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INTERNATIONAL AND EUROPEAN SANCTIONS FOR THE TRADE OF DUAL-USE GOODS AND TECHNOLOGIES: A COMPARATIVE OVERVIEW.

DR. ILARIA ANNA COLUSSI[1]

ABSTRACT

Freedom of trade encounters some limits when the object of trade is constituted by dual-use goods and technologies, which are materials and items normally used for civilian/peaceful purposes that also have military applications. One form of controlling their trade is represented by the imposition of sanctions for the cases of violation of trade rules. International and European Union (EU) sanctions in this area may address the whole States ('comprehensive' sanctions, such as embargoes and financial measures), or specific individuals or groups involved in legal activities ('targeted' or 'smart' sanctions, such as asset freezes and travel bans).

This paper aims to develop a comparative analysis between measures imposed at the level of the United Nations (UN) and within the EU framework.

Key Words: dual-use goods, sanctions, embargo, target measures.

INTRODUCTION

One of the basic rules in trade law is the freedom of trade. However, such a rule encounters some limitations when the object of trade is constituted by dual-use goods and technologies.

Despite the difficulty of defining what 'dual-use' means,[2] there is a common understanding that the term refers to goods having either peaceful (civilian/commercial) or non-peaceful/military applications. They could be physical or encompass intangible technology: in the first category there are goods like chemical, biological, nuclear materials, delivery systems and surveillance technology that could be used for human rights abuses, while to the second group belong, for instance, software and emails that could spread illicit knowledge and are spreading intangible know-how regarding knowledge and research.

Since these goods may affect non-economic needs, such as national security, public morals, public order, etc., it is necessary to control their trade and diffusion through trade control rules. For this reason, measures that provide for surveillance on all activities conducted by individuals, organizations, and groups regarding dual-use items have been introduced by States and individual actors. The controlled activities shall cover the whole supply chain, including design, development, production, possession, delivery, transport, transit, trans-shipment, financing, brokering, exports, re-exports, transfers and imports of goods. It is also important to fix restrictions, bans and penalties in case of violation of trade control rules. Therefore, the issue of sanctions is a relevant component of control of dual-use goods.

SUPRANATIONAL SANCTIONS FOR THE TRADE OF DUAL-USE ITEMS

In general terms, sanctions are a reaction to the violation of a rule.

If we refer to sanctions for the trade of dual-use items and consider the supranational level (keeping aside the national sanctions), it emerges that such measures have the following characteristics:

- author (who): supranational organizations at the international or regional level;

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[2] In this context, we make reference to dual-use as applied to Weapons of Mass Destruction (WMD) export controls, keeping aside the broader notion of dual-use dilemma, which means that a research or its applications may be used for civilian uses or for building weapons and other military purposes. About the multiple meanings of 'dual-use', see Atlas and Dando, 2006.

- target (to whom): States (these are the so-called 'comprehensive or broad-based sanctions'), or single individuals/enterprises ('targeted or smart sanctions') (Hufbauer and Oegg, 2000);
- purpose (why): (i) coercive purpose, when sanctions seek behavioural change from groups and individuals held responsible for illicit behaviour; (ii) constrain, if they look to undermine the targets' capacities to achieve their objectives; and (iii) signal, if they disapprove of certain actions;
- nature (what/how): they can consist of economic or non-economic measures. The first group includes (Chan and Drury, 2000; Fruchart, *Holtom* and *Wezeman,* 2007): (i) the interruption of normal economic transactions or restriction of access to economic resources for a target country. This is the case with the embargo of a country, and it may refer to all its resources ('comprehensive embargo') or to specific goods, such as arms, some services like technical assistance and training (this is a 'selective embargo'), and (ii) financial sanctions, consisting in restrictions on support for trade, and restrictions on access to capital, resources and financial transactions (asset freezes) (Tostensen and Bull, 2002).

Non-economic sanctions include: transport measures (preventing a person from getting a visa, or banning aircrafts from entering or transiting a country), and political and diplomatic measures (consisting in the expulsion of diplomats, the restrictions or breaking of diplomatic relationships with a country, or the suspension or expulsion of the target state from international organizations).

Sanctions enacted at the international and EU level and having as an object dual-use goods are economic in nature, but their aim is to obtain political or policy results, such as the determination of a change in political regime, the blockage of a proliferation program, the end of the violation of human rights and democratic liberties, etc. Thus, they have foreign policy purposes.

The origin of the modern idea of sanctions dates back to the period after World War I (Alikhani, 1995) when the American President Woodrow Wilson affirmed:

> 'A nation that is boycotted is a nation in sight of surrender. Apply this economic, peaceful, silent, deadly remedy and there will be no need for force' (Hufbauer, 1997).

The League of Nations firstly and then the United Nations (Elliott, Hufbauer and Oegg, 2008) have used sanctions as a meaningful instrument for pursuing their purposes. Over the years, the European Union (EU) has moved in the same direction.

AT THE INTERNATIONAL LEVEL

The United Nations framework remains the main point of reference of international sanctions for restoring international legality and ensuring the protection of collective security, which is the *raison d'être* of the United Nations. It is possible to distinguish the UN interventions into two categories: legally binding (formal) sanctions and non-legally binding (informal) ones.

Since informal sanctions are secondary (Talmon, 2003) and do not determine legal duties upon States, our attention is devoted to legally binding sanctions only.

Chapter VII UN Charter and UN Resolutions

The main 'actor' for the imposition of sanctions is the Security Council (SC).[3] The legal basis for its role is found in Chapter VII of the UN Charter, entitled 'Action with Respect to Threats to the Peace, Breaches of the Peace, and Acts of Aggression'. Indeed, in case of threats to peace and security, or aggressions, the SC – after the initial determination of the existence of a threat

[3] A limited role is recognized for the Assembly General (AG), which can decide on the expulsion of a State from the UN or the suspension of its rights because of violation of the measures decided by the SC. This power, based on art. 5 of the UN Charter, has never been exercised. Moreover, the AG can recommend some restrictive measures towards a State, but the SC is not obliged to adopt them.

(art. 39) – could bring upon a State the 'complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication' (art. 41).

In the first years of the UN's activities, there was a debate about the limits of the SC's power, as its sanctions were seen as *ultra vires* entering domestic jurisdiction (Fenwick, 1967, p. 753). Later on, the debate ended up in stating that the list of sanctions embedded in the aforementioned legal provisions is not exhaustive, and one could imagine that the SC could broaden the typologies on a case-by-case basis (Carisch and Loraine, 2011).

Nowadays, the recourse to Chapter VII is the *extrema ratio* for the SC: it is more proper to begin with actions under Chapter VI (Pacific settlement of Disputes) before resorting to more interventions pursuant to art. 41.

The conditions and the framework on the basis of which they can be enacted has been drawn: sanctions must be effective, in accordance with the purposes and principles of the UN (art. 24) and in conformity with the principles of justice and international law (art. 1.1), respecting the principle of equal rights and the self-determination of peoples (art. 1.2) and human rights (art. 55).

Thus, sanctions referring to dual-use items find their legal basis in art. 41 UN Charter, and they are imposed by the SC through legally binding resolutions, as long as the illegal activities represent a breach of peace and security.[4]

The adoption of sanctions requires a majority of 9 out of the 15 members of the SC, and no veto by any of the five permanent members. Abstention constitutes neither a negative vote nor a veto.

A sanction resolution usually establishes a Sanctions Committee for monitoring the implementation of sanctions.[5] Moreover, the Council mandates a Panel of Experts to assist the Committee in monitoring compliance with the sanctions regime. Their reports, taken by consensus, are referred to the Sanctions Committee (UN Security Council, 2006).

Since the 1990s, when the 'sanctions decade' (Cortright and Lopez, 2000) began, targeted sanctions, addressing specific listed people and groups,[6] have been introduced, in order to adjust the limits and the humanitarian effects provoked by sanctions against non-responsible civilians. The most emblematic case is that of terrorism sanctions against Taliban or Al-Qaida groups.

Considering, in particular, the UN sanctions related to dual-use items (even if the UN texts never mention the expression 'dual-use' as such), it can be noted that the first category to be addressed has been that of chemical weapons and related products that could be used for the production of Weapons of Mass Destruction (WMD). For instance, during the Iran–Iraq, conflict, the SC requested the States to prohibit the export of those materials (res. 612 (1988)). Then, in res. 687 (1991) Iraq was requested to destroy and remove all the WMD arsenals (chemical and biological arsenals, and ballistic missiles: para. 8), and an embargo on WMD dual-use related items, technology and materials was established (para. 10, 12, 20 and 24).

The most emblematic cases of sanctions related to dual-use items are represented by Iran and North Korea. In case of Iran, res. 1696 (2006) required States to 'prevent the transfers of any items, materials, good and technology that could contribute to Iran's enrichment-related and reprocessing activities and ballistic missile programmes' (para. 5). Then, res. 1737 (2006) added the prohibition of technical or financial assistance, training, or resources related to

[4] For all the resolutions, see http://www.un.org/en/sc/documents/resolutions/.

[5] Sanction Committees are pursuant to art. 29 of the UN Charter and Rule 28 of the Security Council's provisional rules of procedure.

[6] The discussion on targeted sanctions started in 1998/1999 at the Interlaken Process, which focused on the issue of targeted financial sanctions; it continued at the Bonn-Berlin Process, on travel and air traffic related sanctions as well as on arms embargoes; and at the Stockholm Process, dealing with the practical feasibility of implementing and monitoring targeted sanctions. See Fernandez, 2012.

certain nuclear and ballistic missile-related goods (para. 6), while the further res. 1747 (2007) banned the supply, sale, or transfer of major military weapons systems and related material to Iran (para. 6), and it prevented the entry or transit of people involved with Iran's proliferation of sensitive nuclear activities or in the development of nuclear weapon delivery systems, such as for the procurement of the prohibited dual-use items, goods, equipment, materials and technology (para. 2). Regarding the Democratic People's Republic of Korea (DPRK), res. 1695 (2006) required the States to prevent missile and missile-related items, materials, goods and technology being transferred to DPRK's missile or WMD programs, as well as the procurement of those items, and any financial resources in relation to DPRK's missile or WMD programs (para. 3 and 4). Then, res. 1718 (2006) provided an embargo on items, as set out in the Nuclear Suppliers Group Lists and Missile Technology Control Regime (MCTR), also taking into account the Australia Group list, and it banned any form of transfer and procurement of those items (para. 8 (a) and (b)).

In some cases, the issue of dual-use items appears in the context of targeted sanctions. Res. 1333 (2000) and 2160 (2014) against Taliban forces in Afghanistan prevented States from pursuing the sale, supply, or transfer of chemical acetic anhydrite to any person in the territory of Afghanistan under Taliban control (para. 10 of res. 1333 and para. 9 of res. 2160).

Some Remarks on the UN Regime

Keeping aside the issue of effectiveness, i.e. sanctions' capacity to produce the effects they pursue, which depends on several factors (Elliott, 1998), one important element to be underlined is that UN resolutions appear sometimes unclear as for the notions that they mention. For example, the term "luxury goods" in res. 1718 (2006) against North Korea remains undefined, and so it leaves the margin of appreciation quite open for States. This can generate possible discrepancies between different States in the implementation process.

Moreover, the mechanisms of monitoring assistance, enforcement, evaluation and implementation of adopted sanctions are still weak. In particular, if the sanction is not respected by the target State, there is no possibility of intervention by a judicial or police body, despite the draft of recommendations that pushes towards this sense (UN Security Council, 2006). Although the UN tries to engage other organizations in the control phase, it results that the ultimate controller of sanctions is the SC itself.

As for target sanctions, the issue of listing and delisting people and protecting their rights to due process, to be heard, to review the process and other fundamental rights has come into question. The UN is not party to any universal or regional treaty for the protection of human rights. However, the influence of the European Union and the development of the international human rights law have strongly contributed to the importance of these individual rights and the necessity to respect them in the context of sanctions too. This has led to the creation of Focal Points for Delisting, established within the Secretariat by res. 1730 (2006) for receiving all requests for delisting, and the inauguration of the Office of the Ombudsperson by res. 1904 (2009) to review delisting requests for the Al-Qaida regime only (and recently with res. 2253 (2015) for the ISIL (Da'esh) regime too). Despite the existence of these two bodies, the system still needs improvements, such as the expansion of the mandate for the Ombudsman (Hovell, 2016).

AT THE EU LEVEL

The framework of trade sanctions enacted at the international level is complemented by regional sanctions, viewed as a means to strengthen the international community's response to threats to international peace and security.

While the other regional organizations (such as the League of Arab States or the African Union: Hellquist, 2014) have applied sanctions only towards their own members, i.e. on their

own territories of reference, the European Union has a specific sanctions policy towards third countries (non-Member States too).[7]

The European External Action Service (EEAS) uses the terms 'sanctions' and 'restrictive measures' interchangeably. The purpose of these measures is

> 'to bring about a change in activities or policies such as violations of international law or human rights, or policies that do not respect the rule of law or democratic principles [...], to support of efforts to fight terrorism and the proliferation of weapons of mass destruction [...] and maintain and restore international peace and security' (European External Action Service, 2015).

In the course of time, the EU has adopted restrictive measures both against third States and against individuals. The measures against third countries could be both legally binding (formal) and non-legally binding (informal). The measures against listed/targeted individuals and enterprises for non-economic reasons could be only formal, and the focus is posed on this category only.

Formal sanctions are the measures adopted in the Common Foreign and Security Policy (CFSP) framework, and they consist of export/import restrictions, financial measures and travel bans as sanctions upon States and/or listed/targeted people.

Informal sanctions have been introduced outside the CFSP, and they mainly have a diplomatic, political or financial measure (with the only exception of an arms embargo on China, imposed informally in 1989 through a Presidential Statement).

CFSP Sanctions

Formal sanctions could be: (a) a 'rewriting' of UN SC resolutions into EU law, and thus constituting an implementation of UN sanctions, (b) EU supplementary sanctions, going beyond the UN ones and contributing to strengthening UN measures; and (c) EU autonomous sanctions, applied in absence of other sanctions.

a) On the basis of art. 48 of the UN Charter that allows States to implement UN sanctions through 'appropriate international agencies of which they are members', the EU has assumed a role as implementing agency of the UN. Then, art. 3.5 and art. 21 TEU indicate the EU's role in the contribution to peace and security, in respect of the principles of the UN Charter and international law. The EU sanctions on Liberia (Common Positions 2006/31/CFSP and 2004/487/CFSP), Iraq (Common Position 2003/495/CFSP), Guinea Bissau (Council Decision 2012/285/CFSP), Somalia (Common Position 2002/960/CFSP), the Democratic Republic of the Congo (Common Position 2005/440/CFSP), the Central African Republic (Council Decision 2013/798/CFSP), Sierra Leone (Common Position 1998/409/CFSP) and South Sudan (Common Position 2005/411/CFSP) are all examples of EU implementing sanctions;
b) and c) As for supplementary and autonomous sanctions, the EU has recognized that these measures could be made necessary by circumstances and they shall be 'in accordance with its Common Foreign and Security Policy and in conformity with international law' (Council of the EU, 2004). The EU pays attention to minimize humanitarian effects or adverse consequences for people or countries not targeted by sanctions.

Supplementary sanctions have been imposed in the case of Iran (**Council Decision 2010/413/CFSP,** 2011/235/CFSP **and** Council Regulation (EU) No 267/2012), North Korea

[7] It does not mean that the EU does not impose any sanctions on its Member States. The Commission is called upon to monitor the implementation of EU law, and it may take action if a Member State is suspected of breaching EU law. If no solution can be found, the Commission can open formal infringement proceedings and eventually refer the Member State to the European Court of Justice. Then, the EU Council has full discretion in judging when a State violates EU common values.

(Council Decision 2013/183/CFSP and Council Regulation (EC) No 329/2007), Libya (Council Decision 2011/137/CFSP and Council Regulation (EU) No 204/2011) and Côte d'Ivoire (Council Decision 2010/656/CFSP, Council Regulation (EC) No 174/2005 and No 560/2005). They mainly take the form of additional names on UN targeted lists of individuals, as related to situations of non-proliferation and armed conflicts. Examples of autonomous sanctions are the cases of Syria (Council Decision 2013/255/CFSP), Russia (Council Decision 2014/145/CFSP), Ukraine (Council Decision 2014/386/CFSP, 2014/507/CFSP, and 2014/933/CFSP), Myanmar (Common Position 2006/318/CFSP), Zimbabwe (Common Position 2004/161/CFSP and Council Decision 2002/148/EC) and Belarus (Common Position 2006/276/CFSP).
So far, the EU has resorted to sanctions for several situations.[8]

As regards the sanctions against third countries, they are adopted in the form of a Council decision, which is taken at unanimity, pursuant to art. 29 TEU.[9] The Parliament is only informed. Then, for the implementation of Council decisions there is a 'two-track procedure', which depends on the content of the decision at stake:

- if the sanction consists of a general embargo (including embargos on dual-use items and services related to military technology), or financial measures, the Council Decision should be followed by a Regulation, adopted on the basis of art. 215.1 TFEU. Then, Member States may take 'secondary sanctions', i.e. measures that provide for penalties in case of violation of EU restrictive measures, and measures that ensure the implementation, monitoring and enforcement of the adopted penalties;

- if the sanction consists of an arms embargo (also covering goods of the Common Military List), or travel bans, the Council Decision is directly implemented by Member States and no other act is needed. States have the duty to notify the Commission on the implementing measures that they have chosen. In case of negligence in following this duty, the Commission can start an infringement procedure against the State.

With reference to sanctions against individuals, they are taken on the basis of art. 215.2 and art. 75 TFEU. The former covers the case of sanctions that derive from UN lists, i.e. when the initiator of sanctions is the UN, and these measures are taken on the basis of the two-track procedure. The latter is used for cases of 'internal terrorists', i.e. for counter-terrorism measures imposed by the EU for internal security reasons according to an ordinary legislative procedure without a prior CFSP decision (as stated by the EU Court of Justice in case C-130/10, *European Parliament v Council*, 19 July 2012).

Considering sanctions on dual-use items, it emerges that the EU has never adopted a systematic or general embargo on these goods, as it could be disproportioned, as the Guidelines for the imposition of sanctions affirm (Council of the EU, 2012, 53). So, the choice to target dual-use goods is made on a case-by-case basis. Examples of the system of EU sanctions as referred to WMD and dual-use goods and addressing both States and targeted individuals can be found in the cases of Iran, Syria and North Korea.

In the first one, **Council Decision 2010/413/CFSP provided, for example, the prohibition upon Iran of** materials contained in the Nuclear Suppliers Group, in the Missile Technology Control Regime lists, in Regulation 428/2009 and in SC resolutions, of additional items that could contribute to enrichment-related or heavy water-related activities or to the development of nuclear weapon delivery systems, and the prohibition on the supply of arms and related materiel.

Regarding dual-use goods in Syria, the EU adopted, for instance, Council Decision 2011/782/CFSP, prohibiting the export of certain dual-use items related to telecommunication or internet monitoring or interception items and technology, and regulation 509/2012, which

[8] The list of EU sanctions can be found at http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf.
[9] Exceptions to unanimity and the possibility of opting out are provided by art. 31 TEU.

included a ban on the sale, supply, transfer or export, directly or indirectly, to Syria of certain dual-use items and dual-use chemicals as listed in Annex I of EU Regulation 428/2009 and certain additional chemicals.

With regard to North Korea, Council Decision 2010/800/CFSP and Council Regulation 329/2007 made reference to WMD goods and the dual-use items listed by regulation 428/2009.

To complete the framework, it is worth mentioning the role of the European Court of Justice (ECJ) in this context.[10] Although the ECJ cannot arrogate the right to examine SC resolutions and enter the international law system, it has affirmed that UN resolutions should be in line with fundamental rights, since the respect of fundamental rights (as laid down in art. 6.1 TEU) forms part of the general principles of Community law (as stated in C-402/05 and 415/05, *Yassin Abdullah Kadi and Al Barakaat International Foundation v Council of the European Union and Commission*, 3 September 2008). It has stated in some cases that the Council did not have the competence for listing the entities (Cases T-9/13 and T-10/13, *National Iranian Gas Company (NIGC) and Bank of Industry and Mine (BIM) v Council*, 29 April 2015). In others, sanctions lacked motivation and evidence, or violated the principle of legal certainty (case T-262/12, *Central Bank of Iran v Council*, 18 September 2014) because of insufficient elements to ground them, or their secrecy and vagueness, or they were in contrast with the proportionality principle and infringed the rights to defence and to effective judicial protection for listed people, or the right to respect for personal and family life and the right to property.

Some Remarks on the EU Framework

Critically speaking, the European Parliament does not have a formal role in the adoption of CFSP sanctions, but it should simply inform. However, it has tried to be more active in the area of sanctions, claiming to scrutinise the reasons for the choice of targeted sanctions and the goals and progress of sanctions, at least once per year, and to be the human rights watchdog for sanctions (EU Parliament, 2011: 29–31).

A 'sanction unit' within the Council Secretariat or the EEAS would be needed in order to conduct preliminary studies on the effects and impacts of sanctions.

If the division of competences between the EU and Member States is quite clear, monitoring mechanisms still result as being fuzzy (De Vries and Hazelzet, 2005). A mechanism to enhance coordination between Member States and the EU should be established, especially at the level of the Council.

COMPARISON BETWEEN INTERNATIONAL AND EU SANCTIONS

The system of dual-use sanctions is clearly a 'multilevel' one, involving different actors at the international and European level.

International and EU sanctions are similar in their initially addressing States and progressively preferring targeted sanctions, since the latter category results in fewer humanitarian consequences. Moreover, it should never be forgotten that both the UN and the EU measures are justified only for the safeguard of peace and security.

Neither the UN nor the EU has opted for comprehensive dual-use sanctions. This has occurred because the notion of 'dual-use' itself is still unclear and general definitions are lacking; then, because the goods that could be included are so numerous and change

[10] See, for example, as for Iranian entities, case T-181/13, Sharif University of Technology v Council; case T-494/10, Bank Saderat Iran v Council; case T-35/10, Bank Melli Iran v Council; case T-13/11, Post Bank Iran v Council. As for Ukrainian applicants: case T-290/14, Portnov v Council; case T-331-2/14, Azarov v Council; case T-339/14, Kurchenko v Council; cases T-346-8/14, Yanokovych v Council. As regards Lybian applicants: case T-348/13, Kadhaf Al Dam v Council and Commission, case T-436/11, Afriqiyah Airways v Council.

continuously, in considering the evolution of techno-science, it is not feasible to address a whole category in a broad sense.

One common problem of international and EU sanctions is represented by the monitoring and implementation processes, as the margin left to States risks creating differences among them, and the surveillance of the application of sanctions is not so easy to pursue. Thus, it would be necessary to develop proper mechanisms that harmonise and control the application of supranational sanctions at the national level.

An important element is represented by the stress placed on the respect of human rights while imposing targeted sanctions. This is particularly stressed at the EU level, at the point that it has influenced the UN framework too.

In conclusion, the analysis shows that the recourse to sanctions concerning dual-use items is not rare, and it represents an interesting way for controlling the trade of such 'sensitive' category of goods.

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THE IMPACT OF ICT - PRODUCING AND ICT - USING INDUSTRIES ON ECONOMIC GROWTH IN OECD COUNTRIES

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ABSTRACT

The share of industries producing Information and Communication Technologies (ICT) has dramatically increased over the last decades and became the basic dynamic of new economy. The contribution of ICT-producing industries to economic growth should not be assessed solely on the basis of their production volume as a part National Income. As a general-purpose technology ICT affects economic activities in other sectors and makes them more productive. ICT is also an enabling technology of knowledge accumulation since it both accelerates and decreases the cost of gathering, storing, generation and distribution of knowledge, which is considered to be most important process for technological improvements in Knowledge-based Economy. From this starting point of view, in this paper we have tried to investigate the role of the ICT industries on economic growth in OECD countries. Using dynamic panel data analysis method, the impact of improvements in both ICT-producing and ICT-using industries in manufacturing and services sectors on economic growth has been empirically analysed. The empirical evidence implies that ICT has played an important role as a basic dynamic of economic growth in OECD countries.

