Zenith Economic Quarterly

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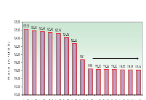
The Stock Market: Undergoing a Cycle for Another Boom

Zenith Economic Quarterly

C O N T E N T S



E D I T O R I A L   T E A M

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Of Markets, Risks and Rewards

Embarking on any human endeavour is tantamount to plunging into some kind of risk. To do nothing could also pose even a greater risk for the individual. This existential reality is more pronounced in the quest for wealth/rewards through investments. Most investments, unlike savings and checking accounts at a bank, are not insured by the Government to protect against market losses. Even consistently positive returns on investment from a particular market over a long period of time are no guarantee of such a scenario for all times.

In fact, for the capital market everywhere, the reign of the ‘bull’ or the ‘bear’—that is, the alternating expectations of stock price rise or drop — is a common feature. Somehow, in the Nigerian situation in the past couple of years, the bullish trend had persisted, so much so that the normal swings in price movements that should characterize a stock market is discounted. The Nigerian stock market has blossomed so much these past few years that it was being rated globally as among the bourses that offer the highest returns on investment. The number of quoted companies and the shareholder-size have grown exponentially, including all manner of persons: more speculators, jobbers, ordinary traders and money-grubbers.

The Nigerian stock market has blossomed so much these past few years that it was being rated globally as among the bourses that offer the highest returns on investment.

Thus, when, in the second quarter 2008, some speculations and policy signals by the regulatory authorities were unleashed on the market, the ‘itinerant’ investors took the easiest route out—‘off-loading’ their stockholdings. Although the underlying factors for the bear-run in the market were foggy, with the regulatory authorities almost reticent, the transient-gain-seekers continued in their panicky transactions. But the trend has hit a trough; a rebound is imminent as espoused in our article “Bearish Trend: Time for Stocktaking at the Stock Market” under the ***Issues*** section. In it, the author explores and analyzes the immediate and remote determinants of the state of the market during the quarter under review, ending on a note of assurance about the imminent return of the bull to the market.

Similarly, the persisting soaring prices and rising demand for crude oil in the international market as well as their ripple effects on various economies are examined under the rubric “Global Oil Crisis: Rising Demand, Rising Prices”. Here, the writer sums up that “despite the rise in global consumption of crude oil, proven reserves have increased steadily over the years while enhanced technologies and deep water discoveries have improved forecast of oil reserve in some regions.” Under the title “Global Food Crisis: The Issues, The Politics”, the unfolding but fast-spreading dire global food situation is examined in our ***GlobalWatch*** section. The newfangled ‘food-for-fuel’ agenda in some oil-gulping economies is spotted as one of the critical factors driving the bizarre food situation. Thus, the author concludes that “the unprecedented diversion of food for the manufacturing of bio-fuel has amplified the ongoing food crisis, impoverishing the poor and further eroding their purchasing power even for life’s most basic need—food.”

In our ***ForeignInsights***, the treatise: “US-Nigeria Trade Relations: Dormant Growth Opportunities” focuses on the parallels and dissimilarities between both countries, highlighting their places in the global and regional groupings. The ginormous size of the US vis-à-vis Nigeria on virtually all indices is demonstrated, with a challenge for Nigeria and others like it to explore and utilize the huge but dormant opportunities in their relationship with the world’s largest economy. Similarly, the piece on “Global Corporate Citizenship: The New Era of Opportunity,” avers that “many advocates for the poor are moving beyond failed foreign aid and charity models to promote a range of growth-producing strategies, including village banking, micro-franchising, and partnerships between established companies and fledgling businesses in developing countries.”

