, inequality and environmental bastardization if implementation is purposefully managed.

Poverty Eradication: The journey so far

While there have been several initiatives before it, the emergence of the Millennium Development Goals (MDGs) could arguably be the turn-

ing point in the global efforts towards extreme poverty eradication. The eight Millennium Development Goals that preceded the SDGs focused on reducing extreme poverty in the low income countries, increasing literacy and child enrolment in schools and fighting diseases and infant and maternal mortality rates, among other targets.

According to the UN Secretary-General, Ban Ki-Moon in a Forward to the 2014 MDG Report, "the MDGs have made a profound difference in people's lives. Global poverty has been halved five years ahead of the 2015 timeframe. Ninety per cent of children in developing regions now enjoy primary education, and disparities between boys and girls in enrolment have narrowed. Remarkable gains have also been made in the fight against malaria and tuberculosis, along with improvements in all health indicators. The likelihood of a child dying before age five has been nearly cut in half over the last two decades. That means that about 17,000 children are saved every day. We also met the target of halving the proportion of people who lack access to improved sources of water."

According to the same report, in 1990, almost half of the population in developing regions lived on less than USD1.25 a day. This rate dropped to 22 per cent by 2010, reducing the number of people living in extreme poverty by 700 million. The target of halving the proportion of people without access to an improved drinking water source was achieved in 2010, five years ahead of schedule. In 2012, 89 per cent of the world's population had access to an improved source, up from 76 per cent in 1990. Over 2.3 billion people gained access to an improved source of drinking water between 1990 and 2012. Substantial gains have been made towards reaching gender parity in school enrolment at all levels of education in all developing regions. By 2012, all developing regions have achieved, or were close to achieving, gender parity in primary education. Worldwide, the mortality rate for children under age five dropped almost 50 per cent, from 90 deaths per 1,000 live births in 1990 to 48 in 2012. The school enrolment rate in primary education in developing regions increased from 83 per cent to 90 percent between 2000 and 2012. (Excerpt from the United Nations' Millennium Development Goals Report 2014).

Similarly, according to World Bank data, in 2012, people that lived on less than USD1.90 a day reduced to 896 million, compared with 1.95 billion in 1990, and 1.99 billion in 1981. Global extreme poverty has been halved within the last two and half decades even though with regional disparities. As the curtain closes on year 2015, it can be said that, give and take, the MDG was a remarkable success, not only in these achievements but also in drawing global attention to critical human wellbeing issues and for creating diverse international, national and subnational fora for them to be discussed and possibly addressed.

Using the newly adopted poverty measurement benchmark of USD1.90 per day, a report released by the World Bank on October 4, 2015 projects that the number of people living in extreme poverty around the world would likely fall to under 10 percent of the global population by the end of 2015, igniting hope that after all, global poverty could be eradicated by the new target year of 2030, all things being equal. The report projects 702 million people or 9.6% of the world's population will be living in extreme poverty by yearend 2015, down from 902 million people or 12.8% in 2012.

In a note of strong optimism, World Bank president Jim Yong Kim described the development as "the best story in the world today .... These projections show us that we are the first generation in human history that can end extreme poverty.... This new forecast of poverty falling into the single digits should give us new momentum and help us focus even more clearly on the most effective strategies to end extreme poverty... With these strategies in place, the world stands a vastly better chance of ending extreme poverty by 2030 and raising the life prospects of low-income families."

The Regional Disparities

Whatever remains of the world's poorest population is largely concentrated in Sub-Saharan Africa, South Asia, East Asia and the Pacific, with the three regions accounting for 95 percent of global poverty. While some regions have made rapid progress towards poverty alleviation in the last three decades others have actually seen worsening poverty. For example, as at 1990, East Asia accounted for 50 percent of global poverty while Sub Saharan Africa accounted for 15 percent. But by the 2015 World Bank estimates, the situation has been reversed. Sub Saharan Africa now accounts for 50 percent of the global poor while East Africa has seen a dramatic fall in poverty rate to 12 percent. So while good progress has been made in the fight against extreme poverty since 1990, the huge regional disparities and the retrogression of the Sub-Saharan African region remains a cause for grave concern. While Sub-Saharan poverty had fallen from about 56 percent in 1990 to a new projection of 35 percent in 2015, the continent has not made as much progress as the rest of the world. Rapid population expansion, slower global growth, high incidences of internal conflicts, high unemployment rate, low capacity building and utilization and the culture of over dependence on the highly volatile commodity exports, are some of the key issues militating against poverty eradication in the African continent.

http://blog.wcrf.org/tag/sustainable-development-goals/

MDGs versus SDGs

The Millennium Development Goals (MDGs) launched in September 2000, and the Sustainable Development Goals (SDGs) launched in September 2015 following the expiration of the MDGs are both developmental agendas with several similarities. They both identify developmental needs and set clear, concise, time-bound and measurable goals and targets towards meeting them. However, while the MDGs were targeted at plugging the developmental loopholes by 'half' (for example, halving global poverty by the year 2015), the SDGs are designed to completely end (to zero level) this problem. While one says "lets half the number of people that are hungry by 2015", the other says, "let's eradicate hunger by 2030").

While the MDGs (MDG 1) treated poverty and hunger together, the SDGs treated them as two separate issues. But like the MDGs, the SDGs also highlighted both issues as of critical importance, having them occupy number one and two positions, respectively in the list of 17 goals. The SDGs expanded the focus on women empowerment and the role of international, national, subnational governments and local communities in the global sustainable development effort. Also, the evolution of the SDGs was much more broad-based, with contributions from all nooks and crannies of the world, including civil society groups, media, NGOs, corporate organizations, diverse interest groups and governments at all levels. The outcome could not have

been but more comprehensive and far-reaching.

Also worthy of mentioning is the new emphasis on quality of education as against quantity (total enrolment figures) as emphasized fifteen years ago in the MDGs. The stronger emphasis on 'sustainable development' in the SDGs is also striking. The world has come full cycle to realize that development is meaningless if it is not sustainable – taking into cognizance the impact of our every action on future generations and outcomes. There is also greater emphasis on the environment and efforts that must be made going forward to preserve global flora and fauna if we are to have a sustainable future.

Interestingly, while the MDGs treated poverty and hunger as a developing or least developed countries' issue; the SDGs treated them as global issues that affect all countries of the world, irrespective of their socioeconomic ranking. This is a much more realistic and sustainable treatment of global poverty. The SDG is indeed a much more 'sustainable' approach to global development.

The SDGs recognize that while the present is important, the future is even more so; and that we can seal the fate of our unborn children and grandchildren by the actions and decisions we take today. The new SDGs go much further than the MDGs, in addressing the root causes of poverty and the universal need for development that works for all people. It has also done a better job in reiterating the synergy that exists between the three pillars of sustainability – social, economic and environmental. And of course, the SDGs were made more robust from experiences learnt and shortcomings observed in the MDGs which came fifteen years earlier. The new initiative is now expected to complete what the earlier one started.

Poverty & the Environment: the Symbiosis

The SDGs have three pivotal focus - poverty, equality and the physical environment. Because of its overbearing implications, poverty eradication remains the dominant theme in the SDGs. And the reason for this is not farfetched – ecological degradation, human right abuses, discrimination against women, child labour and abuse, social exclusion and discrimination, among other sustainability issues – are more rampant in an environment where poverty is rife. None of these issues can be meaningfully tackled if extreme poverty is not.

Poverty and environmental well-being have a closely knit, cause/effect relationship. Poverty could be the direct or indirect result of environmental degradation. A typical example is the case of the coastal parts of Nigeria's Niger Delta where decades of poorly managed oil exploration activities have battered the aquatic life, robbing the host communities of their traditional fishing and farming industries and rendering their lands infertile for agricultural purposes. On the other hand, poverty could lead to environmental degradation. Communities and households that are unable to afford cooking stoves for example would easily resort to tree felling as an alternative. This could result in environmental hazards such as deforestation, desertification and bio-diversity loss. Also, the need for survival and self-preservation in the face of acute shortage in resources drives impoverished households and communities into violations of their physical environments such as unauthorized fishing and hunting, deforestation, among others, all of which could endanger biodiversity in the fora and fauna.

Poor condition of the physical environment portends great threat to the physical, psychological and economic wellbeing of the poor. The condition of the physical environment where a child grows up, for example, could play a significant role in determining the state of their health, longevity, educational attainment, financial success and their overall emotional and behavioral outcome. A well nurtured physical environment plays a great role in improving the human condition and lifting the dismally poor above the poverty line as it creates diverse economic opportunities and enhances overall wellbeing.

The relationship between environmental wellbeing and poverty are so interwoven that it would be a mistake to tackle one in the absence of the other. In fact when poverty isolates humans, nature and the physical environment becomes their greatest companion and friend, providing them warmth, shelter, food and hope for survival. Conversely, when nature begins to react to its violations by humans, and global warming, climate change, deforestation, desertification and other natural disasters begin to take their toll, the poor is the most vulnerable victim. It is therefore in the best interest of the poor that environmental sustainability is achieved. The more battered the physical environment, the higher the possibility of extreme poverty.

Are the SDGs Achievable?

As seen in the October 2015 reports of the World Bank, the progress that has been made in the last two decades gives optimism that eradicating global extreme poverty is possible, and that the SDGs could consolidate the gains recorded by the MDGs in tackling the menace. But while the SDGs have been hailed as well-thought-out Goals towards eradicating global extreme poverty, that is exactly what they are – goals. Their actualization will be determined by several factors.

Availability of funding would be a critical success factor. Calculations from the intergovernmental committee of experts on sustainable development financing have put the cost of economic empowerment towards eradicating extreme poverty at about USD66bn (£43bn) a year, while annual investments in improving infrastructure (power, water, agriculture, transport, telecommunications) could be up to a total of USD7trillon globally. As at today, there are no known concrete funding plans on ground. While it has been repeatedly acknowledged that the low income countries may not be able to achieve these goals without adequate support, no effective plan has yet been put in place. Initiatives such as the Addis Ababa action agenda and the Green Climate Fund are yet to be activated. Meeting the funding needs of sustainable development remains a major challenge for stakeholders and would be one of the key factors that could make or mar the SDGs.

Also, without the needed institutional framework and political structure in place, the realization of the SDGs will be a mirage. While the United Nations and its agencies continue to champion the course, there is need for a more structured, formal and direct governance structure to enforce and monitor compliance from the global to the communities' level.

Global, national and subnational governmental commitments will also be key. As comprehensive a plan as the SDGs, the goals will not be realized if the global community does not commit to them. Global community in this instance would include national governments, corporate institutions, civil society groups, international development and finance agencies, NGOs, among others. It would entail forging close alliances and partnerships

among these stakeholders and a strong commitment to the course. To succeed, the SDGs must become embedded in the constitutional, legal and regulatory frameworks of governments at all levels, with well laid out implementation strategies in place.

Periodic reviews and measurement of progress will also be needed. While 2030 remains the target for the actualization of set goals, extensive periodic reviews, say, every five-yearly, should be carried out to determine progress and plug observed loopholes. This would allow for redirection and re-strategizing where necessary to ensure that the initiative is not derailed.

Communities' mobilization and ownership is another important factor. Without the buy in and ownership of these goals by the different communities, progress in their actualization could be stalled. A lot of work would need to be done to give adequate publicity to the SDGs in languages that the ordinary citizens in the different countries could clearly understand, no matter how remote their locations in the global map. The SDGs must be taken out of its current 'paper' format and made to come alive in a way that the ordinary man on the streets can relate with.

Simple and clearly defined implementation processes must also be put in place. Now that the goals have been unveiled to the world, realistic, measureable and time bound implementation steps must be agreed by stakeholders in the different countries. Like the process that brought the SDGs into being, these implementation processes must be broad-based in scope, taking into cognizance the views and expectations of all member states and global institutions.

In addition, the implementation processes must recognize the differences in the circumstances of countries and other stakeholders and give room for customized solutions that meet peculiar needs. Implementation must be tailored with considerations for the peculiarities of the individual member states while pursuing the same goals and targets.

Effective mobilization of corporate institutions would be a critical success factor. In a world where titan corporations exist, some of which are richer than some several countries put together, their role in the implementation of the SDGs cannot be overstressed. Also, corporations have perhaps the biggest environmental footprints among global stakeholders and must be mobilized to play a critical role in efforts to enhance the wellbeing of the social, economic and physical environments.

Similarly, effective integration of the three pillars of sustainability would be needed. To be successful, champions of the SDGs must be able to show the clear and interwoven relationship between and among the three pillars of sustainable development – social, economic and environment. Incorporating all three in developmental plans and implementation strategies, and giving all three equal attention would ensure that all 17 goals are met.

Also, effective grassroots education and enlightenment would ensure that the much needed awareness is created among all stakeholders on the importance of sustainability for the socioeconomic and environmental wellbeing of all.

Lastly, global champions of the SDGs must clearly define roles and responsibilities for all stakeholders. For the sustainable development goals to be achieved, everyone must understand and key into the different roles expected of them. Governments at all levels are critical players in economic, social and environmental activities, both as investors and owners of means of production and also as regulators. Especially in developing and low income countries, the states own much of the means of production. Since critical economic activities revolve round them, governments' action or inaction determines the extent of social, economic and environmental wellbeing. Governments have the responsibility to ensure sustainable governance which means putting policies and public administrative structures in place that promote economic prosperity, environmental quality, and social equity for all. Governments must be able to champion inclusive growth and development that impacts the very poor and enhance their socioeconomic condition.

Also, unsustainable government policies and practices can impair the wellbeing of the people and the environment. Because government policies and activities could have adverse environmental footprints and also because they are the regulators of the environment, their role in achieving the sustainable development goals is indeed massive.

After governments, corporations are the next biggest economic, social and environmental stakeholders. In their production life cycle, from sourcing for raw materials, through production, marketing and distribution, the activities of corporations have great impact on the environment. Because their environmental footprints are huge – in fact, the bigger a corporation the more their environmental footprints – corporate institutions should be made to adopt sustainability as an integral part of their everyday business processes and practices. Sustainability should be adopted at the board level, as a business strategy that could drive profit and return on investments, enhance service delivery and market share and help build a legacy brand that would outlive generations.

One of the biggest challenges confronting the drive towards sustainability is the erroneous belief among private institutions that environmental sustainability and profitability are mutually exclusive, and that one can only be achieved at the expense of the other. This assumption cannot be more wrong. Environmental sustainability remains the bedrock for any 'sustainable' development or profit. The sooner corporate institutions begin to build sustainability into their policies and practices, the sooner they would begin to grow in a sustainable manner. As the World business Council for Sustainable Development puts it, businesses cannot succeed in a failed society.

Apart from governments and corporate institutions, non-governmental organizations, civil society groups, individuals, families and communities, multilateral agencies, global financial institutions all have big roles to play in the drive towards eradication of extreme poverty, enthronement of equity and justice and attainment of environmental sustainability.

Poverty and the World After 2030

Abject poverty remains a global albatross that must be eradicated, not only because it dehumanizes but also because it constitutes a great threat to global peace and security. Much of the rebellions and armed conflicts around the world have their origins in economic exclusion and social deprivation. The Arab Spring which started in December 2010 in Tunisia easily comes to mind.

Also, extreme poverty constitutes a great threat to the ecological system. Environmentally unsustainable practices such as deforestation, bush burning, unauthorized hunting and fishing, among others, are sometimes direct results of attempts by the socioeconomically deprived to get basic food, shelter and petty income. Any effort to pursue sustainable development would be futile if economic and social empowerment does not take center stage.

Not surprisingly, eradicating abject poverty in its different forms – social deprivations and subjugation, environmental degradation and economic exclusion and suppression – is the overriding theme of the SDGs and for a good reason – there can be no meaningful development in a world where billions of people, including children, still wallow in squalor and go to bed hungry.

Addressing global poverty issue goes beyond just having it at the front burner of global discourse. It would entail aggressive efforts at tackling the menace. Those regions where poverty is rife and economic resources are inadequate must be empowered using multidimensional channels. Direct investments, economic aid, skills transfer, entrepreneurial development, capacity building, innovation transfer, among others, must be deployed southward.

Achieving the 17-point Sustainable Development Goals as planned by 2030 would mark the beginning of the end of extreme poverty, hunger, environmental degradation and socio-economic exclusion; and it would also mark the beginning of a more secure and peaceful world order. While these may sound over optimistic and even utopian, the relative progress made with the MDGs is an indication that extreme poverty eradication is possible. However, much would depend on the level of stakeholders' commitment to the course, availability of funding and the extent to which global leaders and the UN system is able to mobilize the world and its resources towards achieving the sets goals and targets. If the SDGs are met come 2030 the world would have made great progress in its journey towards a more sustainable future.

By bringing poverty and injustice to the front burner with the hope of tackling it, global leaders are not necessarily doing anyone a favor. It is in the global interest to end absolute poverty. As the story of the origin of the Arab Spring has taught us, the abjectly poor do not believe that they have much to live for; and when socio-economic circumstances compel them to go down, it costs them nothing to take millions of others along with them.

As the train towards 2030 begins its journey next January, the global socioeconomic system must begin to tackle the cause, rather than the effects of extreme poverty. Global extreme poverty has been pampered for way too long. It is time to end it.

(Eunice Sampson is the Deputy Editor, Zenith Economic Quarterly)

REGULATORY AND CONTEMPORARY ISSUES IN THE NIGERIAN BANKING SECTOR

Part 1

By Chuks Nwaze

This edition marks the commencement of a new serial on regulatory and contemporary issues in the Nigerian banking sector as well as analysis of their implications for the banking populace. The focus is public enlightenment to bridge the communication gap between the banks, the regulators and the rest of the society in a constructive manner. The issues presented and analysed border on regulatory policies, interventions, initiatives and reforms designed to protect the banking populace, ensure financial system stability and achieve specific macro-economic development targets.It is hoped that the serial will stimulate healthy interaction between the stakeholders in the financial system through a feedback mechanism which is also available in this medium.

THE TREASURY SINGLE ACCOUNT (TSA) POLICY

Since the presidential directive dated August 7, 2015 with reference number HCSF/428/S.1/120 was issued directing all federal ministries, departments and agencies (MDA's) to move their accounts from the commercial banks to the CBN Treasury Single Account, the rather delicate foundation of 'cheap deposits' on which the Nigerian financial landscape rests has been tested. This is in apparent compliance with sections 80 and 162 of the Constitution of the Federal Republic of Nigeria 1999 (as amended) which states that all revenues of the Federation collected by the MDAs should be paid into the federation account. Previous administrations did not enforce it because, perhaps, they had no need to look inwards. We shall take our bearing from the article written by Isaac Nwaogwugwu as published in *DAILYSUN of August 24, 2015 p.33*:

"...When the CBN sleeps and allows the commercial banks to act as banker to the government, public interest is compromised in pursuance of private interests. For instance, government agencies could operate multiple accounts through which various forms of fraud are perpetrated in the system while the banks also use the same resources to manipulate their balance sheets and post spurious results. Again, we have heard of several cases of the banks frustrating some agencies' operations by blunt refusal of remitting revenues collected on behalf of such organizations. In many cases, revenues collected are kept by the banks for several months without paying interest on the same. Several other examples abound including the lodgment of sums meant for salaries of public sector staff with the commercial banks for months just because of the interest premium advantage.

On the allegation that banks were using public sec-

tor funds to purchase government instruments issued by the CBN, in the previous dispensation, Mr. Nwaogwugwu continues:

"...If I may ask, is it possible to imagine a situation whereby the government issues treasury bills and government revenues with the banks are used to buy government instruments? The answer to this question is very clear. This is not just only possible but it is in fact the reality on ground. The government borrows its own money from the capital market (money market?)..."