Keywords: ICT, Economic Growth, Panel Data, OECD Countries

INTRODUCTION

Over the last decades, Information and Communication Technology (ICT) sector has provided plenty of devices and applications effecting economic sector like retail, transportation and finance. Thus, ICT production has transformed the ways of whole economic life deeply. It has been clearly indicated that ICT has caused many structural change in business life and form of production process. While the importance of technology to economy has been widely accepted, improvements in ICT presents economy much more than other technological developments. Indeed, an ICT-product goes beyond the notion of traditional tool and equipment and being more of an enabling technology. As a "special" technology, it affects the economic activities in many sector (Kretschmer, 2012, p. 8).

Accordingly, this paper tries to investigate the roles of the ICT sector on economic growth in the OECD countries. Since ICT is a general-purpose technology, the efficiency of ICT-using sectors also effected improvements in ICT-producing sector. Therefore, to capture the true impact of ICT sector on the economy, the impact of ICT-producing and ICT-using sector on economic growth will be examined together.

The remainder of the paper is organized as follows. In Section 2 theoretically outlines a research model by indicating the channels through which the effects of ICT on economic growth occur. In section 3 tests this research model based on panel data to investigate the relationship empirically between ICT sector and economic growth. Final section concludes and makes some policy implications.

THE CHANNELS OF ICT'S CONTRIBUTION TO OUTPUT GROWTH

In order to provide a better understanding of impact of the ICT on economic growth, this section aims to theoretically identify different channels through which ICT effects economy. Information and Communication Technology can be defined as both an output from the ICT-producing industries and an input into the ICT-using industries. Accordingly, the contribution of ICT to economic growth can

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be expressed in the form of the aggregate production function like below (Jalava and Pohjola, 2002, p. 191).

$$Y = A\, f\,(K_{n-ICT}\,,\, K_{ICT-p}\,,\, K_{ICT-u}\,, L) \quad (1)$$

where, aggregate value added Y is assumed to consist of "capital non-producing and using ICT" (K_{n-ICT}), "capital producing ICT" (K_{ICT-p}), "capital intensively using ICT" (K_{ICT-u}), and labour (L). Productivity is here represented in the output augmenting form by parameter A. Assuming that constant returns to scale prevail in production and that product and factor markets are competitive, growth accounting can be re-written in the form below:

$$\hat{Y} = v_{n-ICT}\ \hat{K}_{n-ICT} + v_{ICT-p}\ \hat{K}_{ICT-p} + v_{ICT-u}\ \hat{K}_{ICT-u} + v_L \hat{L} + \hat{A} \quad (2)$$

where the $\hat{Y}$, $\hat{K}$, $\hat{L}$ and $\hat{A}$ indicates the rate of change in income, different forms of capital indicated above, labour and multi-factor productivity. The weights v_{n-ICT} , v_{ICT-p} , v_{ICT-u} and v_L denote the nominal output shares of capital consist of non-ICT producing and using, ICT-producing, ICT-using and labour respectively. It can be argued from Eq. (2) that information and communication technology can enhance economic growth in the following three basic ways. In other words, on theoretical grounds, there are three channels through which ICT can affect economic growth.

Firstly, the production of ICT goods and services contributes directly to the total value added generated in an economy ($\hat{K}_{ICT-p}$). Technological improvements in ICT production result in innovation of new tools and technique making easier of economic and social life of human. Thus production and consumption of ICT product has grown over time and made significant contribution to economic growth.

Secondly, the use of ICT capital as an input in the production of other goods and services can also make a significant contribution to economic growth ($\hat{K}_{ICT-u}$). ICT-using industries derive advantage from the improvements in ICT-producing sector and thus increase their productivity and contribution to economic growth.

Thirdly, ICT goods and services promote multi-factor productivity via enhancing explicit knowledge accumulation which is the basic source of all technological improvement ($\hat{A}$). Thus, by ignoring other non-technology factors being picked up by the residual in Equation-2, we can interpret an increase in multifactor productivity as being caused by technological improvement based on development of explicit knowledge accumulation advocated by improvements in ICT (Jalava and Pohjola, 2002, p. 191-192). There two sources of explicit knowledge accumulation: scientific knowledge and codification of implicit knowledge. Thus improvements in the production of ICT sector enhance explicit knowledge accumulation by advocating both these sources.

In conclusion, the contribution of ICT to economic growth can occur through three transmission channels. This section of study makes detailed explanation about how these three channels operates and enhances economic growth. Accordingly, we will make some explanation under three subtitles in detail in the next part of the study.

Growth Contribution from ICT-producing Sector

ICT sector can be defined as a "combination of manufacturing and services industries that capture, transmit and display data and information electronically" (Pilat et al, 2002, p. 50). According to this definition and based on ISIC Rev. 3, OECD has defined the ICT-producing sector including some manufacturing and services industries. However, related data is available only based on ISIC Rev 4 in OECD STAN database. Therefore, we redefine the ICT-producing sector in terms of Rev. 4 using

definition of OECD based on Rev. 3, which consists of different manufacturing and services industries shown in Table-1 as follow.

Table-1 ICT-PRODUCING INDUSTRIES

Code	Industries
2610	Manufacture of electronic components
2620	Manufacture of computers and peripheral equipment
2630	Manufacture of communication equipment
2640	Manufacture of consumer electronics
2680	Manufacture of magnetic and optical media
5820	Software publishing
6110	Wired telecommunications activities
6120	Wireless telecommunications activities
6130	Satellite telecommunications activities
6190	Other telecommunications activities
6201	Computer programming activities
6202	ICT consultancy activities and computer facilities activity
6209	Other information technology and computer service
6311	Data processing, hosting and related service
6312	Web portals related services

ICT-producing sector can make relatively large contribution to economic growth although its share is relatively small in total production sector. Looking at the literature, there are a lot of studies using different econometric approaches to assess the impact of ICT sector on economic growth. Overall the empirical studies demonstrate that productivity effect is not only significant and positive, but also increasing over time (Kretschmer, 2012, p. 18). Shahiduzzaman and Alam (2014) investigated the cointegration and causal relationship between ICT sector and economic output using Australian data from 1960 to 2001. They demonstrated the positive role of ICT on economic growth in Australia.

Concerning with the panel data analysis, Datta and Agarwal (2004) examines the relationship between telecommunications infrastructure and economic growth from 1980 to 1992 in OECD countries. They found a positive correlation between telecommunications infrastructure and economic growth. Timmer and Ark (2005) determines that main drivers of productivity differentials between United States and European Union arises basically from the different share of ICT producing industry in GDP. The share of the ICT producing industry is much smaller in Europe than in the United States, which is the one of the significant reasons for the much smaller productivity growth in Europe in the period 1995-2001. Relating to Asian region, Ahmed and Ridzuan (2013) tests the impact of ICT on economic growth for ASEAN5+3 countries consisting of Malaysia, Thailand, Singapure, Indemosea, Philliphines, Japan, Korea and China. Using panel data set from 1975 to 2006, the study concludes that ICT has an important role as engine of growth in these Asian countries.

Growth Contribution from ICT-using Sector

Besides its contribution to economic growth, ICT sector also increases the efficiency of production process in ICT-using sector and thus increase its contribution to economic growth. ICT-using industries can be mainly identified by the volume of their investment in ICT. Accordingly, certain manufacturing industries and certain services industries having the largest relative investment in ICT are called as ICT-using industries. Besides, ICT-using sectors can be identified in terms of the labour skill employed. Industries are then ranked according to the degree of ICT-skilled employment in total employment. Industries having a big share of ICT-skilled employment are called to ICT-using industries (OECD Scoreboard-2005, p. 124). According to this measures and based on based on ISIC Rev. 3, Plat et. al (2002) defined ICT-using sector. However, related data is available only based on ISIC Rev 4 in OECD STAN database. Therefore, we redefine the ICT-producing sector in terms of

Rev. 4 using definition of Plat et. al. (2002), which consists of different manufacturing and services industries shown in Table-2 as follow.

Table-2 ICT-USING INDUSTRIES

Code	Industries	Code	Industries
14	Apparel	46	Wholesale trade
18	Printing & Publishing	47	Retail trade
226-227	Watches & Instruments	64	Banks
2630	Electric Machinery	65	Insurance
271-273	Machinery	66	Securities trade
282	Aircraft	69-71	Professional Services
301	Ships	72	R&D
3020	Railroad and Other	77	Renting of machinery

ICT is a general-purpose technology which means that improvements in ICT-producing sector effect not only own value-added but also efficiency of ICT-using sector and its value-added. In other words, ICT's potential impact on growth is not linked to the ICT-producing sector, but to the potential benefits arising from its use by other sectors. There are a lot of evidence from firm-level studies for OECD countries that ICT use has a positive impact on firm productivity performance. Thus ICT can help firms in the completive process (OECD 2003, p.60). In conclusion, while productivities of ICT-using firms improve, their contributions to economic growth increase.

At the industry level including wholesale and retail trade and in financial services, empirical findings also confirm that there is a positive relationship between performance of ICT-using industries and economic growth. Plat et al (2002) indicate that United States has experienced significant improvement in especially labour productivity and thus growth in ICT-using services including wholesale, retail trade and financial services over the 1990s. Similarly, Simon and Wardrop (2002) show that intensive using ICT generates productivity gain in ICT-using services sector including wholesale and retail trade and financial intermediation in the second half of the 1990s. Ark et al. (2003) compare the impact of the ICT-using industries on productivity growth in Canada, Europe and United States. They find that productivity growth is clearly faster in Canada than in Europe because of the different contribution of ICT-using services to GDP. ICT-using services in Canada enhances to improve efficiency in many industries than Europe has. Thus, Canada clearly leaves Europe behind although productivity growth has not accelerated to the same extend as in the United Stated.

Growth Contribution from Multi-Factor Productivity supported by ICT-producing

Production technology can be defined as the set of specific knowledge base forming the method, material and tools used in production process. Thus, developments in this knowledge base or stock is considered to be the most important source for technological improvements or productivity growth. In other words, developments in knowledge base is considered to be the most important source for improvements in production technologies causing also multi-factor productivity growth. Accordingly, it has been argued that technological improvements and economic growth are two faces of the same coin, two non-separable aspects of knowledge accumulation (Roberts, 2000, p. 11). Furthermore, after fuller recognition of increasingly expanding knowledge as a basic driver of technological improvement, economic system of countries having the accelerating economic growth are called the "Knowledge-Based Economies".

After indicating the role of knowledge accumulation in technological improvement and multi-factor productivity growth, a question arises concerning with the sources of knowledge accumulation. Before answering this question, we need to make some definition about knowledge. There are a lot of ways classify knowledge base. The most relevant classification for our economic analyses in this study is to categorize them in two different types: explicit knowledge and implicit knowledge. Explicit knowledge refers to knowledge that is transmittable in formal, systematic language while implicit

knowledge is hard to formalize and communicate (Ancori, Bureth and Cohendet, 2000, p. 273). It is clear from this definition that explicit knowledge is a key characteristic of the development of production technologies. Indeed, cumulative expansion of the explicit body of total knowledge basically affect the technological growth, since this kind of knowledge can only be codifiable and thus workable for technological improvements.

The question asked above concerning with the sources of knowledge accumulation need to be realigned. The new question now concerns with the source of explicit knowledge to understand the basic dynamic of multi-factor productivity. The short and certain answer is development in ICT. Indeed, studies in literature point to the ICT as an important factor effecting explicit knowledge accumulation and thus multi-factor productivity growth. ICT is a general-purpose technology and, like other general-purpose technology, affects the social and economic life in many ways. However, unlike any other generic technologies, ICT has been directly related to gathering, storing, computing and distributing of knowledge, which promoting explicit knowledge accumulation as a basic driver of improvements in production technology. In other words, goods and services provided by ICT-producing sector promotes explicit knowledge accumulation and thus technological improvements.

It can be argued that ICT effect explicit knowledge accumulation which is the basic resource of technology improvements in two channels (Karahan, 2013, p. 106). First, ICTs enhance to expansion of scientific activities generating new explicit knowledge. Second, ICTs improve the codification opportunity of implicit knowledge leading to an increased availability of explicit knowledge. Both of them constitute a process that enables to increase in explicit knowledge stock. Subsequently, increase in explicit knowledge stock promotes production technologies or multi-factor productivity and thus economic growth.

In the first channel, ICT promotes the explicit knowledge stock through enhancing scientific activities to produce much more scientific knowledge which is the basic source of explicit knowledge accumulation. Advances in the applications of ICT have enhanced the development of efficient methods and instruments used in scientific activities. Thus scientists can analyse large or very small scale processes which were impossible to examine before by only using human abilities. Accordingly, greater computing power provide by ICT has improved modeling, simulation and analysis of complex scientific phenomena. Indeed, application of ICT has so simplified research and development activities that production of scientific knowledge in every fields have been improved tremendously along with ICT`s development. For example, the application of computing power to assist in the coding of human DNA caused a rapidly developing body of knowledge and thus medical sciences (Roberts, 2000, p. 8). ICT also enhanced knowledge sharing and cooperation among scientist by lowering coast and accelerating the speed of interaction among them. It is widely acknowledged that scientific knowledge can be augmented by accumulating step by step and sharing permanently. Indeed, ICT has provided an avenue for scientists to communicate with one another, exposing them to the huge scientific publication like journal articles, technical reports and theses. ICT provided all electronic communication options that are available to geographically distributed scientific teams, such as e-mail, database sharing and video-conferencing. (Hildrum, 2002, p. 11).

In the second channel, ICT stimulates the generation of explicit knowledge thorough codification of implicit knowledge. It clearly seems that ICT has a big role in gathering, storing, computing and distributing knowledge, which are very important for the codification process of implicit knowledge. Codification can be defined as the establishment on common codebook entailing the creation of related models, languages and messages (Cohendet and Steinmueller, 2000:204). Since implicit knowledge is deeply rooted in an individual's action and experience it is very difficult to make them explicit. However, the boundary between explicit and implicit knowledge can be changed over time with the facilities provided by improvements of ICTs (Cowen, David and Foray, 2000, p. 242). Indeed, improvements in software and hardware components of ICT provide a massive expansion in the variety of formats in which tacit knowledge can be codified. For example, ICT can transform the knowledge that a tutor gets totally within own body into explicit knowledge. Although contact with a

tutor constitutes important vehicles for enabling the absorption of knowledge, e-learning systems provided by ICT can extract and codify the knowledge embodied in the minds of a tutor (Howells, 1995, p. 182). Thus, it can be argued that the functions provided by certain task on the basis of human physical abilities has been substituted with computer-based digital facilities.

In conclusion, all growing volume of explicit knowledge creating technological improvements in all area in new economy depends on the contribution of ICT sector to explicit knowledge accumulation. In other words, improvements in the production of ICT goods and services contribute to the whole economy by rising multifactor productivity via promoting the explicit knowledge accumulation. Goods and services provided by ICT-producing sector increase the explicit knowledge accumulation via both promoting scientific activities or knowledge and enhancing codification techniques of implicit knowledge. Thus it seems that ICT-producing sector is basic source of multi-factor productivity.

DATA, METHODOLOGY AND EMPIRICAL RESULTS

This section aims to empirically analyse the impact of ICT sector on economic growth in OECD Countries. Depending on availability of annual data from OECD STAN Database for Structural Analysis (ISIC Rev. 4), over the period from 2000 to 2010, we have considered 14 OECD member countries which are Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Netherlands, Norway, Slovenia, Sweden, United States. Economic growth is defined as GDP per capita. To determine the whole effect of ICT on economic growth, we take the ICT-producing and ICT-using industries together. Thus, ICT sector including both ICT-producing and ICT-using sectors based on NACE Rev.4 consist of different manufacturing and services industries indicated in Table-1 and Table-2.

Before proceeding to panel data analysis we need to check whether the variables in our model are stationary or non-stationary, Augmented Dickey-Fuller (ADF) and the IM, Peseran and Shin (IPS) panel unit root tests have been employed. The results derived from the panel unit root tests for the variables of GDP and whole ICT sector are presented in Table.3. Both the panel unit root tests have the same results. The null hypothesis of the unit roots cannot be rejected for GDP and ICT series at the levels but it is rejected at the 1 per cent significant level at their first difference. Thus, it can be concluded that the variables in level terms are non-stationary and become stationary only in first-differences.

Table.3: PANEL UNIT ROOT TEST

Variables	**ADF**		**IPS**	
	Levels	Differences	Levels	Differences
GDP	8.547 (0.34)	64.171 (0.00)*	3.243 (0.12)	-2.621 (0.00)*
ICT	11.740 (0.29)	69.781 (0.00)*	9.871 (0.37)	-2.210 0.00)

Note: p-values in parenthesis and (*) indicates significance at the 1 per cent level.

In order to investigate the impact of ICT sector on economic growth in OECD countries, the panel data causality model proposed by Holtz-Eakin et. al (1988) and Arellano and Bond (1991) will be tested. Accordingly, the model can be shown below:

$$y_{it} = \beta_0 + \sum_{J=1}^{n} \beta_j \, y_{it-j} + \sum_{J=1}^{n} \alpha_j \, \Delta x_{it-j} + F_t + \varepsilon_{it}$$

(3)

(y) and (x) symbolize variables while (F) and (ε) represent individual fixed effect and error term, respectively. Besides, (i) refer to panel unit, (t) represents time, and finally (j) shows the lag number. In order to eliminate the unobserved country-specific effects that lead biased and inconsistent estimates, equation (3) is differenced to derive the model below:

$$y_{it} - y_{it-1} = \sum_{J=1}^{n} \beta_j \left(y_{it-j} - y_{it-j-1}\right) + \sum_{J=1}^{n} \alpha_j \left(x_{it-j} - x_{it-j-1}\right) + \varepsilon_{it} - \varepsilon_{it-1}$$

$$\Delta y_{it} = \sum_{J=1}^{n} \beta_j\, y_{it-j} + \sum_{J=1}^{n} \alpha_j\, \Delta x_{it-j} + \Delta\varepsilon_{it}$$

(4)

We can take the first difference of all variables in equation 4 to remove the country-specific effects. However there still remains correlation between the lagged dependent variables and the error term. Solution comes from the Generalized Method of Moments (GMM) estimator to bring away this problem. For this solution it is required to use the appropriate lags of the dependent and the independent variables as instruments. Thus variables in levels are instrumented with the lags of their own differences. This approach let us to get more instruments and thereby improves efficiency. Accordingly, based on Wald Test procedure, the null hypothesis that x does not cause y and that y does not cause x are jointly tested.

Two basic types of diagnostic test can also be conducted for the estimation process of Equation (4) performed by GMM indicated above. The Arellano-Bond (AR) test can be performed for indication of serial correlation in the residuals. The test is actually two separate statistics, one for first order correlation and one for second. If the innovations are i.i.d. we expect the first order statistic to be significant and the second order statistic to be insignificant. Sargent Test can be operated for indication whether the instruments are correlated with the error term. The hypothesis for the Sargan test is that the instrumental variables are uncorrelated to some set of residuals and hence they are valid instruments. Thus, Sargent test checks the validity of the instrumental variables in the model to avoid the problem of over identification.

In our study we specified and estimated two regressions below based on methodology concerning panel causality model indicated equation (4).

$$\Delta GDP_{it} = \sum_{J=1}^{n} \Upsilon_j\, \Delta GDP_{it-j} + \sum_{J=1}^{n} \lambda_j\, \Delta ICT_{it-j} + \Delta u_{it}$$

(5)

$$\Delta ICT_{it} = \sum_{J=1}^{n} \Theta_j\, \Delta ICT_{it-j} + \sum_{J=1}^{n} \delta_j\, \Delta GDP_{it-j} + \Delta e_{it}$$

(6)

where, i : 1, 2, …., 14, number of countries, t : 2000, 2001, …., 2010, time period (year) and j: 2 (lag number). GDP symbolises per capita income. ICT represents the volume of ICT sector measured as a whole production of ICT producing and using sector.

We employ the lagged values of the variables as instruments in levels for the first difference equations while using the lagged first differences of the endogenous variables as instruments in the level equation, for 2 and earlier. The results of estimated coefficient, Wald Causality Test and diagnostic tests for Equation (5) and Equation (6) are presented in the first and second columns of the Table.4. Wald χ^2 test checking the significance of individual coefficients in the model shows that both models are significant as a whole. The AR (1) and AR (2) tests indicate applicability of models as we expect the first order statistic to be significant and the second order statistic to be insignificant. The Sargan test does not reject the validity of the set of instruments in all equations. Findings indicates that the models are well specified and two lags is appropriate for the panel GMM estimator.

The empirical findings shown in Table-4 that ICT sector has a significant positive impact on GDP in OECD countries. The coefficient showing the impact of lagged ICT on GDP is positive. On the other hand, it seems that GDP do not has a significant influence on ICT. Null hypothesis of non-causality from ICT to GDP is rejected by the Wald Causality Test statistic while the results cannot reject the null hypothesis that GDP does not cause ICT. In conclusion, the results of GMM Estimate and Causality Test indicate that there is a one-way causal relationship running from ICT to economic growth in OECD countries.

Thus, in the framework of panel equations estimate we have tested the validity of the channels through which the effects of ICT on economic growth occur. Empirical findings support the argument that developments of ICT sector have a positive impact on economic growth in OECD countries. Accordingly, this result has some implications for the discourse on economic growth theory. Policies that promote both ICT-producing and ICT-using sector should be the main focus of policy makers. It is important to take the ICT sector extending into consideration when aiming to increase the productivity growth of a country. In other words, economic policies aimed to increase the productivity growth should focus on increasing the share of ICT producing and using sector in whole economy. These policies should include some incentives stimulating not only private sector investment on ICT production but also private sector and household using of ICT. Besides, government should realize huge investments to create effective ICT infrastructure serving both ICT-producing and ICT-using sector.

Table.4: GMM ESTIMATION AND CAUSALITY TEST

Independent Variables	Dependent Variables	
	ΔGDP	ΔICT
ΔGDP_{it-1}	0, 412 (0,00)*	0, 026 (0,43)
ΔGDP_{it-2}	0, 197 (0,00)*	0, 017 (0,27)
ΔICT_{it-1}	0, 316 (0,04)**	1, 213 (0,00)*
ΔICT_{it-2}	0, 521 (0,01)*	2,434 (0,00)*
Wald χ^2	32.24 (0.00)*	41.53 (0.00)*
AR (1)	-3.14 (0.00)*	-4.02 (0.00) *
AR(2)	-0.48 (0.29)	-0.34 (0.47)
Sargan Test	29.74 (0.314)	24.17 (0.289)
Wald Causality Test	11.83 (0,00)* ($H_o = \lambda_{t-1} = \lambda_{t-2} = 0$)	1,83 (0,22) ($H_o = \delta_{t-1} = \delta_{t-2} = 0$)

Note: p-values in parenthesis and (*), (**), (***) indicate significance at the 1, 5 and 10 per cent levels, respectively.

CONCLUSION

Developments of Information and Communication Technologies (ICT) have long been considered as the basic dynamic of new economies. In the framework of dynamic panel data analysis and depending

on data availability, we examine the experience of 14 member countries of the OECD over the period from 2000 to 2010. Taking into account the complementarity among ICT producing and using industries we examined the impact of both industries on economic growth together. Thus, ICT sector includes both ICT-producing and ICT-using sectors based on NACE Rev.4 classification. Empirical findings confirm that there is a significant causal relationship from ICT sector to economic growth. This result shows the validity of three transmission channels through which ICT effects economic growth, as theoretically indicated in first section of this study. In conclusion, it can be argued that ICT sector is considered as a main driver of economic growth over the 2000-2010 period in OECD countries.