Our other sections that make up this package equally contain thought-provoking and rich discourses on a range of critical contemporary issues. Again, it’s all for you—our discerning readership. *Cheers!*

Marcel Okeke

Muchas Gracias (Thank you very much) as we acknowledge in Buenos Aires, Argentina, your sending us a copy of your Zenith Economic Quarterly Titled: **“Infrastructure: The Nigerian Challenges and the Way Forward”**. The publication makes interesting reading and thought-provoking. I must admit that the summary from the Editorial Suit–“The substructure as Pivot for Economic growths” sums up the entire package of the Quarterly. Needless to acknowledge that the entire contents will enrich the students of economics, I will hasten to admit also that it will educate and encourage investors from Argentina and my countries of con-current accreditation –Chile, Uruguay, and Peru, and indeed globally to expand their investments in Nigeria. Finally, let me assure you that the quarterly has added value to our Embassy’s library. While looking forward to receiving future copies of your publication, for my edification, please,accept the Editor, Zenith Economic Quarterly, the assurances of my highest consideration.

-Empire Nduka Kanu
Ambassador
Embassy of Nigeria
Buenos Aires
Argentina

This acknowledges with thanks the usually well-researched and highly Informative Zenith Economic Quarterly which you sent by the cover of your letter of May 27, 2008. It is surely a good reference material. We cherish it.

- HRH, Eze (Prof) G. O. Nwankwo OON
Evergreen Associates Ltd (Finance & Management Consultants)

I am directed to acknowledge with thanks the receipt of a copy of Zenith Economic Quarterly, April 2008 Edition. I am to inform you that the Embassy found the issues contained in the quarterly invaluable as they assist us in the pursuit of our national interest as well as making Nigeria one of the top-20 economies in the world by the year 2020

- Adamu A. Musa
Embassy of the Federal Republic of Nigeria
Algiers, Algeria

This is to acknowledge receipt of your letter dated May 27, 2008 on Zenith Economic Quarterly (ZEQ) and wish to thank your organisation for the kind donation of your publication to MAN. The Publication will be added to the stock in our library for necessary use by our members and clients.

- Seyi Adegbite
Manufacturers Association of Nigeria
Ikeja, Lagos

We acknowledge with thanks the receipt of one (1) copy of the April edition of Zenith Economic Quarterly (ZEQ) enclosed in your letter of May 27, 2008 to my predecessor, Mr. Hafez Ghanem. We wish you the best in your endeavour.

- Onno Ruhl
Country Director for Nigeria, Africa Region
The World Bank

This is to acknowledge with thanks the receipt of your letter dated 27th May, 2008 on Zenith Economic Quarterly (ZEQ). We find the magazine interesting and educative.

- Chief (Dr.) I. O. Dada
Vice-Chairman/Chief Executive
Anchoria Investment and Securities Ltd, Lagos.

I am directed to refer to your letter dated 27th May, 2008 and to acknowledge with thanks a copy of the April, 2008 edition of the educative literature, Zenith Economic Quarterly (ZEQ) We acknowledge with thanks, the receipt of your April 2007 edition of Zenith Economic Quarterly (ZEQ), you sent to the Accountant-

General of the Federation. Please, accept the assurances of the Accountant-General of the Federation’s highest consideration and regards.

- M. B. Yola
Office of the Accountant-General of the Federation
Federal Ministry of Finance, Abuja.

I am directed to acknowledge with thanks, receipt of the April, 2008 edition of the Zenith Economic Quarterly. Please, accept the assurances of my highest consideration.

- Bankole I. Alayande
For: Ambassador
Embassy of the Federal Republic of Nigeria
Berlin Germany.

We hereby acknowledge with thanks, receipt of your journal – the April 2008 edition of Zenith Economic Quarterly (ZEQ). There is no doubt that it will be useful to the organisation and will appreciate if you will include us in your mailing list for subsequent editions.

- J. A. Paseda (Ms.)
For: Director-General
Nigerian Insurers Association

I wish to acknowledge with the receipt of Zenith Economic Quarterly (ZEQ) and to thank you for your kind gesture in sending us the publication.

- O.S. Samuel
For: Auditor-General
Abeokuta, Ogun State

I am directed to acknowledge with thanks, the receipt of your quarterly economic journal for April 2008. I wish to emphasise that the magazine has been quite valuable in both quality and contents. The issues raised on maritime, infrastructure, aviation, economy and governance are indeed useful to our service as a Diplomatic Mission. While we look forward to having more copies in the future, please, Dear Editor, accept the assurances of the Acting High Commissioner.