Comment:
The banks have themselves to blame since they do not carry out serious economic research, neither do they take strategic planning seriously. They should have seen the handwriting on the wall when the price of crude oil nosedived. That said, the initial apprehension arising from the closure of about 10,000 multiple bank accounts (involving about N2trillion) operated by the MDAs in commercial banks was needless as the money will still find its way into private pockets and ultimately back into the banking system via government expenditure. The challenge for the banks is simply that it takes a lot more creativity to squeeze out money from individuals than the 'cash and carry' approach employed in public sector deposit mobilisation.

BANKING ETHICS ON TRIAL: DELINQUENT DEBTORS NAMED

The 'Name and Shame' policy through which the Central Bank of Nigeria directed banks, discount houses and AMCON to publish the names of defaulting debtors from August 1, 2015 has come under scrutiny in terms of whether or not the 'shame' component was achieved in relation to our own peculiar environment. According to the apex bank, the bad debtors would also be blacklisted from participating in the Nigerian foreign exchange and securities markets. Bruce Malogo put the issue of banks and their recalcitrant debtors in proper perspective in his article published in *SATURDAYSUN of August 15, 2015 p.12:*

"...As my people would say, the woman you married on the dance-floor will definitely walk away in the dance-floor. The principle is simple: Easy come, easy go. So, beneficiaries of the largesse went home, sat down and refused to pay- principal, interest and all. We are indeed in a country where a man would commit the most heinous of crimes and when there is public indignation as a result, he would scream-persecution. Or he would tell you to go to hell that, after all, he wasn't the only one or the first person to have done whatever it is you said he did. But the whole idea of how these loans entered one chance remains as curious as it is annoying. And we should begin by asking these questions: What has happened to the old tested and trusted way of carrying on the business of banking? What has happened to the positive conservatism that goes with banking? What of integrity, honesty and modesty? What, I ask, has happened to prudence? And directly to the area of discontent: Credit and credit administration?

Referring to the banks/bankers that allegedly lend money without demanding or perfecting the all-important collateral, Mr. Malogo goes on:

"...Maybe some of us don't understand these things or there is something these banks and the CBN are not telling us. It's all so confusing. How is it that banks will give out loan without collateral? This is important because that is fundamental. I should think that before a customer secures a bank facility, he has to have something that has been accepted as guarantee. In which case should he default in paying back, the bank would have recourse to the object of guarantee. So, how can we be talking about delinquent or stubborn debtors here? Shouldn't the banks have taken possession of the collaterals? My understanding is, if a loan is secured, what do you care about whether or not defaulting customers are willing to pay, or even capable of paying?...Why would a banker throw up his hands and start to wail when the loan he gave is not performing? He can only do that when he operates outside of the rules. A banker becomes reckless, if not dubious, when he starts to walk outside of the lines and the rules that guide the processes and procedure of his business...But given our notoriety for passing off our guilt, we would have missed out on one of the twin aspects of this whole campaign—the shaming aspect. There should be no question that we need shame. It has moral and redemptive power..."

Comment:
The risk management mechanism in some of the banks needs to be improved upon, judging from the spate of denials, rebuttals, retractions and publication of apologies in the course of the release of the list of bad debtors. If the delinquent debtors are not deterred by blacklisting them from Nigerian foreign exchange and securities markets and are not shamed by the publication of their names, then where do we go from here? Are bankers following the lending rules strictly? Perhaps, we need to ask: Is banking a business (driven solely by the 'business' instinct) or a profession (guided by rules, regulations and ethical conduct). Surely, the regulatory and professional bodies have an important role to play in answering this question.

CBN MOVES TO BLOCK ILLICIT FLOW OF FUND THROUGH DOMICILIARY ACCOUNTS

The days of round-tripping in foreign exchange, currency speculation and 'black market' boom appear numbered as the Central Bank of Nigeria has blown the whistle on the perceived irregularities going on through the instrumentality of Domiciliary Accounts. The deposit money banks are no longer accepting foreign currency cash deposits into the Domiciliary Accounts, just as unauthorised transfers have been outlawed. In other words, while account holders are at liberty to withdraw their money in cash or accept the naira equivalent, only wire transactions are currently permitted on Domiciliary Accounts.

According to *CBN circular TED/ FEM/ FPC/GEN/ 01/015 dated August 5, 2015:*

"The central bank of Nigeria has considered the recent statements by deposit money banks (DMBs) concerning the large volume of foreign currencies in vaults...Therefore, in its continued efforts to stop illicitly financial flows in the Nigeria banking system which aligns with the anti-money laundering stance of the federal government, the CBN hereby prohibits from the date of this circular the acceptance of foreign currency cash deposits by DMBs. For foreign currency cash lodgements made prior to the date of this circular, the account holder has the option to either withdraw his or her foreign currency cash or the naira equivalent. For the avoidance of doubt, only wire transfers to and from domiciliary accounts are henceforth permissible. The CBN advises individuals that wish to source foreign currency for eligible and legitimate purposes such as BTA, PTA medical, mortgage, to do so through normal channels with the use of form 'A' for 'invisible' and form 'M' for 'visible' transactions".

Comment:
There are indications that the CBN has found the magic wand in this respect, even as the rights of Domiciliary Account holders have been abridged, perhaps tempo-

rarily. The narrowing of the gap between the inter-bank and the parallel market is a signal of the potential extinction of the hitherto burgeoning 'black' market. Now, what happens to those who are carrying dollar cash in their hands? Answer: They should approach any bank and exchange it for naira at the official rate! With respect to the foreign currency in the Domiciliary Accounts prior to the commencement of the policy, the account holder is at liberty to withdraw same or exchange it at the inter-bank rate.

e-PAYMENT SYSTEM: CBN ROLLS OUT SANCTIONS FOR ERRING OPERATORS

The Central Bank of Nigeria has bared its fangs to potential violators of the e-payment infrastructure put in place to facilitate the smooth implementation of the e-banking rules and regulations. In its circular *BPS/DIR/GEN/CIR/02/007 dated 15th July, 2015*, the apex bank published a comprehensive regime of sanctions designed to deter operators from constituting a clog in the wheel of progress in this respect (**see Appendix**).

Comment:

Again, this writer commends the CBN for always acting in the best interest of the banking public. However, just like the Bankers Tariff which is often violated by the banks without repercussion, the real challenge is how to apply the sanctions on a timely basis to prevent abuse and serve as deterrent to others.

CBN MOVES TO PREVENT RECYCLING OF 'BAD EGGS': BARS BANKS FROM EMPLOYING STAFF WITHOUT ITS CONSENT

A major impetus was added to the anti-fraud campaign by the apex bank through its circular BSD/DIR/GEN/LAB/07/004 dated February 5, 2014 which makes it mandatory for all banks and discount houses to obtain CBN prior clearance before employing staff.

"We refer to our circular to all banks dated July 16, 2004 on the above subject, wherein banks were required to obtain the prior approval of the Central Bank of Nigeria (CBN) for all prospective employees. The intendment of the above referenced circular was to prevent the recycling, within the banking industry, of erstwhile bank employees indicted, terminated or dismissed for fraud and other acts of dishonesty.

Where compliance with this directive was not achieved prior to resumption of duty by the staff in question, the tentative nature of the engagement must be stated:

"Following representations made by banks during the CBN/Banks' Human Resources forum held in December 2013 regarding difficulties in the strict implementation of the above circular, the Management of the CBN hereby approves the following amendments: i. New employees of banks and discount houses may assume duty prior to obtaining the approval of the CBN, if this proves difficult or impractical. ii. However, for employees that assume duty without CBN's prior approval, banks and discount houses shall, within 30 days of their assumption of duty, submit their curriculum vitae and other relevant information on the new employees to the CBN for clearance. iii. Banks and discount houses shall include as part of the terms of employment (OFFER LETTER) that "the offer is subject to the receipt of satisfactory responses on any background checks or other inquiries on the employee from relevant authorities". iv. The above amendments shall NOT apply to new employees on the grade of Assistant General Manager and above. Banks are required to continue to obtain the prior written approval of the CBN before resumption of duty for these categories of staff.

This circular supersedes our earlier circular of January 16, 2004 and takes immediate effect".

Comment:
Now you can appreciate why there are ex-bankers everywhere. Any indictment in one bank forecloses movement to another and effectively ends the banking career. Surely, this circular will go a long way in curbing the propensity for fraud on the part of employees, if implemented to the letter. For new employees without banking experience, the responsibility for 'background checks' rests squarely on the shoulders of the various banks. Are individual banks performing this vital duty seamlessly?

NIGERIAN ELECTRONIC FRAUD FORUM (NeFF): TO FIGHT FRAUD

With the establishment of the Nigerian electronic Fraud Forum (NeFF) by the Central Bank of Nigeria, it may no longer be business as usual for electronic criminals. The CBN circular *BPS/DIR/CIP/GEN/02/031 dated 2nd July, 2013* gives this hope:

"In furtherance of its efforts in the development of a safe, reliable and efficient Payment System in Nigeria, the Bank undertook some major initiatives. One of such initiatives was the establishment of the Nigeria electronic Fraud Forum...In order to sustain public confidence in the Payment System, especially for the successful implementation of Cashless NigeriaProject, it is imperative for all the stakeholders to collaborate with a view to addressing fraud risks and its associated challenges..."

Objectives and Membership of NeFF:
In addition to information and knowledge exchange, the NeFF also aims to collaborate and formulate cohesive policies to combat the electronic fraud menace and enhance e-payment security in Nigeria. The forum is chaired by the CBN which also houses the secretariat. Other members include: Committee of e-Banking Heads; Committee of Chief Compliance Officers of Banks In Nigeria; Committee of Chief Internal Auditors; MD, Unified Payment Services Ltd; MD, Interswitch Nigeria Ltd, Office of The National Security Adviser; EFCC; Association of Licensed Mobile Payment Operators, Electronic Payments Providers Association of Nigeria and Information Security Association.

Safety Tips from NeFF:

- Do not respond to unsolicited (spam) e-mails.
- Do not click on links contained within an unsolicited email.
- Be cautious of e-mails claiming to contain pictures on attached files as the files may contain viruses. Open attachments only from known senders after scanning.
- Avoid filling out forms in email messages that ask for personal information.
- Always compare the link in an email to the link you are actually directed to and determine if they match and will lead you to a legitimate site.
- Log on directly to the official website for the business identified in the email instead of "linking" to it from an unsolicited email.
- Contact the actual office that supposedly sent the email to verify it is genuine.
- If you are requested to act quickly, as if there is an emergency, it may be a scam. Fraudsters often create this impression to get your attention and lure you.
- If the 'deal' looks too good to be true; it is probably not true!

http://archynaija.com/tag/central-bank-of-nigeria/

Comment:
I hope the Committee finds time for periodic self-assessment. Has there been a reduction in electronic frauds since the establishment of NeFF, or is there need for a lot more work on the part of the Committee and, indeed, all stakeholders? The responsibility of fighting electronic criminals should not be left in the hands of any particular committee or agency of government. It is clear enough that everybody should be involved.

CBN GOES TOUGH ON BANK INVESTORS: PROHIBITS PHONEY CAPITALISATION

The Central Bank of Nigeria would have plugged a major hole in the financial system if it succeeds in preventing investors from borrowing from one bank to (re)capitalize another. This is the objective of the circular *BSD/DIR/GEN/LAB/08/008 dated February 5, 2015* addressed to all banks and discount houses:

"It has become imperative to remind financial institutions of the currency of the provisions of our circular titled "Prohibition from Borrowing to Capitalize Banks" dated November 9, 2000. For the avoidance of doubt, the requirement that funds for the (re) capitalization of financial institutions should NOT be sourced from borrowings within the banking system still subsists...Where such funds are borrowed outside the banking system, they must be of the type and nature that qualify as part of capital in accordance with our Guidance Notes on the Calculation of Regulatory Capital. All capital raising exercises will continue to be subjected to verification by the CBN and failure to meet any of our requirements will constitute a ground for the rejection of the funds. Financial institutions are advised to strictly adhere to the above, as breaches will be met with severe regulatory sanctions".

Comment:
Why was it necessary to resurrect this circular (which was first issued in 2000)? If the reason had to do with non-compliance with the previous one, the sanctions should have been invoked to serve as deterrent to others. The question is: If an investor borrows from bank 'A' to (re)capitalise bank 'B', how does he repay the loan? The answer is simple: He waits for innocent depositors to bring in money into bank 'B' and he causes fresh liquidity problem for bank 'B' by moving the fund back to bank 'A'! What value has he added to the entire system?

CBN ORDERS BANKS TO REFUND EXCESS CHARGES, INTRODUCES SIX-YEAR TIME BAR

The Central Bank of Nigeria (CBN) has ordered financial institutions to refund all illegal fees charged customers. The directive, issued in *March, 2014*, reads as follows:

"It will be recalled that the CBN, in conjunction with the Bankers Committee, issued the revised guide to bank charges (the guide) on March 27, 2013.The guide sought to standardize charges for various products and charges offered by banks. Section3.1 of the guide provides that Commission on Turnover is negotiable subject to maximum of N3 per mille in 2013; N2 per mille (that is N1,000) in 2014; N1per mille in 2015 and that no CoT will be charged from 2016. Information available to the CBN indicates that some banks are still charging the CoT at the rate of N3 per mille which was the agreed rate for 2013...Consequently, all banks that have charged excess CoT since the effective date of the guide are hereby directed to refund same to the affected customers within 30 days...Our attention has been drawn to the practice by some banks of charging fees which are alien to the guide. For example, some banks offer accounts that are supposedly CoT-free but impose maintenance fee or similar fee- a fee not covered by the guide".

In a related development, the CBN has also introduced a time bar of six years for the resolution of consumer complaints. Its circular *FPR/DIR/GEN/CIR/05/011 dated August 21, 2015* reads:

"The Central Bank of Nigeria has in recent times, experienced challenges in ensuring timely resolution of complaints from consumers of financial services against financial institutions under its regulatory purview. This development which has been attributed to non-availability of, or delay in receiving documentary evidence from both parties, underscores the need to have a policy on time bar for complaints management in the financial services industry. Consequently, the CBN…hereby adopts a time limit of six (6) years, effective from the date of transaction, within which complaints against financial institutions shall be lodged. The time limitation will, however, not apply to fraud cases, complaints already lodged with the Financial Institutions and the CBN and international electronic payment transactions whose records are not retained beyond 180 days on the dispute resolution application (Arbiter)…"

Comment:
The issue of refund of excess charges is cheering news for bank customers. As banks are said to be jittery over this directive, I hope the CBN can cope with the deluge of complaints in this regard. Already, as at August 2014, the CBN said it confirmed a total of N17 billion excess charges and illegal/illegitimate deductions from customers' accounts as a result of petitions received from 5,500 aggrieved account holders and directed banks to refund accordingly. What sanctions are in place for excess charges not refunded or complaints not resolved within the six years time limit? It is not clear why the CBN is imposing a time limit for resolution of consumer complaints. However, it has been expressly stated that fraud-related cases have no time limit.

CBN BARS LOAN DEFAULTERS FROM TAKING NEW FACILITIES

Following the rising profile in the volume of non-performing loans in recent times, the Central Bank of Nigeria has decided to wield the big stick against serial loan defaulters by barring them from accessing fresh credit. Those affected include individuals and organizations currently owing Deposit Money Banks, Asset Management Corporation of Nigeria (AMCON), development banks and liquidated banks. Banks have also been directed to always run a check on potential borrowers through their credit risk management systems and at least two credit bureau lines before advancing loans. According to the CBN circular *BSD/DIR/GEN/LAB/07/015 dated June 30, 2014:*

"The Central Bank of Nigeria has noted with concern the impunity with which some borrowers default in their loans in some institutions and yet are availed further credit facilities by other institutions under the same or sometimes different identities. This could have the effect of triggering serial defaults and a build-up on non-performing loans which negatively impact liquidity in the financial sector and ultimately hamper stability. In order to proactively avert the menace of resurgence on non-performing loans, and in furtherance of the CBN mandate of maintaining a safe and sound financial system , the bank hereby directs as follows: no institution shall, without the prior written approval of the CBN, grant a facility to a potential borrower which is in default of any existing facility to the tune of N500m and above in the case of Deposit Money Banks and N250m and above in the case of development banks and banks- in-liquidation. No institution shall, except with the prior written approval of the CBN, grant a facility to any potential borrower who has a delinquent facility of any amount, whatsoever, which has been taken over by AMCON"

Comment:
We commend the CBN for this long-awaited circular. As usual, however, the real challenge has to do with enforcement, with the enormous pressure which will surely be mounted on the profit-seeking banks by the political, bureaucratic and business 'hawks' who are also among the wealthiest and most influential people in Nigeria! How will the bank-owners, executives and even regulators resist the mine-laden overtures from the serial loan defaulters?

APPENDIX

JULY 2015

BPS/DIR/GEN/CIR/02/007

TO: ALL DEPOSIT MONEY BANKS, MICROFINANCE BANKS AND PRIMARY MORTGAGE INSTITUTIONS, MOBILE MONEY OPERATIONS, SWITCHES AND OTHER PAYMENTS SYSTEM SERVICE PROVIDERS

SANCTIONS ON ERRING BANKS / e- PAYMENT SERVICE PROVIDERS FOR INFRACTIONS ON PAYMENT SYSTEM RULES AND REGULATIONS

Further to the provisions OF S. 47(3) of the CBN Act 2007, requiring the central bank of Nigeria to "prescribe rules and regulations for the efficient operations of clearing and settlement system" the bank hereby stipulates the following applicable sanctions to erring banks and payments system service providers for infringements of extant guidelines, circulars rules and regulations issued by the bank on all forms of electronic payment system.

1. **ATM**

S/N	INFRACTIONS	PENALTY
1	Non-compliance with payment card industry data security standards (PCIDSS)	#250,000 as fine and a follow-up of penalty charge of #50,000 per week, for as long as non-compliance persists.
2	Non-compliance of ATM terminals with EMV level 1 and 2	#200,000 as fine and additional penalty charge of #50,000 per week, for as long as non-compliance persists
3	Non-compliance with migration to EMV after September 30, 2010	#250,000 as fine and a follow-up of penal charge of #50,000 per week, for as long as non-compliance persists.
4	Failure to provide audit trails and journals for ATM transactions	Fine of #50,000 with a full refund to the customer
5	Failure to have 2% of ATM deployed with tractile graphic symbol for the use of visually impaired customers	Fine of #100,000
6	Down time of ATM for more than 72 hours without cogent reasons	Fine of #100,000
7	Non-availability or non-functional help desk contacts	Fine of #100,000 and panel charge of #50,000 per week , for as long as non- compliance exists
8	Non- disclosure of ATM surcharge to customers	Fine of #50,000 daily
9	Lack of online monitoring mechanism for ATM's	Penal fee of #100,000, with immediate compliance. Graduated fine of at least #150,000, if exception is picked again
10	Lack of backup power(inverter) for ATM	Penal fee of #50,000, with immediate compliance. Graduated fine of at least #100,000 per week, if exception is picked again
11	Failure to have camera at ATM	Penal fee of #250,000 and a follow-up charge of #50,000 per day, until a camera is installed
12	Failure to provide foot pages on ATM transactions when required	The bank would pay a penalty equal to the amount refunded, to serve as a determent
13	Failure to respond to the customer/ CBN on ATM complaints within 72 hours	Fine of #100,000 per day
14	Failure of acquirer to initiate automatic reversal of failed customer ATM transaction.	The bank to refund the total amount involved in the dispute and a penal fine of #50,000 per day.