From the perspectives of public policy aiming to increase economic growth, the findings of study provide strong evidence to promote ICT sector. In other words, if policy makers aim to promote economic growth, the strategic focus should be placed on ICT sector in order to enhance multi-factor productivity and production. One part of this strategy should include the tools enhancing private investment on ICT sector since ICT production has a positive spill over effect over whole economy. On the other hand, while public investment programme is determined, it should be given weight to ICT infrastructure in order to advocate ICT using. Thus, generalization of ICT use can be provided and enhance to arise of strong potential within ICT for improving overall productivity.

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CORRUPTION AND COST OF GOVERNANCE IN NIGERIA:IMPLICATIONS FOR ECONOMIC DEVELOPMENT

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ABSTRACT

Corruption, from all indications is a monstrous phenomenon. No country in the world can boast of being corruption free. Using Marxist political economy theory to analyse the work, the writer dwelt on the secondary sources of data plus documentary evidence and have found out that, the average cost of governance in Nigeria is believe to rank among highest in the world. The paper concluded that, there is sheer mismanagement and plundering of resources. Nigeria has witnessed drought in critical areas of development, such as manufacturing and industrial production, road network, economic development, foreign policy outings, social welfare and services, strong tides of violence and crime, insecurity, political instability etc. the paper therefore proffer that, if corruption and cost of governance must be brought down, all arms of government must make spirited efforts at reducing running cost.

Keywords: Corruption, governance, economic, development.

INTRODUCTION

Ayua (2001, p. 8) states that corruption has become a cankerworm that has eaten deep into the socio-political and economic fabrics of Nigeria. With over four decades of post-colonial rule in most African countries, development remains stagnant. Agu (2015, p. 12) maintains that, yet a cursory examination of the endowments of African states such as Nigeria show that in natural and human resources and other conventional prerequisites for development and growth. Nigeria cannot be said to be a cursed state.[2]

The paradox of Nigeria's condition with respect to development is that, we have not been able to mobilize our energies through purposeful and accountable leadership to transform the enormous resources and the environment towards the upliftment of the conditions of the people. As a economic and political malaise, corruption has conditioned development in Nigeria in a number of ways. Corruption undermines the rule of law and the legitimacy of the integrity of institutions. According to Agu (2015, p. 12), it also accelerates crimes, hurts investment, stalls economic growth bleeds the national budget, burdens the poor disproportionately and diverts scarce resources from basic human needs.[3]

The indices of development failure in Nigeria are increasingly clear; a rising tide of poverty, unemployment, hunger and starvation, misery, increased crimes, communal conflicts, political tensions, insurgency and terrorism and insecurity. The economic indicators continue to show the basic features of an ailing economy lacking the capacity for self-reproduction and regeneration. Agu (2015, p. 14) affirms that with a tragic decimal of an insurmountable declining living standard, the per capita income of the average Nigerian has continued to shrink. To the extent that over seventy (70%) percent of the population lives below the poverty line.[4]

There is a preponderant view among scholars, individuals, professional and business interest that corruption and the cost of governance are responsible for an array of economic development failures, political instability, infrastructure decay, institutional fragility, low investment, and poor democratic consolidation in Nigeria as in many other post-colonial African states). Corruption has been characterised as a dangerous social malaise that has eaten deep into the fabric of the nation. Nigeria has been consistently ranked by Transparency International as one of the most corrupt nations in the world. Corruption makes headlines and has become a recurrent issue in every day discourse.

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Being a representative government, the cost of governance in a democracy would have evolved out of the ultimate agreement among the stake holders on the reasonable requirement of managing the process. The stakeholders here include the citizens that are sovereign, their elected representatives, media and civil society. It is important to know that, due to intrinsic nature and character of the primitive accumulation process that has exacerbated inequalities and promoted parasitic patterns of orientation in the economy for quite sometimes now.

It is against this background that, the paper seeks to examine the implications of corruption and cost of governance on economic development in Nigeria. In order to adequately provide an intellectual diagnosis of the issue(s) under exploration, this paper has been divided into five (5) segments. The first undertakes a bush clearing (clarification of concepts); the second part attempts to look at the material/historical basis of corruption in Nigeria. The third aspect deals with the impact of corruption on the cost of governance in Nigeria. The forth segment treats the implication of corruption and increasing cost of governance on economic development in Nigeria. The last part of this presentation attempts to make some proposal for remedying the catastrophic crisis engendered by corruption and the cost of governance.

CONCEPTUAL CLARIFICATIONS

Some of the concepts used in this paper need clarifications for better understanding as applicable to this work.

Corruption:

Corruption like most social science concepts has no single universal definition. Its specific definition and application vary and perhaps the only agreement among scholars is that, corruption is a difficult concept to define and which has contributed to the difficulty in successfully prosecuting corruption cases.

In complete agreement to scholars that appreciate the pervasive character of corruption and thus accord it in all embracing conceptualization. In this wise, I identify with the definition of corruption advanced by Asian Development Bank and quoted by Ayua (2001, p. 9), that corruption is the behaviour on the part of official in the public and private sectors in which they improperly and unlawfully enrich themselves and/or those close to them or induce others to do so by misusing the positions in which they are placed.5

According to Tarnande (2010, p. 36), it is however necessary to underscore the fact that corruption does not only include unlawful enrichment or seeking induced favour but encompasses any act or behaviour that runs against the gains of socially acceptable norms of truth, transparency and accountability.6 In this wise, Orngu's (2006, p. 47) definition seems more encompassing where he classified corruption as "any act that negates the principles of accountability and transparency and ethical and moral standards in the course of responsibility discharge or social interaction in both the public and private sectors of the economy". It is thus any anti-social behaviour which confers improper benefits and breaches the known legal and moral norms of a society.7 Consequently, Smith (2008, p. 56) given the fact that Nigeria see corruption at work not only in public offices, but also in a wide range of commercial exchanges and interpersonal relations, as well as in the realm of the supernatural, trying the definition of corruption too strictly to the affairs of the state is overly limiting.8

Smith (2008, p. 57) identifies seven (7) basic forms of corruption prevalent in the Nigeria society. These are (i) Commission for illicit services (ii) Unwanted payment for public services, (iii) gratuities (iv) String pulling, (v) levies and tolls, (vi) side lining and (vii) misappropriation. According to him, commission for illicit services refers to the payment by users to officials who then grant access to unwarranted advantages.9 For example, Tarnande (2010, p. 38) a contractor may pay money to a government official to ensure that he wins the contract in a competitive tender bid. This can also be classified as bribery.[10]

Governance

For the easy grasp of what cost of governance entails, it is pertinent to broach over the concept of governance itself.

In the words of EL Rufai (2015), governance, in a broad sense, is the exercise of political authority and the use of institutional resources to manage society's problems and affairs.[11] The worldwide governance indicators project of the World Bank defines governance as the traditions and institutions by which authority in a country is exercised.

Governance as an important variable for a stable society was carried out by World Bank in its literature on African development. World Bank held the view that a plethora of economic problems in the African continent is that of crisis of governance. This view therefore stimulated researchers by social scientists on the relationship between governance and stable polity. Ifamose (2004) opined that in organised political society, governance is carried out by a government while the ends of conveyance are directed towards the society's development. Beyond the literal level, governance means different specific things to different people.[12] In his review of the different concepts on governance, Frischtak (1994) identified four concepts. First concept identifies governance with democratic processes and institutions. The idea being that governance is a positive quantity that can be understood as the exercise of democratic government which guarantees the dominance of the rules of economics over that of politics. This concept and innately builds attributes pertaining to specific political regimes into the concept and this detracts from its analytical utility and its credibility. The second concept sees governance as the effective economic policy in the institutional capacity of government to operate.[13]

In the words of Frischtak (1994) the concept brakes conveyance into such attributes as, insulation autonomy, efficiency, practicality and technocratic qualities which make both the governmental machinery and its personnel less permeable to the disruption and corruption of politics. The idea of governance is thus located with the structure of state, rather than in its mode of operation. The third concept argues that, governance has to be culturally bound, and recognize culture as an important value from which no idea of political or economic development can be alienated. The final concept view conveyance as the provision of abstract and universal rules, the institutions that enforce them and the mechanisms which regulate conflicts over both the rules and their enforcement, which should be both known and predictable. This approach, which excludes any normative contents, is advanced as being both necessary and sufficient to provide and enabling policy and business environment.[14]

According to Ifamose (2004), the economic view of governance is concerned with the practical conception of governance as being primarily involved in the delivery of goods and services in order to meet the needs of the governed.[15]

In a related development, the World Bank defines governance as the manner in which power is exercised in the management of a country's economic and social resources for development.

It identifies three distinct aspects of governance as the form of political regimes, the processes of the exercise of authority and the capacity to formulate and implement policies. It also focuses on four areas of governance considered to be consistent with its mandate i.e. public sector, management and accountability, the legal framework for development and information and transparency.

Government is one of the actors in governance. Other actors involved in governance vary depending on the level of government that is under discussion. Perhaps all actors other than government and the military are group together as part of the "civil society". Good governance has eight (8) major characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective, and efficient, equitable and inconclusive and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into cognisance and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.

Economic Development

Economic development is a very wide concept. For the purpose of this paper, the definition of economic development by Kindleberger (1977, p. 1) is germane.

Economic development is generally defined to include improvements in material welfare, especially for persons with the lowest incomes; the eradication of mass poverty with its correlates of illiteracy, disease, and early death; changes in the composition of inputs and outputs that generally include shifts in the underlying structure of production away from agricultural towards industrial activities, the organisation of the economy in such a way that productive employment is general among the working age population rather than the situation of a privileged minority; and the corresponding greater participation of broadly based groups in making decision about the directions economic and otherwise, in which they should move to improve their welfare[16].

According to Oludoyi (2006), due to the wide definition of economic development, economists often use the term economic growth, the definition of which is less multifaceted than economic development, to represent the economic progress or otherwise of a country over time.[17] Economic growth is concerned largely with the output of a country. Economic growth can be represented by the Gross Domestic Product (GDP) or the Gross National Product (GNP), depending on the level of sophistication of a country's economy. Obadan (2010, p. 16) is of the view that, if the output produced by the nationals of a country can be accurately verified and measured within an accounting period, usually one year, we talk of the GNP. Where the output of a country is produced by its national and foreigners alike, and especially where the output of foreign nationals constitutes the bulk of the national output, the GDP is used instead of the GNP.[18]

COST OF GOVERNANCE

Cost of governance is the actual financial figure committed in the process of political of public administration. Okeke and Eme (2015) says it is the "expenditure in maintaining government administrative structures"[19] Adewole and Osubuahien (2007) see cost of governance as government budget allocated to both capital and recurrent expenditures on maintaining government administrative structures. These have to be efficiently and judiciously spent with sufficient social provisioning. We expect that if these expenditures are prudently or transparently utilized, there would be tangible development.

In a similar dimension, Chojniki (2010) says public expenditure or costs of governance are expenses which government incur in the performance of its operations.[21] In the words of Agu (2013, p. 34), part of it is for the maintenance of government called recurrent expenditure and the other cost incurred is for the benefits of the society and economy as a whole. Public finance literature show that recurrent expenses increase whereas what belongs to the whole society and economy does not benefit.[22] Oronsaye (2011, p. 337) maintained that, under normal circumstance government expenditure on economic development and infrastructure encourages development. But this is a problem in Nigeria.[23] In confirmation, Oronsaye's (2011, p. 338) report to President Jonathan state categorically that "the average cost of governance in Nigeria is believed to rank among the highest in the world...if the cost of governance must be brought down all arms of government must make spirited efforts in reducing their running cost".

The concept of cost here embraces actual or total monetary expenditures incurred on governance plus the prices (worth) of the lost alternatives and the effect of choice wrong leaders which Kelechi (1996, p. 29) terms as cost of democracy. Oyedele (2012, p. 18) agrees that the cost parameter forms the basis of assessing democratic governance from a substantive perspective with specific interest in the manner of commitment to good governance for efficiency and public management. We are therefore correct to align with this line of thought that a persistent less than optimum expenditure on capital projects is a deliberate plan to negate development which is in consonance with Ake's (1996, p. 26) argument that, the political class does not have development on its agenda.[27] According to Pawa

(2016), the 17 years of our present democratic project have not translated into meaningful economic progress.

THEORETICAL FRAMEWORK

The Marxist theory of the state postulates that the state emerged as an 'order' from irreconcilable class antagonisms but the order has ever been an instrument of class domination. Lenin (1977, p. 57) argues that the modern state which in turn modelled its corresponding social institutions created its superstructure. In the communist manifesto, Marx and Engels (1975, p. 23) assert that, the executive of the modern state is a committee for managing the common affairs of the entire bourgeoisie class.

This stance clearly corroborated Miliband's (1969, p. 42) postulation that: "the state in not a thing...it does not exist as such, what the state stands for is a number of institutions which constitute its reality and interact as part of what may be called a state system. Therefore, since the state is a mere illusory screen for the real class struggles, cost of governance in Nigeria can be explained as a product of an orchestrated plan by the ruling class for primitive accumulation in the peripheral capitalist Nigeria. After all the political class in the executive and legislature today are only acting the ruling class script.

The developed capitalist state is rooted on private ownership of property, free market or individual entrepreneurial initiatives. It has the tendency towards monopoly control of finance and industries with growth of corporate wealth. The state performs the functions of "legitimization" and "accumulation" in addition to maintaining social and political order for the long run interest of the propertied class. Suffice it to state that, development strategies may legitimize a government of the day but at the same time enable n atmosphere of accumulation by the dominant class.

In the nutshell, Goulbourne (1979) summarizes all functions of the state as:

> ...providing order within the social formation and thereby the organizational principle of the formulation, provides the formation within necessary cohesive factor; the state therefore maintains the unity of the social formation...since the state provides the structures within which the social contradictions are condensed, the state is therefore the place where the index of class domination must be deciphered and it is therefore here that transformation of structures take place.

This simply corroborates the classical Marxist postulation that the state actually preserves order for certain economic interests to be actualized. Thus his last two lines capture the basis of developmental policies or strategies enunciated or pursued by the state, couched in the general economic role of (peripheral capitalist) states. It is in line with this that we turn our compass to navigate the polemics on the post colonial state.

The Incidence of Cost of Governance in Nigeria.

Adewole and Osubuahien (2007) avers that cost of governance is used here as a parameter for assessing substantive democracy. Scholars on cost of governance; Okeke and Eme (2015) argue that, the cost associated with running Nigeria has dramatically increased over the years thereby reducing the proportion of public revenue available to support growth inducing services and infrastructural development. In the words of Okeke and Eme (2015), high cost of governance is associated with corruption in terms of inflation of project cost by politicians and or misuse of public funds, population increase, extra large civil service. By extension, Obi (2014, p. 27) argues that:

> ...governance costs so much in Nigeria and if our leaders are able to reduce the money spent on unnecessary things such as keeping many guest houses, keeping many aides that are not necessary, keeping long convoys, staying in costlier hotels, chartering planes, servicing politicians that do not add value to the society, engaging in epicurean life among others.

The case of higher recurrent budgeting

Table 1 below shows an increasing total expenditure out of which the recurrent has for all the successive years (apart from 1999) been higher than capital expenditures. The increase from 66% in 2000 to 80.29% in 2003 and its average of 70% from 2004 to date has clearly shown the neglect of capital development. Among the components of REX, transfers take the highest vote, followed by administration which means Nigeria has been borrowing for consumable. General administration takes more than total socio and economic services which include education health, agriculture, construction, transportation etc. this is the reason for the abysmal performance of economic indices.

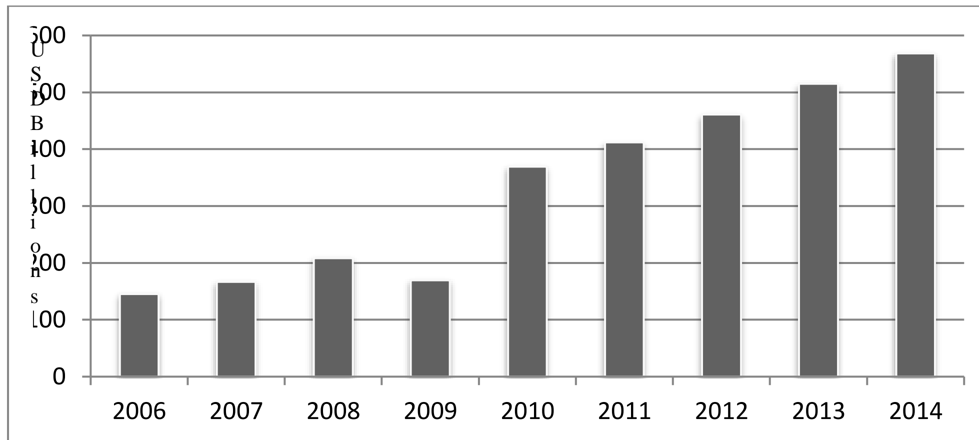
Table 1: Analysis of Federal Expenditure 1999 – 2014

YR	TR	TEX	REX	CEX	TRS	REX %	CEX %	TRS %	GDP
1999	949.69	947.69	449.66	498.03	-	47.44	52.55		
2000	1,906.16	701.06	461.60	239.45	-	65.84	34.16	-	
2001	2,231.60	1,018.03	579.30	438.70	-	56.91	43.09	-	
2002	1,731.80	1,018.16	696.80	321.38	-	68.44	31.56		
2003	2,575.10	1,225.97	984.30	241.69	-	80.29	19.71		
2004	3,920.50	1,426.20	1,032.70	351.30	42.20	72.41	24.63	2.96	
2005	5,547.50	1,822.10	1,223.70	519.50	78.90	67.16	28.51	4.33	
2006	5,965.10	1,938.00	1,290.20	552.39	95.41	6.66	28.50	4.92	145.43
2007	5,727.50	2,450.90	1,589.27	759.32	102.30	64.84	30.98	4.17	166.45
2008	7,866.59	3,240.82	2,117.36	960.89	162.57	65.33	29.65	5.02	208.07
2009	4,844.59	3,452.99	2,127.97	1,152.80	172.22	65.66	35.57	4.99	169.48
2010	7,303.67	4,194.58	3,109.38	883.87	201.32	74.12	21.07	4.80	369.06
2011	11,116.55	4,712.06	3,314.51	918.55	479.00	70.34	19.49	10.17	411.74
2012	10,654.75	4,605.39	3,325.16	874.83	405.40	72.20	18.99	8.80	460.95
2013	9,759.79	5,185.32	3,689.06	1,108.39	387.87	71.14	21.38	7.48	514.97
2014	10,068.85	4,578.06	3,417.56	783.12	377.37	74.65	17.11	8.24	568.51
2015	3,602.00	4,358	2,616	634	412.00	60.02	14.55	9.45	575.22
2016**	6,077.68	6,077.68	2,648.60	157.15	351.37	43.57	2.59	5.78	

Source: Federal Ministry of Finance and Central Bank of Nigeria (2015) **proposed budget[37]

The irony with Nigeria is that GDP which is the total expenditure for all final goods and services produced in the country within the stipulated time has shown an increasing trend from 2006 – 2014 (as in the graph below) whereas the value of capital expenditure for these years has been below average, Nigeria suddenly became "the fastest growing economy" based on kind of GDP presented by Bureau of Statistics. So with this poor performance on capital budgeting we wonder the reflection on the GDP. The Gross Domestic Product (GDP) in Nigeria was worth USD 568.51 billion in 2014. The GDP value of Nigeria represents 0.92 percent of the world economy. GDP in Nigeria averaged USD 79.89 billion from 1960 until 2014, reaching an all time high GDP of USD 568.51 billion in 2014 and a record low of USD 4.20 billion in 1960.

Figure 1: Nigeria's Rising GDP



Source: www.tradingeconomics.com/WorldBank [38]

Other Factors Responsible for High Cost of Governance in Nigeria

Other factors identified to be responsible for high cost of governance include: the role and size of government; multiplicity of functions and corruption.

Role and Size of Government

Given the economic role of the state, it is expected to intervene into welfare-enhancing purposes and economic transformation. This is why Ofuami (2013, p. 17) argues that "the basic objective of governance is effective utilization of public financial resources to enhance the economic welfare of the population by making rational and intelligent choices from competing claims and projects to yield optimum results.

Although Nigeria has the greatest need to expand the public sector to trigger economic growth, the leadership pays lip service and have deviated from the original role of the state hence the continuous increase in spending on an over bloated public sector, an expensive legislature and rapacious corruption.

Multiplicity of Government Function

In Nigeria there are over 541 government parastatals, commission and agencies (263 statutory) in the country which Orosanye Committee Report proposed for reduction to 161. The duplication of the Police, Independent Corrupt Practices Commission (ICPC), Economic and Financial Crimes Commission (EFCC) remains a bane of contradictions. Oronsaye (2011, p. 337) observed that even though the two commissions were established separately to address corruption, which the Police appeared to have failed to do, successive administrations have ironically continued to appoint the Chairman of the EFCC from the Police force, while the methodology adopted by the ICPC in conducting investigations as well as the training of its personnel in investigation procedure are carried out by the Police. One wonders if it was really expedient to dismember the Nigeria Police rather than

allow it to evolve as a vibrant and effective agency. That is why the Oronsaye Report recommended downsizing of agencies from 541 to 161 which government turned down.

According to Okeke and Eme (2015) these agencies and parastatals employ several number of staff estimated at 30,000 nationwide. This increasing cost on maintaining government administrative expenditure to finance unusually large, inefficient and corrupt civil service personnel in addition to a prepondent executive cabinet and ineffective legislature is a peculiar cost associated with democratic governance in Nigeria.

Aspects of Corruption in Governance

The cost of governance as it comes from appointment of executive and legislative aides, maintenance of convoys, numerous federal agencies etc. rather than sustain a governance structure to enhance people's living standards and improve economic opportunities. The Institute of Legislative Studies argues that there are 2750 legislative aides out of which many are apparently redundant but are paid for work not done. Lawan (2014) argues that members of the National Assembly budget millions of Naira for legislative aides' emoluments only to divert into their unnecessary expenditure. Sequel to the above, is the fact that apart from allowances approved by the Revenue mobilization Allocation and Fiscal Commission, the National Assembly arrogated to themselves hardship, newspapers, wardrobe, constituency, personal assistance etc. the constituency projects are either embezzled or rather assigned to contraction who kick back these monies to them. Another issue is grandiose extravagancy by government which has made Nigeria the most wasteful country in the world. This informs why the Nigeria public offices have the highest paying in the world such that constituency allowances alone are more than legislators' emoluments in other countries. For example, while the U.S. President's annual salary is $400,000, the constituency allowance makes the Nigerian senator earn over $1.7million annually.

Political Corruption

Corruption at first instance has been responsible for the massive rigging of elections, and other electoral malpractices, secondly, it breed inept leaders thereby, result into bad governance. Obadan (2010, p. 16) said because of corruption, the people's votes do not count and all manners of people impose themselves on Nigeria as leaders in the executive and legislative arms of government.[43] Corruption breeds political instability subverts the efforts of government to chart and achieve national development plans and goals. It dents the image of the country.

Economic Corruption

Corruption affects economic development in the sense that, stupendous sum of money meant for development are plundered or stolen by a selected few through budget padding, bribery, fake assets declaration, multiple emoluments, over invoicing, appointment of executive and legislative aides which in real sense does not exist but funds are siphoned. Corruption leads to irrational or inefficient allocation of scarce resources. Investments in projects are not so much determined by their profitability or utility but by the amount of spoils that the officials would realize from the deal. The cost of running government ministries and agencies increased through unnecessary delays and individuals face unnecessary hardships and are often frustrated. Poverty and unemployment may also result from corruption as funds allocated for creation of jobs and alleviation of poverty are diverted and appropriated by few individuals.

CONCLUSION

No nation can thrive to achieve development in a situation where corruption is the order of the day. All hands must be on deck to fight corruption at all levels. Nigerians must have a re-think about ill gotten wealth, such persons should not be accorded respects rather be stigmatized so that corruption will have no pride of place in the society. All modalities must be employed by all and sundry to

campaign against known corrupt leaders. These modalities include petitions, mass letter writing, processions, public rallies etc. to institution such as EFCC, ICPC (anti-graft agencies), Police Service Commission, Public Complaints Commission, National Judicial Council, Ministry of Justice and National Assembly etc.