- J. K. Okpo
For: Acting High Commissioner
Nigerian High Commission
Gaborone, Botswana

I am directed to refer to your letter dated Thursday, 27 May, 2008 on Zenith Economic Quarterly (ZEQ) and to acknowledge with thanks receipt of the April 2008 edition of the ZEQ publication. Please, accept the assurances of the Director-General’s highest esteem.

- Fasiku, E. A.
For: Director-General
National Information Technology Development Agency
Federal Ministry of Science and Technology, Garki, Abuja

Economy: Pull and Push Factors at Play

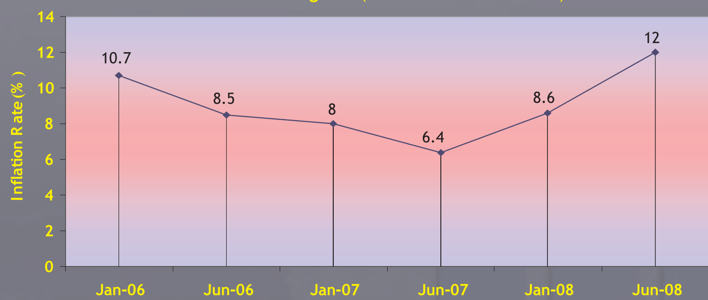
* By Marcel Okeke

The ripple effects of the delayed approval of the 2008 Federal budget, the appropriation of a chunk of the 'excess crude' funds as well as the fallouts of some socio-political developments—including the youth restiveness in the Niger Delta—all combined to shape the economy in the second quarter 2008. As in the first quarter, oil prices kept soaring in the international market, just as rising food prices/scarcity persisted. Early in the quarter, the Central Bank of Nigeria raised the Monetary Policy Rate (MPR) from 9.5 per cent to 10.0 per cent and further (by end-June) to 10.25 per cent as a counterpoise to threatening high inflationary pressures.

During the quarter also, the Federal Government voted some N80 billion for the importation of about half-a-million tons of rice and commenced the release of grains from the National Strategic Reserves to states and the general public—all in the effort to cushion the effects of high food prices on the citizenry. Licenses were also issued to a number of cement manufacturing companies for the importation of the finished product, with a view to taming the soaring prices of the commodity in the domestic market.

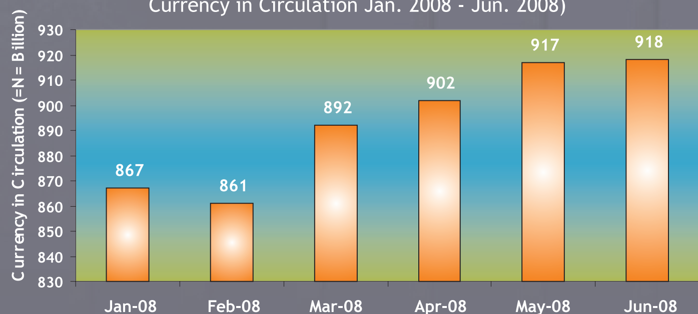
These policy initiatives among others affected/determined the outcome of performance indices of the economy during the quarter under review. Thus, the dreaded high inflationary pressure burst the single-digit limit for the first time in about two years, hitting a rate of 12.0 per cent by the close of the quarter. The year-on-year (y-o-y) inflation figure last hit 12.6 per cent in April 2006; it stood at 6.6 per cent as at year-end 2007; rose to 7.8 per cent in March 2008, and further climbed to 9.7 per cent at end-May.

Inflation Rate in Nigeria (Jan. 2006 - Jun. 2008)



Source: National Bureau of Statistics

Currency in Circulation Jan. 2008 - Jun. 2008)