2. TRANSACTION SWITCHING SERVICES

S/N	INFRACTION	PENALTY
1	Any infraction of the guidelines	Initial fine of #100,000 and full liability for compromise due to non compliance

3. BULK PAYMENTS AND ACH

S/N	INFRACTION	PENALTY
1	Failure to apply funds to customers account within stipulated time lines on the guidelines of electronic payments of salaries, pensions, suppliers and taxes in Nigeria.	Penalty stipulated in the "guidelines on electronic payment of salaries pensions and suppliers and taxes in Nigeria" applies
2	Non-return of unapplied funds within 24 hours	Penalty stipulated in the "guidelines on electronic payment of salaries pensions and suppliers and taxes in Nigeria" applies
3	Non-compliance with third party cheque cap of #150,000 OTC withdrawal	10% of the amount in excess of limit #100,000 whichever is higher.

4. CARD ISSUANCE (STORED VALUE/PREPAID CARDS AND DEBIT CARDS)

S/N	INFRACTION	PENALTY
1	Issuance of mag- stripe cards	Banks to be fully liable for any fraud arising from the use of the card
2	Enabling use of mag-stripe Nigerian issued cards in non EMV environment without customers request	Banks to be fully liable for any fraud arising from the use of the card
3	Issuance of card without application from account holder	Banks to be fully liable for any fraud arising from the use of the card
4	Card fraud on an account while card is still in custody of bank	Banks to be fully liable for any fraud arising from the use of the card. Disciplinary action on the bank staff round culpable
5	Card fraud that exceed the limit set on the card by the card holder	Bank to be fully liable for the amount of fraud involved
6	Card fraud on corporate accounts	Bank to be fully liable for the amount of fraud involved
7	Card issuance without proper KYC	Bank to be fully liable for the amount of fraud involved
8	Loading of cash on card without proper KYC	Bank to be fully liable for the amount of fraud involved

5. POINT OF SALE (POS)

S/N	INFRACTION	PENALTY
1	Fraud arising from non-compliance with transaction value limit	Scheme operator liable for amount above set limit
2	Lack of inter operability and inter connectivity to other systems	Directive of the operator to disable the POS

6. RENDITION OF RETURNS

S/N	INFRACTION	PENALTY
1	Late submission of monthly returns	Fine of #50,000 per day of delay

7. OTHERS

S/N	INFRACTION	PENALTY
1	e-payment operations without obtaining CBN approval or licence	Close down of the operations and prosecution of the offender (individual and company promoters)
2	Patronage of an unlicensed payment system operator by a bank	Fine of #50,000 per day of continued patronage
3	Non-compliance with other CBN e-payment directive or circular	Fine of #50,000 per week of noncompliance and full liability for any fraud arising from non-compliance

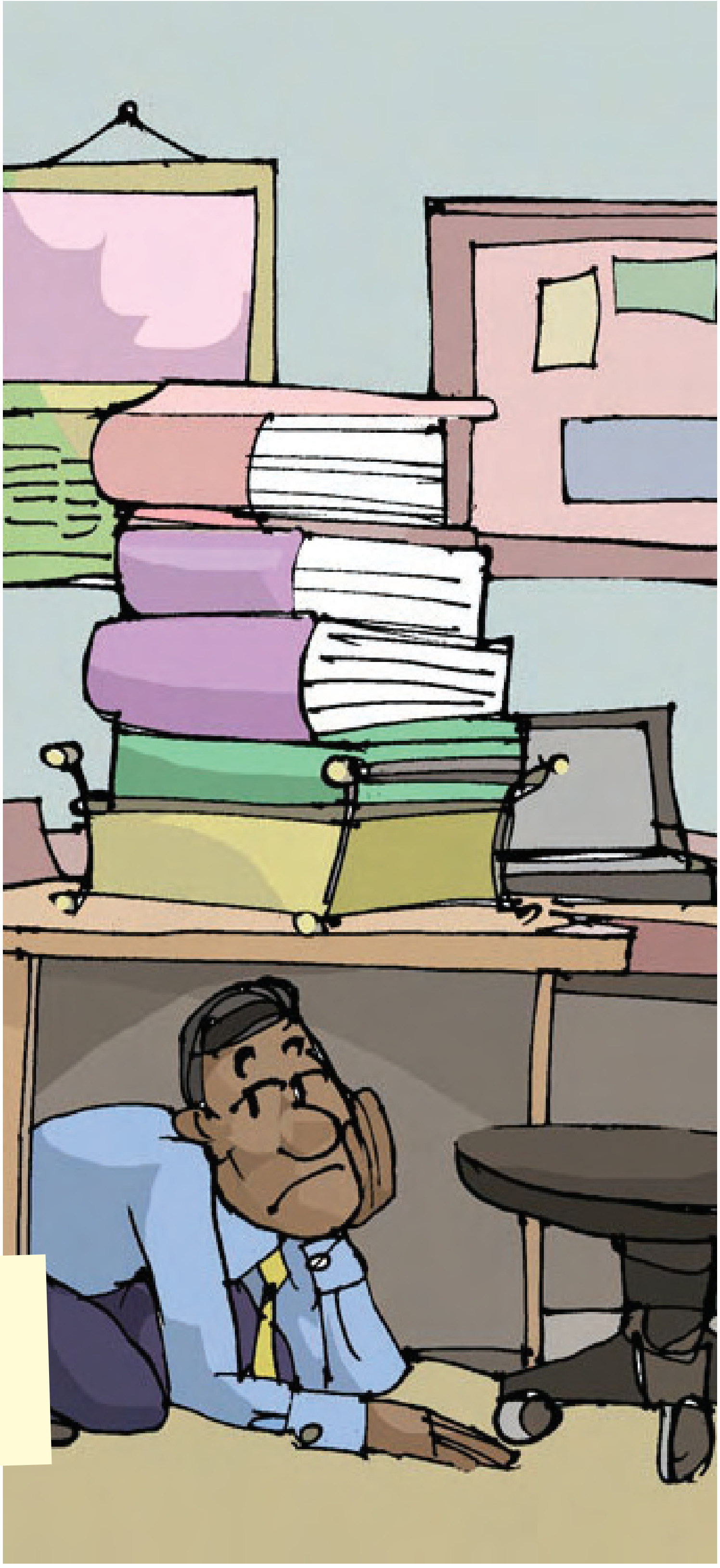
NON-MONETARY SANCTIONS FOR VIOLATOR OF REGULATIONS

1. Name and shame of responsible officers and the entity
2. Black listing of operator or service providers
3. Removal from office of the principal officers of operators and service providers.

(Chuks Nwaze is the Managing Director Consultant/ CEO Control & Surveillance Associates Ltd)

Nigeria: Improving Public Revenue Through Tax Reforms

By **Sunday Enebeli-Uzor**



One of the salient outcomes of the recent Gross Domestic Product (GDP) rebasing exercise in Nigeria is the abysmal low ratio of tax revenue to GDP. Prior to rebasing, Nigeria's tax revenue to GDP ratio was about 22 percent. Post GDP rebasing, the ratio fell to just 12 percent with non-oil tax revenue accounting for about 4.5 percent – one of the lowest on the continent. These outcomes highlight the existing gap and huge potential in tax revenue generation in the face of continuous dwindling revenue from crude oil exports. Indeed, the need to shore up government revenue has become compelling as some states of the federation are already in dire financial conditions, needing financial support and guarantee from the federal government. Gross federally collected revenue accruing to the Federal Accounts Allocation Committee (FAAC) has been on a downward spiral from ₦888.4billion in February 2014 to ₦389.9billion in September 2015 – a 56.1 percent decline. With recent oil market developments and precipitous fall in revenue, rising fiscal deficit, and growing sovereign debt, non-oil revenue mobilization has become more urgent and critical than ever.

While it has become trite to blame the low tax revenue to GDP ratio on heavy reliance on oil revenue – which accounts for over 70 percent of government revenue, there is an urgent need to insulate the economy from near complete reliance on a single highly volatile income stream – oil revenue. The clarion call for the diversification of the Nigerian economy away from petroleum, and by implication diversification of the nation's revenue stream from petroleum sales receipts is age-long. Successive governments and national development plans have sought to achieve this national objective with little or no success. As the three tiers of government – federal, state, and local are under continuous pressure to provide basic infrastructure and social services, the need to mobilise additional revenue in the immediate term to enable government to function has become a national expediency. The situation has induced panic and fiscal sustainability has now become a cause for serious concern.

The Place of Tax in an Economy

The importance of tax in an economy and the ability of government to provide infrastructure and social services cannot be overemphasised. Taxation is one of the most contentious issues in governance in both developed and developing nations. Taxes underwrite the capacity of a government to discharge its basic duties to the citizens. In fact, in developed climes, taxation is the basis for the conduct of government-society relations, and is at the epicenter of domestic policy in national election debates.

There are two major ways for a government to finance its expenditure – through taxation and borrowing. Generally, taxation is more preferable to borrowing because debt has to be repaid at a later date with debt servicing obligations. There are also the arguments of generational inequity of debt burden, the crowding out effect of government borrowing on the domestic economy, and debt illusion. There is also general consternation about debt especially after the recent sovereign-debt conundrum in Europe. While natural resource endowed countries like Nigeria also generate revenue from proceeds of sale of natural resources exploitation, taxation is the most reliable and sustainable revenue stream.

In fact, most developed economies of the world are tax-based economies, while resource-based economies are either developing or undeveloped and grappling with crisis associated with resource exploitation. It is pertinent to note that there is not a single member of the Organisation of Petroleum Exporting Countries (OPEC) in the league of developed countries. Indeed, it can be argued that the extent to which an economy is able to grow sustainably and develop depends to a large extent on its ability to generate tax revenue to finance its expenditure and the efficiency of its tax system. Tax is also a means of transferring resources from the private to the public sector. Taxation also affects the level of savings and capital formation in the economy. Evidence suggests overwhelmingly that a good tax system aids economic growth and development. Taxation is now globally recognised as the only practical source of sustainable revenue to finance government spending. The numerous benefits of tax revenue notwithstanding, many countries including Nigeria have not been able to effectively harness their tax potential for a myriad of reasons.

Purposes of Taxation

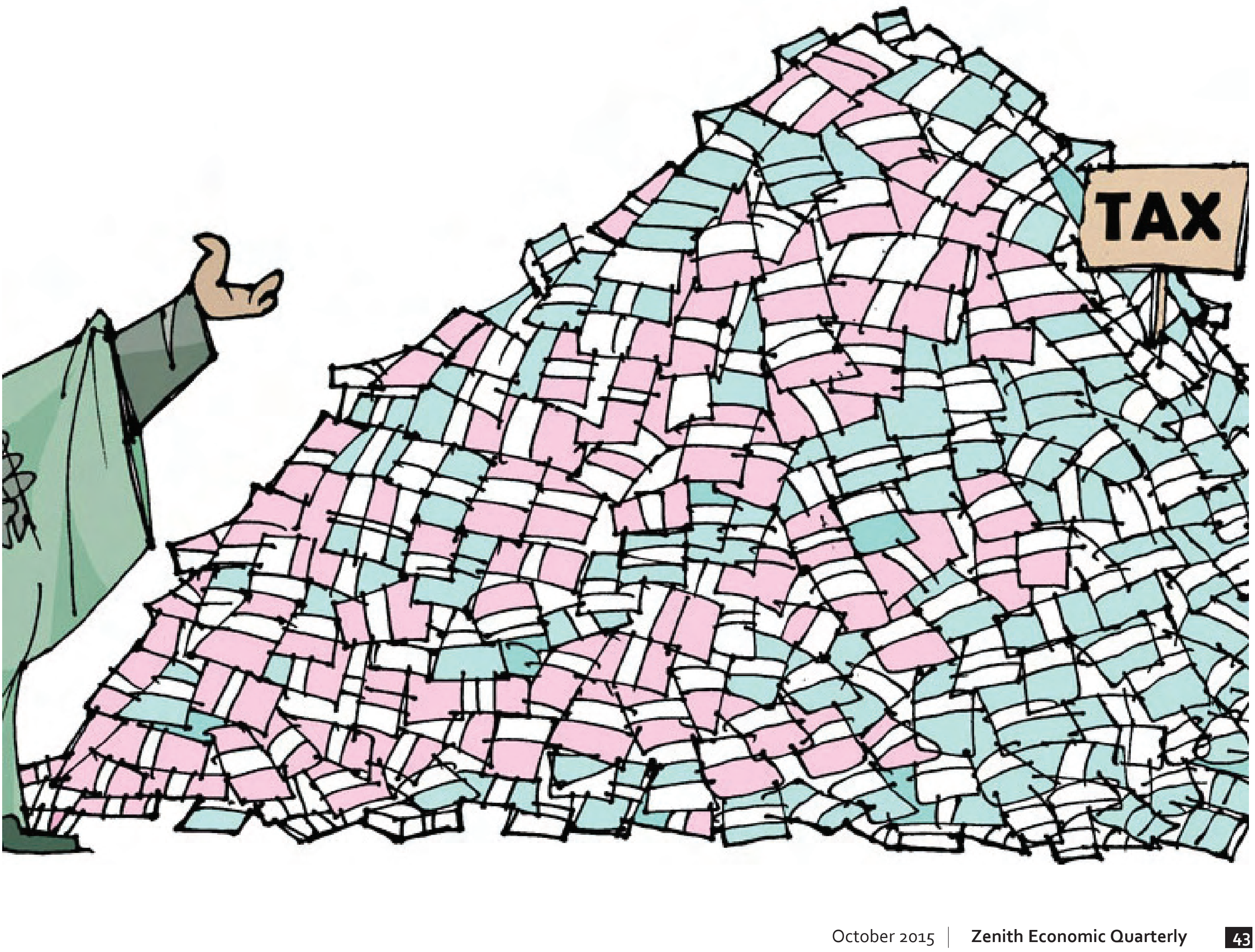
Tax is a compulsory levy imposed by the government against the income, profits, property, wealth and consumption of individuals and corporate organizations for the common use and to serve a number of purposes. The foremost purpose of tax is to generate revenue to finance government expenditure and activities that are necessary and beneficial to the society. Taxation also serves to redistribute income and reduce the gap between the 'haves' and 'have-nots' in the society. Progressive taxation – where higher income groups pay more tax, could be effectively used to reduce inequality in the society when proceeds of taxation are beneficial to the majority of the population. Taxes can be used as an effective tool to influence behaviour and discourage the consumption of certain commodities deemed harmful to health (for example, demerit goods such as alcohol and tobacco). By imposing higher taxes on items such as cigarette tax and excise duty on these goods, their consumption is discouraged and reduced.

Taxes are also effective fiscal policy tools to control inflation in the economy especially when the inflation is caused 'by too much money chasing too few goods'. Gov-

ernment may decide to reduce disposable income by raising taxes. This will in turn curb aggregate demand in the economy and rein in inflation rate. Government uses the raising and lowering of taxes to stabilise the business cycle in an economy. Governments also use taxes to correct an unfavourable balance of payment situation by increasing the tariffs – a form of tax. By increasing tariffs on imports, imported commodities become more expensive, leading to a decline in the demand for the imported commodities. Taxes are also effective means of protecting domestic/infant industries. Increasing tariffs on imports and charging lower taxes to domestic/infant industries help protect domestic and infant industries and may boost the demand for goods and services produced by domestic industries. A good tax system should be able to effectively stimulate economic growth and not serve as disincentive to productivity.

Evolution of Taxation in Nigeria

Taxation in Nigeria predates the colonial era. Prior to colonisation, there existed various forms and systems of taxation mainly in the form contribution of money and goods to kings and rulers of kingdoms and communities in the various constituent parts that later became modern Nigeria. These payments where essentially to maintain and sustain the monarchs. There were also obligatory personal services – 'tribute taxes', sometimes in the form of communal services. In the northern part, there were some compulsory religious levies for educational, charitable and religious purposes. There were also agricultural tax levied on land utilisation in the form of payment for grazing, payment for hunting, or contribution of farm products as a form of land tax in exchange for the use of land for agricultural purposes. In some parts of



pre-colonial Nigeria, there were marriage fees payable to the monarch before marriages were contracted.

The Stamp Duties Proclamation in 1903 in the then Northern Protectorate heralded modern form of taxation in Nigeria. However, it was the Native Revenue Proclamation of 1906 that systematised all existing pre-colonial taxes. Following the amalgamation of the Northern and Southern Protectorates in 1914, the colonial authority decided to institute uniformity in the tax structure patterned on the traditional system that existed in the Northern Protectorate. Consequently, the Native Revenue Ordinance was promulgated in 1917 with much protests from the South but was effected in the Western and Eastern territories in 1918 and 1927, respectively. There were incidences of resistance to the imposition of taxation in the Western and Eastern territories, for instance, the Aba Women's Riot of 1929. The Native Revenue Ordinance of 1917, 1918, and 1928 were later incorporated into the Direct Taxation Ordinance of 1940 which repealed the Native Revenue Ordinance. The Direct Taxation Ordinance of 1940 could therefore be considered as the precursor of tax legislations in Nigeria. Since the promulgation of the Direct Taxation Ordinance of 1940, taxation in Nigeria has undergone evolutions in a bid to reform, expand, modernise, and improve.

The Nigerian Tax System

The Nigerian tax system is a tripartite structure comprising tax policy, tax legislation, and tax administration. Nigeria's tax policy is encapsulated in the National Tax Policy adopted by the Federal Executive Council (FEC) in 2010. The National Tax Policy sets broad parameters for taxation and other ancillary matters connected with taxation in the country. It is a clear statement on the principles governing tax administration and revenue collection. It provides a set of guidelines, rules and modus operandi to regulate taxation in Nigeria. The purpose of the National Tax Policy is to create a tax system that will contribute to the well-being of all Nigerians and taxes which are collected by government, should directly impact on the lives of the citizens. The key economic objectives of the National Tax Policy as a tool for national economic development include: to promote fiscal responsibility and accountability; to facilitate economic growth and development; to provide the government with stable resources for the provision of public goods and services; to address inequalities in income distribution; to provide economic stabilisation; to pursue fairness and equity; and to correct market failures or imperfections.

Tax legislations in Nigeria are the codified system of rules and regulations relating to taxation and the various types of tax. They describe the legal implications of taxation and provide legal backing to the administration of taxation. The tax legislations also stipulate what constitutes an offence and the appropriate sanctions for the offence. They are essentially the tax laws enacted by the legislature to govern the national tax system, and are subject to amendments as the need arises. The following are some of the extant tax laws in Nigeria. Federal Inland Revenue Service (Establishment) Act No. 13 of 2007, Personal Income Tax Act (PITA) CAP P8 Law of Federations of Nigeria (LFN) 2004, Company Income Tax Act (CITA) CAP.60. LFN 1990, Petroleum Profit Tax Act (PPTA) 2007, Value Added Tax (VAT) Act No 102 LFN 1993,

http://thenationonlineng.net/tax-awareness-still-low-in-nigeria/

Capital gain tax Act CAP 42 LFN 1990, Stamp Duties Act CAP 411 LFN 1990, Education Tax Act No 7 LFN 1993, and Information Technology Development Act 2007. Others include: Nigeria LNG (Fiscal Incentives, Guarantees & Assurances) Act, Industrial Development (Income Tax Relief) Act, Industrial Inspectorate Act, Investment and Securities Act, 2007, and Insurance Act of 1997 (as amended).

Tax administration in Nigeria defines the responsibility of the various tax authorities as established by the extant tax laws. The Nigerian tax administration takes cognisance of country's three-tier federative system – Federal, State, and Local Government, and fiscal federalism. Consequently, there are three tax authorities in the country, namely: Federal Inland Revenue Service, State Internal Revenue Service, and Local Government Revenue Committee. There exists the Joint Tax Board (JTB) that meets quarterly to appraise tax performance and to deliberate on tax issues of national importance and develop new tax strategies. The JTB advises all tiers of government on tax matters, and resolves areas of conflict on tax jurisdiction among the three tiers of government.