SUGGESTION

The paper offers the following suggestions:

a. The attitude of the society towards government appointee needs to be changed. Since the society sees positions solely as opportunity to amass wealth, people rather than being innovative and investing are struggling for political appointment so as to make enough money for life. The National orientation Agency should divert attention on the inculcation of values on the people to erase the negative conception that nothing good could come out of Nigeria.
b. Political leaders should be held to account for their actions and inactions towards the huge cost of governance which translates into economic transformation. The social, economic and political objectives in the Nigerian constitution must be made justice able so that past leaders are punished for their inability to achieve them. While ensuring full enforcement of the law, immunity of political office holders should be removed and the arbitrary allowances of the national legislature removed. In order to eliminate the culture of impunity and instill discipline, corruption should be curtailed with the use of adequate penance without exception to officer or person involved.
c. There should be a quick revisit to all probe-panel reports and justice should be done.
d. The various anti-graft agencies should be made independent of government to operate through with some forms of checks and balances.
e. There is also the need for the restructuring of the Central Bank of Nigeria to ensure its efficiency. The number of departments having several deputy-governors amounts to bureaucratic bottlenecks. In most cases, some of these positions were created to take care of special interest and quite often into wasteful spending. This should be stopped henceforth. Rather the information system should be updated with competent professionals regardless of their ethnic background.
f. It is also suggested in line with other economic observers that dedication and other special accounts should be made to perform its role by wriggling it from the hand of only one-man, Mr. President, who has the prerogative to spend it as he pleases.
g. Where the Federal Government appears deficient at providing evidences against corrupt officers, the private sector should be encouraged to do so by making use of their evidences after scrutinizing. When this is done, they feel encouraged to do more. Such was the newspaper report on former speaker, of Nigeria House of Representative, Salisu Buhari over his forged certificate which earned him his job.

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8-U8-1279

CORRUPTION AS AN IMPEDIMENT TO THE CONDUCT OF FREE AND FAIR ELECTIONS IN NIGERIA:2003-2014

MR. MNDA TERVER[1]

ABSTRACT

The imperative for development has become the defining principle of all developing countries in the world. For Nigeria, more than fifty years after political independence and hundreds of billions of dollars in oil revenue, Nigeria continues to grope in the woods of underdevelopment. One of the factors inhibiting Nigeria's development is corruption. Using the systems theory as a framework of analysis, the paper has shown that corruption has permeated all sectors of life including the political sub-sector in Nigeria. This has given rise to a culture of political impunity that has in turn given rise to a sub-culture of political violence that has stunted the growth of the democratic virtue of free and fair elections. The paper thus concludes that the absence of free and fair election has given rise to "illegitimate" democratic governments that have found it nearly impossible to bring about the needed socio-economic development in Nigeria. It has therefore, suggested *inter alia* that the war against corruption should be stepped up so that the anti-corruption agencies should not be seen as toothless bulldogs. Also infrastructure especially power supply should be restored to Nigerians so that industry can strive. Finally, employment generation should be a priority of government and the private sector. This will reduce the ready pool of unemployed youths that are recruited as political thugs to unleash violence during elections.

Keywords: Corruption, Free and Fair Elections

INTRODUCTION

One of the most prominent faces of democracy is regular free and fair elections that are conducted to either sustain an incumbent government in office or elect a new government altogether. Janda et al. (1989, p. 187-189) define government as the legitimate use of force – including imprisonment and execution-to control human behavior within territorial boundaries. Governments exist to control; the word 'govern' means control. As such all governments require citizens to surrender some freedom in the process of being governed.

It is an incontrovertible fact that most people do not like being told what to do. Therefore, why do people surrender their freedom to this control? The simple answer is that they do so in order to obtain benefits of government. Throughout history, governments have served three major purposes: maintaining order (preserving life, and protecting property), providing public good and promoting equality.

It is therefore, apt to argue that, when the people have elected into office a government that is not able to provide the valuables of life for them, they have the constitutional right to elect out that particular government and elect in a new one. Osuntokun (2011, p. 15) argues convincingly that, Nigeria can not achieve its development goals of promoting the peoples' welfare unless the leadership develops the capacity to initiate and implement public policies to fulfill societal needs. Mohammed (2014, p. 6) agrees and posits that the Peoples Democratic Party (PDP) led federal government in Nigeria has been imposing itself on the people since the 2003 general elections by not allowing for free and fair elections. This they do by disempowering the people such that opposition politics is not

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attractive and also by blatantly calling for government of national unity after they have rigged themselves into power.

According to OPEC production figures of 2012, Nigeria is the 6th largest producer of crude oil in the world. Despite this, Nigeria remains one of the poorest countries in the world. This is why Alamu (2011, p. 11) opines that today, Nigeria unwittingly and unimpressively occupies a conspicuous position in the comity of underdeveloped states.4 Thus Jibo (2003, p. 26) contends that Nigerian development has been short-changed and short-circuited by a rampaging and rapacious ruling elite with an entrenched culture of corruption such that the nation is stuck in the groove of an aberrant neo-patrimonial state, without any ray of hope for the people. To Alamu (2011, p. 5) corruption has given rise to endemic poverty, unemployment, inequalities, hopelessness, homelessness, and growing insecurity-militancy in the Niger Delta region, kidnapping in the eastern part of Nigeria, ethno-religious conflicts and violence in Northern Nigeria as seen in the rise of Boko Haram religious insurgency. This paper makes bold to add that this insidious corruption also serves as a very big stumbling block in efforts to hold free and fair elections in Nigeria.

There is no gainsaying the fact that without free and fair elections in a polity, there can be no development. This may be partly due to the fact that, when people have manipulated elections to get into office, they do not feel that they owe the electorate anything. The electorate is in fact relegated to the background because these same people also feel that without the electorate, they can still win their elections by perverting the electoral process to their own whims and caprices. This is confirmed by the National Bureau of Statistics (2012) when it states that despite Nigeria's wealth in human and natural resources, the proportion of Nigerians living in poverty is rising with almost 100 million people living on less than N200 per day. Unemployment rate is very high as about 60% of Nigeria's youth are without jobs making them fall easy prey to crimes such as cultism, drug abuse, thuggery and kidnapping. Generally, all of these are recipes for stunted growth and underdevelopment as is the case in Nigeria today.

As opined by Agu (2012), this level of underdevelopment is clearly enhanced by the pervasive level of corruption in Nigeria in which faulty policies, lack of accountability and unethical behaviours have become the character of national development. As earlier argued, this kind of corruption is sustained because, the leadership feels it owes no obligation to the citizens as they have attained their high positions because of a perverted electoral process.

This paper thus seeks to take a look at the relationship between corruption, the conduct of free and fair elections and its impact on socio-economic development of Nigeria with a view to offer suggestions and a way forward. The paper is therefore divided into six segments: introduction, conceptual clarification, theoretical framework, dynamic relationship between corruption and the conduct of free and fair elections, the conclusion and the way forward.

CONCEPTUAL CLARIFICATION

Corruption

According to Tanzi in de Sardan (1990), the meaning of corruption can be traced to the verb 'rumpere' which implies that something is broken. This something might be a moral or social code of conduct or more often an administrative rule. If it is the latter, the rule broken must be precise and transparent. Furthermore, the official who breaks it must derive some recognizable familial, trial or party benefit. The alleged benefit derived must be '*quid pro quo'* for the specific act of corruption. He argues further that, the instruments through which corruption is exercised vary to include regulations for the issuance of licenses or permits, fines for alleged or actual violations of existing legal practices, controls over public investment contracts, hiring and promotions or access to underpriced public goods. Otite (1986) defines corruption as "the perversion of integrity of state affairs through bribery, favours or moral depravity". He argues further that, corruption takes place "when at least two parties have interacted to

change the structure or processes of society or the behavior of functionaries in order to produce dishonest, unfaithful or defiled situations".

Another generic definition of corruption is the one given by Bolaji (1986) that "corruption is synonymous with bribery, nepotism, cheating, and deception as well as undue influence. Corruption therefore involves the injection of additional but improper transactions aimed at changing the normal course of events and altering judgments and position of trust". Generally, Agu (2012, p. 65) conceives corruption as involving the giving or taking of bribes or illegal acquisition of wealth. It is an unethical behavior in which, the actions or inactions of officials in the public and private sectors convert personal gains above public or corporate interests.

According to Ndubisi (1986, p. 57-59), the prevalent forms of corruption include endemic corruption which is dominant in political and administrative systems. There is also planned corruption in which political office holders dispense the spoils of office as they please in order to elicit support and retain power. This type of corruption is widely practiced in government circles in Nigeria with impunity. Developmental corruption occurs where numerous development projects are embarked upon by the state. In the final analysis, most of these projects are abandoned after being used to siphon billions of naira. This accounts for the phenomenon of 'white elephant projects' in Nigeria.

Democracy

The origin of democratic theory can be traced to ancient Greek political thought. According to Ogbogo (2008), Greek philosophers classified governments according to the number of citizens involved in the decision-making process. They based this classification on a continuum running from rule by one person, through rule by a few to rule by many.

At one extreme is an autocracy or monarchy where one individual has the power to make all important decisions. This was a more common form of government in earlier historical epochs where the king was the be-all and end-all of government.

In the middle of the continuum is aristocracy which literally means rule by the best. It is different from oligarchy in that, at one time, it was common for the nobility or the major landowners to rule as an aristocracy. However, aristocracy can not adequately explain, say a group of military leaders ruling a country such as Nigeria. The word oligarchy is more suitable.

At the other extreme of the continuum is democracy. However, democracy like other complex concepts means different things to different people. What then is democracy?

Sortori (1987, p. 83) argues that:

> Democracy exists when the relation between the governed and the government abides by the principle that the state is at the service of the citizens and not the citizens at the service of the state, that the government exists for the people not vice-versa.

According to Olowu (1995), the democratic arrangement constitutes an approach to connecting the rule-ruler-ruled relationship which dominates much of political science postulations. It is not the only one nor is it necessarily the best but is the one that is regarded as the least problematic in constituting modern political systems. The collapse of systems such as theocracy, monarchy, fascism and most recently Marxism and socialism has left democracy as the only option.

Therefore, a democratic system of governance underscores the plural nature of politics and hence gives recognition to the diversity of social forces in any political community. A democratic regime accommodates these forces by providing for a polycentric political order, which not only recognizes these forces formally but also enables them to interact with one another in diverse ways, in competition, collaboration or cooperation. Generally therefore, a democratic government is one that serves the citizens rather than the other way round.

Dahl (1982, p. 101) has combined both the procedural and institutional aspects of democracy in this definition when he argues that a democratic system of government is defined by three important attributes: Competition for public office by individuals and organized groups (political parties) at periodic intervals without the use of force; an inclusive level of political participation in the selection

of leaders and policies; and a level of civil and political liberties – freedom of expression, freedom of the press and freedom of association sufficient to guarantee the integrity of political competition and participation. Generally therefore, democracy is seen as the system of government that can bring development to underdeveloped societies if its tenets are not adulterated.

Election and the Electoral Process

It is trite to argue that in any democratic dispensation, there must be an electoral system to ensure the conduct of free and fair elections that will produce the leadership of such a political entity. This is why Atia (2003) argues that under a democratic system of government, political power is acquired through the electoral process in which political parties present candidates for election by the electorate in periodic free and fair elections.

According to Eze (2000, p. 7), "free and fair elections could be referred to as an election environment that is free of molestation, intimidation, arson, thuggery and rigging among similar vices".

Generally, a special body known as the Electoral Commission is responsible for the conduct of general elections. This body is supposed to be independent and impartial. In Nigeria, it is known as the Independent National Electoral Commission (INEC) and it is headed by a Chairman, with Federal Commissioners and other Resident Electoral Commissioners in charge of states. The 1999 Constitution of the Federal Republic of Nigeria states that, it is the President of the Federal Republic of Nigeria that has the powers to appoint officials of the commission subject to approval of the National Assembly.

In terms of operations, the INEC is responsible for conducting elections at Federal and State levels while the State Independent Electoral Commissions (SIECs) are responsible for conducting elections at the local government level. The Chairman and Commissioners of the state Independent Electoral Commissions hold office at the behest of the state governors.

THEORETICAL FRAMEWORK

It is the contention of this paper that the systems theory is most suitable to explain the phenomenon of corruption and its effects on the conduct of free and fair elections in Nigeria.

A system is a set of interrelated and interconnected units that form a complex unit or whole. Uniquely, a system has subsystems and units; the sub-systems and sub-units are linked and integrated into a single whole system and all sub-systems and units influence one another and the whole system.

Using the concept of a system to apply to politics, Easton (1965) states that political interaction is different from other forms of human interaction because it involves the use of power and authority. He continues that a political system is "that system of interaction in any society through which binding or authoritative allocations are made and implemented".

The systems theory projects that all political systems are located within an environment. It is the environment that determines what goes on in a political system. Thus the environment has a fundamental impact on the political system.

The whole range of interactions in any political system can be seen to consist of inputs from the environment. These are in the form of demands on the system. There is a conversion process which changes the demands to outputs in terms of decisions and policies. There is also a feedback mechanism that communicates information from the political system to the environment and vice-versa.

It can thus be seen that since the system is an integrated whole, anything that happens to a sub-system or sub-unit infects the other sub-systems and units and invariably the whole. Therefore, corruption as a vermin once it affects a part of the system will infect the other parts also.

DYNAMIC RELATIONSHIP BETWEEN CORRUPTION AND FREE AND FAIR ELECTIONS

By the time that Nigeria's former President, Olusegun Obasanjo (2000, p. 8) took over state power in 1999, he declared that public corruption is one of the main reasons for the development of poverty and underdevelopment in Nigeria and he promised to tackle the menace head-on. This is shown in table 1.

Table 1: Bribery and Corruption in Nigeria: Crimes Known to ehe Police

Year	Figures	Annual % Changes
1967	300	16.6
1968	350	1.4
1969	355	8.7
1970	386	22.0
1971	471	25.7
1972	592	13.7
1973	673	11.1
1974	748	9.4
1975	818	30.6
1976	1,068	11.6
1977	1,191	N.A

Source: Government of the Federal Republic of Nigeria (1980) Crime and the Quality of life in Nigeria.

According to Ifamose (2004), a Ministry of Justice study conducted in 1980 stated that undetected incidences of corruption were put at about 87.5% of all reported cases.

Obadan (2001) contends that, corruption has led to the undermining of the legitimacy of the state and the reduction of its power to play its intended and presumably correct role in the economy. Systemic corruption according to Makinde (2006, p. 9) distorts incentives, undermines institutions and redistributes wealth and power to the undeserving.

Nkom (1986, p. 50-51) states that corruption impedes the decision-making process. It does this through the misappropriation and misallocation of resources such that targeted groups that are meant to benefit from the proceeds of development are denied and disempowered.

Clearly therefore, when corruption has permeated all the sectors of a society, then it becomes endemic and no sector is sacrosanct. It thus becomes systemic corruption that stains everything that it touches. This is what has happened in Nigeria and therefore, the political sub-sector can not be an exception in this regard.

2003 General Elections

According to Atia (2003, p. 6), for the 2003 presidential elections in Nigeria, 20 political parties presented candidates. However, of this number, Olusegun Obasanjo of the Peoples' Democratic Party (PDP) was overwhelmingly re-elected. President Obasanjo got 24 million votes and led in 25 of the 36 states and Abuja. He also got the minimum required votes of one-quarter of votes cast in 31 states and Abuja, seven states more than the required number to win the presidential election.

There were a lot of outcries that the elections were not free and fair and that there was manipulation of the votes cast at the election. Gudaku (2002, p. 15) argues that Obasanjo had no business going back to Aso Rock since he had performed below expectation in his first coming in 1999.

It has been maintained that, there were various strategies that were used by President Obasanjo and the Peoples' Democratic Party to win the 2003 general elections. Atia (2003, p. 8) contends that one political philosophy which was hatched, developed and sustained by the incumbent president and his governors throughout the 2003 electioneering campaign was "tazarce". Tazarce means, 'must

stay', remaining in power, consolidation and continuity. This was imposed on the people and in the same vein, President Obasanjo manipulated the presidential primaries as the flag-bearer of his party.

Atia (2003, p. 8) continues that, this was copied by his governors, some of whom were returned unopposed by their parties. They had made up their minds through "tazarce" not to relinquish power as a lot of plans were hatched to win the 2003 elections by all means. There was thus no level playing ground for other contestants.

Another important strategy is the incumbent factor. As the incumbent President of Nigeria, Olusegun Obasanjo had many things to his advantage to get himself re-elected. As stated by Okara (2003, p. 10), "he (Obasanjo) controlled the Federal purse and money for his campaign was not a problem. This explains why a lot of money allegedly changed hands at PDP presidential campaigns and during the elections".

Similarly, President Obasanjo had security forces and INEC staff under his control and could use them to his electoral advantage. No wonder then that the opposition parties such as the ANPP and its presidential candidate, General Muhammadu Buhari complained bitterly about the role of INEC staff and security forces during the 2003 presidential and gubernatorial elections.

2007 GENERAL ELECTION IN NIGERIA

The 2007 general elections were simply a rehash of the 2003 general election. During this time "tazarce" was replaced with "do-or-die" politics. The out-going President Olusegun Obasanjo declared in a January 2007 interview carried in the Nation Newspaper that the elections were going to be "do-or-die" and that it will be a fight to the finish between the Peoples Democratic Party and the other political parties. He also boasted that the PDP will rule Nigeria for the next 100 years. Thus at the end of this election, the PDP had won the presidential election, 30 out of 36 states, had majority in the National Assembly and in the Houses of Assembly of 30 states. The popular press referred to this overwhelming victory as the PDP "tsunami". In all the states of the federation, aggrieved politicians rushed to the election tribunals that were set up to try cases of electoral thievery. In some cases the stolen mandates were recovered as in the cases of Ekiti, Osun and Edo states.

The existence of planned electoral malfeasance in Nigeria was confirmed by no less a personality than a former governor of Cross-Rivers State, Mr. Donald Duke (1999 – 2007). In an interview in August 2010 carried by Daily Trust News paper, he gave graphic details on how state governors corrupt INEC Resident Electoral Commissioners (REC) sent to their states. He stated that once a Resident Electoral Commissioner was sent to a state and on his arrival, the governor would invite him to government house and lavish him with state hospitality. After that a government lodge will be assigned to him with a car and driver and a hefty allowance running into millions of naira will be at his disposal. This was done to make the REC very receptive to any plan hatched by the ruling party to rig elections. He concluded that this is one of the reasons why the PDP had such an overwhelming majority in the 2007 elections.

2011 – 2014

By 2011, the People Democratic Party had actually perfected the art of election rigging. This can be seen in the way the 2011 PDP presidential primaries were held. Alhaji Atiku Abubakar who contested the primary with the incumbent President Goodluck Jonathan in an international press conference in December 2010 cried out that he was rigged out of the primary by using such strategies as voting state by state instead of allowing general voting. This was to intimidate state delegations using incumbency factor.

Similarly, the defeated candidate of Congress for Progressive Change (CPC) General Mahammadu Buhari stated that the federal government posted military personnel to polling units to intimidate voters. Also, politicians of the ruling party distributed money to voters' right at the polling stations and the agents of rival political parties were intimidated to run away from the polling units to

allow a field day for agents of the ruling party to cart away polling materials to unknown destinations for multiple thumb-printing.

Tsav (2012, p. 14) while commenting on the conduct of local government elections in Benue state lamented the absence of fair-play in the conduct of the elections. He argued that there is no way any right thinking person will agree with the result of an election in which all the 23 Local Government Chairmen and the 256 councilors were from the ruling Peoples Democratic Party while all the other opposition parties could not win even a single councillorship election.

Mohammed (2014:6) has contended that, it is paradoxical that the Peoples' Democracy Party that has "democratic" in its name is showing markedly undemocratic tendencies. He argues that, in the build-up to the 2015 general election, both the National Executive Committee (NEC) and the National Working Committee (NWC) of the party decreed that no party member should contest the primary elections with the incumbent president and they had gone ahead to print only one nomination form for Dr. Goodluck Jonathan. He therefore asks rhetorically that, how will the PDP without internal democracy ensure free and fair elections in contest with other political parties?

Abdullahi (1982, p. 12) succinctly sums up thus:

> In Nigeria today, the problems of development in my view are not necessarily due to scarcity of resources… the problem can be seen in the unending struggle among Nigerians to retain or gain advantage over fellow Nigerians…

It can thus be said that corruption as actually impeded the electoral process in Nigeria which has led to lack of free and fair elections in Nigeria between 2003 and 2014.

CONCLUSION

This paper has taken a succinct look at the relationship between corruption and the conduct of free and fair elections in Nigeria. It has clearly shown that corruption has become endemic in Nigeria leading to bad governance, ineffective institutions and general stagnation of the economy. This has in turn led to the inability of the Independent National Electoral Commission to conduct free and fair elections in Nigeria. This has then created a situation where elected officials are acting with impunity with the feeling that whether they lead the people well or not, they will rig themselves back into power.

SUGGESTIONS/WAY FORWARD

Strengthening anti-graft agencies

From the foregoing, this paper recommends that the war on corruption should be more vigorously pursued. In this war, there should be no sacred cows. Therefore, anti-corruption agencies such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission ((ICPC) should be strengthened for this fight to be won.

It may seem paradoxical that it is this same government officials that are benefiting directly from corruption that are somehow being looked upon to help in dismantling it. This paper therefore suggests that institutions such as EFCC, ICPC, INEC etc should be strengthened by amending the constitution. The president should be stripped of the powers of appointing officials to these institutions. These institutions should be allowed to be independent and autonomous.

Due Process

Also the Department of Public Procurement (DPP)) or Due Process should be made more effective by infusion into all levels of governance.

Improved Provision of Infrastructure

The poor state of infrastructure in Nigeria should be urgently addressed. When this happens, employment opportunities can be created whereby the hundreds of thousands of youths roaming the streets will be gainfully employed. Thus they can resist the temptation of being recruited as political thugs to unleash mayhem during elections.

Political Education

Moreover, Nigerian masses should stand up and fight for their rights such as right to vote and be voted for. This will entail some degree of political education from agencies such as the National Orientation Agency. They should be educated to shake off their political apathy and participate fully in the governance of their country.

Independence of the Judiciary

The judicial systems should be strengthened. Judges should be recommended for appointment by the Body of Benchers and not by the National Judicial Council which is controlled by the executive branch. This will make the judges courageous enough to expeditiously deal with corruption cases when such cases come before them.

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THE USE OF CORPORATE SOCIAL RESPONSIBILITY TO MITIGATE POLITICAL RISKS IN DEVELOPING COUNTRIES

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ABSTRACT

Forced to enter new markets, most of the time riskier than their home countries, multinational corporations have to face the associated risks of investing in developing countries. One of them is political risk. Corporations can suffer significant damages or the loss of their entire investments following various adverse actions of political stakeholders. Corporate social responsibility (CSR) policies can help mitigating part of the political risks that affect corporations in developing countries by building relationships with the host communities, thus becoming part of the risk management strategy. The aim of this paper is to see how CSR as a political risk management strategy is reflected in the literature, to highlight its benefits and to examine ways for an effective and successful implementation of CSR policies taking into account its limitations. It also introduces in the literature two categories of political risk that CSR policies target: intrinsic and extrinsic political risks. Dancing

Key Words: political risk, corporate social responsibility, risk management

INTRODUCTION

According to the report of the Multilateral Investment Guarantee Agency (MIGA) on 2013 World Investments and Political Risk, developing countries have attracted in 2013 around 41% of global foreign direct investments, the highest level since 2000 (MIGA, 2013). In contrast to the stagnant markets of developed economies, corporations find important opportunities to doing business in emerging markets. Although they have also been suffering from the global financial crisis, their growth rates still exceed the advanced economies. However, moving into rapid-growth markets comes with additional risks.