Source: CBN

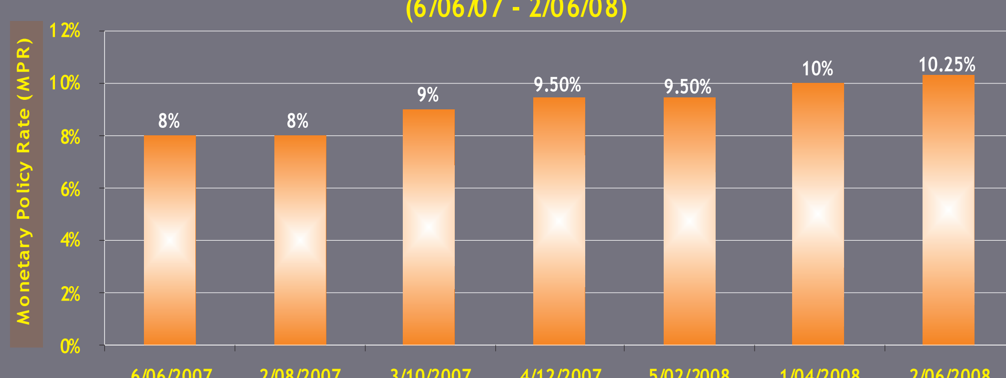
Much of the rise in inflation figures is attributable to high food prices—evidenced in the growth of its monthly index—from 168.7 points in March to 174.2 points as at May 2008. In the face of this scenario, the fiscal operations of the various tiers of government remained rather expansionary; in fact, the highest Federation Account funds shared out within any one month so far this year was during the quarter under review. Thus, in addition to the Value Added Tax (VAT) proceeds and the derivation fund, about N656 billion and N390billion were shared by all levels of government in April and May 2008 respectively. Figures for the first quarter were lower.

The upward review of the MPR, rising trend in credit to the private sector as well as moves by banks to uniform financial year-end of December—combined to push up interest rates on bank placements during the second quarter—a development that also led to an upward trend in lending rates. On the other hand, the foreign exchange market remained stable during the quarter, with the local currency not shedding weight against major international currencies. For instance, the Naira in the official segment of the market stayed at between N116/$1 and N117/$1 all through the period under review.

The external reserves recorded mixed movements during the second quarter 2008—the gross value rising, but dropping at some points. Thus, while it opened the quarter at US$59.30 billion, it stood at US$62.12 billion by mid-May but dropped marginally to hit US$59.16 at the close of the period. The gross external reserve at end-December 2007 was US$52.0 billion; this rose to US$59.70 billion by the close of the first quarter 2008. Without doubt, like in previous quarters, the value of the reserves was driven by booming foreign exchange earnings from the high and consistently soaring oil prices in the global oil market.

Fitch Ratings and Standard and Poor's—two renowned global rating agencies—during the second quarter 2008,

Monetary Policy Rate (MPR) Trend in Nigeria (6/06/07 - 2/06/08)



Source: CBN

affirmed their 'BB-' foreign and 'BB' local currency long-term credit ratings on Nigeria. According to S & P, "Nigeria's ratings are supported primarily by external and fiscal positions that are among the strongest of all 'BB' rated sovereigns." Fitch, on its part, observed that "Nigeria's foreign currency rating reflects very strong financial ratios, as a result of high oil prices and saving oil windfalls, and strong non-oil growth, thanks to macro- and micro reforms. It also takes into account huge challenges in terms of addressing institutional and structural weaknesses, including a huge infrastructure gap, improving governance and fostering development." Ratings were first assigned to Nigeria by these agencies in 2006.