Taxes and Levies Collectible by the Three Tiers of Government

There are taxes that are collected centrally and shared among the Federal, State and Local Governments. The tax jurisdiction of the three tiers of government is defined in the constitution in the form of fiscal autonomy but sometimes there are overlaps that have led to incidences of multiple taxation. Taxes collectible by the federal government are: companies' income tax; withholding tax on companies; petroleum profit tax; value-added tax (VAT); education tax; capital gains tax - Abuja residents and corporate bodies; stamp duties involving a corporate entity; personal income tax in respect of: armed forces personnel; police personnel; residents of Abuja FCT; external affairs officers; and non-residents.

Taxes/levies collectible by state governments include: personal income tax: - Pay-As-You-Earn (PAYE); direct (self and government) assessment; withholding tax (individuals only); capital gains tax; stamp duties (instruments executed by individuals); pools betting, lotteries, gaming and casino taxes; road taxes; business premises registration and renewal levy; development levy (individuals only) naming of street registration fee in state capitals; right of occupancy fees in state capitals; and rates in markets where state finances are involved.

Taxes/levies collectible by local governments include the following: shops and kiosks rates; tenement rates; on and off liquor licence; slaughter slab fees; marriage, birth and death registration fees. Others are naming of street registration fee (excluding state capitals); right of occupancy fees (excluding state capitals); market/motor park fees (excluding market where state finance are involved); domestic animal licence; bicycle, truck, canoe, wheelbarrow and cart fees; cattle tax; merriment and road closure fees; radio/television (other than radio/TV transmitter) licences and vehicle radio licence (to be imposed by the local government in which the car is registered); wrong parking charges; public convenience, sewage and refuse disposal fees; customary, burial ground and religious places permits; and signboard/advertisement permit.

Taxpayers' Compliance Attitude in Nigeria

Taxpayers' non-compliance is a universal phenomenon because people are generally averse to paying taxes. It is however a major challenge in developing and low income countries. The difference between developed and developing countries is that institutions are stronger in developed climes while they are weak or non-existent in developing countries. Nigeria like most developing countries is contending with low tax compliance. Available data indicates that the percentage of taxes, especially income tax remains abysmally low. According to Federal Ministry of Finance, about 65 percent of eligible tax payers do not file tax returns to the relevant tax authorities, while about 75 per cent of registered businesses are not even captured in the tax system. Several tax reform initiatives aimed at improving tax compliance level in the country have not yielded the desired result. This is an obvious indication of a weak tax administration system. Taxpayers' perception and education concerning the fairness of the tax system, the purpose and utilisation of tax revenue are important factors that can significantly influence tax compliance attitude.

Multiple taxation is one of the most often cited reasons for tax non-compliance attitude among taxpayers in Nigeria. This arises from the overlapping structure of the nation's tax system, fiscal autonomy and federalism. The humongous size of the informal economy also accounts for low tax compliance. The informal sector in Nigeria, like other low- and lower-middle-income countries is characterised by very high self-employment rates and consequently low levels of tax collection. Inducing or encouraging firms to register and be integrated into the formal economy remains a major challenge. Small firms generally have the tendency to remain in the informal sector in a bid to avoid paying taxes. Poor utilisation of tax revenue culminating in mistrust of government is another factor that

affects taxpayers' willingness to pay tax. High tax burden that depletes taxpayers' disposable income also influences their decision not to comply with tax obligations.

Tax Avoidance and Evasion in Nigeria

Tax avoidance and evasion are some of the major challenges of tax administration in Nigeria. Aside from salaried employees in the formal economy whose taxes are deducted at source as PAYE, most eligible and taxable Nigerians and businesses pay inadequate taxes or do not pay taxes at all, culminating in huge revenue loss to the government. As stated earlier, about 65 percent of eligible tax payers do not file tax returns, while about 75 percent of registered businesses are not even captured in the tax system. Tax avoidance is an arrangement through which a person acting within the law reduces his true tax liability and maximise after-tax income. It is essentially a situation whereby a person pays less tax than he ordinarily ought to pay by taking advantage of the loopholes in the tax

legislation. It is the active means by which the taxpayer seeks to reduce or remove altogether his liability to pay tax without actually breaking the law. There are a number of ingenious ways some individuals have perfected for the purpose of tax avoidance.

Tax evasion on the other hand is the outright failure to pay or a deliberate underpayment of taxes. This is done through illegal acts and willful suppression or falsification of the facts relating to the actual tax liability. Tax evasion is a deliberate act of non-disclosure or partial disclosure of full taxable income in a bid to underpay tax or not even pay at all. While tax avoidance is perfectly legal and within the ambit of the law, in contrast, tax evasion is illegal, criminal and punishable under the law. A number of reasons have been adduced for the prevalence of these 'twin devils' that have created a huge gulf between actual and potential tax revenue in Nigeria. There has been an observed hostile disposition to the payment of taxes in Nigeria. Even the few who endeavour to pay tax do so reluctantly. This may be due to colonial experience when taxation was perceived as coercion. Another reason is lack of a sense of civic responsibility amongst citizens. Some unscrupulous individuals deliberately operate their businesses as part of the underground economy as a way to avoid paying taxes.

Options for Improving Tax Revenue in Nigeria

At 5 percent, Nigeria's Value Added Tax (VAT) is one of the lowest in the world. Among its African peers, Nigeria has the least VAT rate (Ghana – 17.5 percent, South Africa – 14 percent, Egypt – 10 percent, Algeria – 17 percent, Angola – 10 percent, and Morocco – 20 percent). As a first and immediate step towards shoring up tax revenue, an upward review of Nigeria's VAT may be appropriate and long overdue. Since its introduction in January 1994, the rate has remained at 5 percent perhaps due to relatively stable revenue from petroleum resources. In the face of huge fiscal deficit and plummeting revenue, an upward review, possibly doubling VAT to 10 percent has become necessary. It is estimated that about $3billion additional revenue is realisable if VAT is raised to 10 percent. There are a number of arguments against an increase in VAT. Such arguments include: increase in inflationary pressure, decrease in capacity utilisation of the productive sectors, unemployment, and possible resistance from organised labour. While some of the arguments against an increase in VAT rate may be germane, the exigency of fiscal crisis demands an urgent upward review to ensure fiscal sustainability.

Broadening the nation's tax revenue base is critical. A situation where an overwhelming majority of eligible taxable individuals and businesses are not captured in the tax system and consequently do not pay taxes constitutes enormous tax revenue leakage. Nigeria's tax leakage – the gap between potential tax revenue and actual tax revenue is simply mindboggling. The malaise has been encouraged and exacerbated by a complex, weak, and inefficient tax administration system. The country's humongous informal sector must be properly integrated into the tax system to broaden the tax base. There is need for a concerted policy to encourage businesses in the informal sector to formalise and pay taxes. On-going efforts such as presumptive tax, and demand for three years' tax clearance certificate for transaction or business should be given more drive.

Lack of synergy between the tax authorities of the three tiers of government have often led to incidences of multiple taxation. This has become a disincentive to pay tax as businesses exploit the situation to evade tax. Active and productive collaboration of the three tiers of government, working together as partners

http://www.charteredclub.com/surcharge-on-income-tax/

and not competitors in tax collection will enhance tax administration and improve tax revenue. There is also the need to harmonise and simplify taxes to encourage tax compliance. Nigeria's tax legislation and the legal framework for sanctioning tax defaulters needs strengthening. A weak legal system for punishing tax evaders inadvertently encourages non-compliance. Presently, most tax defaulters do not get punished as stipulated in the tax laws because government does not follow through with prosecution of tax defaulters. The pervasive culture of impunity and flouting of tax laws must be discouraged. Incessant and rampant granting of tax waivers and exemptions have denied government of huge tax revenue. Subsisting waivers and exemptions should be reviewed in line with the current economic reality to enable government generate more tax revenue. Efforts must be made to inculcate a sense of civic responsibility amongst taxpayers in Nigeria as this will go a long way in encouraging voluntary tax compliance.

Between Political Expediency and Economic Rationality

Tax and taxation related reforms are contentious political issues in all climes. The popularity of a government amongst other things depends on its tax policies. Over the years in Nigeria, taxation has not occupied a prime position in the political discourse because of near absolute reliance on proceeds of petroleum sales and tax to fund government budget. However, with current oil market developments, rising fiscal deficit and sovereign debt, the reality of looking beyond oil revenue and the federation account has been brought to bear on the three tiers of government. Non-oil revenue mobilisation and other sources of financing government budget has not only become a critical economic concern but also a political issue. The general laxity in the aggressive implementation of the nation's tax laws has to change. To adequately enforce tax compliance, the government will undoubtedly meet with resistance from citizens who have age-long aversion to paying taxes. In deciding to pursue an aggressive tax reform, the government will have to choose between political expediency and economic rationality.

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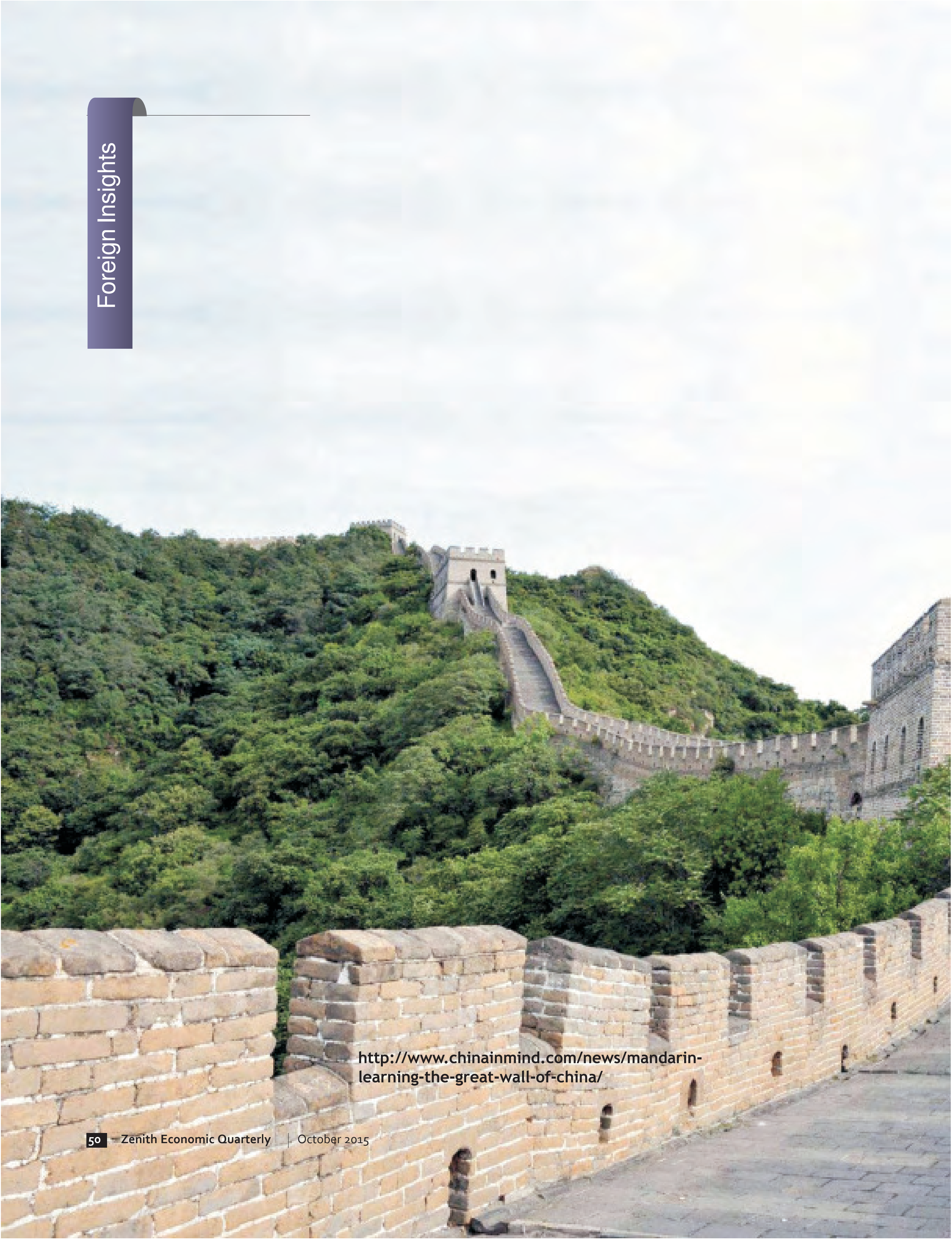


http://www.chinainmind.com/news/mandarin-learning-the-great-wall-of-china/

"It's time we should talk about it..."
From the lyrics of 'Wishful Thinking'
- by China Crisis, released 1984

China takes centre stage ... FOR ALL THE WRONG REASONS

- By Neil Hitchens

In a year such as this, 2015 is proving to be considerably harrowing for investors irrespective of your choice of investment class. While I have been, correctly, urging extreme caution and restraint for the past three quarters, it is quite frightening to be as correct as we have been. Many readers have contacted me privately asking for some insight about the most appropriate time to invest and the response for most has had to be 'Not Now' – sad as this sage advice is. Given the extreme flux seen in all markets from the outset of the Fourth Quarter the hallmark for this year has to be one of capital preservation at all costs and even though markets have turned up during the closing trading sessions of September, opinion remains sharply divided as to whether this is merely a relief rally on the basis of 'surely it cannot get any worse' or just quarter end position adjustments giving a false rally which masks continuing underlying investor anxiety.

The losses suffered in the third quarter have pushed what was a flat to slightly negative year into an all-round disaster. The indications at the time that a market collapse was imminent were there, but at the end of June it was feared by many that Greece would be the trigger. Again, as we correctly postulated, Greece was never going to be allowed to fail by the Central Powers of the European Union and as always the much predicted last minute compromise was arranged. However our slightly distinctive comments about the fate of China did, again, prove to be well founded; still the exact complexion and extent of the market collapse was greater than would have normally been expected because the Chinese financial authorities did what was probably the worst thing they could have done – they decided to, somewhat irrationally, intervene both overtly and covertly, rather than let markets sort out the mess by themselves, as they always do.

For those that decided not to heed our advice, 2015 has seen losses in stocks, commodities and currencies. Bonds while essentially flat overall for the year have actually experienced inflation adjusted losses thanks to the small amounts of residual price growth left in the system, despite the massive collapse in the prices of oil and industrial metals.

The MSCI World Index loss of -7.47%, pales into insignificance to those losses seen in both the Emerging Markets, -17.18% or Frontier markets, -16.10%. The Bloomberg Commodity Index has fallen -16.00% this year and currency funds have shown an average loss of around -1.75%.

Despite three years of rising equity prices on the back of quantitative easing (QE) by all of the major Central Banks, it now appears that emerging markets from China to Brazil are weakening and the knock-on effect on corporate profits is being felt globally. Analysts have already cut global growth estimates for 2015 from +3.5% at the start of the year, to +3.0% and the anxiety being felt has added to the pressure for financial authorities to continue QE. Indeed the announcement by the Federal Reserve in September that conditions were not quite right for rate rises actually had the opposite effect that such an announcement would normally have and US equities initially plunged with unsubstantiated rumours that a rate cut might now be needed in both the US and the UK. Such speculation we find to be both erroneous as well as ill-informed.

China has been the biggest source of anxiety for investors, after turmoil in the nation's financial markets fuelled concern that the country's worst economic slowdown since 1990 was deepening. The Shanghai Composite Index fell -29% in the third quarter, the most worldwide, and the Yuan weakened 2.4% after authorities devalued the currency in August.

That sent a shudder around the world – which wiped out a $3.8 trillion on paper - inevitably led the usual US "experts" to forecast, once again, China's imminent collapse. Hong Kong even resuscitated the "regime change" meme which was, as usual, nonsense. Overall, though, the end of August roller coaster lasted a few days: and then, as the index touched 3,000, it was gone. Significantly, many major US funds, including Fidelity and Goldman Sachs, were among the first to declare the turbulence over, and move on. Goldman Sachs, by the way, soon reverted to bullish mode and reinforced this view with a prediction that Shanghai will rally +27% over the next 12 months which would indicate a market level of around 4,000.

But we did earlier warn and advise that the Chinese stock market is not as well developed as the more mature markets in the Developed Index. Indeed, it must be remembered that, Hong Kong and the Hang Seng Index apart, the Shanghai Index has only relatively recently given investors direct exposure to the Chinese economy. The current Shanghai Index only began regular operations on 19th December 1990, not even a quarter of a century ago and even in this brief period has seen already a four year market slump, between 2001-2005, when as a last resort even IPOs were banned between April 2005 and May 2006. Also remember that the recent peak of 5,166 is still around -15% **OFF** the pre-financial crisis all

time high seen in 2007, which sometimes helps put the recent volatility into perspective.

In short, this recent extreme volatility is nothing new and it will happen, many times more, over the next 25-75 years, until markets mature. Also as we have always advised no more than a maximum overall exposure to the MSCI All World Index weighting, which at the end of September gave a weighting of less than 3.0% for the equity portion of your portfolio which in reality would mean the average investor should have had something slightly more than only a1% exposure to China.

To reiterate our earlier commentaries, for most Chinese the bulk of their wealth is tied up in property and deposits and it is only the really wealthy who would 'gamble' significantly with wealth management products, which would include a direct exposure to Chinese equities. The majority of equity investors are small time traders, trying to make a quick Yuan.

However there are also other voices out there who, interestingly, advocate a similar logic and proportionality to our own investment approach. While remaining largely cynical about the IMF (The International Monetary Fund) and its inane ability to mix emotion and politics into what should be a simple task of monitoring all global economies, I find myself in agreement this quarter, for once, with their chief economist Olivier Blanchard who quite astutely emphasised that China's casino stock market does not reflect on the fundamentals of its economy. The slump, he added, "was very much a sideshow."

Source: Reuters

As we have previously tried to underline, China's stock market is dominated by small investors, which is unusual. Roughly 5%-6% of China's 1.4 billion people regularly play the equity 'casino'– which equates to some 70-85 million investors. These individuals account for 80% of trading in the Shanghai and Shenzhen markets, which when combined account for less than 30% of the value of China's GDP – compared to the whopping 123% that the US stock markets are valued at, or, indeed, the roughly 100% of GDP that the FTSE or the DAX also represent.

Certainly, as can be seen from the above graph of the past 12 months roller-coaster rise in China, where the Shanghai composite rose initially from 2,363.76 to 5,166.63 (a +118.58% rise which even at the time we noted was too far and too fast). We then had the sharp correction back to 2,927.29, -43.34% to end September 2015 at 3,052.78, a +4.29% rise from the low but, interestingly still a +29.15% year on year rise.

Yes, even after the crash an investor who held on would still be **+29.15% wealthier** than a year ago.

Unquestionably individual investors who decided to hang on come what may (never, ever a sensible strategy), were well and truly walloped, but only from the higher levels and their experiences may well lead them personally to reduce their own personal consumption. But given the fact that those who were truly humbled in this crash may number a handful of millions, if that, the net longer-term effects on Chinese con-


www.youtube.com - Beijing Skyline

sumption may show only a shorter-term slow down. Indeed it is likely that those who truly suffered either had a cushion of cash through a higher personal wealth level or were investors from long before and as above, their 1 year returns are still very good.

There may be further corrections down the road, in fact I think I can safely predict that further corrections in the Chinese equity market, alone, are frankly inevitable. Yet Beijing has spent a lot of political and economic capital to make Shanghai globally acceptable as a trading hub in an attempt to try and outdo the long existing capitalist Hong Kong.