One of them is political risk that Molano (2008, p. 18) defines as "the broad spectrum of actions in the political and social environment which can influence a transnational actor's property rights, income or market". Local, regional and national governments, non-governmental organisations (NGOs) or non-organised activists, rebel/terrorist groups or organisations, the home government or other foreign states or multinational organisations and any other individual who is involved in a political action can create political risk (Bremmer and Keat, 2009; Jakobsen, 2012). Corporations can suffer significant damages or the loss of their entire investments following expropriation or nationalisation, transfer and convertibility restrictions, breach of contracts, acts of terrorism, domestic political violence (e.g. hostile actions of national forces, revolutions, civil war, insurrection) or other adverse regulatory change or negative government action.

Political risk is relevant the more companies operate in emerging markets (Bremmer and Keat, 2009; McKellar, 2010). In MIGA's report of 2013, multinational corporations operating in developing countries ranked political risk as their second concern over the next three years, immediately after macroeconomic instability (MIGA, 2013). Under great pressure for revenues and new markets, risk avoidance became only an extreme method for corporations to manage political risk. Consequently, corporations have been forced to find the most suitable risk management strategy specific to the particular political risks that each of them is facing, for each country or government where they operate under a given period of time (García-Canal and Guillén, 2008). This political risk management strategy should fit their international growth strategy and desired corporate identity.

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Within developing countries, multinational corporations are a strong force for economic integration, income generation and employment opportunities for local populations (Tully, 2012). Although the role of corporate social responsibility (CSR) in risk management and furthermore, in political risk management, is difficult to quantify, experts and scholars acknowledge that the measures undertaken by corporations to integrate social, environmental and commercial concerns in their operations and stakeholder interactions can help mitigate adverse political risks.

CSR AND POLITICAL RISK MANAGEMENT

CSR concept

Tully (2012, p. 20) defines CSR as "the conditions under which society grants corporations the right to pursue profit maximisation. It typically refers to a range of voluntary measures undertaken by corporations to integrate social, environmental and commercial concerns in their operations and stakeholder interactions". Bremmer and Keat (2009, p. 102) call "social accommodation" this process of acting as a good neighbour who responds to the needs of the local community. CSR activities include building infrastructure, construction of schools and hospitals or any other activity that improves local economies and living standard of population.

CSR concept has many facets and it has been forced to evolve. Terms like responsible business, corporate sustainability or corporate citizenship are all used by companies and experts. More recent, Porter and Kramer (2011) introduced the concept of "shared value" which should replace CSR programs. According to the principle of shared value, companies can ensure their own self-interests while, in addition, create "value for society by addressing its needs and challenges" (Porter and Kramer, 2011, p. 64). In this respect, CSR policies cannot be totally separated from the corporation's profit motivation as this would create agency conflicts if managers were to put forward such initiatives. Thus, they have to be shaped as to align with the business interests of the corporations' shareholders (Pesmatzoglou et al., 2014).

CSR and political risk

With this paper we introduce in the literature two categories of political risks that CSR policies target: intrinsic and extrinsic political risks.

The first category - *intrinsic risks* - refers to the types of political risks that corporations themselves are creating or increasing as a result of the nature of their activities. Corporations may impact significantly the social, environmental and cultural environment of host communities. Their investments may require the relocation of entire communities and changes in the natural environment like the deviation of water sources. Contamination of natural sites and, more dangerous, of water sources may cause health problems. Protests caused by dramatic environmental and social problems or water impacts and risks associated can create conflicts. Extractive corporations, construction projects or water-intensive industries are dealing the most with this kind of "project-specific grievances" (Jakobsen, 2012, p. 90).

The second category - *extrinsic risks* - comes from the difficulties in establishing and sustaining a good relationship with the host community. One of the most challenging forms of political risk is the lack or the loss of the "social license to operate" (Farrell, Hamann and Mackres, 2012). Richert, Rogers and Burton (2015, p. 121) define the social licence to operate as "an implicit contract between parties which reduces the risk of socio-political challenges to the actions of the company". The social licence to operate goes beyond the legal licenses that a corporation needs to operate (Wiig and Kolstad, 2010) and has become more important than the legal "compulsory" authorisations (Idemudia, 2009). Parsons, Lacey and Moffat (2014) call it a "community licence". Any project that does not enjoy the approval of the local community, its acceptance and trust will not be sustainable (Slack, 2012; McDonald and Young, 2012). Community opposition can trigger: extensive delays in the development of projects; increased costs; political turmoil which can turn a safe project into a risky and unfeasible investment; suspension or ultimately project abandonment (Slack, 2012; Warnaars, 2012). This made

corporations aware of the importance of earning and maintaining their social licence to operate (Ackah-Baidoo, 2012; Suescun Pozas, Lindsay and du Monceau, 2015).

CSR – a tool for political risk management

According to MIGA's report of 2013, almost 40% of multinational enterprises are using engagement with local communities as a tool to mitigate political risk in developing countries, more than the use of political risk insurance (MIGA, 2013). Social measures have become a condition to access political risk insurance from private underwriters (e.g. Lloyds) or international organisations like MIGA (Rosenau et al., 2009), thus recognising the role of CSR in the political risk management strategy.

McKellar (2010) argues that sound global corporate citizenship, that is, the contribution of a firm to the societies in which it operates and alignment with social values, is fundamental to political risk mitigation, and therefore to international business performance. CSR can offer "the possibility to minimise the risk of conflict and to assist with restoring and gaining confidence and support from a wide audience, as well as creating a favourable public opinion of a company's operations" (Warnaars, 2012, p. 231).

A distinction between the contributions of the CSR policies to manage either intrinsic or extrinsic risks is difficult to make. As regards intrinsic risks, CSR tackles risks coming from the damages caused by companies, like environmental protests (Wiig and Kolstad, 2010). Meanwhile, corporations had to shift their "do no harm policy" to a direct engagement in social development projects, especially for host communities negatively affected by their operations (Warhurst, 2001; Del Bosco and Misani, 2011). As regards extrinsic risks, by effectively engaging with local communities, corporations ensure and maintain tacit permission to continue operations. CSR contributes to obtaining the social license to operate (Idemudia, 2009), thus becoming a tool for risk management. World Bank (2006) includes managing risks to earn/maintain a license to operate as one of the top drivers of CSR.

Overall, using CSR may not be as efficient when corporations are confronted with the risk of expropriation, transfer and convertibility restrictions or widespread political risks like national revolution or civil war, but it can be very helpful in case of local violence or potential aversion of the local community to foreign companies. Del Bosco and Misani (2011) demonstrated the CSR's benefits in reducing conflict and violence, thus contributing to the security of a firm (e.g. preventing attacks on the company's physical assets and employees). Community engagements have also helped reduce highly visible security presence employed to protect the company's operation sites (Rosenau et al., 2009). In addition, CSR may improve the attractiveness of the corporations in getting contracts and licenses, for concessions and permits (Wiig and Kolstad, 2010; Virah-Sawmy, 2015). It may also be useful in dealing with legal and regulatory controls (Sprinkle and Maines, 2010) and improve government relations (Yin and Jamali, 2016).

IMPLEMENTING CSR POLICIES IN ORDER TO MITIGATE POLITICAL RISKS

Extractive corporations – front-runners in CSR policies

Compared with other economic sectors, extractive corporations' activities are facing a higher risk of environmental damages and social disturbances (Slack, 2012; Pesmatzoglou et al., 2014). They usually entail environmental externalities that expose most the poor and vulnerable population. The potential for rejection of their activities is higher as extractive industries are capital intensive and create few local jobs. Therefore, extractive corporations' operations have caused important political turbulence in many countries, resulting in mass protests and ultimately cease of activities (Gardner et al., 2012). Among the extractive industries, the mining sector is recognised to produce the most substantial and sometimes irreversible effects to the natural environment and population, such as accidents, environmental degradation, health threats and violations of human rights (Mutti et al., 2012). Intrinsic risks are thus the major target of the CSR policies of mining companies.

Corporations in the mining sector have been under extreme pressure to act against the damages they are causing to the local environment and communities during the exploitation of projects and

after the mining resources are exhausted. A more recent approach is to implement CSR policies already in the early stages of exploration of a project (Suescun Pozas, Lindsay and du Monceau, 2015), thus minimising the risks of future conflicts. Developing CSR responses post-conflict may increase the costs and efforts to obtain the acceptance of the community (Warnaars, 2012). This proactive approach is a major and positive shift from the usual reactive character of CSR policies (Mutti et al., 2012). In this case, corporations have to start booking the costs associated with the CSR policies before their project is even generating revenues (Farrell, Hamann and Mackres, 2012), thus increasing the upfront costs of investment. One example is Xstrata. The company received the right to explore the project Las Bambas in Southern Peru in August 2004. However, it was only in March 2011 when the Ministry of Energy and Mines of Peru approved the environmental impact study. The company used this period of seven years to obtain, in addition to the legal authorisations, the support of the local community that must be relocated (Murray, 2011). Xstrata began its campaign to secure the acceptance of the community already before the exploratory drilling, in 2004.

With their offshore operations far away from the host country populations, oil and gas corporations are no less away from the scrutiny of communities or criticism of NGOs. Their operations can generate significant unrest if the population does not benefit from the corporations revenues. For their case, Ackah-Baidoo (2012) introduced the term "offshore CSR".

Extractive companies have gained extensive experience in the areas of environmental management and community relations and developed policies to address indigenous population, human rights protection and corporate governance (Warhurst, 2001). In 1980, more than 70% of the multinational corporations in this field reported the use of institutionalised assessment activities that involved explicit and systematic analysis of political risk (Lax, 1988). Their long-term involvement and experience made extractive corporations leaders in the CSR movement in developing countries (Farrell, Hamann and Mackres, 2012). Mining companies have established specific departments to deal with CSR issues (McDonald and Young, 2012). Despite all this, the criticism on mining companies on their unsatisfactory results regarding the social and economic development as well as their environmental impact, especially in developing countries is still present (Slack, 2012; Pesmatzoglou et al., 2014).

Role of partnerships

The role of CSR partnerships in managing political risk has been widely recognised (Warhurst, 2001). They can take different forms like tri-sector partnerships (agreement between business, government and civil society), the growing trend of bi-sector partnerships (between the corporation and either civil society or government) or non-traditional stakeholders like local tribes (Pesmatzoglou et al., 2014). McDonald and Young, (2012) refer to cross-sector partnerships as a form of CSR activity.

The benefits coming from the implementation of CSR policies within partnerships are numerous (Rosenau et al., 2009). Partnerships can reduce costs for corporations (Idemudia, 2009). The home state may also support with funds the CSR projects of its companies. In Cameroon, Rabobank, the Dutch lender with roots in the agricultural industry, has helped establish co-operatives for small cocoa bean growers. The project is funded by the Dutch government's "cocoa buffer fund" and it is implemented by a consortium that includes cocoa bean processing companies, large corporate buyers, development organisations and research groups (Murray, 2011).

Local leaders may facilitate the communication between corporations and communities (Gardner et al., 2012). They can bring their knowledge of the communities' problems and lead the corporations into the complex dynamics of the communities.

Partnerships are important to build credibility and trust of CSR policies. As corporations are known for their profit maximisation objectives rather than for their social motivation, local communities may not be always convinced of the corporations' initiatives for social and environmental well-being (Idemudia, 2014). The collaboration with NGOs can remove these suspicions and reduce public hostility. NGOs local expertise can prevent the emergence of new risks by helping corporations

in navigating through sensitive community matters like competition between various tribal and ethnic groups, sacred religious and historical sites (Stephens, 2015). Therefore, the fact that 25% of multinational corporations are using engagement with NGOs as a tool to mitigate political risk in developing countries (MIGA, 2013) is not surprising. In locations with limited government capacity, partnerships with NGOs can facilitate the work of corporations and contribute to the success of CSR programs (Farrell, Hamann and Mackres, 2012).

A couple of decades ago, NGOs and companies used to see each other as opponents, but recent years have seen a radical change. Some NGOs have had corporate partnerships for many years. The one between the US-based Environmental Defence Fund and McDonald's is one of the oldest, dating from the 1990s. Since then, others have followed. World Wide Fund for Nature (WWF) works with companies like Procter & Gamble, Marks and Spencer, HSBC and SABMiller. Oxfam has established partnerships with companies such as Aviva and Accenture. Unilever has been working with Greenpeace to incentivise companies to move to sustainable palm oil and end deforestation. It has also worked with NGOs in areas such as water hygiene, sanitation and basis nutrition. Meanwhile Nestlé is partnering with the Fair Labour Association, a non-profit organisation dedicated to eliminating sweatshop labour, in order to probe its supply chains in Ivory Coast. Nestlé has been the target of many protesters over the years like the use of palm oil in its Kit Kats and sales of infant formula to mothers in Africa who mixed the powder with unclean water (Lucas, 2012), thus its current NGOs partnerships may also improve its reputation and social acceptance.

Partnerships with central and local governments can help sharing the responsibility of the developments projects, thus diminishing the risks of transforming corporations into the only responsible entity for the failure of a social project (the case of CSR policies in Nigeria is one of the most quoted in the literature). Multinational corporations operating in China recognise the government as a powerful stakeholder (Tian and Slocum, 2016) and give priority to public-private partnerships to implement CSR projects (Yin and Jamali, 2016). In case no formal partnership is agreed between the corporation and the government, corporations should at least ensure that their CSR policies are backed by the state authorities (Ackah-Baidoo, 2012) or aligned with government initiatives in order to guarantee the effectiveness and success of their CSR programs (Suescun Pozas, Lindsay and du Monceau, 2015; Yin and Jamali, 2016).

Limitations of CSR in political risk management

There are no few cases where CSR policies ended by exacerbating conflict instead of improving stakeholders' relations and reducing risks (Warnaars, 2012; Idemudia, 2014). CSR can become itself a source of conflict or can expose the company to additional risks.

Firstly, risks may come from the way the CSR policies are implemented. Partnerships involving government agencies that prove to be corrupt or in breach of human rights can weaken community trust and credibility of CSR policy (Warhurst, 2001). Corporations may face conflicts with the host government when its CSR policies are crossing the boundaries of development responsibilities held by the state (Cash, 2012) or local authorities (Mutti et al., 2012). Local traditional leaders may not always advocate community benefits, but support personal interests first and undermine community development (Wilson, 2015).

Secondly, the problem of communities' expectations towards the role of corporations has been a source of conflicts for a long time. The implementation of CSR policies in fragile states characterised by high instability, weak institutions and political capacity is even more difficult as corporations may be forced to take over some of the public responsibilities usually carry out by the state and engage in more CSR activities than intended, especially in resource rich developing countries (Bremmer and Keat, 2009; Cash, 2012; Osemeke, Adegbite and Adegbite, 2016). In the absence of state involvement, communities may develop high expectations towards corporations. In some cases, corporations themselves can exacerbate these hopes in order to gain public support in the initial stages of the investments (Mutti et al., 2012). When those expectations are not met, they can degenerate in conflicts

between communities and corporations (Rosenau et al., 2009; Suescun Pozas, Lindsay and du Monceau, 2015http://cdj.oxfordjournals.org/content/48/3/421.abstract - corresp-1). Corporations do not represent anymore a partner for the community, but are perceived as replacing the role of the state and compensate for its failure (Warnaars, 2012). For these reasons, corporations have to ensure that stakeholders are aware of their role, i.e. "to contribute to and/or enhance existing socioeconomic development, not to replace government policy" (Cash, 2012, p. 144). Local communities have to acknowledge that their primary relationship is between them and the government, while corporations are only a means of boosting that connection (Cash, 2012). However, making communities to set more realistic expectations may prove problematic and risky for corporations (Slack, 2012).

Finally, corporations may be faced with the problem of unequal distributions of the CSR benefits. Conflicts may arise when CSR policies target only specific communities, such as certain ethnic groups, social class or region (Rosenau et al., 2009; Kotilainen at al., 2015). If some groups benefit more than the others from the company's CSR programs, corporations may see their initiatives rejected by the communities. Local rivalries can also intensify and low-level conflict risks in the community may amplify (McKellar, 2010).

SUMMARY AND CONCLUSIONS

The higher the return, the higher the risk. This may be the case of multinational corporations operating in emerging markets or developing countries. Confronted with the slow-growth rates of their home countries, mainly developed ones, and the prospects of new resources (natural, human, etc.) in developing economies, corporations have to put into place risk management techniques to tackle additional threats, like political risk. Starting with the 1970s, scholars have underlined the necessity to manage political risks (Robock, 1971; Kobrin, 1979). This is even more the case for developing countries where this type of risk is more present.

This paper contributes to the literature on political risk management by examining the possible ways in which CSR policies can become a strategy to mitigate political risks. By integrating social, environmental and commercial concerns in their operations, CSR policies can help mitigate political risks. It is obvious that not all categories of political risks can be managed using CSR programs. This paper introduces in the literature two categories of political risks that CSR policies target: intrinsic and extrinsic political risks. The first category relates to the risks that corporations themselves are creating or increasing as a result of the nature of their activities. Protests, confrontations with the local community are very likely to appear when the corporations' activities are negatively impacting their environment or the social and cultural development of the community. The second category is the result of hardships in establishing and maintaining a good relationship with the host community. This is mostly referred in the literature as the "social licence to operate". The leading companies in the implementation of CSR to manage their political risks, either intrinsic or extrinsic, are the extractive corporations, especially mining companies. Because of the long experience gained, their strategies have been very much refined. Their proactive approach (like Xstrata) may be the solution to the many CSR failures and it should be used by all corporations. The paper also examines ways for an effective and successful implementation of CSR policies, building on the experience of extractive corporations, recognised as front-runners in CSR policies. It highlights the benefits of creating partnerships with the civil society and/or government. Partnerships can reduce costs, facilitate the communication of corporations with the host community and share the responsibility of CSR projects. They can also bring the acceptance of the local stakeholders and add credibility to the initiatives. Finally, practice has demonstrated that CSR policies can easily have the opposite effect, like exacerbating risks or bringing additional risks. For these reasons, this paper addresses three areas of "risk": host government relationship, communities' high expectations towards corporations and unequal distribution of CSR benefits. The way to tackle those limitations adds to the complexity of the process, but corporations have to be aware of them before designing their CSR policies.

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BANK LENDING IN NIGERIA AND THE GROWTH OF NON-OIL EXPORTS (1980 - 2013)

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ABSTRACT

The study examined bank lending in Nigeria and the growth of exports from 1980 - 2013. Emphasis was more on the growth of non-oil exports sector in Nigeria. The specific objectives were to examine the impact of loans and advances on the growth of non-oil export in Nigeria, and to determine the impact of lending rate on the growth of non-oil exports in Nigeria. Data were collected mainly from secondary sources; Central Bank of Nigeria (CBN) Statistical Bulletin. Multiple regression technique was used to analyze the relationship between the dependent variable and independent variables - non-oil exports (NOX) and loans and advances (LOADV), lending rates (LR) respectively. While the banks in Nigeria have been doing their best in terms of granting of loans and advances to the non-oil exports sector, the lending rates have been alarming. None the less, the result shows that loans and advances, and lending rate contributed positively to the growth of non-oil export. It was recommended that there should be a reduction in the lending rates of banks in order to enhance the rapid growth of the non-oil exports sector in Nigeria. Instituted policies and planning should be reconciled with implementation and performance coupled with regular analysis of each sector of the economy.

Key Words: bank, lending, non-oil exports, economic growth

INTRODUCTION

Nigeria is predominantly an agrarian economy, with the agriculture sector contributing about 40% of GDP and employing over 60% of the labour force. In spite of this, the oil and gas sector continues to dominate government and export revenues, accounting for about 70% and 95% of revenues, respectively (Awami, 2013).

Given the challenges of oil dominance, particularly in view of decreasing demand by the United States, and discovery of oil by competing nations, the federal government seeks to diversify the economy through increased production and exports of non-oil products. Currently, Nigeria's non-oil export is insignificant. Of the total export revenue of N15.28trillion (US$ 97.03bn) in 2012, the oil sector accounted for about 97%, while the non-oil sector contributed a paltry 3%. The above trend, which has persisted since the post-SAP period in 1986 can be attributed to a myriad of factors, principal among which include: low investment and poor farm yield, dominance of raw agricultural commodities and insignificant amount of value-added non-oil exports; poor access to long term concessionary funds by exporters has also contributed to the observed trend (Awami, 2013).

On the other hand, the role of banks in Nigeria's economy cannot be over emphasized. Banks in Nigeria as a financial institution helps in financing the exporting sector of the economy by lending out short-term loans to those into manufacturing, exporting, trading and industries (Okereke, 2003).

Bank lending involves the granting of credit (monetary resources) to needy economic units with the hope that repayment will be made at a specific or determinable date. Lending is made directly or indirectly. Loans, advances and investment constitute the substantial part of the total credit. In lending activities, the banker (credit officer) considers the lending of money and monitoring of loan made (Okereke, 2003). Lending is the primary source of banks earning and support to the environments it operates. One of the major ways of investing bank funds is by lending (Jombo, 2005).

However, banks decisions to lend out loans are influenced by a lot of factors such as the prevailing interest rate, the volume of deposits, the level of their domestic and foreign investment, banks liquidity ratio, prestige and public recognition to mention just but a few.

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Lending, which may be on short, medium or long-term basis is one of the services banks render to their customers. In other words, banks do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as means of aiding their growth in particular or contributing toward the economic development of a country in general (Felicia, 2011).

Lending is normally considered to be the primary function of any conventional financial intermediary. However, some financial intermediaries seem to perform this function more than others because of the special position they occupy in the economy. Commercial banks for example are able to mobilize much financial resources in the economy due to the retail nature of their businesses.

Banks have always been involved in the export business in Nigeria even before the emergence of oil as the dominant source of earnings for the country. According to Nzotta (2004), during the era of commodity board, involvement in the export trade, banks provided bridging finance to licensed buyers of commodities meant for export. However, following the deregulation in the Nigerian economy, banks are presently involved in export finance in the following areas; advising on modes of payment for exports, identification of eligible non-oil export products, technical services and the identification of viable foreign markets, etc. As well as short-term financing of all aspects on non-oil export including storage, packaging, handling, transportation and delivery to the ultimate buyer, providing status reports for the exports and enhancing the quality of documentation of the export trade (Nzotta, 2004).

THE PROBLEM AND STUDY OBJECTIVES

Banks in modern societies operate generally in a very complex and changing environment. Since they constitute an important facet of the national and even international economic system, their operations influence and are influenced by the environment in which they operate.

In spite of increased education, awareness, public enlightenment of the banking sector in assisting exports, there is still a big gap between the exporters and loan facilitators in accessing the loan and disbursing the funds respectively. The reason for this problem is actually emanating from both sides. On the exporter's side, some of them are not aware of such facility, while some have difficulty in passing the rigid test to qualify for loans even if they are fully capable of complying with the terms of their export contracts. Some lack relevant collateral for such loans. On the facilitators' side, the inability to grant every prospective beneficiary a loan because of the increase in the number of prospective borrower and fear of lack of security over the fund disbursed.

Hence, this has led to the need to carry out a study with a view to bridging the gap between exporters and loan facilitators.

The broad objective of this study is to assess the level of bank lending, and also the growth of exports in Nigeria from 1980 to 2013. The specific objectives of the study are in two parts:

1. To examine the impact of loans and advances on the growth of non-oil exports in Nigeria
2. To determine the impact of lending rate on the growth of non-oil exports in Nigeria

RESEARCH QUESTIONS AND HYPOTHESIS

These questions are formulated in line with the objectives of the study.

1. Do loans and advances have any impact on the growth of non-oil exports in Nigeria?
2. Does lending rate have any impact on the growth of non-oil exports in Nigeria?

The following hypotheses are formulated to ascertain the objectives set above.

Ho: There is no significant relationship between loans and advances and growth of non-oil exports in Nigeria.

Ho: There is no significant relationship between lending rate and growth of non-oil exports in Nigeria.

SIGNIFICANCE OF THE STUDY

This research work will be useful to varying group of persons. It will be relevant to the government and the monetary authority as it will enable them know necessary policies to make that will enhance non-oil export.