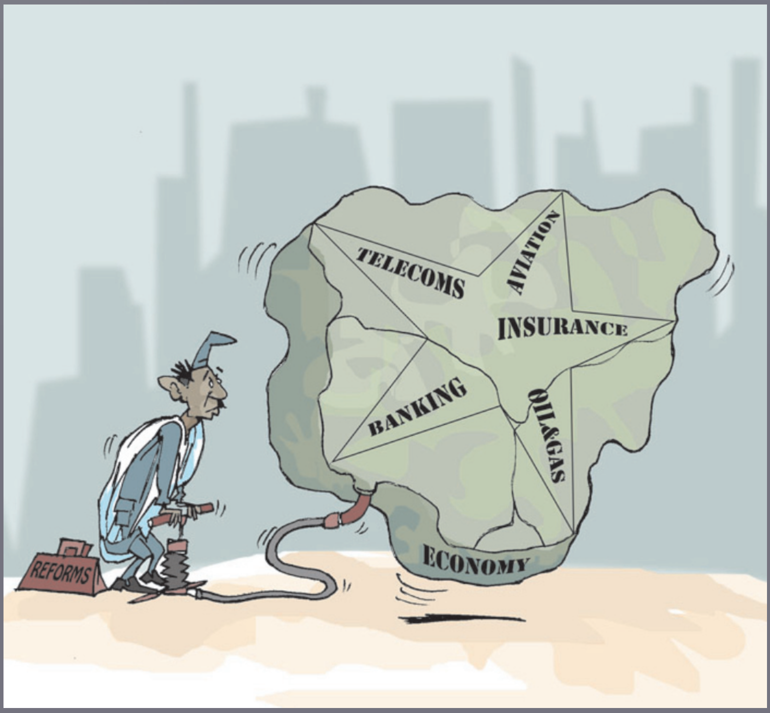
THE CAPITAL MARKET

Although the capital market recorded a bearish trend all through the second quarter 2008, activities were very upbeat in the primary segment where a number of new listings were made. Companies in various sectors of the economy engaged in capital-raising, especially in the form of private placements. Zenith Capital, for instance, during the period, made an offer for subscription for three open-ended mutual funds (Zenith Income Fund, Zenith Ethical Fund, and Zenith Equity Fund) to raise a minimum of N8 billion. Reliance Telecommunications Limited, Starcomms plc and Regency Alliance Insurance plc also came to the market to raise N26.989 billion, N64.350 billion and N9.202 billion respectively, through private placements.

In the same manner and period, the following organizations raised funds from the market through private placements: Geo-Fluids Limited, Multi-Trex Investment Limited, Energy Company of Nigeria Limited, IHS Nigeria Limited and Afromedia Nigeria Limited. Others include LeadCpital Limited, Kapital Insurance Company Limited, and African Alliance Insurance Company Limited. On the whole, an estimated N300 billion was raised from the market during the quarter under review. This spate of private placements elicited the concern of the Securities and Exchange Commission (SEC), when it warned the general public that some of these companies were neither registered with it nor listed on the Nigerian Stock Exchange. On its part, the NSE had in April, ordered that all newly listed companies on the Exchange would henceforth, wait for not less than a period of one year before they could be allowed to access the market to raise funds. That is, they must stay for a minimum of one year before floating an Initial Public Offer (IPO).

The obverse of the scenario in the primary market was the bearish situation in the secondary market, where all performance indices declined during the second quarter. In fact, the NSE All Share Index (ASI) dropped by about 11 per cent at the end of the quarter when compared to the opening position at the beginning of the period. Market capitalization also declined by about 10 per cent during the period, despite new listings. This development is attributable to a number of factors including the unclear position of the regulatory authorities regarding 'margin lending', apparent diversion of funds by investors to the primary market, increase in banks' deposit rates in response to higher MPR (and thus diversion of funds from the NSE to the money market), new regulatory directives on stock price movements which tended to slow down price appreciation, etc.

A major development in the capital market during the period under review was the suspension of recapitalization directive to market operators which had been in place since April 2007. Under the suspended policy, the minimum paid-up capital for issuing houses was to be increased from N150 million to N2 billion; broker/dealers—from N70 million to N1 billion; clearing/settlement agency—from N500 million to N1 billion, and registrars—from N50 million to N500 million. Underwriters were to increase their mini-



mum capital base from N100 million to N2 billion; fund/portfolio managers, from N20 million to N500 million; while corporate sub-brokers were to move from N5 million to N50 million.

Sequel to the controversy that trailed the recapitalization policy in the capital market and tacit resistance by the operators, the Senate Committee on Capital Market and its counterpart in the House of Representatives intervened. The board of the SEC that was reconstituted during the quarter under review also considered the agitations of the market operators—and negotiated the suspension of the policy to allow for further and wider consultations on the matter.

Like the primary segment of the equity market, the bond section of the capital market remained very active during the period under review. The Debt Management Office (DMO) on behalf of the Federal Government issued a total of N130 billion worth of bonds during the second quarter 2008; it issued N150 billion worth in the first quarter—making a total of N280 billion for the first half of the year. The second quarter bonds were issued in tranches of N30 billion in April and N50 billion each in May and June. On a comparative basis, these bonds have longer tenures than those issued during a similar period in 2007.