Tied up with this is the continuing attempt to establish the Yuan as a true global currency. Recent attempts have been made to try and have the Yuan accepted as a component part of the IMF foreign exchange reserve 'currency' the SDR (Special Drawing Right), which is a slightly technical quasi-currency composed of 41.9% US Dollars, 37.4% Euros, 11.3% Pounds and 9.4% Japanese Yen.

The SDR was created in 1969 and was intended to be a foreign exchange reserve under the Bretton Woods system of fixed exchange rates but as that system failed in the early 1970s its importance has diminished. The IMF itself calls the current role of the SDR as insignificant and the Developed countries, which hold the greatest number of SDRs, are unlikely to use them for any purpose. The SDR comes into prominence rarely and it is usually when the U.S. dollar is weak or otherwise unsuitable to be a foreign exchange reserve asset.

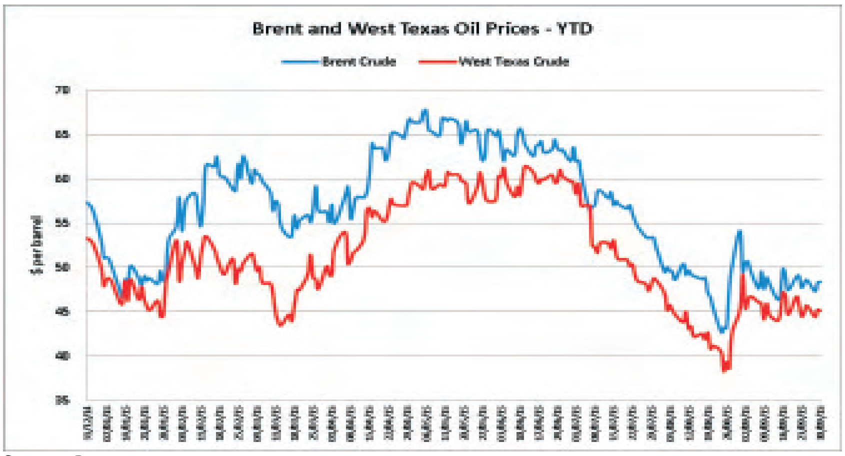
Shortly after its inception the SDR was used to alleviate a shortfall of U.S. dollars as the Fed had a tight monetary policy while global demand for the Dollar was ballooning, due to the collapse of the Bretton-Woods agreement and exchange rates floated to the benefit of the greenback. The SDR came back to prominence in 1978 in a reversal of the 1970 position whereby many countries did not want more reserves denominated in US Dollars.

While there are currently only around some 20.8 billion worth of SDRs in existence (a miniscule proportion of overall global currency reserves) the application for the Yuan to be a component is more a part of President Xi Jinping's project of realizing the Chinese dream of a greater global acceptance rather than anything to do with macro-economics. It is important to remember that Xi's short-term aspirations are already focused on a key date, 2021, the centenary of the founding of the Chinese Communist Party. By then, Xi expects to have established China as a "moderately prosperous society."

For Beijing, even more important is the legitimacy given by being seen to care about the average Chinese citizen as the government is more than acutely aware that other Communist regimes have come and gone and the recent shock that even their kindred spirits in the workers' paradise of Cuba have started to move over to the darker side – capitalism – will have scared them witless.

As we have seen before the loss or threat of loss of power and its associated privileges is a good way to focus minds and hearts on keeping that power at all costs. Hence, in part, the misguided attempt to overtly market manipulate which backfired initially, is at the root of the lingering fears that the general population, were they to revolt, would be an unstoppable force.

Yet, and still yet, the Chinese economy overall is still growing, albeit at less than the earlier red hot and unsustainable pace. Over 13.2 million urban jobs were created in 2014, more than in 2013. New business creation continues apace and there was, allegedly an increase of +45.9%, compared to the year before. Consumption and services also continue to grow in relation to GDP and the overall trend which has been ignored in the stock market slump is that China's economic model is slowly



Source: Reuters

but surely shifting towards more moderate - but more sustainable - growth.

As we noted previously, it was reported that China grew at a +7% annualised rate in the second quarter of 2015 which again wrong-footed many commentators. Certainly whether this figure is a real one or a Central Government 'inspired' one is a moot point.

China will continue to grow and even if growth drops, say, by 0.1% a quarter for the next five years we are still seeing an annualised growth rate of over +5% after 20 quarters and proportionately the whole economy would have grown by a further +35.1% - still very, very impressive.

For the moment until we see how the final quarter of the year turns out, we are content to leave investing in China at only index weight at best. Certainly when the index had previously doubled in under a year, that would have been a good opportunity to sell half your position and it is with this in mind that even though the prospects look reasonably assured for Chinese equities that we would prefer, as we do with all other investments, to not introduce any new funds into the market for the next quarter at least.

While we always advocate extreme caution in any investment, we also continue to stress the importance of behaving rationally: while you will see, further on in this article, that countries such as Hungary, for instance, have had a +19.48% rise in their equity market this year, this always has to be balanced proportionately with the market capitalisation of such a market in the global context. In short, as we continue to emphasise, smaller capitalised markets will always be extremely volatile: large capital inflows or outflows, will push prices harder and faster than in the larger capitalised areas.

Index weightings are there for a reason.

To move to a heavily over-weighted position in any market is usually a recipe for disaster, except and unless you get lucky and find yourself with a short, sharp profit. As we continue to stress when investing, only a cold, hard, logical approach will work: there is no room whatsoever for emotion, especially when you are dealing with your own, hard fought for, personal wealth.

This is an approach that I have always adopted and as a result have managed to side-step some of the more speculative bubbles admittedly at the expense of short-term highly speculative market moves which evaporate almost as quickly as they are presented.

Never has the phase 'caveat emptor' / buyer beware, been more prescient or more appropriate!

Commodities - lots of pain and most definitely no gain

The worst quarter in seven years for the Bloomberg JP Morgan Asia Dollar Index, which tracks the region's 10 most-active currencies outside of Japan, has seen its value collapse by -5.1% this year to the lowest levels since 2009.

Similar currency indices for the Latin American currencies tumbled to a record low during the quarter.

Even those investors speculating on dollar strength have found trades upended by the yen's +2.2% rally in the third quarter and a revitalized Euro on the back of the latest Greek escape.

Commodity producers are to blame for a large portion of the earnings related equity falls after Brent crude oil fell below $50 a barrel on the highest OPEC output in seven years. Copper touched a six-year low, while platinum fell -15% in the quarter. The precious metal, used in devices that curb harmful emissions from cars, was adversely affected in the aftermath of the growing scandal from Volkswagen AG's attempts to rig pollution tests for U.S. diesel engines. Glencore plc, the commodities group former darling that's become a proxy for the industry's woes, plummeted -69%.

Credit markets haven't been excluded from the losses. The Merrill Lynch Global Corporate & High Yield Index is set for its first annual decline since 2008, with yields approaching the highest since 2012. Government bonds returned just +1.4% in an environment of strong demand for safe haven assets.

For all the turbulence, the U.S. economy, as we have noted before, is still pretty solid and the Fed, while it has held off, possibly for the last time, should raise interest rates fairly soon – even though the chances of an intra-quarter rate hike are slim and the December 2015 meeting could well mark the start of a slow rate hike environment in the US. Interestingly futures traders have been pushing back forecasts for the Fed and are currently pricing in a 41% probability the Fed will raise its benchmark rate by a quarter-percentage point by the December 15th -16th meeting, down from 60% at the end of August, 2015.

Oil continues to both depress and infuriate. While the price of Brent and West Texas oscillates in a fairly tight band between $45 and $65, overall worries about the on-going nature of Chinese demand, coupled with Saudi Arabia's decision to go for broke and just let the pumps rip, continues to cause oil to go in one direction – down. Add into this toxic mix the continuing reacceptance and on boarding of Iran into the fold after the recent US senate vote which aimed to start lifting some of the more onerous sanctions, including the restrictions on Iranian oil exports, and the recent dip below $40 may well be tested again in coming months – especially if there is a late warm surge in temperatures in the Northern hemisphere.

While US production has slowed, especially from fracking sources, the OPEC consortium seems determined to keep its market share, even though this additional daily surplus of around 3 million barrels a day continues to have very few places to go. However it is not as if the price move itself is worrisome but the markedly higher volatility that is now being seen in the oil price. Certainly over the summer period we tend to usually see prices do very little, yet this year the double-dip in prices has been more severe than many had predicted. The sharp upward move on August 27th which itself was the sharpest move seen in 6½ years, was completely at odds with the given consensus that the current downturn could be overall a protracted multi-year event and the odds of a $100 price being achieved before 2017 at the earliest looks incredibly remote.

Such extended volatility plays havoc within the industry and has already forced some oil companies into a holding pattern over their near-term investment planning – indeed the news that Shell has abandoned its Arctic drilling on cost-benefit analysis came too close to the latest recent set of volatility to be anything other

http://toscanyacademy.com/blog/professional-in-nigeria/list-oil-gas-training-consulting-companies-nigeria/

than a very big signal that for the moment large scale and expensive oilfield exploration will be scaled back in the next 12 months or so – which will have a consequent impact on the oil service sector as well. The recent mega-merger of Shell with British Gas, a near $70 billion deal, has not yet sparked a wave of copycat mergers where the beasts of the jungle start to pick off the weaker companies with flailing balance sheets, but this will come in time. It is interesting that the Shell merger was based on their own predictions of a return to a $90 a barrel price by 2018, but I would suspect that this prediction will be a close run thing and the odds of the price not reaching $90 by then also look very slim at the time of writing...

However I feel that $40 a barrel is here to stay – certainly as an average price, for the next six months. At this new lower premium staff costs and overheads are already being pared back industry-wide. Those companies with strong balance sheets and diversified upstream portfolios will continue to have the necessary flexibility to ride out this extend period of weakness. Recent industry reports from the likes of Progressive Equity Research seem to indicate that companies such as Statoil

and Total are well placed to weather the depression, while ENI needs to turn around its downstream business as a matter of some urgency.

Smaller companies though tend to have a higher level of debt and the low oil price will create even more strain on their finances, irrespective of the eventual timing of the much anticipated and seemingly never coming Federal Reserve and Bank of England rate rises – it is fairly easy to predict no rate rise from the ECB during 2016. As the asset value of these smaller entities are inevitably revalued as part of the regular reporting and accounting practices, the ability of these companies to raise capital will be either sharply curtailed or only able to proceed at inflated interest rates.

Thus prudent operators of any size should be able to weather this downturn but they should also prepare for the worst as industry rebalancing may take some time. Data from the US shale fields seems to indicate that even at these now lower prices, US production can continue to grow on the back of industry efficiency gains. However it is going to be a very sticky six months or so – perhaps an extremely cold Northern winter courtesy of the new El Nino weather system that has recently emerged in the Pacific may lead to an upturn in demand by the turn of the year.

For the moment then, it is business as usual inasmuch as demand is weak and production remains strong.

Gold though continues to suffer from both an absence of investor appetite, overall non-existent global inflation and a lack of manufacturing demand from both industrial and jewellery based manufacturing. While the Chinese equity crisis caused an uptick in prices at the end of August from a low of $1,078 we ended the quarter at around $1,125. Despite this prices have still not recovered from the sudden fall seen in July. Another factor that continues to lurk is the absence of a Federal Reserve rate rise – given that gold is a non-yielder any actual interest to be had in its currency of denomination the US Dollar, takes away its allure even further. As if to compound any gold bugs misery, a strong US Dollar has always had an adverse effect on Gold and the recent extended gains seen in the Dollar, especially against many Asian and/or Emerging currencies has merely reinforced the bearish trend.

Yet, there may be seen to be a growing attraction to our much maligned yellow metal friend. Even after the 2012 implosion where prices fell from the $1,750 level, gold, as we have seen then made lower lows and lower highs but has recently seen the drop stalling in a band between $1,100 and $1,150.

It is almost as if the gold price has bottomed out in conjunction with the tailing off of Dollar strength. Yet despite the S&P500 having come off its all-time high in July, usually a good positive for gold, for once gold has traded in parallel with equity markets, not inversely, which usually would have given us a price to the North of $1,200. This is certainly unusual and this is linked in with the global deflationary shock from China, Brazil, Canada, Russia and South Africa. From an average GDP weighted inflation rate of 1.6% these countries now collectively show a rate of -0.01%.

US imports from its major commercial partners now carry this deflationary burden and while the possibility of lower gold prices is there, the general feeling is that as the Dollar falls from recent highs it is also possible that the US economy may start to stall and were the Fed not to raise rates until 2016 this would be taken badly by equity markets and a gold rally of some sort may ensue along with a weaker Dollar.

Certainly there is market information that certain investment companies have publicly stated that they are waiting on the side-lines to buy gold and there is most certainly no danger currently of buying anywhere near the recent highs. Jim Rogers, a somewhat contrarian investor, stated as recently as June this year that he was waiting for the price to drop to $950 on the back of a continued surge in the value of the Dollar. However, while we admire his bravery in calling a top in the dollar he has recently been wrong on the Russian, Indian and bond markets. Indubitably to say that "Gold will be in a bubble someday, don't' worry" smacks of trying to prove with hindsight at some time in the future that you called gold correctly.

While we would love to say, finally, that the time has come to start buying gold again, but we must remain scrupulously logical about the most likely near-term direction of the price. As such we must continue to advise caution as the price is likely, at the time of writing, to remain marooned around the $1,100-$1,200 level. Unless equity markets start to show signs of a continued and prolonged slide, which could happen were the Fed to indicate a further delay in raising rates, or were there to be some new geo-political crisis which while the Ukraine has calmed down recently and Greece has been almost forgotten for the moment, cannot be ruled out. Also it is entirely possible that there could start to be some sever labour unrest in South Africa as the economy there continues to weaken in the light of the commodity slump seen this year. While we do not predict anything more than a series of strikes the possibility of an escalation in civil disobedience remains and were the world's major supply of gold to be terminated then

Source: Reuters

http://www.bworldonline.com/content.php?section=StockMarket&title=phl-stocks-rebound-as-china-recovers-from-rout&id=111307

the spike in price could be sharp and severe.

Oddly enough such a scenario would be a selling opportunity as the government would most certainly not permit any prolonged disruption in the supply of gold. For the moment though there is no compulsive reason to consider any active participation in any commodity market.

However this could well change by the turn of 2016.

Equities - 2015 has been a disaster....much as we had feared.....

It is sometimes very difficult to have a year such as 2015 and not be tempted to invest, at some random time, on the basis that it 'cannot get any worse.'

As we continue to stress, investment is not only about market timing but also about knowing when to not be tempted back into the markets or to have the steel discipline to not deviate from the master plan.

2015 has been such a year.

We advocated at the end of Q4 2014 that existing investments merely be maintained until market conditions warrant the introduction of additional cash and/or the addition of new equity positions.

Certainly by the end of April when the MSCI Emerging Index peaked at +11.43% for the year, on the back of the Chinese equity rally, or by the end of May when the MSCI World Index was also topping out at +5.92% for 2015 as the US indices were hitting new all-time highs some optimism could have been expected for the average investor.

However as we cautioned at the time, the fact that the prior years' performances were so mixed and totally reliant for progress on the performances of the booming US and UK stock markets to make any progress whatsoever, a year such as 2015 was always going to be one which was continuously going to show signs of increasing uncertainty about the timing of interest rate rises by both the Federal Reserve and the Bank of England. Throw in the continuing investment disaster that was, and continues to be, Greece and much of Southern Europe and the readership will see why we were and persist in being completely cautious and as such reiterate our call for continued prudence for the rest of the year.

Admittedly this is not what many people wish to hear, but the events of this year have already shown that such a prudent approach for the vast majority of investors would have been most appropriate and while equities, per se, have not managed to give positive returns, a certain amount of prudence would have ensured that capital losses for 2015 would have been minimised (while those who had held positions for longer will continue, for the moment, to see overall positive returns, especially when dividends are included into your overall capital gains calculations).

If we drill down into the individual markets on an index by index basis, to see only one equity market globally that had a positive third quarter – Estonia posted a +4.19% rise – gives great cause for disquiet going into the final quarter of the year. In fact even in the Frontier Markets there is usually, when there are globally no places to hide for equity investors, a few pockets of positivity. For there not to be, does give grave concern.

As always if you look behind the figures you will see that the Tallinn Stock Exchange only has 14 listed companies in total. For the 3rd quarter to end positively it only took a few of the higher index weighted companies to have a good 12 week trading session and the index as a whole rose – especially with the added positive market sentiment that Russia, for the moment, had not decided to invade Estonia (I still remain partially convinced that Russia's long-term plan does contain a partial reoccupation of its old territories and that the three Baltic States are most definitely in the front line, but that any invasion will be one done subtly via a plebiscite, because Estonia still has a very high proportion of its population composed through ethnic Russians).

So, what happened and should the moves be as surprising as we thought?

Certainly the Chinese fluctuations in August set alarm bells ringing worldwide but are we misinterpreting the data? Are we forgetting what was already in progress?

As can be seen, US stocks were well and truly hammered at the end of August, but look again…..if you look closer at both the Dow Jones Industrial and the S&P500 indices you will see that in August they were already coming off their all-time highs having peaked some time earlier. The Dow's all time close was on May 19th 2015 at 18,312.39 and the S&P 500's all-time high was a few days later on May 21st, 2015 when it closed at 2,130.82. This was three weeks *before* the Shanghai composite peaked on June 12th and eight weeks before the Chinese National Bureau of Statistics announced +7% annualised growth figures, considerably slower than the average growth rate seen in the period 2003-12.

By the beginning of August the markets had already begun to slide and on 17th August, the day before the Chinese flash crash the Dow was already down to 17,545.18, a -4.19% fall: the S&P was then at 2,102.44, a smaller -1.33% fall. The ensuing rout from August18th was six trading days after, yes, after the devaluation of the Yuan in an effort to stimulate Chinese exports.

In other words the US markets had, initially, barely reacted to this information; in fact it looked as if equities would probably just move sideways during the usual summer market lull. It has subsequently been revealed from a recently released report by the State Street Corporation that institutional investors were already selling into the May rally and the Chinese crisis was merely a trigger for the rest of the investor universe to follow suit.

It is highly probable that, as can be seen, because the markets were having an extended de facto sideways move from February to May that internal sell orders were triggered to move, as has been proven, from cyclical and growth stocks into more defensive sectors. Additionally if your review this report carefully you will also see that a larger proportion than usual of the sales proceeds were kept in cash or cash equivalents – a move that was at odds at the time when the self-same institutions were advising their clients to keep their newly bought holdings. Please note that we, instead, never suggested adding to positions.

While the September market moves are in themselves nothing to be too worried about in the normal course of events, there is a growing suspicion that via an almost self-fulfilling series of events that markets may well be about to have what is a fairly regular October 'shiver'. Readers will be aware that in the past we have

http://www.e-architect.co.uk/beijing/beijing-building always warned about the October effect on markets whereby investors come back from holidays at the end of September, then witness via the group purchasing of indices or sectors their stocks rise towards the end of the 3rd quarter: when markets then stall because no further money is being added to markets we then see an accelerating decline into October which can be quickened as losses start to be seen and profits for the year look as if they are about to disappear.

Classic herd mentality.