Secondly, this study will be beneficial to exporters because it will help them know how to get the necessary credit to enhance their exporting activities.

Lastly, this study will benefit the larger society as well as it forms the basis upon which further research can be actuated.

THEORETICAL FRAMEWORK

Loan pricing theory

Banks cannot always set high interest rates. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship. If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates (Chodecai, 2004). Khat and Bathia (1993) used a non-parametric method in his study of the relationship between interest rates and other macro-economic variables, including savings and investment.

Endogenous growth theory

The application of the endogenous growth theory emerged properly from the work of Moosa (2002), even though one of the pioneering authors in its original contribution is the work of Barro (1990). Barro made use of the endogenous growth model to find linkage between public revenues/spending and economic growth, which is to be linked with the relationship that exist between non-oil export and economic growth in Nigeria. Idowu (2005), in a casualty approach examines exports and economic growth in Nigeria, using Johansen's multi-variate co-integration technique. The result shows that there is stationary relationship between exports and Gross Domestic Product (GDP). There is feedback causality between exports and economic growth.

The liquidity management theory

This theory posits that a bank's liability position should be increased in other to commercially increase its assets position (Okereke, 2003). Felicia (2011) used regression analysis to investigate the determinants of commercial banks' lending behavior in Nigeria. The study discovered that commercial banks deposits have the greatest impacts on their lending behavior.

The level of financial development influences the pattern of international trade flows (Beck, 2002). Kletzer and Bardhan (1987) compliment the Hecksher-Ohlin (1933) trade model by incorporating a financial sector and show that financial sector development especially the banking sector development gives countries a comparative advantage in industries that rely more on external financing. Therefore, finance is very important in boosting non-oil trade. Experts on exports like Bernard and Jensen (2005) opined that exporting firms are consistently larger, more productive, and more capital intensive, which clearly indicate the high need for finance in the sector.

EMPIRICAL REVIEW

The export sector serves as an outlet for commodities manufactured domestically from constituent sectors of the country's economy. In Nigeria, the domestic sectors are categorized as oil and non-oil sectors. The non-oil sector of the Nigerian economy is the whole of the economy less oil and gas sub-sector. It covers agriculture, industry, solid minerals and the services sub-sector, including transport, communication, distributive trade, financial services, etc. Exports are the goods and services produced in one county and sold to earn foreign exchange, which can be used to purchase goods and services from another country (Daisi, 2011).

The Nigerian non-oil exports sector is structured into four broad constituents which are the agricultural exports, manufactured exports and solid mineral exports and services exports. (CBN and NEXIM, 1999; Usman, 2009; Adewuyi, 2005; Akeem, 2008).

Lending practices in the world could be traced to the period of industrial revolution, which increased the pace of commercial and production activities thereby bringing about the need for large capital outlays for projects. Many captains of industry at this period were unable to meet up with the sudden upturn in the financial requirements and therefore turned to banks for assistance (Ezirim, 2005).

For banks to balance their main objectives of liquidity, profitability and solvency, lending must be handled effectively and the banks must behave in a way that their potential customers are attracted and retained (Felicia, 2011).

CONTRIBUTIONS OF BANKS TO THE GROWTH OF NON-OIL EXPORTS IN NIGERIA

Banks over the years have been in the forefront in providing short, medium and long term funds for export operation for its numerous clients. Without financial support provided by banks, the wheels of export cannot move. (Sama'illa, 2013).

Banks contribute to the growth of non-oil exports in granting agricultural loans, and export finance through pre-shipment export and post-shipment financing (Nkini, 2005; Aworemi, Oyedekun, Odeyemi, 2011, Ezeudu, 2014)

However, banks are conscious of the following risks that are associated with bank lending to export or export finance;

1. Credit or default risk (Theodore, 2004).
2. Investment risk (Ningi, 2013).
3. Exchange rate fluctuation risk (Nkini, 2005; Aworemi, Oyedekun and Odeyemi, 2011)
4. Liquidity risk

CONTRIBUTIONS OF NON-OIL EXPORTS TO ECONOMIC GROWTH

Non-oil export has a great role and potential for boosting export earnings as well as providing the needed structure. Thus, if effectively and adequately promoted, they can contribute immensely to meeting the present deficiency in the supply of foreign exchange in the country (Ezeudu, 2014).

Opera (2010) said that exports are the bed-rock of any economic development which is meaningfully centered on non-oil export in most countries of the world. He also said that promoting non-oil exports product will bring about a reduction of the nation's level of dependence on crude oil or what he describes as "mono-cultural foreign trade product".

Proponents of this increased proportion of non-oil export argue that the non-oil trade has great potentials to propel Nigerian economy to the desired growth and development. For instance, Onwuala (2012) maintains that the value chain approach to agriculture has the potentials to open up the economy and generate various activities which are capable of creating jobs and enhancing industrialization and thus makes the non-oil sub-sector to hold the aces for future Nigerian sustainable growth.

Available evidence points to noticeable increase in the contributions of non-oil sector to the growth of the Nigerian economy over the last ten years (Soludo, 2007; Olayiwola and Okodua, 2010). Specifically, the Central Bank of Nigeria has attributed the growth in Nigeria's Gross Domestic Product (GDP) from 6.9percent in third quarter to 7.1 percent in the fourth quarter of the same year to increase in the contribution of the non-oil sectors, particularly the industrial sector (NBS, 2012). In its report titled "Economic Report Fourth-Quarter 2012", CBN submits that non-oil receipts stood at N589.98billion (24.4 percent of the total).

Non-oil exports have direct and major linkages with other sectors of the economy thus expansion in non-oil exports has the greatest potential of stimulating general economic growth and production, increase domestic demand and improve capacity utilization in industries. It also creates employment thereby reducing unemployment problems in the country. The standard of living of people in the exporting country will improve or be better (Opara, 2010).

According to Abou-Strait (2005), export is a catalyst necessary for the overall development of an economy. Earnings from export will reduce the strains on balance of payment position and even improve it. A rewarding export drive can turn a hitherto undeveloped economy into a prosperous economy. Export help in increasing the level of aggregate economic activities through its multipliers effects on the level of national income. Income earned through exporting will help in increasing the level of demand within the economy (Usman and Salami, 2008).

PROBLEMS OF NON-OIL EXPORTS GROWTH IN NIGERIA

Access to banks financial services for non-oil exporters is one of the major problems stifling the growth of the sector in Nigeria because of high interest rates and little disbursement in terms of volume of credit (Sanusi, 2010a and 2010b). In Nigeria, very insignificant portion of non-oil exports was financed by bank credit. Export from Nigeria is largely crude oil which is funded from outside the country (CBN, 2006). According to Odularu (2008), high cost of finance does not allow non-oil exporting industries to modernize outdated plants and machineries in Nigeria, which results in poor quality goods for non-oil exports.

According to Lawal (2009), most Nigerian banks were only interested in granting loans to facilitate importation rather than exportation. The high interest rate charged by some of the banks in Nigeria makes producers and exporters not being able to compete favorably with counterparts in other African countries like Ghana. As a result of the adverse effect of the above factors, the non-oil exports dwindled.

Onwualu (2009), identifies key impediments to the growth of the non-oil sector as follows; weak infrastructure, supply side constraints due to low level of technology. This constraint is particularly prominent in the agricultural sector. Moreover, farming in Nigeria is well-nigh-rain-fed, lacking power water irrigation. The manufacturing and industry segment seriously groans under high taxes and multiple taxes.

METHODOLOGY

Maidana (2006) sees research design as the method of proof that allows the researcher to draw inferences concerning causal relationship among variables under investigation. Furthermore, Ader, Mellenbergh and Hand (2008) opines research design is the framework that has been created to seek answers to research questions.

The data used in this study was collected mainly from secondary sources which includes; journals, newspapers, internet, textbooks, Central Bank of Nigeria Statistical Bulletin. These data are promptly collected and tabulated so as to facilitate the test of the relationship between the variables represented by the data.

The study employed the desk survey gathering data from statistical bulletins of the Central Bank of Nigeria, relevant journals and textbooks.

TECHNIQUES OF DATA ANALYSIS

The technique involves the use of the Ordinary Least Square (OLS) method of statistical analysis which is based on the basic Gauss-Markov assumptions. This option was taken in order to establish the functional relationship between bank lending and growth of non –oil exports.

This study employed multiple regression to analyze the relationship between the dependent and independent variables.

MODEL SPECIFICATION

The objective of the study is to establish the relationship existing between bank lending and growth of exports. Based on this, the model below has been developed for the study.

NOX = f (LOADV, LR)

Where;

NOX = Non-oil export

LOADV = Loans and advances
LR = Lending rate
NOX = $b_0 + b_1$ LOADV $+ b_2$ LR $+ e$

Where;
NOX = Dependent variable
LOADV, LR = Independent variables
b0 = Regression constant
$b_1 - b_2$ = Regression parameters
e = Stochastic error term

DATA PRESENTATION

Table 1

The presentation of data on Nigeria's macroeconomic indicators (1980 - 2013)

YEAR	NOX	LOANS AND ADVANCES TO NON-OIL EXPORTS PRODUCTION (₦m)	LENDING RATE (%)
1980	0.343	35.9	10.00
1981	0.343	35.9	10.00
1982	0.203	35.9	11.50
1983	0.301	44.2	13.00
1984	0.247	58.2	11.75
1985	0.497	114.9	12.00
1986	0.552	373.6	19.20
1987	2.152	492.8	17.60
1988	2.757	659.9	24.60
1989	2.954	3,721.1	27.70
1990	3.26	4,730.8	20.80
1991	4.677	5,962.1	31.20
1992	4.228	1,895.3	36.09
1993	4.991	10,910.4	21.00
1994	5.349	1,602.2	20.79
1995	23,096	8,659.3	20.32
1996	23,328	8,659.3	23.32
1997	29,163	4,411.2	21.34
1998	34,07	11,158.6	27.19
1999	19,483	11,852.7	21.55
2000	24,823	7,498.1	21.34
2001	28,009	11,150.3	30.19
2002	94,732	12,341	22.88
2003	94,776	8,942.2	20.82
2004	113,309	11,251.9	19.49
2005	105,956	34,118.5	18.70
2006	133,595	16,105.5	18.36
2007	199,258	24,274.6	18.70
2008	252,904	27,263.5	22.62

2009	296,696	46,521,478	22.51
2010	406,222	15,590,.5	22.42
2011	499,451	16,980.303	23.79
2012	476,111	22,579.97	24.65
2013	708,872	739,923.34	24.69

Source: Central Bank Statistical Bulletin 2013

ANALYSIS OF DATA

Table 2: The regression results of bank lending in Nigeria and the growth of exports (Non-oil) 1980 - 2013

Regression results
Dependent variable: NOX

VARIABLE	COEFFICIENT	STD ERROR	T-STAT	PROB.
C	106.2961	66.90621	1.588733	0.1226
LLOADV	3.182954	0.986362	3.226962*	0.0030
LLR	0.073836	0.188893	0.390887	0.6986

R^2 = 0.975437
R^2 (adj) = 0.924538
SER = 7.080828
F – Statistics = 3.137135
DW = 1.799385
*Significant at 1% level

The coefficient of multiple determination (R^2) is 0.975437 and an adjusted R^2 of 0.924538. The later indicates that 92 percent of variations in the observed behavior of non- oil export is jointly explained by the independent variable namely loans and advances and lending rate. This shows that the model fits the data well and has a tight fit. Also, the f – statistic is used to test for the significance of such good or tight fit. The model reports on effectively high f – statistic value of 3.137135 which when compared with the table value. This indicates that the high adjusted R^2 value is better than would have occurred by chance, therefore, the model is statistically robust.

Using this criterion, therefore loans and advances is significant at 1% level. Specifically, a 1% increase in LOADV (3.18 percent) and LR (0.07 percent) will pop up the economy more than proportionate percentage point. The constant term indicates that if all variables held constant, the economy will be improved by 106.29. The DW statistic is 1.799, the du = 1.65, 4 – du = 2.35, d1 = 1.27, 4 – dl = 2.73 at 5%.

The decision rule is that if the calculated DW falls within dv and 4 – du (1.67 and 2.35) then there is no serial correlation in the residuals. This shows that our calculated DW = 1.799 falls within and this indicates that the model is predicted and reliable. The goodness of fit of the model as indicated by the adjusted R- square shows a good fit of the model and the model fits the data well.

For the overall significant of the model, the ANOVA in the f – statistic is used. Hence, the model did not occur by chance, it actually confirms that the model fits the data well. The apriori expectations about the signs of the parameter estimates are confirmation to economic theory.

TEST OF HYPOTHESES

In order to test stated hypotheses, the following decision rule is presented.

Decision Rule

The decision rule is to reject the null hypotheses if the t – calculated is > t – table, and accept the null hypothesis if the t – calculated < t – table.

Hypothesis 1

Results
t – calculated for LOADV = 3.2269
t – critical at 31 df 0.01 = 2.750

Based on these results and our decision rule, the null hypothesis is rejected and alternative hypothesis is upheld and concluded that there is a significant relationship between loans and advances and non- oil exports.

Hypothesis 2

Results
t – calculated for lending rate = 0.3980887
t – critical at 31 = 2.457

Based on these results and our decision rule, the null hypothesis is upheld while alternate is rejected. It is concluded that there is no significant relationship between lending rate and non- oil export.

DISCUSSION OF FINDINGS

The study portrays bank lending in Nigeria and the growth of exports (1980 – 2013). From the results of hypotheses as stated above, loans and advances had a significant impact on the non-oil export development. This means that the effectiveness of lending is dependent on the ability of commercial banks to use this as a strategy to fine tune the performance of export in Nigeria.

Lending rate had a positive impact on the performance of export and it contributed positively to the growth and development of non-oil sector.

Given the empirical results of the model, the study revealed that loans and advances and lending rate contributed positively to the growth of non- oil export. Moreso, these results are in conformity with economic theory which states that a rise in an independent variable leads to a rise in the dependent variable.

SUMMARY OF FINDINGS

Based on the foregone, it can be surmised that there is a significant relationship between loans and advances and non- oil exports and though lending rate had a positive impact on the performance of exports, there was no significant relationship between it and non- oil export. Furthermore, it was observed that loans and advances affected the performance of non- oil export but bank lending rate as a policy variable led to the growth of non- oil export.

CONCLUSION

Bank financing is important in contributing to the growth of non-oil exports in Nigeria. The cost of bank finance and the banks attitude to risk in financing non-oil exports negatively affects non-oil export in Nigeria, by reducing its volume, quality of product and earnings. The banks should reduce rates of interest charged for credit extended to non-oil export which negatively affect non-oil exports. Banks should supply foreign currency for non-oil exports at a favorable rate to boost the sector. The CBN and NEXIM should create a window that can guarantee cheap access to foreign funds for exporters through the deposit money banks. Export credit insurance service of the NEXIM bank should be improved to encourage the banks in extending credit to non-oil export.

From the analysis, non-oil exports on the whole have performed below expectations thereby questioning the efficiency of the export promotion strategies and confirming the fact that the Nigerian economy is far from being diversified away from crude oil exports.

From this study, the slow growth of the non- oil export sector is as a result of the lending process of banks in Nigeria, as a result of their high lending rates. A decrease in the accumulation of loanable funds is likely to exert an upward pressure on lending rates just as a reverse situation would tend to have a moderating effect.

RECOMMENDATIONS/ IMPLICATIONS

This study has brought to fore certain lapses and factors that have hindered the growth of non-oil export in Nigeria. In view of the obvious shortfalls identified in this study, the following suggestions and recommendation are made;

1. There should be a reduction in the lending rates of banks in order to enhance the rapid growth of the non- oil exports sector in Nigeria.
2. Upgrading basic infrastructure: bringing up to date the state of basic public infrastructure will make the operating business environment suitable and conductive for firms and businesses engaged in production of non- oil merchandise.
3. Diversification of markets: most of the non- oil exports are directly to exports markets in the United States and the western Europeans. Efforts should be made to explore markets in other areas in the world.
4. More efforts should be made to expand the agricultural sector of the economy for proper diversification of the economy.
5. Cost of bank finance to non-oil exports is generally high and has direct negative effect of oppressing the sector's performance. NEPC should establish a rapport with Nigerian Export-Import Bank (NEXIM) and the commercial banks to facilitate SMEs access to credit at low cost and to introduce subsidized credit to non-oil exporters with a view to encouraging existing and potential exporters from entering into export business.
6. There should be promotion of a stable political and macroeconomic environment that encourages exportation, particularly of non-oil commodities.
7. Monitoring of policy implementation: consistent, regularized and effective monitoring of policies and performance of agencies charged with the responsibility of aiding the growth of the non- oil sectors of the economy. Instituted policies and planning should be reconciled with implementation and performance coupled with regular analysis of each sector of the economy.

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IMPACT OF FISCAL POLICY ON THE PERFORMANCE OF THE NIGERIAN STOCK EXCHANGE (1980 - 2012)

MR. EYO EYO[1]

ABSTRACT

The study empirically examined the impact of fiscal policy on the performance of the Nigeria stock exchange. The objectives were to determine the effect of government revenue, government expenditure, government borrowing on market capitalization (proxy for Nigeria stock exchange performance). Employing the ordinary least square of multiple regression technique on data derived from the Central Bank of Nigeria (CBN) statistical bulletin to establish the relationship between fiscal policy indicators and stock market performance, it was discovered that government revenue and government expenditure had a significant impact on market capitalization in Nigeria. Furthermore, the study showed that government borrowing had no impact on the performance of Nigeria stock exchange. The study recommended that fiscal policy should give priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development. This in turn would foster more investments in the stock market and in turn economic growth as the stock market is a barometer of economic performance.

Key Words: fiscal policy, stock market, economic growth

INTRODUCTION

The stock market is very important in any economy because it acts as a transmission mechanism that facilitates the mobilization and channeling of savings to individual and institutional investors. This is basically the transfer of surplus from economic units to deficit units, and ensures the effective and efficient allocation of scarce financial resources and creates an avenue for investors to participate in the economy.

Agarwal (1997) and Akpan (1998) posits that the stock exchange is a market where those who wish to buy and sell shares, stocks, government to bonds, debentures and other securities can do so only through its members (stock brokers). The impact of the stock market on the economy as a whole comes primarily through two channels. The first channel is that movements in stock prices influences aggregate consumption through the wealth channel. While the second channel is when stock price movements affect the cost of financing business.

The Nigerian stock exchange has been growing steadily prior to the global recession as in 2006, the growth rate of the Nigerian stock exchange (NSE) all share index (ASI) in Nigeria was seen at 73.56% and this made it one of the most performing stock exchanges in Africa (CBN, 2012)

Positive effects of fiscal policy on economic activity and how its emergence as one of the most important instruments for economic policy has been observed in several countries (Ezirim, Muoghalu, Elike and Amuzie, 2010) and the effects it has on financial assets cannot be overemphasized. Various governments during the recent past recession intervened in stabilizing their economy and their actions has been seen to be a vital instrument for macroeconomic management and a rewarding stabilizing factor.

The problem/ objectives

It was noticed in the Nigerian economy prior to the recession that the Nigerian stock market was one of the most performing financial markets in the country, but during the recession as expected the

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market performance dropped sharply. Several efforts by government was taken with the use of several instruments to stabilize the economy as done by other counties but the performance of the Nigerian stock market is still not at its optimal level despite several reforms.

Further, empirical studies as to how fiscal policy and the stock market interacts is sparse and poses a challenge to Nigeria as a developing economy and considering the importance of the stock market in any economy. Thus, the study has as its objective to investigate pivotal activities of the Nigerian government by:

evaluating and determining the effect and impact of government's revenues, expenditure and borrowing, respectively on market capitalization.

To go around the objective, the question, if fiscal policy and stock market have any impact on the growth of the Nigeria economy will be entertained.

The following hypotheses are formulated to ascertain the objectives set above.

Ho_1: There is no significant relationship between government revenue, and market capitalization;

Ho_2: There is no significant relationship between government expenditure and market capitalization;

Ho_3: There is no significant relationship between government revenue, and market capitalizations

This study will focus on the impact of fiscal policy on the performance of the Nigerian stock exchange covering a period from 1980 to 2012. This study also focuses on the Nigerian stock market due to the recent swings witnessed in the performance of the stock market after the recession which has led to loss of income for investors.

Theoretical framework

Fiscal policy is undoubtedly one of the most important tools used by government to achieve macroeconomic stability of most developing countries like Nigeria (Babalola and Adegbite, 2001). Therefore, the attempt to evaluate the impact of fiscal policy on the performance of the Nigerian stock exchange dates back to years of long researches by prominent economists like Blanchard (1981), Shah (1984), Razin (1987), Afonso and Sousa (2011) and Hsing (2013).

Keynesian theory

Fiscal policy is based on the theories of British economist "John Maynard Keynes." Also known as "Keynesian economics," this theory basically states that government can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence in turn, curbs inflation, increases employment and maintains a healthy value of money making (Laopodis, 2010).

Classical theory

It holds that cyclical swings in employment and economic output would be modest and self- adjusting. The theory holds that if aggregate demand in the economy fell, the resulting weakness in production and jobs would precipitate a decline in prices and wages would induce employers to make capital investments and employ more people, stimulating employment and restoring economic growth. The depth and severity of the great depression however severely tested this hypothesis (Babusidze, 2004).

The Laffer Curve

This argues that as tax rates rises, total tax revenue grows at first but at a diminishing rate. The laffer curve has been used as a justification for cutting taxes on income and wealth the argument being that improved incentives to work and create wealth will broaden the base of tax paying businesses and individuals and also reduce the incentive to avoid and evade paying tax (Razin, 1987).

In all the theories, the Keynesian theory is more preferable because it looks or considers the state of an economy as a whole, it stabilizes the economy and influences macroeconomic productivity which concerns the capital market that has to do with the stock exchange.

Conceptualizing fiscal policy

The term fiscal policy has conventionally been associated with the use of taxation and public expenditure to influence the level of economic activities. The implementation of fiscal policy is essentially routed through government's budget. The budget is therefore more than a plan to administering the government sector. It (budget both reflects and shapes a country's economic life. In fact, the most important aspect of a public budget is it's use as a tool in the management of a nations' economy (Akpan, 1998).

Fiscal policy deals with government deliberate actions in spending and levying of taxes with a view to influencing macro-economic variables in a desired direction. This includes sustainable economic growth, high employment creation and low inflation (Darrat, 1988). Thus fiscal policy aims at stabilizing the economy, increases government spending or reducing taxes to pull the economy out of a recession, while reduces spending or increases taxes to slowdown a boom (Dornbusch and Fischer, 1990) and Maysami (2000).

Fiscal policy involves the use of government spending, taxation and borrowing to influence the pattern of economic activities and also the level and growth of aggregate demand, output and employment. Fiscal policy entails governments management of the economy through the manipulation of its income and spending power to achieve certain desired objectives amongst which is economic growth (Laopodis, 2009) and (Medee and Nembee, 2011). In countries with shallow financial systems. Monetary policy is the reverse side of the coin of fiscal policy and can only play an accommodative role. In such low income countries, government securities markets are underdeveloped and central banks do not hold sufficient amounts of tangible securities and the central bank's lack of suitable and adequate instruments of control constitutes one of the factors that induce fiscal dominance. Where fiscal dominance applies, the country's economic policy is only as good as its fiscal policy and institutionalized central bank independence may not necessarily bring about an independent monetary and fiscal policy (Oyejide, 2003).

Fiscal policy and economic growth

Fiscal policy is the use of government spending and taxation to influence the economy. Government typically uses fiscal policy to promote strong and sustainable growth and reduce poverty. The prominence of fiscal policy as a policy tool has waxed and waned. Before 1930, and approach of limited government or lasses-faire prevailed with the stock market crash and the great depression, policymakers pushed for governments to play a more proactive role in the economy (Laopodis, 2010).

When policy makers seek to influence the economy, they have two main tools at their disposal "monetary policy and fiscal policy". Government influence the economy by changing the level and types of taxes, the extent and composition of spending and the degree and form of borrowing (Anyanwu, 1997).