BANKING AND FINANCE

The territorial spread—on-shore and off-shore—by the deposit money banks intensified during the second quarter, as almost all of them kept expanding their branch networks to the nooks and crannies of the country. Sequel to Zenith Bank's successful set up of its wholly owned subsidiary in London in 2006, a few others embarked on a similar effort. Intercontinental Bank during the quarter under review also opened its subsidiary in the United Kingdom; First Bank commenced operation in Paris, just as many others secured approvals to open shops in a number of African countries.

The quarter under review witnessed the 'return' of one of the banks that could not meet the recapitalization deadline as at end-December 2005. Societe General Bank of Nigeria (SGBN) courtesy of a court ruling 'resumed' operations, advertising and directing all its customers to provide evidence(s) of their relationships with the bank by December 2005 for verification and revalidation. Sequel to the court ruling against CBN's withdrawal of the bank's operating license, the apex bank allowed SGBN a fresh timeline to recapitalize/merge or be acquired.

In the face of intensifying competition in the banking industry, operators have started getting into strategic alliances, especially in pursuit of global best practices. In this regard, five of the banks—Zenith, Oceanic, UBA, Fidelity and Bank of Industry—have formalized their membership of the United Nations Environment Programme on Finance Initiative (UNEPFI) on sustainability banking. The UNEPFI is a global partnership between UNEP and the finance sector with the aim of ensuring that banks incorporate environmental, social and corporate governance issues in their credit process.

The CBN during the quarter commenced the process of shedding some of its "non-core" activities. The apex bank released the operational guidelines for outsourcing currency processing and distribution and the risk management requirements. It directed that companies which are already providing the services will undergo a registration process, adding that "appropriate regulatory and supervisory framework to ensure standards and quality control" had been prepared. According the CBN guidelines, any company wishing to render the advertised services must be registered locally with the Corporate Affairs Commission (CAC)—but is free to enter into a technical partnership with foreign partners. By the time the outsourcing process is completed, the only "core currency management processes" that will be retained by the CBN will include design and issuance of currency as well as the disposal of unfit notes.

Also during the quarter under review, the apex bank issued guidelines on the proposed common year-end for banks in the country. In a circular titled "Common Accounting Year-End", the CBN urged banks to get their boards to approve a common year-end and ensure that their subsidiaries comply with the common year-end going by their group structure. The circular also provided details of how to migrate to the new year-end, giving some scenarios in line with international best practices which provide a maximum accounting period of eighteen months.

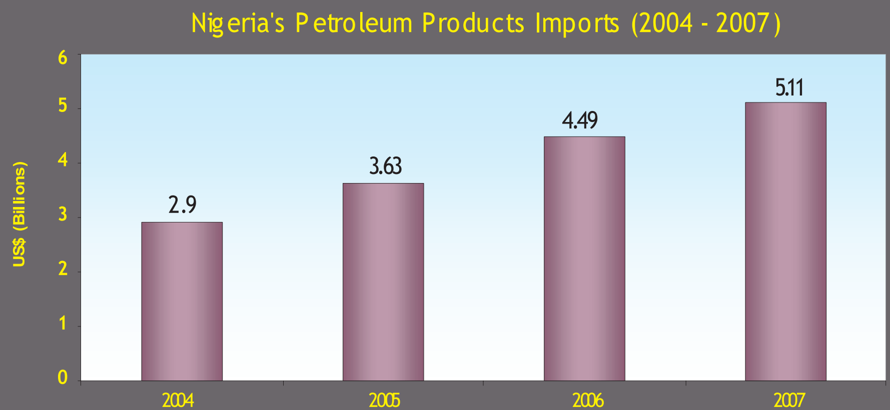
The circular states that in the circumstance where banks year ends coincide with December 31, they should forward their full year's accounts for the CBN approval not later than three months after the year-end. However, banks whose year ends fall between January-May 2008 are required to submit the normal audited accounts (12 months) for the CBN approval and thereafter, submit the pro-rated period to December 31, 2008.