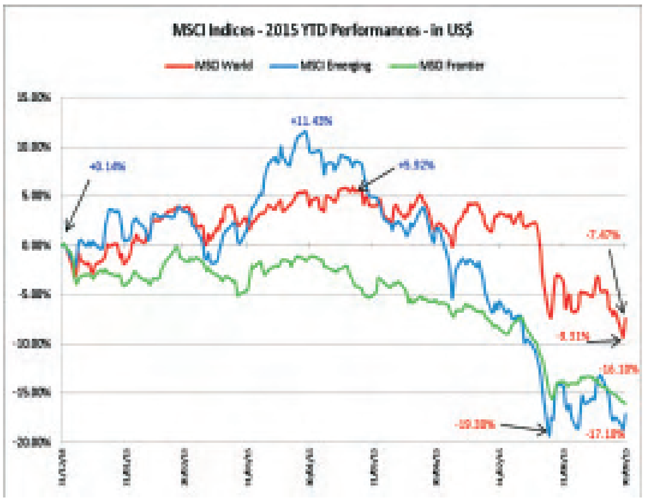
October 2015 could well be about to see exactly the same pattern but, as always, for its own unique reasons.

Certainly the unwillingness of the Fed to raise rates (indeed there is a growing realisation that they should possibly have been raised as early as 2011 while the economy was growing very strongly) has caused extreme nervousness in both the equity markets as well as in the US economy as a whole. While there is still growth, indeed we were one of the first groups to realise that the US economy had broken free from the shackles of the 2007 crisis, nervousness by investors in industry could well be about to have a stalling effect on growth prospects as the *perception* (not the reality, note) of economic growth worsens. As such we are starting to see the first signs of a slowdown in the manufacturing and retail sales figures – almost exactly as we saw in 2001 and again in 2007-08 – which, while retail sales for instance have not yet peaked, the pace of growth is slowing. Over the past six months retail sales annualised growth has slipped from +3.9% to +2.2%.

Additionally US industrial production is only rising modestly after actually slipping back between January and May 2015. Combine this with a slowing in wages growth and we are most definitely looking at a low growth scenario which does not augur well either for the US equity markets or, indeed, the rest of the world and this has to some extent already been borne out in the almost universally dire performances of equity markets in the 3rd quarter.

On a country by county basis the readings are, as we have already indicated, grim.

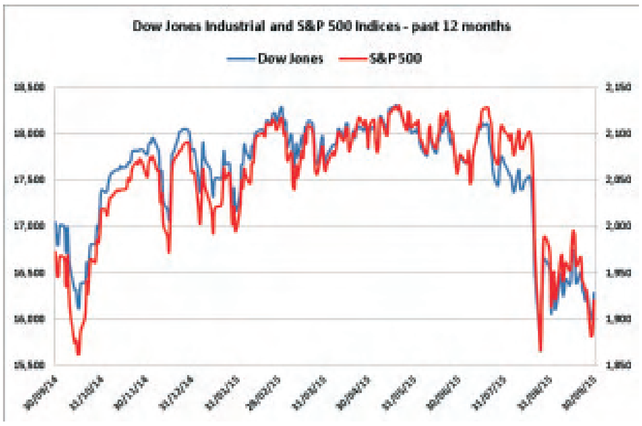
In Developed Markets we have an almost unprecedented situation whereby of the 23 main constituents, just three are showing positive returns for the whole of 2015 and as already mentioned not a single country in this universe has had a positive third quarter. Japan's capitulation was not a surprise, as many had somewhat



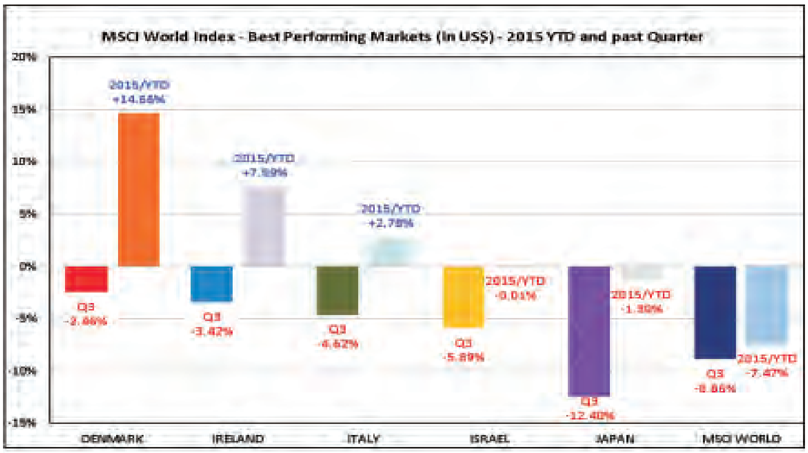
Source: MSCI/Barra

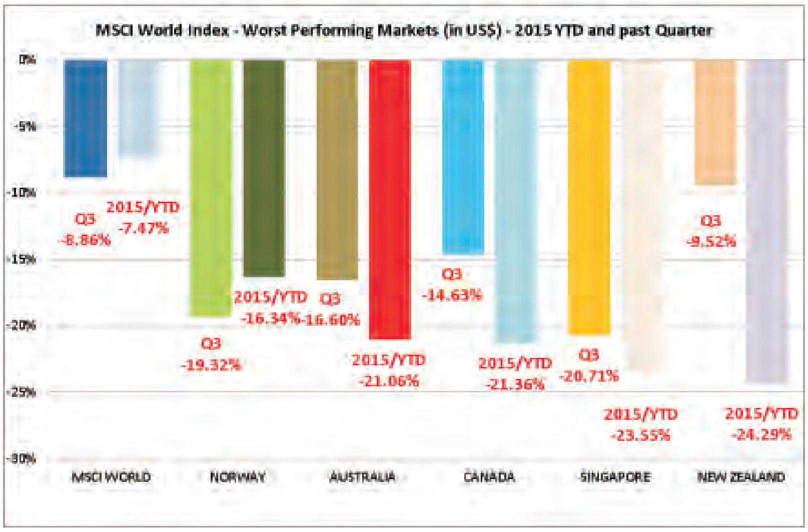
erroneously hoped it would both be immune from any market moves of its larger neighbour, China, and also benefit from the quantitative easing that the government had belatedly decided to try, mostly because everything they have tried over the past 20+ years have been unable to bring Japan out of its multi-decade long slump. After over 20 years of self-imposed equity suicide, it was a faint hope that this time it would finally work. As we have reported previously we remain immensely sceptical in the longer term that a myriad of short-term fixes might actually stimulate an ageing economy bereft of new consumers normally called 'children'.

The worst performing markets are centred on commodity producers and those who are over-reliant on a



Source: Reuters





Source: MSCI/Barra

booming Chinese economy and to be brutally honest are unlikely to see a positive year even were oil and metals to make a miraculous recovery.

The best and worst equity markets in the other indices were also not much of a surprise – especially the worst performing markets. In the MSCI Emerging arena the best markets were Hungary, -3.30% for the 3rd quarter, +19.48% YTD, India, -7.17% (3rd Quarter) and -6.34% (2015) and Russia -17.05% for the 3rd quarter but +5.06% for the year. The worst markets were Greece, yet again, at -36.13%, for the quarter and a mind boggling -53.25% for the year, and Brazil -34.05% (3rd Quarter), -40.88% (2015).

Certainly the worst performing markets are of no surprise – we continue to find the Greek tragedy as almost self-fulfilling as the country as despite being rescued yet again, is and was technically bankrupt. Added to the Greek problems the migrant crisis that has literally washed up on their doorstep has merely exaggerated pre-existing infrastructural and economic problems.

Within the Frontier markets there is yet again a wide mix of performances with, somewhat surprisingly Jamaica being the best performing market year to date at +28.27%, buoyed by the positive Caribbean developments from Cuba, but it must always be remembered that the Jamaican market is not only thinly traded but has a very low market capitalisation. The worst performing markets remain last quarter's worst behaving trio of Ghana, -10.16% for the 3rd quarter, -34.22% for 2015, Bulgaria, -12.95%/-34.46% and Kazakhstan, -37.85%/-52.92%.

Will 2016 be any better for any markets?

As has been the case for almost four years now, deflation still is the main trend in the global economy. There's no question about that as prices fall throughout Europe, prices simultaneously deflate in Asia, and there's little sign of any future inflation in the global economic system.

We also should note that a growing problem facing the world is the giant combined sovereign debt mountains of Europe (mainly), Japan, and the United States which are starting to be impacted by rising interest rates within the financial markets. Market rates are already increasing ahead of the Federal Reserve eventually increasing rates (admittedly to a lesser extent and over a longer period than many had forecast even six months ago) and that is happening because investors are beginning to realize that there's no safety in government debt.

The US 10-year interest rate actually bottomed way back in June

2012, more than three years ago. Since then the yield on 10-year notes rose to 3.2% at the end of 2013, before pulling back to about 1.5% at the end of last year and since the beginning of 2015 it has moved back up to 2.5%, before retreating slightly to around 2.15% recently as equity markets slumped. We note with interest that the giant $1.7 trillion Japan Post Savings Fund, one of the largest pension funds in the world, has decided to move a proportion of its assets from mostly Japanese government bonds and into other investments including equities: this is mainly because at current yields there is no upside potential.

Europe does remain an immense worry. The Euro remains at high risk of weakening further as the European debt crisis gains traction. Europe's governments are horribly indebted but not only that. Europe has various geopolitical concerns that are mounting to tear the union apart including its relationship with Russia and the refugee crisis that is also starting to put extreme stress on virtually all European governments. They don't have the fiscal and monetary structure that is necessary and as I have previously noted, until you unify the political system, the rule of law, the banking system, and create several other institutions in order for the single currency to work the system will remain vulnerable. All this runs unhappily in tandem with the realisation that free movement of capital and people sometimes doesn't work and borders are slowly but surely being reinstated on the Continent.

The flip side of that, of course, is that as the Euro falls, the U.S. dollar is going to move higher. The U.S. dollar index has shown some strength recently but the suspicion is that the next move in the U.S. dollar should be substantially higher. But this will also cause more long-term problems as a strong currency imports deflation while a weak currency imports inflation and exports deflation.

Meanwhile, stock markets literally all over the world are teetering and still largely in corrective mode with many markets, as we have already shown, now firmly in bear market territory – where markets are 20% or more off their highs. This does not augur well in the short-term for equity markets. As we have seen in the US there was immense resistance at the 18,500 level. For the Dow to prove itself and enter the next leg of its bull market this resistance will have to be decisively broken. The Dow hovered and tested it no less than three times and then the Dow started to roll over.

There is a possibility the Dow in an extreme case could move down to 15,000 or even to previous resis-

Source: nycphoto.com

http://site.familyinnewyork.com/blog/index.php/wall-street/

tance levels at around 13,900, but for the moment we are in a corrective mode in the Dow Industrials which may last for an extended period, quite probably for the rest of the year and into the first quarter of 2016.

As the Dow leads the rest of the Developed markets at least are likely to follow but to a lesser extent. As we continually reiterate and repeat, the US and UK markets were always likely to be the best performer overall while the equity markets in Europe, especially those within the Eurozone (except for Ireland which tends to move in tandem with its near neighbour the UK) were more likely to suffer as the Euro continues to be extremely vulnerable to the pressure mounting up from the Greek and South Eastern European debacles.

The difference between *Continental* Europe's stock markets such as the Dax and the CAC and the U.S. is that mainland Europe's stock markets will probably not recover. Europe's/Eurozone's stock markets, according to my modelling are currently unlikely to enter a new and extended bull market and merely underperform the returns likely from the US and UK. They will more than likely be stuck in bear market mode and stay stuck in a sideways wide swinging range for years to come while the U.S. market takes off due to the flight of capital out of Europe, Japan, and other parts of the world, especially the Middle East due to geopolitical concerns: terrorism and the warlike conditions that are quite likely.

It is highly likely though that the current US market weakness is merely a pullback within a long-term trend. It is giving the market the necessary energy to eventually move back higher and take out that 18,500 resistance level and then enter the next leg of its bull market which will carry it substantially higher. We did once indicate a forward projection for the Dow to reach 31,000 over the next couple of years and it remains possible with the indicated capital flight and other problems as outlined above.

To reiterate the Dow shows signs of rising as high as 31,000 – 32,000 but not because the U.S. economy is thriving or the global economy is thriving. It will be because the rest of the world is going to hell in a hand basket and when that happens, capital flows, frightened capital, flows to the core economy of the world which is still the United States, the U.S. dollar, and the U.S. equity markets, for safety.

That's historically what happens and it's about to happen again.

Again, we continue to stress and probably overstress that in current market conditions no investor should try and invest counter to the trend. To date this year, this has been wise council and we continue to advocate caution for the final quarter of 2015.

As has been justifiably quoted by many others from Alexander Pope's 'Essay on Criticism' "Fools rush in where angels fear to tread".

Be careful!

(Neil Hitchens, ACSI – Independent Investment Financial Strategist and Manager. He may be contacted at any time via email at the following email address: n.hitchens@btopenworld.com)

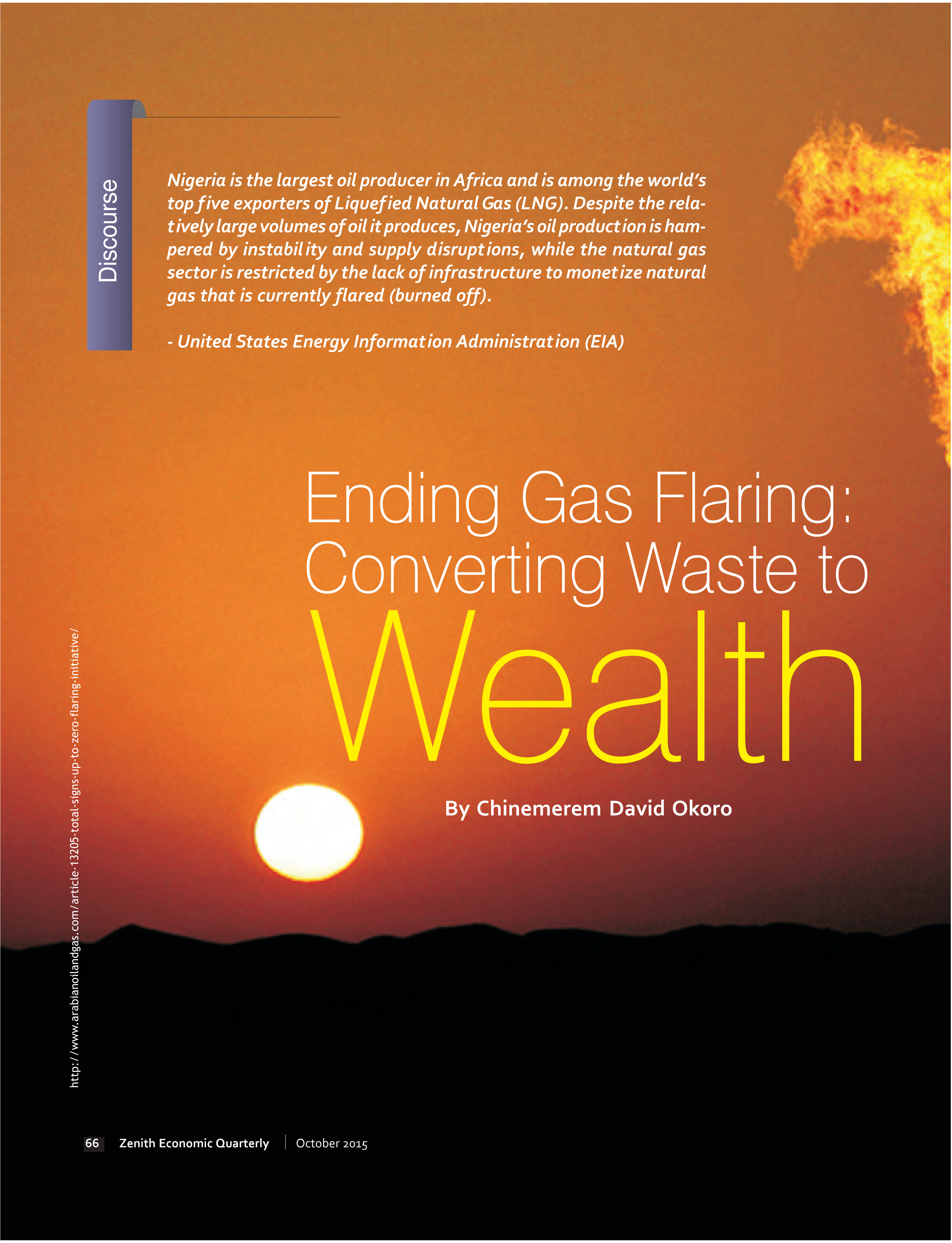
Discourse

Nigeria is the largest oil producer in Africa and is among the world's top five exporters of Liquefied Natural Gas (LNG). Despite the relatively large volumes of oil it produces, Nigeria's oil production is hampered by instability and supply disruptions, while the natural gas sector is restricted by the lack of infrastructure to monetize natural gas that is currently flared (burned off).

- United States Energy Information Administration (EIA)

Ending Gas Flaring: Converting Waste to Wealth

By Chinemerem David Okoro



http://www.arabianoilandgas.com/article-13205-total-signs-up-to-zero-flaring-initiative/

In recent times, there has been a renewed drive by multinational development institutions, oil companies and oil-rich nations to put an end to the menace of global gas flaring – the burning of natural gas associated with oil extraction processes. The renewed effort stems from the realization that, in addition to its devastating environmental impact, gas flaring constitutes a multi-billion dollar waste and an economic 'drain pipe' in the face of scarce global resources – especially in the light of the most recent global economic downturn. According to statistics from the WorldBank, an estimated 140 billion cubic metres of natural gas produced together with oil are wastefully flared annually. In monetary terms, calculated using global average gas prices, between US$20 and US$50 billion is lost to gas flaring annually; denying the global economy, particularly oil producing nations, of a veritable source of foreign exchange. More so, the volume of gas flared globally, if converted to alternative source of energy, is enough to meet the electricity need of some millions of the global populace living without electricity.

Nigeria, the largest holder of gas reserves in Africa and seventh in the world with 188 trillion cubic feet (TCF), is also caught in the maze of gas flaring; with volumes of gas flared in the oil producing regions of the country. Indeed, the country is the world's second largest gas flarer behind Russia, flaring approximately 13 billion cubic metres (bcm) annually (World Bank, 2015). It is estimated that the volume of gas flared in the country would provide about 40 per cent of Africa's gas consumption and perhaps meet the needs of the West African sub-region as well as generate approximately one quarter of the current power consumption of the African continent, if harnessed as an alternative source of energy. In financial terms, at the average wellhead price of US$ 2.5 per metric cubic feet (MCF), about US$6 million per day - which amounts to about US$2 billion (N400 billion) dollars a year - is being unnecessarily sent up in flames daily.

From a resource management standpoint, it is certainly indefensible that a country plagued with enormous yet surmountable socio-economic challenges - inadequate power supply, high energy cost, environmental degradation, dwindling foreign exchange earnings, uncompetitive manufacturing sector - is yet to fully harness the opportunities presented by flared gas utilisation to create new value chains that would improve the quality of life of her citizenry. For example, adequate utilisation of flared gas for power generation can leapfrog the country out of its power (electricity) and economic challenges, which are inseparable, considering the energy and economic growth nexus. Surmising from the foregoing, the imperative to end the flaring of associated gas is one that can no longer wait. There is the urgent need to convert the nuisance to more advantageous use as a twin-answer to environmental sustainability and wealth creation. Ending gas flaring by converting it to more economic use will create a win-win solution that would eliminate its environmental effects, mitigate climate change, increase economic growth and create wealth for Nigeria's teeming populace.

Menace of Gas Flaring: A global debacle

Like many other environmental concerns, gas flaring is literally an endemic global problem with glaring adverse environmental, health and social implications that transcend borderlines. In fact, it is one of the most challenging energy and environmental problems facing the world today and one which has persisted for decades. Simply put, gas flaring is the complex and unscientific burning or discharge of excess hydrocarbons (natural gas) in the process of oil and gas production. It entails burning off the natural gas associated with the crude oil during extraction in places where there is no capacity or infrastructure to separate commercially viable associated gas from the oil. Thus, unusable or excess natural gas is released by a pressure valve and burned – releasing tonnes of carbon dioxide into the atmosphere. This condition has its attendant environmental and health implications and impact.