Fiscal policy that increases aggregate demand directly through an increase in government spending is typically called "expansionary or loose". By contrast, fiscal policy is often considered" contractionary of tight" if it reduces demand via lower spending. Besides providing goods and services like public safety or primary education, fiscal policy's objectives in the economy vary. In the short term, government may focus on macro-economic stabilization for example expanding spending or cutting taxes to stimulate an ailing economy or slashing spending or raising taxes to combat rising inflation or to help reduce external vulnerabilities.

In the long term, the aim may be to foster sustainable growth or reduce poverty with actions on the supply side to improve infrastructure or education. Policy makers might aim to better align fiscal policy with broader macroeconomic development by moderating pro-cyclical spending.

Empirical Review

In recent years, people have become aware of fiscal policy and its impact on the economy also its performance. By practicing fiscal policy, the government decides on how much to spend, what to spend, where to spend, what to spend for and how to finance its spending (Tavares and Valkanov, 2011). Levine (1991) describes fiscal policy as a change in federal taxes and purchases that are intended to achieve macroeconomics policy objectives.

In Malaysia, income tax is the major tax revenue used to improve the growth prospect of the country, Malaysia has been experiencing fiscal deficit over the years which has affected its aggregate demand, government capital formation and labour incentives. Thus only fiscal tools can be used to spur its economic growth by increasing government expenditure or cutting taxes (Maysami, 2000).

Erdem and Erdem (2008) infer that in Turkey, taxation policy has direct and obvious impact on stock markets. In 2000 and 2007 taxation revenue where very high when stock markets peaked, tax ration were fairly low but the overall weighting in fiscal revenue was not high. In china, the stock market is generally recognized as a money making tool by speculative investors.

In Kenya's stock market performance, Olweny and Kimani (2011) used a time series data spanning from 1996 to 2010 to reveal that inflation has a negative effect on the stock market hence, the stock market is not a perfect hedge against inflation. This was done employing a causality test approach.

From the foregoing, the understanding that the interaction between fiscal policy and stock market is an important activity that should be assessed in an economy is surmised. This is in line with the theoretical submission of the Keynesian economics that a policy mix of fiscal policy and monetary policy is best in achieving macro- economic objectives.

Methodology

Using both exploratory and descriptive designs for this study covering the period from 1980-2012 thus, data were obtained from sources such as the Central Bank of Nigeria statistical bulletin, articles, publications, and economic journals employing the desk survey method of data collection.

The ordinary least squares (OLS) regression analysis as it exhibits the characteristics of the best linear unbiased estimator. It was also expected to have a minimum variance. The choice of this estimation procedure is considered suitable, because of its advantages over other estimation methods besides this technique of analysis satisfy the Gauss – Markov least squares criterion (Wonnacott and Wonnacot, 1970).

The secondary data will be processed using E-view for windows econometric packages. The E-view is preferred because it enables us to correct the serial correlation in the data.

Model Specification

In an attempt to measure the phenomenon to be analyzed, we specify a model that captures the relationship between market capitalization and various expressions of fiscal policies:
Algebraically,

$$\text{MKT CAP} = f(\text{GOVR, GOVEX, GOVB})$$

Economically,

$$\text{Mkt cap} = bo + b_1 \text{ GOVR} + b_2 \text{ GOVEX} + b_3 + e$$

Where:

Mkt cap = Market Capitalization

GOVR = Government Revenue
GOVEX = Government Expenditure
GOVB = Government Borrowing
bo = Intercept
b_1 - b_3 are the regression coefficients,
e = Error term

DATA PRESENTATION: PRESENTATION OF NIGERIA'S MACROECONOMIC DATA ON FISCAL POLICY

YEAR	MKT CAP	GOVREV	GOVEXP	GOVB
1980	4.9	15,233.5	10,163.4	8,231.5
1981	5.0	13,290.5	6,567.0	11,195.5
1982	5.0	11,433.7	6,417.2	15,010.5
1983	5.7	10,508.7	4,885.7	2,224.3
1984	5.5	11,253.3	4,100.1	25,675.0
1985	6.6	15,050.4	5,464.7	27,952.0
1986	6.8	16,223.7	12,595.8	28,438.7
1987	8.2	22,018.7	25,380.6	36,789.1
1988	10	27,749.5	27,596.7	47,029.6
1989	12.8	41,028.3	53,870.4	47,049.6
1990	16.3	60,268.2	98,102.4	84,093.1
1991	23.1	66,584.4	100,991.6	116,193.7
1992	31.2	92,797.4	190,453.2	177,961.7
1993	47.5	1,91228.9	192,769.4	273,836.4
1994	66.3	1,60893.2	201,910.8	407,582.7
1995	180.4	2,48768.1	459,987.3	477,733.9
1996	285.8	3,37217.6	523,597	419,975.6
1997	281.9	4,28215.2	582,811.1	509,751.2
1998	262.6	4,87113.4	463,608.8	560,830.2
1999	300	947,690	949,187.9	794,806.6
2000	472.3	701,059.4	1,906160	898,253.9
2001	662.5	1,018026	2,231600	1,016,974
2002	764.9	1,018156	1,731838	1,166,001
2003	1,359.3	1,225966	2,575096	1,257,120
2004	2,112.5	1,426200	3,920500	1,297,765
2005	2,900.1	1,822100	5,547500	1,275,077
2006	5,121	1,938003	5,965102	2,082,007
2007	13,294.6	2,450897	5,715600	2,941,813
2008	9,563	3,240820	7,866590	2,320,310
2009	7,030.8	3,452991	4,844592	3,228,030
2010	9,918.2	4,194218	7,803672	4,501,822
2011	9,672.6	3,823605	6,074132	3,889,926
2012	9,795.4	4,008911	6,688902	4,220,874

SOURCE: CBN STATISTICAL BULLETIN, 2012

ANALYSIS OF DATA

The regression result on the impact of fiscal policy on the performance of the Nigerian stock exchange (1980-2012)

Table 4.2 (Regression Results)
Dependent variable LMKT CAP

VARIABLE	COEFFICIENT	STD ERROR	E-START	PROBABILITY
C	3.884712	1.741727	2.230380**	0.0414
GOVREV	0.790327	0.184500	4.283621*	0.0007
GOVEXP	0.901935	0.312836	2.883091*	0.0103
GOVB	0.039413	0.032569	-1.210106	0.2450

R^2 0.960655
R^2 ad,) = 0.944917
SER = 0.346492
DW = 1.954803
F-STAT = 61.04096

Significant at 1% level, *** significant at 5% level.

The regression result would be analyzed using economic a priori criteria, statistical criteria and Economic criteria.

Economic A Priori

The regression shows that the statement is significant as expected government Revenue is a significant coefficient. This conform to economic theory, it indicates that an increase in revenue by one percent leads to 0.790327 percent increase in market capitalization.

The next policy variable, government expenditure also revealed a positive coefficient. Hence the result suggests that one percent rise in government expenditure (GOVEXP) leads to 0.901935 percent increase in mkt cap.

Government borrowing GOVB) came out with negative coefficient. As such a one percent rise in government borrowing generates a decrease in mkt cap by (-0.039413). As expected a lot of activities takes place in fiscal policy. This could be seen in the data presented in table 4.1 where government borrowing increased from 8,231 in 1980 to 4,220,874 in 2012, for example.

Statistical criteria

From the estimated equation, t-value calculated using two tailed test) shows that government Revenue and government expenditure are statistically significant at one percent level of significant, the t-value statistic for government borrowing is statistically not significant.

The ($R^2 = 0.960655$) is very good and the Adjusted ($R^2 = 0.944917$) is also very good. It implies that 94% of their total systematic variation in the model is explained by the explanatory variables, this means that the model is good. As an addendum, an increase in all the explanatory variables will increase market capitalization (ceteris paribus).

The F-statistic 61.04096) is a good fit at one percent level. This conforms that the model has high predictive power.

The calculated f-statistic of 61.04096 is higher than the table value. It is concluded that the entire model is significant.

Economic Criteria

From the results the D.W statistics (1.954803) shows that there is positive autocorrelation among variables entered in the model.

Test of hypotheses

In order to test the already stated hypotheses in Calabar one, we specify the following decision rule.

Decision Rule

The decision rule is to reject the null hypotheses if the t-calculated is > t- table

Hypothesis 1 **33-4**

Results 29

t - Calculated for GOVREV = 4.283621

t - Critical at 29 df 0.01 = 2.756

Based on these results and decision rule, alternate hypothesis is upheld. It is concluded that there is a significant relationship between government revenue and market capitalization.

Hypothesis 2

Results

t - Calculated for GOVEXP = 2.883091

t - Critical at 29 df 0.01 = 2.756

Based on these results and decision rule, the null hypothesis is rejected and the alternate hypothesis is upheld. It is concluded that there is a significant relationship between government expenditure and market capitalization.

Hypothesis 3

Results

t - Calculated for GOVB = 1.210106

t - Critical at 29 df = 2.462

Based on these results and decision rule, the null hypothesis is upheld and the alternate hypothesis is rejected. It is concluded that there is no significant relationship between government borrowing and market capitalization.

DISCUSSION OF FINDINGS

Based on the analysis of the results, it is shown that government revenue, expenditure and government borrowing were incorporated into the model to ascertain how these pivotal activities of the Nigerian government representing fiscal policy affect the stock market in Nigeria.

The findings showed that government revenue had a significant relationship on market capitalization. Government revenue variable led to the growth and development of capital market. Furthermore, Government was a determinant of growth and one percent increase on government revenue led to an increase in market capitalization, all things being equal.

Also shown that government expenditure had a positive impact on the growth and development of the market. Government spending affected the performance of stock market which implies that government expenditure positively affected the development stock market in the period under study.

Government Borrowing had a negative effect on the growth and development of stock market. This result conforms to economic theory which states that a decrease in an explanatory lead to a decrease in dependent variable. Also, an increase in an explanatory lead to a rise in dependent variable.

Based on the analysis, the findings follow that a significant relationship exist between government revenue, government expenditure and market capitalization. However, no significant relationship exists between government borrowing and stock market performance.

CONCLUSION

This study was a theoretical investigation on the impact of fiscal policy on the performance of the Nigerian stock exchange. The achievements of the objectives of a stock market through the Nigerian Stock Exchange through fiscal policy of borrowing in Nigeria is a mirage.

The empirical results show that market capitalization and all its components representing the performance of the Nigerian Stock Exchange are related to fiscal policy of government revenue and

expenditure but not related to government borrowing. To this end, the stock market which has been noted as occupying a prominent place in Nigeria's economic development needs to be affected by the total component of fiscal policy as a tool in general economic management.

RECOMMENDATIONS

In view of the above findings, the following recommendations were made;

1. Fiscal policy should give priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development.
2. Government fiscal policy should refocus and redirect government expenditure towards production of goods and services so as to enhance economic growth.
3. The government should ensure that policy inconsistency is minimized and policy reversals are properly checked for both short and long run effects and economy.
4. There is a need to take the stock market window to more town and cities in Nigeria for greater width and enhanced growth.
5. The stock market should be the forefront of ensuring financial integrity in order to minimize the potential effects of the risk of contagion as well as reduce systematic risk.
6. Borrowings ought to be strategic in order to affect the market positively and the ripple effect of this in the economy cannot be over emphasized.

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PUBLIC POLICY OBJECTIVES OF FINANCIAL MARKET REGULATION

MS. SOUNDARYA LAHARI VEDULA[1]

ABSTRACT

Financial market regulation is necessary for the active functioning of a market. A well regulated market can prevent market failures and protect the economy from the disastrous consequences of financial crises. This paper deals with the public policy objectives of financial market regulation. It is specifically restricted to capital markets. This paper discusses the meaning of public policy in the present context. Public policy in general is incapable of having a precise definition. In this context it would mean safeguarding the interest of investors and efficient allocation of capital. This paper details three broad objectives namely investor protection, minimizing systematic risk and maintaining market integrity. This paper presents examples of few regulators implementing measures on this line. Finally, this paper concludes that the present objectives are sufficient in terms of the targets they seek to achieve. However, a change has to brought at the execution stage so as to ensure an efficient functioning of the markets.

Keywords: Capital markets, Regulation, Public policy, Objectives

INTRODUCTION

"*You are right to be indignant. The fact is the system is not working right. [Our financial markets are] supposed to allocate capital, manage risks. But they misallocated capital, and they created risk. We are bearing the cost of their misdeeds. There's a system where we've socialized losses and privatized gains.*" (Occupy Wall Street: A Protest against a Broken Economic Compact, 2012) Financial market regulation is the driving force behind the vigorous functioning of a market. A well-regulated market can prevent market failures and protect the economy from the disastrous consequences of financial crises. Further, it can increase the rate of capital formation thus leading to economic growth. When regulation fails, it can lead to a virtual collapse of the entire financial sector and can cause devastating losses for the investors. This can result in loss of investor confidence and can hamper future investments. Thus financial regulation designed in the right direction is vital for an economy.

Financial regulators across the globe aspire to achieve a set of goals/objectives. Implementing these objectives vide a public policy approach is the topic of discussion of this paper. After the global financial crises of 2008 and the subsequent Eurozone sovereign debt crises, regulators have recognized the need to address public policy concerns namely investor protection and efficient allocation of capital so as to ensure a stable financial market. This paper extensively discusses the three broad public policy objectives of financial market regulation (focussing on capital markets) namely-protecting the investors, minimizing systematic risk and increasing market integrity.

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BACKGROUND

The conception of financial markets has transformed over a period of time. Today a financial market is defined as, "an economic space wherein operators of various kinds -- banks, financial intermediaries, mutual funds, insurance companies, pension funds -- offer financial instruments and services". (Okioga, 2013, p. 5)

Further, financial market regulation is defined as follows:

"laws and rules that govern what financial institutions such as banks, brokers and investment companies can do". (Definition of Financial Regulation, 2013)

Financial markets are usually regulated by the government. They can even be regulated by Independent organizations or can be self-regulated. Some examples of financial regulators are Securities and Exchange Board of India, United States Securities and Exchange Commission, Federal Financial Supervisory Authority (Germany) and so on.

Financial markets have to be regulated for diverse reasons. Non-regulation can make investors more susceptible to fraud and manipulation. Investors might not possess sufficient knowledge as to the possible risks present in the investments they are making. Thus the presence of a regulator is required to protect the investors by disseminating the requisite information. The recent global financial crises have aroused the need for financial market regulators to act as watch dogs for monitoring systematic risk. (Moshirian, 2011, p. 22) There is also possibility of market failures in the finance sector. (Stiglitz, 1989, p. 10) Such malfunctioning happens at the cost of development of the economy. Hence regulation is necessary to avoid such failures.

Thus overall financial markets have to be regulated to maintain a balanced financial market.

WHAT IS PUBLIC POLICY?

Before examining the public policy objectives of regulation, it is necessary to understand the meaning of public policy in this context.

Public policy has been defined in numerous ways such as:

The study of how societies learn (or fail to learn) about those problems they define as being public and how they seek to solve (or fail to solve) their problems. (Parsons, 2002, p. 7)

In Safeway Stores v. Retail Clerks Int'l Ass'n (1953) the court made the following observation:

Public policy is a vague expression, and few cases can arise in which its application may not be disputed.

Public policy is declared State objectives relating to the health, morals, and well-being of the citizenry. (Gulliksson, 2015, p. 1)

Thus public policy is not capable of having a precise definition as it depends on the individual facts and circumstances. In the present context public policy would mean safeguarding the interest of the investors and allocating capital as this is the essential purpose of regulation. Hence any step which is beneficial for the investors and which promotes an orderly system would be a public policy initiative.

WHY IS THERE A NEED FOR IMPLEMENTING PUBLIC POLICY OBJECTIVES?

Effective regulation of the market contributes to financial stability. Financial regulators are expected to encompass public policy objectives for the purpose of development of the financial sector. (*Objectives and forms of Government regulation of the Financial Market*, 2016)

There is a further need to implement public policy objectives in order to protect the investors. The duty of a regulatory body is to ensure that securities are appropriately traded and other

transactions are smoothly carried out. But the task of a regulator also extends to protecting the interests of investors by ensuring that they are not defrauded.

Moreover, it is a general perception that regulators have a duty to implement public policy objectives as this cannot be done by the markets themselves. Hence some form of official regulation is necessary to address legitimate public policy concerns.

Finally, the recent crises have shown that effective regulation keeping in mind public policy is required for a sound and stable financial system.

PUBLIC POLICY OBJECTIVES OF FINANCIAL MARKET

Public policy objectives vary according to the manner in which they have been defined by the regulators. For example, take the case of the United States Securities and Exchange Commission, which has noted that the broad public policy objectives for financial regulation are three fold namely-

- Protection of investors
- Ensuring market integrity
- Promoting price transparency (*What we do*, 2013)

The European Securities and Markets Authority has identified the following objectives:

- Investor protection
- Orderly markets
- Financial stability (*Who we are*, 2016)

Further independent organizations like IOSCO (International Organization of Securities Commissions) have prescribed their set of objectives namely-

- Investor Protection
- Fair, efficient and transparent markets
- Reduction of systematic risk (*Key Regulatory Standards*, 2016)

Thus overall the public policy objectives can be broadly classified as follows:
Protecting the investors and ensuring that every step taken by the regulator is beneficial for them, reducing the risks which the financial markets are susceptible to and increasing market integrity.

Investor Protection

Investor protection is crucial in every market set-up. Investors might not get the expected returns on their investments. They may be subject to exploitative practises. Hence it becomes necessary to protect them.
Protection of investors can take the following forms:

Disclosure of Information

In order to take a judicious financial step, sufficient knowledge about the functioning of the market is mandatory. There is always a possibility of information asymmetry which can lead to exploitation of investors. (Nier, 2009, p. 122) Investors are often not in a position to evaluate the value of their investments. (*Disclosure and Financial Market Regulation*, 2014) They cannot monitor the actions of decision makers in the firms. In case of any unwanted consequences, sellers justify it by citing uncertainty in the financial atmosphere. But the investors would be at a loss as they cannot assess the performance. So an investor has two problems. Firstly, traders have better

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knowledge than the investors and secondly when sellers disclose financial information they tend to inflate the situation. (Healy and Palepu, 2001, p. 4) This is often quoted as the “lemons problem” which can lead to disruption of the capital market. (Healy and Palepu, 2015, p. 3) It is more so like a “communication gap” between the investors and the insiders in a firm who wouldn’t entirely disclose the activities and decisions of their firm.

Hence most of the regulators have implemented statutes expressly requiring disclosure of information. For example, The U.S Securities and Exchange Commission mandates every public company to disclose relevant financial information to the general public. This enables the investors to make a rationale judgement with respect to purchase of securities. This can also pay way to a sound information disclosure regime. (*What we do*, 2013) This also enhances the rate of capital formation as it enables the investors to take informed decisions and assess the risk of investing in their capital.

Further *The Securities Act* (United States, 1933) mandates the registration of securities. The Act requires periodic disclosures to be made regarding business operations, financial condition amongst other things thus enabling the investor to be aware about where he is investing. It also mandates disclosures to be made by the financial intermediaries including circulation of investor education materials.

Likewise, the Securities and Exchange Board of India had promulgated *Disclosure and Investor protection guidelines* (2000) which prescribe eligibility norms for companies, disclosures to be made in the prospectus for Indian Depository Receipts and others.

Thus such staunch regulations can enable the investors to have sufficient knowledge regarding the financial market. It is the duty of the regulators to bring in place mechanisms to educate the investors about the financial situation in the market.

Prevention of Fraud and Misrepresentation

Investors are always exposed to fraudulent schemes and malpractices like rigging and insider trading. The final outcome of such activities is that investors are defrauded and suffer irreparable financial loses which is a set-back for the healthy functioning of capital markets.

In order to protect the investors, regulators seek to keep a strong check on major market participants as well as financial intermediaries. Only authorized persons are allowed to deal in securities. Also regulators seek to strongly monitor the market intermediaries. They set up minimum standards and guidelines to keep a check on the ongoing activities in the financial market. Thus an all-inclusive system of scrutiny, monitoring and control is sought to be followed.

Additionally, in many countries, there is a stringent enforcement of laws so as to protect the investors and uphold their claims in case of any fraud committed against their interest. In some cases, there is also an appropriate means of dispute resolution overseen by the financial regulator to do justice to the defrauded investors.

Protection of investors from fraud is the main agenda of many financial regulators. One such example is that of European Securities and Markets Authority. ESMA developed a myriad list of rules and guidelines for investor protection. It supervises and implements *Markets in Financial Instruments Directive* (2004), a principal legislation which controls a firm’s conduct towards the investors. The statute mandates information sharing, suitable product governance among others to curb duplicitous practices.

Additionally, *The Investor Compensation Scheme Directive* (Amended in 2010) of the European Commission lays down that the member states must compensate the investor in case of

any failure by an investment firm. There are also guidelines issued to combat insider training and market manipulation.

Similarly, protection of investors from fraud is the main objective of the Securities and Exchange Board of India. *The Disclosure and Investor Protection Guidelines* (2000) introduced widespread measures for protecting investors from fraudulent practises have been taken.

Transparency

A fair and transparent market is essential for the smooth functioning of the financial sector. It helps in maximizing liquidity. (OECD Working Party of the Trade Committee, 2000) It also enhances consumer confidence and instils faith in the functioning of the capital markets.

In light of the recent global crises, financial regulators have undertaken numerous measures to improve transparency. They believe that such a step would benefit the traders (by lowering the cost of capital) as well as the buyers.

Some examples of transparent regulations can be seen as follows:

The Financial Services Agency (Regulator of Japan) states that:

> "***The FSA is committed to achieving transparent and fair financial administration in every respect under clear rules based on market discipline and the principle of self-responsibility***". (*Statement by the Commissioner*, 2000)

After the financial crises, Japan made drastic changes in its regulatory policy. One of them is "improving the transparency and predictability of regulatory actions". (*Better Regulation, Improving the quality of financial regulation*, 2016) This is done by compiling and publishing inspection manuals and supervision guidelines which are published every year. Further the administrative actions are also required to be published thus improving transparency and predictability of actions.

In case of the United States, the Securities and Exchange Commission is committed towards the goal of securing a fair and transparent market which will enhance the rate of capital formation. (*U.S. Equity Market Structure: Making Our Markets Work Better for Investors*, 2015) The Office of Credit Ratings assists the Commission in carrying out these objectives. The OCR brings into public domain the state of transparency in the market by publishing annual reports so as to inform the investors. (*Office of Credit Ratings*, 2016)

In the year 2010, a significant legislation was brought into effect by President Barack Obama. This was the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (2010). The legislation modified the United States regulatory mechanism to a great extent by introducing several measures like corporate governance, disclosure and transparency.

Also one of the most important tools of the Securities and Exchange Commission is that it ensures disclosure of financial information and empowers accountability and transparency in capital markets. (*What lies ahead? SEC in 2016*, 2016)

Similarly, in case of the European Union, the European Securities and Markets Authority issued the Transparency Directive in 2004 which was subsequently amended in 2013. It aims at building a transparent regime for the investors through regular flow of information. It has also laid down specifications with respect to the annual and half-yearly financial reports. (*Transparency Directive*, 2013)

Thus regulators in most of the nations are taking substantial steps to achieve the objective of a transparent market.

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Minimizing Systematic Risk

Systematic risk means the possibility of collapse of the entire financial system. It does not affect an individual entity in particular but has a devastating impact on the market as a whole. Systematic risk has been defined in the following manner:

> "***A systemic risk is a risk that an event will trigger a loss of confidence in a substantial portion of the financial system that is serious enough to have adverse consequences for the real economy***". (*Report on Consolidation in the financial sector*, 2001)

The recent global crises is a form of systematic failure wherein major financial markets of the world collapsed. A direct corollary of market failure is a loss of faith in the system and immediate withdrawal of investments.