Sequel to the successful consolidation in the insurance industry, some operators have started exploring the insurance market off-shore, essentially driven by intense competition and quest for greater market share. Thus, two Nigerian insurance companies, like some banks, have opened shops in Ghana. While the Industrial and General Insurance (IGI) Company took-over the Network Assurance Ghana, Equity Assurance set up a subsidiary in the West African country. Other insurance companies are at varying stages of commencing off-shore operations. And in the face of the growth and expansion in the industry, the apex regulatory agency—the National Insurance Commission (NAICOM)—has rolled out a code of corporate governance to help it in monitoring the activities of the operators. Specifically, the agency is out to check such abuses in the market like failure to comply with relevant insurance laws and regulations, non-settlement of claims and other liabilities, rate-cutting, premium purchase, commission and inducement, among others.

OIL, GAS AND PETROLEUM RESOURCES

This sector, as in the previous quarters, remained the cash cow of the economy—sustained essentially by the consistently high and rising prices of crude oil in the international oil market. In fact, the OPEC Reference Basket reached a record high in April, increasing US$6.20 or about 7 per cent over the March average of US$105.20 per barrel. In May, the Basket rose to about US$120.02 per barrel; and despite increased OPEC production and higher exports, the Basket reached another record high of US$128.35 per barrel in June—representing an increase of US$8.95 per barrel or 7.5 per cent. This price trend has affected both the global and national economies in unexpected ways, driving up cost of production/living, inflation rate and consumption capacity.

This price scenario has been attributed to a number of factors namely: geopolitical tension, the weakening dollar, supply constraints and speculation, among others. The situation in some oil producing/exporting countries like Iran, Iraq and (the escalating youth restiveness in) Nigeria's Niger Delta is a source of worry and tension to the global oil market. Added to this is the weakening US dollar (oil price denominator)—which has made investment bankers and fund managers in the US to begin to trade oil like a financial asset. They do this in a bid to hedge against a falling dollar by buying oil. OPEC members' stance not to increase production levels until the third quarter of 2008 has also led to imbalance between rising global demand and supply constraints. Incessant bids by speculators trading oil on the assumption that prices will continue to rise have also contributed to the disequilibrium in the market.



Source: NNPC

All these for Nigeria—a key oil producer/ exporter—but importer of refined petroleum products, have been a mixed blessing. As in the previous quarters, the nation's external reserves increased during the period under review (hitting about US$60 billion), buoyed essentially by foreign exchange earnings from crude oil. In fact, while the production and export volume dropped during the second quarter owing to disruption to oil activities in the

Niger Delta, foreign exchange earnings from the commodity kept rising due to soaring prices. But the disappointingly low level of refining capacity in the country exposed the nation to dependence on massive importation of refined petroleum products for local consumption. Government has also been saddled with subsidizing local consumption, and spending huge amounts of foreign exchange earning on the importation of products. The obverse of this has been the poor and declining refining activity of existing local refineries.

Sequel to this state of affairs, the Federal Government during the quarter under review revoked the privatization of two of the four existing refineries—the Port-Harcourt and Kaduna refineries. It also announced plans to build two more refineries, apparently due to the inability of about 18 organizations issued licenses in 2001 to build private refineries. The two new refineries are to be located in Lagos and Eket, Akwa Ibom State; this will bring the number of Federal Government's refineries to six—with one each located in Kaduna and Warri and two in Port-Harcourt.

Also during the quarter under review, the Nigerian National Petroleum Corporation (NNPC), Mobil Producing Nigeria (MPN) Limited and a consortium of Nigerian banks signed a US$220 million financing agreement to complete the Escravos Gas Liquid Project. Tagged "NGLII" and projected to produce about 40,000 barrels of gas to liquid when fully onstream, the project is owned 49 per cent by the NNPC and 51 per cent by MPN. In a similar vein, a consortium of three firms (Centrica Resources Nigeria, C. C. Energy development and Statoil Hydro) is setting up a gas plant in Akwa Ibom at a cost of US$12 billion.