Flaring is known to release heat radiation and thermal conduction into the atmosphere; it leads to the production of toxic gases during combustion; produces high noise levels, generates and disperses particulate and other gases such as carbon dioxide (CO_2) and nitrous oxides (NO_x) into the atmosphere. The World Bank's Global Gas Flaring Reduction Partnership (GGFR) estimates that more than 300 million tons of CO_2 are being emitted into the atmosphere from oil fields across the globe; equivalent to emissions from approximately 77 million cars (WorldBank, 2015). This high emission of CO_2 dehydrates the surroundings, habitats, eco-system, food chain, nitrogen cycle, oxygen cycle, animals and vegetation, causing their actual deaths or leading to poor yields of natural resources. As a major source of Greenhouse Gases (GHG), Gas flaring, contribute to global warming which further exacerbate the problem of climatic change and harsh living conditions with serious implications for the world.

As a global leader in flaring of associated petroleum gas, the picture of the humongous volume of gas being flared by Nigeria and the colossal environmental and health danger it poses are clearly seen in her oil producing communities. An unfortunate example is the Niger Delta region which has suffered all forms of pollution and degradation arising from oil and natural gas exploitation, particularly gas flaring. The immediate impact of gas flaring and venting manifest in high and rising temperature in these communities close to flare sites and beyond, acidification of rainwater and deposits of black powder/ carbon covers (particles). The resultant effect include a decrease in agricultural yield, crop growth retardation, distortion of aquatic life, increasing concentrations of airborne pollutants, acidification of soils and rainwater, corrosion of metal roofs and health hazards, all of which combine to put health and livelihood at risk in these regions.

Global Initiatives to end Gas flaring

The effects of gas flaring, which are multifaceted, have continued to dominate the sustainability discourse by environmental activists and economic stakeholders the world over. Globally, several efforts are being made to end the menace of gas flaring and the associated wanton economic wastage; the latest being the United Nation (UN) and World Bank-backed "Zero Routine Flaring by 2030" initiative. This initiative seeks to create a common platform for governments, multinational oil companies, and development institutions to come together

http://thelightnews.com/nigeria-loses-n31-8b-gas-flaring/

to eliminate routine flaring, latest 2030, by building a synergy that converts the waste into meaningful economic use. Under the initiative, Governments of Oil producing nations will provide legal and regulatory environments that are conducive for Oil companies to make investments in gas utilization infrastructures that will deliver economically viable solutions to eliminate gas flaring. Development institutions, on their own part, will facilitate cooperation and implementation, using financial instruments and other measures, particularly in their client countries.

Prior to the flag off of the latest initiative, several effort and initiatives have been launched to put an end to global gas flaring. The issue of emissions has remained at the forefront of the movement to put an end to routine gas flaring, given that flaring is a significant source of both greenhouse gas emissions and toxic components that can harm the health and well-being of local communities. Thus, the objectives of initiatives to end gas flaring were in line with international agreements that are focused on reducing greenhouse gas (GHG) emissions like the 1992 United Nations Framework Convention on Climate Change (UNFCCC) and the 1997 Kyoto Protocol.

Another initiative to end global flaring is the World Bank's Global Gas-Flaring Reduction Partnership (GGFR) which was launched formally at the World Summit on Sustainable Development (WSSD), Johannesburg, South Africa, on August, 30 2002. The aim of GGFR, according to the World Bank press release issued at the formal launching, is "to support national governments, development agencies, and the petroleum industry in their efforts to reduce the environmentally damaging flaring and venting of gas associated with the extraction of crude oil." To achieve this noble objective, the World Bank, through partnership with willing stakeholders established a collaborative Global Standard for gas-flaring reduction which provides a framework for governments, companies, and other key stakeholders to consult with each other, take collaborative actions, expand project boundaries and reduce barriers to associated gas utilization. As of now, the World Bank is leading 33 companies and nations in the Global Gas- Flaring Reduction Partnership to shrink the industry custom by 30 per cent in the next five years to 2017.

Nigeria's Initiatives to Phase-Out Gas Flaring

Indeed, the struggle to phase-out gas flaring in Nigeria is as old as the business of oil exploration itself. Nigeria's national response to ending gas flaring could be seen in the longstanding laws, policy thrust, legal/legislative and institutional arrangements against gas flaring. These are instituted by the government pursuant to Nigeria's obligations under the international initiatives to which she is a member. The first regulation/initiative to combat the menace of oil exploration in the Nigerian Petroleum Industry was the Petroleum Act of 1969. The Act required oil producing companies to submit a feasibility study for gas utilisation within 5 years after production start date. However, the Regulations failed to put an end to gas flaring as it did not specify precise sanctions for companies who breached this regulatory requirement before and after the submission of the feasibility study for gas utilisation, nor were there legal obligations for the reduction of gas flaring.

Following the failure of the initial Act in curbing associated gas flaring, a Petroleum Amendment Decree was approved in 1973. The Decree was a conscious effort on the part of government to encourage harnessing of associated gas, through conversion and utilisation, without royalty payment. Thus, the Nigerian Government was therefore at liberty to exploit oil companies of their associated gas for free and convert it for domestic uses and other economic activities. As noble as the initiative was, the Petroleum Amendment Act of 1973 also failed to end gas flaring as the Nigerian Government lacked the requisite infrastructures for the trapping, conversion and transportation of the associated gas to end users.

What is more, the Associated Gas Re-injection Act was passed in 1979 to control atmospheric pollution by stopping gas flaring through gas conservation and utilization. By this legislation, no company engaged in the production of oil and gas was to flare gas after January 1st, 1984 without special permission from the Minister of Petroleum Resources; who has the power to issue a certificate of exemption from the provision of Section 3 to any company upon such terms as he may impose if he is satisfied that utilization or re-injection of the gas produced in a particular field(s) is not appropriate. Additionally, the Act imposed stiff penalties for non-compliance with the provisions of Section 3 of the Regulation which initially included outright forfeiture of concessions and later a low fine.

Yet again, the initiative failed to achieve the much desired result. This was due to lack of infrastructure for gas utilisation and inadequate funding on the part of the government, for its building gas re-injection facilities based on existing joint venture agreements with Oil-producing companies. Furthermore, the penalty for not re-injecting associated gas, which was changed to a low fine of 20 cents/mscf of flared gas in 1984, made gas flaring a much cheaper option for companies compared to the alternatives of marketing or re-injection. Although the fine was reviewed and increased a couple of times between 1990 and 1998, the amount remained significantly low compared to the cost of alternatives. More so, the time limit set by the Act was unrealistic for the operators in the industry by all standards. Government subsequently announced that its final time limit for the total eradication of gas flaring is 31st of December 2008. Sadly, all these regulations to curb gas flaring had not achieved much as the menace has continued till date. In the light of the negative connotations- environmental and economic- associated with gas flaring, there is urgent need to leverage the wasting opportunities to tackle the nation's economic challenges.

http://thenigeria.com/index.php?option=com_content&view=article&id=127:nigeria-the-cost-of-oil-in-pictures&catid=2:user-articles&Itemid=3

Leveraging the vast opportunities in Gas flaring

The opportunities in the utilisation of flared gas, is a global one providing a twin solution to environmental sustainability and wealth creation. The opportunities are enormous especially for Nigeria, considering her huge gas reserve base, the volume of flared gas and socio-economic needs and aspirations. Put differently, the effective conversion and utilisation of currently flared gas by Nigeria can leapfrog the nation into meeting majority of its economic challenges. Some of these areas include:

• **Power Generation:** Indeed, one of the greatest opportunities flared gas presents to Nigeria is its conver-

sion and utilisation for power generation. Nigeria, with a population of more than 170 million people and enormous economic potentials, has one of the lowest electricity access in Africa. The nation currently generates barely 5000 megawatts of electricity; as against its energy need of about 200,000 megawatts. Hence one of the most important domestic uses of currently flared gas will be for gas-to-power purposes. Thus, the country can leverage her abundant gas resources to realise and sustain the nation's dream of stable national power supply and self-sufficiency in electricity generation.

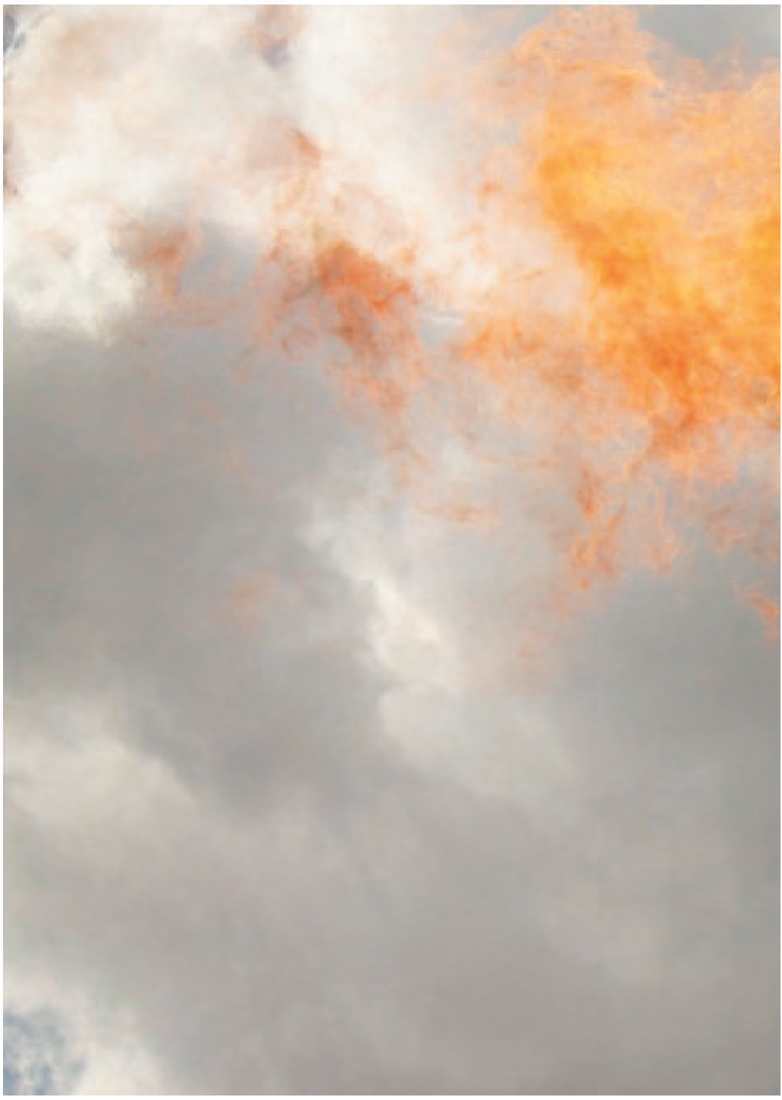
- **Industrialisation:** Another vital area flared gas could be effectively utilized is in the manufacturing industry to achieve Nigeria's dream of an industrialised economy. Thus, given the critical role of power in industrialisation process, flared gas could be used to light up industries and plants such as cement, fertilizer, and petrochemical plants, thereby increasing gas utilization for economic growth. Moreover, gas remains the cheapest and most environmentally friendly way to power industrial machines.

- **Foreign Exchange:** Although existing global markets for natural gas is not as developed as that of crude oil, they are steady export markets for Nigeria's natural gas in the industrialized countries such North America and Europe. Nigeria exported about 800 Bcf of LNG in 2013, ranking Nigeria among the world's top five LNG exporters, along with Qatar, Malaysia, Australia, and Indonesia. (BP Statistical Review of World Energy, 2014) Thus, if effectively leveraged, Gas could be a huge source of foreign exchange for the country. According to the foreign trade statistics for second quarter, 2015 released by the National Bureau of Statistics, Natural Liquefied Gas was the product with the second greatest export value, recording 260.7 billion or 9.1 per cent of the total export value during the period under review. Export market opportunities also exist in the West Africa sub-region, further expanding the country's market and access to foreign exchange.

From these observations, it is easy to conclude that the emergence of Nigeria's natural gas industry holds the key to the diversification of the nation's oil industry. This trend has the potential to end Nigeria's energy crisis, speed up her industrialisation plans, increase foreign exchange reserves and reduce the nation's vulnerability to incessant instability associated with crude oil prices. Leveraging these opportunities will re-position Nigeria from being among the top gas flaring countries in the world to being the most aggressive in gas utilization for meaning socio-economic growth and development.

Challenges of flared gas Utilisation in Nigeria

Despite the enormous economic benefits that would accrue to the country from harnessing this energy resource, flaring and venting of associated gas resulting from petroleum exploration and production has remained significantly high over the past five decades. Ironically, whilst many countries across the world have taken advantage of the economic benefits flared gas utilization, through converting it for wealth-creation, the problem of utilising flared gas has remained a daunting challenge in Nigeria.



This has left the Nigerian energy market grossly underdeveloped and functioning poorly. The question that readily comes to mind is why gas flaring has remained unabated in spite of all these advantages? Indeed, a lot of factors combine to pose as obstacles to the optimal utilisation of associated gas in Nigeria.

Firstly, there is a serious dearth of adequate infrastructure needed to capture the gas produced with oil, also known as associated gas. Oil fields, where oil production often take place, are generally scattered and located in remote areas, and gas collected at one single field must first be piped to a common collection point, compressed and transported to a processing unit. The Nigerian energy sector lack the required infrastructure to harness and transport associated gas from oil wells to facilities where it can be stored, processed and distributed to consumer markets. Thus, optimal utilisation of flared gas requires substantial new infrastructure in the form of new gas pipelines or power networks, the absence of which has made flaring an easy way out.

Secondly, the wholesale and retail pricing of gas, especially for domestic utilisation, has discouraged international investors who are ever ready to invest in the Nigerian gas value chain. Indeed, the domestic price of gas has remained very low, relative to other gas producing nations. It was not until recently, that the price of gas - specifically for power generation and as a strategy to encourage investment in domestic gas facilities to help raise national power generation capacity - was raised from five cents per MCF to US$1 in 2010. It was further raised to US$1.50 by 2011 and $2 by the end of 2013, before the latest increment to $2.5 in 2014. But the gas producers are still demanding a further increment to bring the domestic price at par with the Henry Hub price in the United States. Doing so will curb operators' preference for the export market against domestic distribution as the former does not require huge investments in gas infrastructure.

Another obstacle to flared gas utilisation is the issue of inadequate funding of gas conversion infrastructures in Nigeria on the part of the government. More often than not, the bulk of Nigerian oil is produced under joint venture agreement where the government through the NNPC is the major shareholder. The NNPC was responsible for a proportionate share of gas re-injection facilities. The Nigerian government failed to honour its part of the agreement by not contributing its share to the cost of installing gas re-injection facilities, eventually resulting in the failure of the drive to effectively convert flared gas to economic use.

Lastly, though not the least, unfriendly business environment - legal, regulatory, and operating environment constitute a chief drawback to effective utilisation of associated gas in the country. Undoubtedly, the gas sector has witnessed a beehive of economic activities in the last decade in an unprecedented move to encourage utilisation of wastefully flared gases. However what is urgently needed is a legal framework and national policy, akin to that of petroleum, to bring order, sanity and irreversible profitability to the sector and for the country. The law should act as a catalyst in the nation's drive for effective resource management. It should address the issue of creating the necessary environment to encourage the flow of investment.

http://www.oilandgas360.com/new-epa-regulations-set-45-reduction-target-on-methane-from-oil-natural-gas-drilling/

Tackling Under-Utilisation of Nigeria's gas resources as solution to flaring.

Seeking for measures to tackle these challenges in the country's gas sector, in order to bolster flared gas utilisation, has become imperative as the nation strategies to leverage gas resources to create unprecedented and geographically dispersed wealth. Therefore, unleashing the Gas Industry, for growth and added revenue generation to the benefit of Nigeria and international investors, requires a focused solution to key developmental challenges. Consequently, government's strategy for the development of the gas industry will be underpinned by the following:

- Facilitation of competitive pricing of gas
- Enactment of legal and regulatory framework
- Funding of Investments in new and viable technologies.
- Incentive to encourage investment in the sector.

Energy-Economic Growth Nexus: Gas as Nigeria's key economic driver

Energy is the "oxygen" of the economy and the life-blood of growth, playing an important role in the economic growth of both developed and developing countries. In fact, the level of economic growth and social development of a country is often strongly correlated to the level of energy availability and consumption. This is based on the premise that production and consumption activities involve energy as an essential factor inputs and constitute one of the important driving force of economic growth. Indeed, it is a paradigm of development policy that without appropriate energy services there can be no true economic growth and development. This nexus suggests that higher economic growth requires more energy consumption; and more efficient energy use needs a higher level of economic growth. Thus, the modern energy services, in suitable forms, remain a powerful engine of socio-economic growth and industrialization

Given the above premise, it becomes evident that Nigeria's economic setbacks- mono-product economy, import dependent, vulnerable to external shocks, high energy cost, uncompetitive manufacturing sector - are inseparable from its power challenges considering the disconnect in the role of energy in domestic economic growth. Indeed, it is a common knowledge that Nigeria is blessed with abundant natural resources including renewable and non-renewable potential energy resources. However, the nation is yet to harness this potential to stimulate the growth of the economy, especially in the areas of power generation to drive industrialisation. The country barely generates 5000 megawatts of electricity for its over 170 million population. Of more worrying concern is the fact that one of the major impediments of the power sector is inadequate gas supply. Thus, increasing access to energy in Nigeria has proved to be not only a continuous challenge but also a pressing issue.

The ripple effect is that inadequate power supply has inhibited Nigeria's economic growth and diversification, with reverberations being felt throughout the real economy on production, consumption, jobs and well-being. Specifically, lack of adequate power supply has hampered the industrialization process, and significantly undermined the effort to achieve sustained economic growth, increased competitiveness of domestic industries in regional and global markets and employment generation. According to data from the Manufacturer's Association of Nigeria (MAN), the rising share of energy cost to total production cost is put at over 40 per cent while capacity utilisation has remained barely above average in 2014 (MAN, July-December 2014 Economic Review)

Expectedly, this has impacted negatively on the contribution of the manufacturing sector to national output and growth. According to the National Bureau of Statistics (NBS), the manufacturing sector accounted for an abysmally low 10.1 per cent of the total Gross Domestic Product (GDP) at Q1, 2015 as well as 12 per cent of the labour force in the formal sector of the nation's economy. More critically, this has made Nigeria an import-dependent economy with a highly uncompetitive manufacturing sector in the face of greater economic and trade liberalization. Thus, addressing the challenge of energy accessibility and availability is fundamental to stimulating new business strategies for greater economic growth and achieving the much desired economic diversification.

http://thenigeria.com/index.php?option=com_content&view=article&id=127:nigeria-the-cost-of-oil-in-pictures&catid=2:user-articles&Itemid=3

Given the critical role of energy in the industrialisation process and ultimately, in the economic growth and development of nations, the need to leverage gas as key economic driver remains very apt. Development of the gas sector is indeed the catalyst required to catapult the nation's industrial development and enhance its aspiration to attain global relevance in energy sufficiency and accelerated growth. The availability of gas in the quantum for power and other gas-based industries in the country will ensure rapid growth and development of the Nigerian economy and leapfrog the country into the league of developed nations and guarantee its attainment of its much desired vision 2020:20.