Systematic risk is an inherent and unavoidable feature of any financial market. There is always a possibility that the investor suffers loss owing to the vulnerable financial atmosphere. The role of a financial regulator is to curtail systematic risk so as to encourage maximum number of people to invest in the market. Regulators should look for incorporating a mechanism which allows effective management of risk so that the burden is less felt by the investors. An appropriately administered settlement process which utilizes effective risk management tools is sought by the regulators. (OECD, Working Party of the Trade Committee, 2000) An all-encompassing approach is required which can examine the relations between market and participants and the different jurisdictions (International Monetary Fund, 2001)

Regulators in most nations have implemented legislations and have undertaken reforms to mitigate systematic risk. Reducing systematic risk is one of the main objectives of the Securities and Futures Commission, Hong Kong (*Our role*, 2015) The Commission's Risk and Strategy Unit had launched a series of meetings in the year 2013 focussing on the evolution and mitigation of risk. It published two reports as well namely: "*G-SIFI Trends in Risk and Risk Mitigation*" and "*Asset Management: Looking Forward*". The reports focussed on risk identification, risk governance, asset management growth in Asia, evolving international regulations on risk control and varying viewpoints on systematic risk in asset management. (*Risk focussed Industry meeting* series, 2015)

In the United States of America, the Securities and Exchange Commission has the responsibility of implementing some of the most important provisions of the Dodd-Frank Act.
The *Dodd- Frank Wall Street Reform and Consumer Protection Act* (2010) has:

> ***Created the Financial Stability Oversight Council ("FSOC") to provide a formal structure for coordination among the heads of various financial regulators to monitor systemic risk and to promote financial stability across our nation's financial system.***

Title VIII of the Dodd-Frank Act gives power to the Commission to put forth regulations for risk management and permits it to take into account various international standards and guidelines. In addition to implementing these provisions, the SEC has also provided safeguards for money market mutual funds and has established operational and risk management standards for clearing agencies to alleviate risk. (*Testimony on "Mitigating Systemic Risk in the Financial Markets through Wall Street Reforms"*, 2013)

Increasing Market Integrity

Market integrity has been defined as follows:

> "***The need to ensure that markets operate fairly and safely in order to encourage the widest possible confidence in them, thereby promoting high levels of savings and investment.***" (*Overview: Market Integrity*, 2000)

Market integrity is desirable for the efficient functioning of a capital market. It helps in preventing market failures to a considerable extent. A number of measures like surveillance, investigation and inspection help in achieving market integrity. (OECD, Working Party of the Trade Committee, 2000)

Market Integrity is always threatened by the possibility of market shocks. Hence regulators have devised mechanisms to deal with this problem. They use measures like circuit breakers or trading halts, positioning and exercising limits, changing margin requirements and putting limits on prices. Further there are various ways of enhancing market integrity of which monitoring the market is the most popular and effective one. One of the recommendations of IOSCO with regard to this is that certain quantitative and/or qualitative criteria have to be established. (*Overview: Market Integrity*, 2000)

Additionally, IOSCO states that market integrity can be achieved in the following ways:
Regulatory flexibility is the key to the long-run success of markets. The issues which regulators should look at are product design; fair order execution; surveillance; operational capacity and capital standards of the brokers/intermediaries; how market disruptions are handled and how brokers/intermediaries are registered and licensed to deal. (*Overview: Market Integrity*, 2000)

Market surveillance can help the regulators to understand the existent situation and ensure a transparent functioning of the markets which in turn can enhance consumer confidence. It also helps in preventing disruptive and unscrupulous practises like insider trading, market rigging and front running. (OECD, Working Party of the Trade Committee, 2000)

Many financial regulators across the globe have adopted measures to achieve the objective of market integrity. One such example is the United States of America where the Securities and Exchange Commission implements stern measures for market surveillance. The Enforcement Division of the Commission conducts numerous investigations into securities violations and also assists the Commission in bringing forth civil and criminal cases to the court. Usually investigations are conducted with regard to insider trading, sale of unregistered securities, manipulating prices of securities, misrepresentation of information given to consumers and so on. The Commission can go ahead with a civil suit or can take the route of imposing administrative sanctions. (*How Investigations Work*, 2013)

The European Securities and Markets Authority had established the Market Integrity Standing Committee which works on implementation of tools like market surveillance, market abuse investigations, exchange of information and preparation of technical standards and guidelines on problems like market abuse and short-selling. (*Working Methods*, 2013)

The Securities and Futures Commission, Hong Kong established an Enforcement Division which undertakes measures like conducting market surveillance, investigations in case of market misconduct and inquiries into breaches of statutory provisions. (*Rules and Regulations*, 2015)

Thus maintaining market integrity is on the main agenda for many securities regulators.

PERSONAL VIEWS

The current model of financial regulation recognizes investor protection, reduction of systematic risk and maintaining market integrity as the primary public policy objectives. Further all the three public policy objectives are defined in an extensive manner virtually encompassing everything under their heads. But a change is desirable in the manner of implementation.

Coming over to the objective of investor protection, regulators almost worldwide have recognized this as their primary duty. In countries like the United States of America, legal

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sanctions have been implemented for publication of information and disclosure of relevant financial transactions. In spite of precautions like these there is still a possibility that the investor is unaware of the ongoing situation. This can happen when the investor does not have the knowledge to understand the market situation even after the relevant information has been published. Hence it is desirable that investor education is given priority. U.S Securities and Exchange Commission has established the Office of Investor Education and Advocacy to assist investors in making a diligent choice before investing their money. (*Office of Investor Education and Advocacy*, 2015) Under this set-up, important materials are published to educate the investors. In addition to these investors can always submit their queries to the office. Thus the overall intention of the regulator is to increase investor awareness.

These measures can help in educating investors. But for an investor, there has to be a strong motivation to participate in a market. In addition to publishing periodicals, articles or reports to enhance the knowledge of investors, monthly workshops or seminars by stock market experts can be held in each district or city so that investors get a first-hand experience of how the markets work and form a substantial opinion about their proposed investments. The Securities and Exchange Board of India has adopted measures on a similar note. SEBI will have one resource person for every district of India for promoting awareness among investors and educating them. (Gupta, 2012, 2) Further Security Market Awareness Campaign (SMAC) was started with a motto "*An educated investor is a protected investor*". (*Securities Market Awareness Campaign*, 2015) But most of these schemes being informal in nature, they do not explicitly punish the persons responsible for giving misleading or wrong advice. Finally, a scheme at par with the one introduced by SEBI can be helpful for the investors but will be more efficacious only when it is implemented in a formal manner as a part of the regulators policy.

Appropriate tools can be used for the management of systematic risk. This will enable regulators to prepare themselves for the forthcoming consequences. Apart from this, help of stock market experts and professionals can be taken who are well-versed in this area and have been monitoring financial markets over a long period of time. Timely advice given by them can help alleviate risk to a certain extent.

In order to maintain market integrity, numerous regulators have taken staunch initiatives like surveillance methods, investigation and others. But the regulators have to be specifically empowered to conduct such investigations. This can make them more autonomous and efficient. Recently, *The Securities and Exchange Board of India (Amendment) Act* (2014) was passed. Section 11 of the Act gives power to SEBI to call in information and records from any authority (including banks and the Central Government) which is relevant with regard to any transaction in securities. Thus on a similar line if regulators are empowered with powers to directly conduct investigations and also take action based on the result, it will definitely contribute towards this objective of maintaining market integrity.

Further public policy concerns require appropriate allocation of capital. Regulators are required to implement measures to make the firms accountable for social and environmental costs. Till date there has not been any formal mechanism by which such costs are published or brought into public notice. However there are a few regulators who have established measures on this line. For Example, Regulators of Brazil, China and India encourage disclosure of non-financial information often relating to the sustainability of the firm so that investors have a fair opinion about the company's social and environmental costs among others. Hence regulators have to incorporate a mechanism wherein the societal concerns are adequately addressed. The existing

objectives are all-inclusive of the desired goals. Change has to be brought in at the level of implementation of these objectives.

CONCLUSION

Financial market regulators play a pivotal role in upholding the public policy objectives. After analysing all these objectives of financial market regulation, I have come to the conclusion that the existing objectives are sufficient to achieve the targets which are set forth. But problems like climate change, global warming, poverty and others are deeply affecting today's societies. Although, it is the primary duty of the government to address these problems, regulators can also play a pivotal role in mitigating them by allocating the capital. Hence a mechanism which addresses societal needs is required to be incorporated by the regulators. Some specific tasks like seeking advice of stock market experts, conducting workshops etc can further escalate the pace of development. Once the existing objectives are implemented properly, it will definitely bring in a change in the functioning of markets.

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4-U20-2913

THE EFFECTIVENESS OF INTERNAL CONTROL IN TACKLING CORRUPTION

MR. NASSAR ABAALKHAIL[1]

Historically there has been a great deal of theoretical debate on anti-corruption mechanisms, but little in the way of empirical research. Research on internal controls was no exception to this, and their usefulness and efficiency have been disputed in contemporary literature (e.g. Neu, Everett, & Rahaman, 2015; Sikka & Lehman, 2015). As there is very limited research in this area, this study systematically and empirically examined the effectiveness of internal control in tackling corruption in government organisations. The study adopted a qualitative approach and selected two government funds as cases for this study. The 'most similar systems' design approach was employed as a research strategy.

The research concluded that the extent to which internal control is effective in tackling corruption depends on how the internal controls are initiated and enforced. As shown in the first case study, establishing an institution with a culture which implies that ethical behaviour is the norm increases the likelihood that the hard and monitoring anti-corruption controls will be effective, thus helping to reduce corruption levels. However, as in the second case, if the culture of the organisation appears to tolerate corruption, then the hard control and monitoring mechanisms are unlikely to be as effective, leading to higher levels of corruption than in an organisation in which such practices are considered less acceptable.

Theoretically, the research made a distinctive contribution to the corruption literature by showing that the degree of successful implementation of anti-corruption measures guided by the principal-agent model depends on the quality of a clean, active, and powerful principal. Furthermore, the research demonstrated how theoretical triangulation can be a very powerful tool in understanding the nature of corruption, as alterative corruption theories can be complementary to each other and offer not only different diagnostics of corruption, but also different solutions.

6-U28-2830

THE IMPACT OF TRANS-PACIFIC PARTNERSHIP AGREEMENT ON MALAYSIA'S ACCESS TO MEDICINE

DR. RAFIQ IDRIS[2]

In 2010, Malaysia announced that it will be joining the Trans-Pacific Partnership (TPP) negotiation that currently involves twelve countries from three continents namely the US, Australia, Brunei, Canada, Chile, Japan, Mexico, New Zealand, Peru, Singapore and Vietnam. The Trans-Pacific Partnership Agreement (TPPA) that was finally signed in February 2016 is viewed by some as a strategic step towards achieving high income nation status by 2020. TPPA is ambitious and comprehensive trade agreement and there has been a lot of controversy and debate on this mega-trade deal. Some argue that the TPPA is more geopolitically motivated and that there is no much economic advantage that can be gained from the deal while some other suggest the potential benefits that Malaysia would gain from TPPA will outweighs its costs. The proponents argue that the free trade agreement between countries across the three continents would create a deeper integration and obtain greater market access in the TPPA member nations, enhance trade engagement with the US as well as to serve as a stepping stone in penetrating the Latin American market. Analysts are doubt on the significance of the TPPA

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on Malaysia's trade. In addition, the issue on the effect of the TPPA on access to affordable medicines in Malaysia is among the most contentious one. The TRIPS-plus elements included in the agreement on intellectual chapter are believed to bring adverse effects to medicine prices and expenditure. Patent linkages, patent term restoration and data exclusivity are among the subject of heated debate in the media. This study intends to analyse one of the most important potential impact of the TPPA. The research intends to examine the impact of TPPA on Malaysia's access to medicine. To validate the critics and assess the effects of the TPPA on Malaysia's access to medicine, this study is conducted to fill in the gaps in the literature as there is limited study has been undertaken to date. In assessing the potential impact of the TPPA on Malaysia's Access to Medicine, simulation exercise using Model of Impact Changes in Intellectual Property Rights have been undertaken. The study found that the 3 TRIPS-Plus provisions will have negative impact on Malaysia's access to medicine by causing the increase in medicine price and medicine expenditure and drop in domestic pharmaceutical industry sales. The findings and policy recommendations of this study is hoped to provide information that may be useful for Malaysian government and other stakeholders.

9-U14-1278

STRUCTURAL ADJUSTMENT PROGRAM AS AN INSTRUMENT FOR NEOLIBERALISM OPERATIONALIZATION BY GILES MOHAN AND THE STRATEGY TO OVERCOME THE CRISIS IN INDONESIA BY HADI SOESASTRO

MS. PURI DEWAYANI[3] MS. FADLIA HIFZIA[4], MS. VICKY KHAIRANNI[5] ,AND MS. CATHARINE CHELSEA PATRICIA[6]

Purpose – This paper aims to propose an entrepreneurial business model for establishment of business venture in the rural area.
Design/Methodology/Approach – The paper reviews literatures in entrepreneurship, rural development, business model, competitive advantage, and township/village entrepreneurship in China and use secondary data and result of studies by other scholars relevant for the development of the model . Indonesia is used as a case study due to the understanding that its rural area exhibits similarity with other developing countries.
Findings – The proposed model consists of an organizational model which is a joint venture of entrepreneur and village cooperative, interacting with an innovative business model resulting from value chain analysis based on the factors productions of the particular village.
Research limitations/Implications –While there are similarity of Indonesian rural area with other developing countries, but it can not be denied that there might be significant differences, and these facts were not incorporated in the model. This suggests further research of developing the model for a specific country.
Practical implications – By incorporating the model proposed, rural area can be developed which will bring various benefits including reducing the burden of urbanization and supporting industrialization of the developing country.
Originality/Value – This proposed model is believed to be the first approach to identify business model for solving real world problems by contributing to a fair distribution of wealth and to bring the living conditions of the rural area, as well as supporing industrialization of developing countries while reducing urbanization and all the unwanted consequences.

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Keywords: rural business, entrepreneurship, business model, developing countries, Indonesia.

16-U3-2795

THE ROLE OF BANKS IN MICROFINANCE

MR. KARAM GADALLAH[7]

In this study I attempt to compare the interest rates for each of microfinance institutions (MFIs) and banks in Egypt and in doing so identifies determinants of lending rates of MFIs. This raises the question of whether high interest rate is a constraint in Egypt or the vast majority of Egyptians excluded from microcredit due to credit rationing. The results reveal that profitability is not the leading determinant of lending rates of NGO-MFIs. Instead, the operations cost plays a large part in determining the interest rates of MFIs along with loss provisions and cost of capital. The study also reveals that access to finance is one of the major challenges for entrepreneurs and NGO-MFIs in Egypt; since only 10% of the population of Egypt has access to banks, and 78% of SMEs did not deal with banks. Furthermore, misallocation of financial resources makes matters worse; where it leads to a high concentration in various aspects including the financial services. Also, high inflation rates undermine the Egyptian NGO-MFIs' growth, which makes the financial sustainability of NGO-MFIs is a big challenge; as these institutions struggle to cover their expenses. All these challenges make the high interest rates of Egyptian MFIs are not in line with their social role, and create room for a trade-off among efficiency, outreach and sustainability. The study uses a data-set of selected samples of NGOs-MFIs operating in Egypt and analyzes their performance by using the CGAP suggested indicators to measure performance of MFIs. The study based on data collected from the Microfinance Information Exchange, MIX Market and Sanabel: The regional microfinance network for MENA, in addition to other sources related to the research subject. The study findings suggest that, as operational cost of Egyptian NGOs-MFIs are the lowest, there is need for MFIs to improve their efficiency in terms of financial sustainability (profitability) and outreach level and expanding loan portfolio to meet the great potential demand for microfinance.

Keywords: Microfinance, Banks, MFIs, Egypt, Interest Rates, SMEs, Operational Efficiency.

17-U10-2825

DEFENCE EXPENDITURES AND ECONOMIC GROWTH RELATIONSHIP: THE CASE OF TURKEY

MRS. GULDENUR CETIN[8] AND CIHAT KÖKSAL AND AYBEN KOY

There have been different studies and findings in the literature that examine the relationship between defence expenditures and economic growth. Theoretical and empirical studies in this area have different results. The aim of this study is to analyze the relationship between the defence expenditures and economic growth. Turkey was chosen as an example due to its geo-strategic location. 1949-2015 dataset were used to examine the relationship between defence expenditures and economic growth.

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18-U33-2931

NET MIGRATION EFFECT ON EUROPEAN CULTURAL IDENTITY

MS. ELENA STOICA[9]

Almost a million migrants are estimated to have arrived in Europe a year before, according to the International Organization for Migration (IOM), but exact numbers are unclear as some may have passed through borders undetected. Migrating people come with a diverse cultural backgrounds, with a completed cultural identity some stronger, some weaker. What is happening now regarding this migration crisis is quite unlike because of the diverse origins and the large number of unaccompanied minors. For that above, European Union has no clear plan of integration.

Cultural identities interact, as people who have migrated come into contact with people of the majority culture. For both groups there is a mental impact that affects society as a whole. That is why, cultural diversity became a concept that has attracted the attention of the economists and of the social scientists, as well.

The previous studies using longitudinal methodological approach show that many minority groups try to maintain their own traditions and cultures. On the other hand, European countries are ethnically homogeneous.

My paper is build on effective impact of migration in the eyes of national-cultural values, using fractionalization index. There has been significant effort to improve the measurement of national cultural identity, but there is a hard task to capture the changing of diversity over time. G. C. Rappaille was telling that “there is a collective cultural unconsciousness in the American mind that is different from the Japanese mind, or the French Mind”. Among the most recent reviews of migration theory is the works of the Oxford school, sugesting to integrate migration studies more closely not only with the issues of development but also with broader questions of change, social transformation and economic integration.

The paper studies the correlation between ethnic and linguistic fractionalization variables as the determinants for national cultural identity. The correlation between ethno linguistic fractionalization variables with other explanatory variables, especially geographically ones helped me to explain the experience between national identity and diversity effect.

Keywords: cross-cultural study, migration, national culture, European Union

19-U31-2866

LIMITED LIABILITY PARTNERSHIP: A CONTEMPORARY CORPORATE FORM

MR. ADITYA JAIN[10]

The Limited Liability Partnership(LLP) is viewed as an alternative corporate business vehicle that provides the benefits of limited liability in partnership but allows its members the flexibility of organising their internal structure as a partnership based on a mutually arrived agreement. The study focuses on giving an overview on the LLPs and their need with respect to India. It also focuses on the very important aspect that is Taxation of LLPs.this paper also discusses various issues that LLPs encounter, moreover it discusses the Possible Business Models under LLP and some suggestions for effective implementation of LLP. The paper attempts to introduce to the concept of Limited Liability Partnerships in India along with the

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need of setting up the Limited Liability Partnerships in place of partnerships and limited companies. The paper covers various taxation aspects in view of Limited Liability Partnerships that covers Income Tax, Wealth Tax, Service Tax and Sales Tax/Value Added Tax. The paper also attempts to highlight the issues pertaining to them that need to be addressed in order to effectively implement the Limited Liability Partnerships in India. The researcher also took note of various Possible Business Structures in Limited Liability Partnerships along with few suggestions. The paper concludes that in near future, more Limited Liability Partnerships will come into existence given its advantages over the partnership and company form of organization in India.

20-U34-2892

INSTITUTIONAL DETERMINANTS OF BRITISH MNES IN SAUDI ARABIA

MR. NASSER ALSHAREEF[11] AND PROFESSOR HAMED EL-SAID

Saudi Arabia's economic development has experienced mass extension in oil exportation for the last 70 years. In Saudi Arabia, about 75% of the revenue comes from oil which forms 90% of the country's export. According to a report by Saudi Arabian Monetary Agency (SAMA) in 2012, about 50% of the GDP in Saudi Arabia was contributed by revenues from the oil. However, too much dependence on a single commodity alone can be highly risky for such a growing country and it may be prone to external threats that may affect the economy. As a move to counter this, Saudi government has advocated for the legislation of the Foreign Investment Act in 2000 and setting up the Saudi Arabian General Investment Authority (SAGIA) and National competitiveness Centre (NCC) to attract foreign investment to the country. This has resulted in the growth of FDI inward inflows, from $17.5 billion in 2000 to $215 billion in 2014. However, this FDI inflows still confined mostly to oil and petrochemical sector. With the present emphasis and attention given to diversification for lesser dependency on oil revenues in the future, the private sector in general and FDI in particular are presumably considered the key pillars of diversification strategy.

In order to attract more FDI, Saudi policy makers' focus on the institutional determinates that impede the MNEs from investment in the KSA, especially the MNEs from developed countries. Because the SAGIA's main aim is to attract more FDI that will add value to the economy, transfer technology and hire more Saudi citizens to reduce unemployment in the future (SAGIA, 2014). In addition, most Saudi policymakers agreed that the future political stability and economic growth of the kingdom will depend on its ability to attract more FDI to diversify the economy. However, while there are general agreements that more investment is needed to diversify the economy, stablise political system and increase economic growth, the question is how this can be achieved? One necessary step is to determine the institutional factors being imped, adapted and valued by MNEs in Saudi Arabia. To a better understanding of institutions in determining FDI inflows, it is substantial to connect frameworks addressing effects of institutions on economic activities (especially in investment incentives) with the frameworks addressing the determinants of FDI. The best way to do this is by merging Dunning's eclectic paradigm (OLI) with North's views on effects of institutions on investment and economic activities (Ali et al 2010). This research seeks to identify the institutional determinants of location decisions by British-owned multinational enterprises (MNEs) towards Saudi Arabia. This research is guided by two main theories to explain the business behaviours of MNEs engaged in international markets, those were: the eclectic (OLI) paradigm and the variety of capitalism "VoC" theory. The aim of the study is to determine what institutional

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factors are being adapted and valued by British MNEs currently operating under FDI arrangements as important towards the idea of partnering and evolving with the institutional environments in Saudi Arabia.

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CAPITAL MARKET REGULATION IN INDIA, BRAZIL AND SOUTH AFRICA

MR. PRAHARSH JOHOREY[12]

This paper will focus upon the existing regulatory mechanisms, laws and organisations that operate in the Capital Markets of the oft discussed 'Emerging Economies' of the 21st Century: India, Brazil and South Africa. The paper will detail the theoretical and practical effects of such regulatory structures, and then seek to comparatively and critically examine the three systems and their effectiveness as regulatory organisations.

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THE LEGAL RESPONSIBILITY OF MULTINATIONAL CORPORATIONS OPERATING IN AFRICA: TOWARDS A MORE BALANCED APPROACH

MRS. YOLANDI MEYER[13]

The African continent has faced a particularly challenging dilemma in the past century. The abundance of natural resources on the continent has led to an influx of corporate investment and exploration. This has often had devastating effects on local populations and the natural environment. The main reason for this occurrence is the unsound business practices of multinational corporations operating in countries such as Nigeria with its vast oil deposits. However, a significant contributor to the problem is the ineffective regulatory framework of African countries hosting the activities of multinational corporations that can lead to extensive social abuses and over-exploitation of natural resources. Factors such as lack of funding, staff who have not received sufficient training, and a lack of modern technology required to monitor compliance of multinational corporations with set standards, are some of the causes of ineffective domestic regulation and insufficient enforcement of existing laws. Enforcement is particularly challenging when multinational corporations operate in developing countries with lax or no environmental laws or standards.

This paper will focus specifically on the situation in Nigeria, as it provides a good example of the challenges that African countries currently face in hosting the activities of multinational corporations. In the past, the predominant focus has been on the responsibility of multinational corporations under international law, and how to regulate their activities in the host countries where they operate. This paper argues that, even though the international regulation of multinational corporations is an important endeavor in regulating these potentially harmful practices, such regulation will not be wholly effective unless the main sources of the problem are addressed. These include the ineffective domestic regulation and enforcement of laws governing the activities of foreign corporations, as well as corruption and the mismanagement of funds generated by foreign investment.

Even if a comprehensively binding international legal framework governing the activities of multinational corporations can be established, certain challenges facing host countries will

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remain, unless the root causes of abuse are addressed by the national governments of these countries.

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