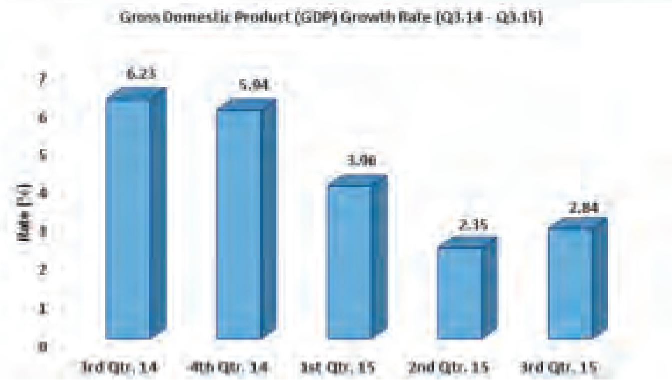
(Chinemerem Okoro is a Research Economist, Zenith Economic Quarterly)

MACROECONOMIC ENVIRONMENT

The Nigerian economy in the third quarter of 2015 witnessed mixed performances with few economic indicators showing signs of recovery while many others recorded a divergence from set targets/projections. Indicators like Gross Domestic Product (GDP) recorded a marginal growth in Q3, 2015, after four consecutive quarters of decline, just as external reserves inched up slightly as the Central bank of Nigeria (CBN) continued to tighten forex regulations. Similarly, Inflation continued its gradual upward trend outside the CBN band while oil prices continued to dwindle.

GROSS DOMESTIC PRODUCT

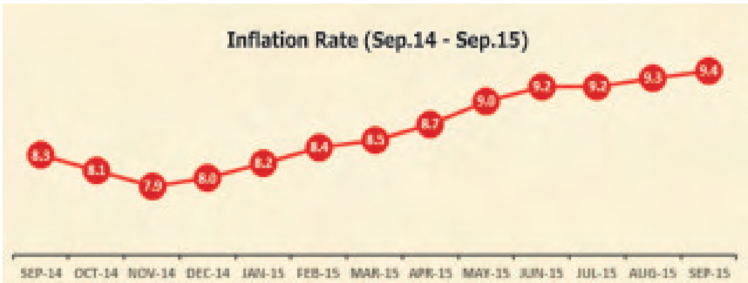
Nigeria's Gross Domestic Product (GDP) recorded a marginal growth in the third quarter of 2015, after four consecutive quarters of declining growth. According to the National Bureau of Statistics (NBS), the nation's Gross Domestic Product grew by 2.84 per cent (year-on-year) in real terms, up by 0.49 percentage points from the 2.35 per cent recorded in the preceding quarter. However, the figure was 3.39 percentage points lower than the 6.23 per cent recorded in the corresponding quarter of 2014. The marginal growth recorded in the third quarter of 2015 was driven by improved performance of the oil sector occasioned by increased oil production output, at 2.17million barrels per day. Specifically, real growth of the oil sector increased by 1.06 (year-on-year) in Q3 of 2015, higher by 4.65 percentage points from the corresponding quarter of 2014, and higher than the second quarter when growth declined by 6.79 per cent. The non-oil sector grew by 3.05 per cent in real terms in the third quarter of 2015. This was 4.45 percentage points lower than the corresponding quarter in 2014 and marginally lower than the 3.46 recorded in second quarter 2015.



Source: CBN, National Bureau of Statistics (NBS)

INFLATION

The Consumer Price Index (CPI) which measures inflation continued its marginal rise that started in December, 2014. The headline index averaged 9.3 per cent in the third quarter 2015, up from the second quarter 2015 average of 8.97 per cent. According to the National Bureau of Statistics (NBS), inflation increased for a tenth consecutive month in September 2015 to 9.4 per cent (year-on-year), up from the 9.3 per cent and 9.2 per cent recorded in the preceding month and July,2015, respectively. This is the fourth consecutive month that headline inflation has surpassed the up limit of the Central Bank of Nigeria inflation target of 6-9 per cent set since 2013. The faster pace in the headline index was as a result of higher energy prices, delayed harvests and pass through from imports due to the devaluation of the naira and the restrictions placed on certain items at the foreign exchange market. The rising inflationary trend remains a source of concern to monetary authorities considering its commitment to price stability and already tight monetary policy stance of the Central Bank.

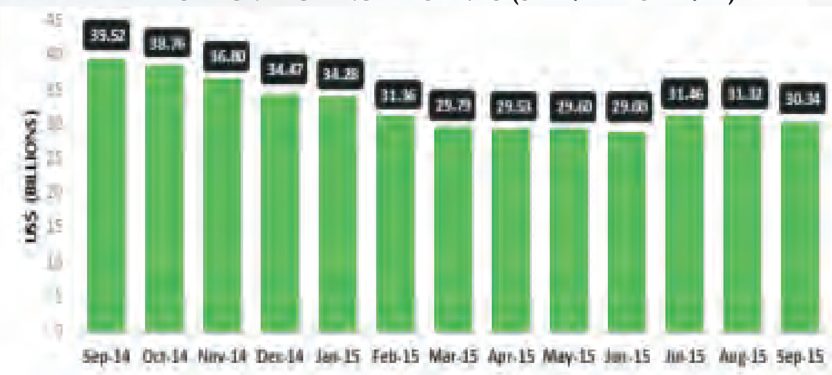


Source: National Bureau of Statistics (NBS)

EXTERNAL RESERVES

Nigeria's stock of external reserves inched up by 5.65 per cent in the third quarter of 2015 to average US$ 31.04billion, higher than the second quarter average of US$29.38. On a month-on-month basis, it stood at US31.46billion as at end-July, 2015 but slipped to US$31.32billion at the end of August, 2015. It dropped further by 3.13 per cent to US$30.34bn as at end-September 2015, and can finance about six months of imports. The Central Bank of Nigeria (CBN) depleted the external reserves to meet the demand for foreign exchange in order to maintain a stable foreign exchange rate. The relative increase in the stock of external reserves witnessed in the third quarter was as a result of the effects of various administrative and policy measures adopted by the CBN - exclusion of funding for 41 items in the bureau de change (BDC) segment of the forex market, restriction of commercial banks from granting foreign currency loans to non-foreign exchange generating businesses, banning of cash deposits into domiciliary accounts - to conserve the nation's external reserve.

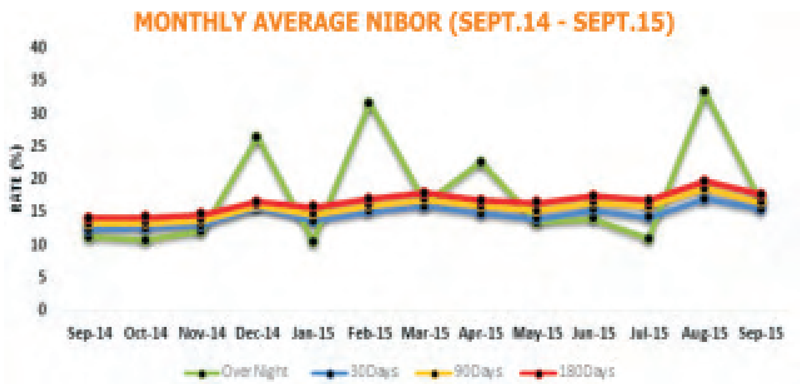
FOREIGN EXCHANGE RESERVES (SEPT. 14 - SEPT.15)



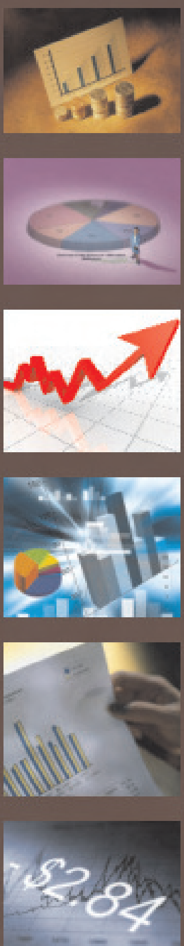
Source: Central Bank of Nigeria (CBN)

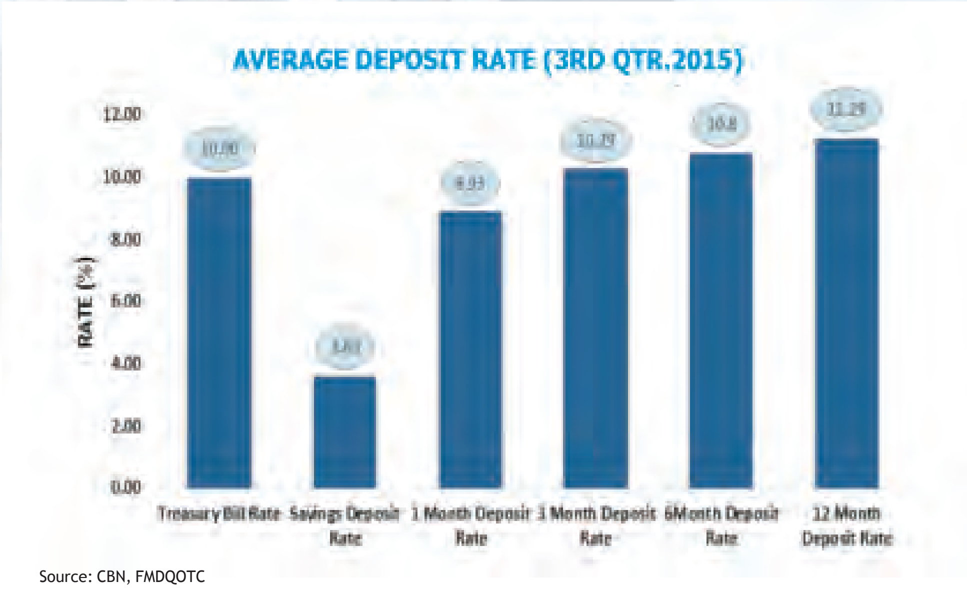
INTEREST RATE

In a much anticipated move following the full implementation of the Treasury Single Account, the Central Bank of Nigeria in its September 21 and 22, 2015, reduced the Cash Reserve Ratio (CRR) from 31 per cent to 25 per cent. However, the apex bank retained the Monetary Policy Rate (MPR) at 13 per cent, a rate it has maintained since November, 2014. The interbank rates witnessed significant swings in the third quarter of 2015 in line with the liquidity positions of the market. Particularly in August, 2015, all the rates witnessed significant increase as a result of tightening market liquidity due to the implementation of the Treasury Single Account (TSA) by the Federal Government which had a compliance deadline of September, 15th, 2015. The overnight rate, which averaged 11.01 per cent in July, 2015, rose significantly to average 33.41 per cent in August. It however declined in September averaging 16.68 per cent. The average 30-day NIBOR closed at 15.52 per cent in September 2015, down from 17.08 per cent in August 2015. The average 90-day NIBOR also decreased to 16.50 per cent, after rising from 15.99 per cent in July to 18.69 per cent in August. The drop in rate was due to high liquidity in the market as a result of OMO maturities and Statutory Revenue Allocation (SRA) inflows.



Source: FMDQOTC

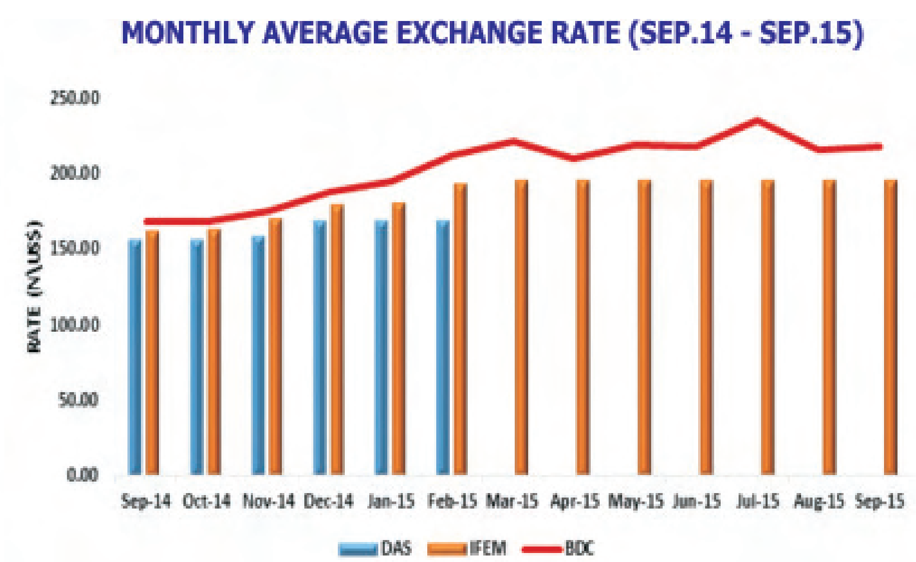




Source: CBN, FMDQOTC

EXCHANGE RATE

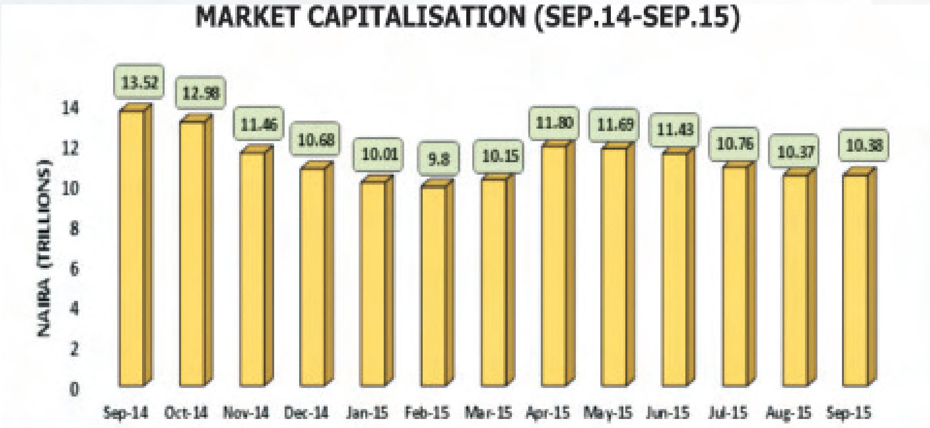
At the foreign exchange market, the average naira exchange rate remained relatively stable at the interbank segment of the market, but significantly volatile in the BDC segment in the third quarter of 2015. The official exchange rate averaged N196.97/US$ in July resulting from tweaking of its intervention rate by the apex bank. However, the naira averaged N197/US$ in August and September. At the bureau-de-change segment, the exchange rate rose in July to average N236.30/US$, representing a depreciation of about 7.9 per cent or N17.32k from the June, 2015 average of N218.98/US$. However, in August, the naira appreciated by N19.66k to average N216.64/US$. The relative stability in the inter-bank market and improvement in the BDC segment are attributable to the effects of various administrative and policy measures as well as direct interventions in both markets.



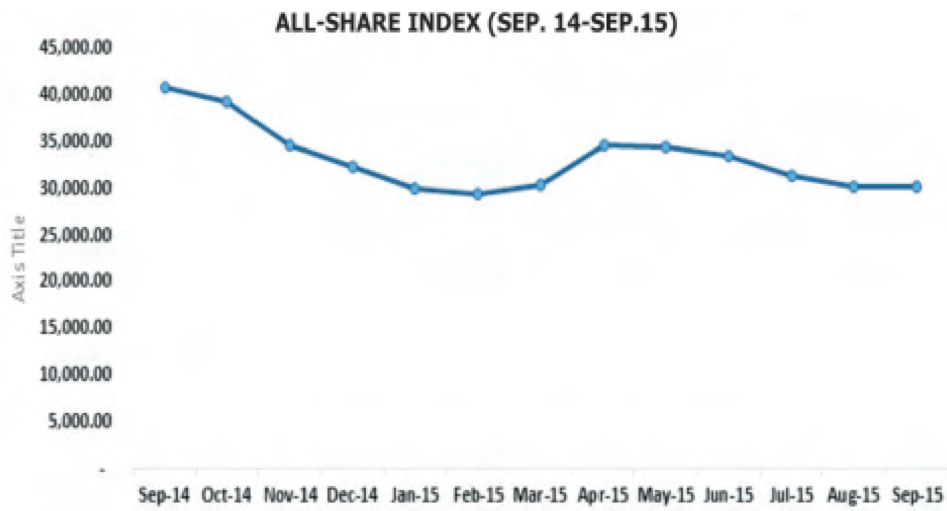
· Source: Central Bank of Nigeria (CBN)

CAPITAL MARKET

The Nigerian equity market witnessed a mixed performance as market indices ended the quarter on a negative note. Specifically, The Nigerian Stock Exchange All Share Index (NSE ASI), which averaged 33,502.81 in June, 2015, depreciated by 9.89 per cent to average 30,189.15 in September, 2015. On a month-on-month basis, the NSE ASI closed the month of September at 31,217.77 points, higher than the 30,180.27 and 29.684.84 points recorded in July and August, respectively. Similarly, the market capitalisation also depreciated by end of third quarter to average N10.38trillion in September, down by 9.19 per cent from the June average of N11.43trillion. Year-to-Date as at end-September, the Index has decreased by 9.92 per cent. The market performance was affected by macroeconomic concerns, tight foreign exchange regulation by the apex bank as well as the delay in the appointment of Ministers to run the present administration.



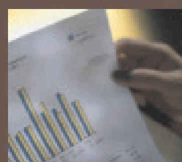
Source: Nigerian Stock Exchange (NSE)



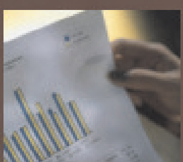
Source: Nigerian Stock Exchange (NSE)







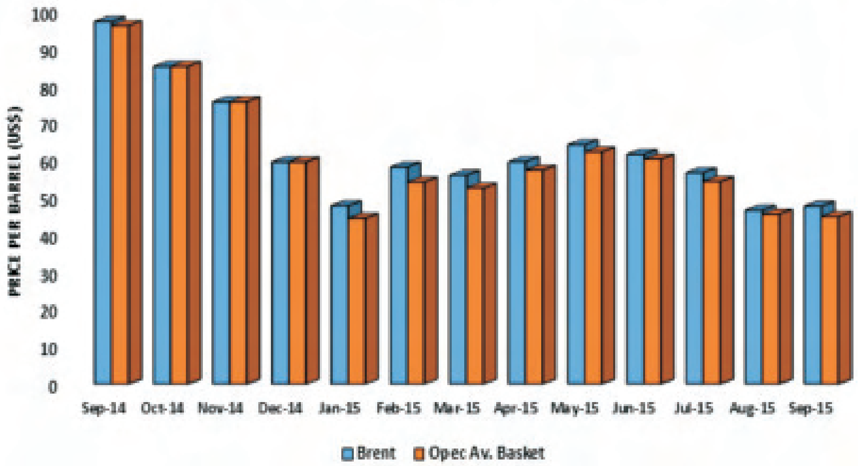

Facts & Figures



OIL PRICES

Crude oil prices fell in the third quarter 2015, reversing gains it witnessed in the second quarter of 2015. Prices were driven lower by various bearish factors - Financial concerns in Greece and China, outcome of the talks on Iran's nuclear programme, among others. Specifically, the OPEC Reference Basket averaged $54.19/b in July, representing a decline of more than 10 per cent from the previous month. The OPEC Reference Basket fell below $50/b in August to average $45.46/b. It declined further by 63cents in September, averaging $44.83/b. Similarly, Brent which started showing signs of recovery in the second quarter of 2015, fell sharply again in the third quarter of 2015. In July, Brent averaged US$56.56 but fell by US$10.04 in August to average US$46.52. By September, Brent averaged US$47.62, about half of its average in the corresponding period of 2014.

MONTHLY AVERAGE OIL PRICE MOVEMENT (SEP. 14 - SEP. 15)



Source: **Organisation of Oil Exporting Countries (OPEC)**

http://www.pentairthermal.com/industries-served/oil-and-gas/