TELECOMMUNICATIONS

The telecommunications sector continued its quantum growth during the quarter under review, with the total active telephone lines standing at about 50 million at end-May 2008. The figure was 41.9 million at end-December 2007; this rose to 45.90 million by March 2008, and further to 47.20 million by the close of April. Concomitantly, teledensity, based on active subscribers, improved from about 30 in December 2007 to about 38.09 as at end June 2008. Statistics show that virtually all the operators embarked on various expansion/consolidation programmes during the quarter—some off-shore. For instance, one of the latest service providers, Visafone, which commenced operations in the first quarter, had by the close of the second quarter doubled its debut geographical coverage, reaching more than 100 towns and cities. The wholly owned Nigerian firm launched its full commercial services across Nigeria in 12 states and over 40 cities, including the FCT Abuja.

Also in the expansion drive, Globacom (Nigeria) bid for and won a license for Global System of Mobile Communication (GSM) in Ghana. The Ghana Telecom regulatory authority adjudged Glo Mobile as the preferred bidder based on a number of performance indices. Glo had earlier commenced operations in Benin Republic with over 600,000 subscribers. It got the national License in Benin Republic last year.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POWER AND STEEL

The proposed declaration of emergency in the power sector by the Musa Yar'Adua Administration inched to reality during the quarter under review, when the Federal Government announced its setting aside of he sum of US$5 billion for that purpose. The Federation Account Allocation Committee (FAAC) approved the deduction of the amount from the excess crude account to finance the rehabilitation and expansion of Nigeria's power generation, transmission and distribution through the Independent Power Projects (IPPs). In addition to this, the Federal Government will seek more financing from international agencies—to increase the nation's power generation capacity to over 50,000 megawatts within the next decade.

In an effort to also tackle the problem of revenue generation in the power sector, Government is adopting a Multi-Year Tariff Order (MYTO), effective July 1, 2008. This is with a view to making the industry generate enough revenue to cover its operating costs, undertake regular maintenance and make new investments as appropriate. Towards this end, Federal Government has earmarked the sum of N177 billion as "electricity subsidy" for the next three years for the implementation of the new MYTO. Of this amount, N64.84 billion will go to subsidizing electricity consumption by Nigerians in 2008/2009; while it is expected that the Federal Government will further provide N77.41 billion in 2009/2010 and N35.80 billion in 2010/2011.

In pursuit of this new spirit in the sector, the Nigerian Electricity Regulatory Commission (NERC)—the regulator of the industry—is putting appropriate contractual arrangements in place to handle correct pricing of electricity and transaction relationships—energy flow, payment and settlement for contracted power, purchase agreements, etc. NERC has also developed a consultation paper on the new trading arrangement and financial settlement system for use during the transition stage of the emerging order. It has accordingly invited "comments and observations" from all stakeholders and members of the public on the consultative paper—to be received not later than July 21, 2008.

The Lagos State Government in its own effort to improve electricity supply in its jurisdiction, has initiated the building of a power station that would produce 20,000 MW by 2015. It is also considering developing other environmentally friendly energy sources such as hydropower and wind power plants in partnership with private sector organizations.

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

Code of Corporate Governance For Licensed Pension Operators

About this Code

The Code of Corporate Governance essentially aims to set out rules based on best practices to guide PFAs (including CPFAs) and PFCs on the structures and processes to be used towards achieving optimal governance set up.

It is developed with a view to establishing overall economic performance and market integrity as it creates incentives for the pension scheme to impact positively on the stakeholders. This is necessary in gaining the confidence of the stakeholders directly affected by the pension reform.

The Code is also to promote the transparent and efficient implementation of the scheme by all the operators. It is intended to encourage self-regulation by providing a common value system among the operators.

The Code is based on internationally accepted principles of good corporate governance and its requirements are consistent with the provisions of the Pension Reform Act 2004, rules, regulations and guidelines issued by the Commission and are also considered transparent and enforceable.

1.0 Introduction

1.1 All stakeholders in the Industry have a responsibility towards the actualization of the main objective of the Pension Reform Act 2004, which is to ensure that every worker receives his/her retirement benefit as and when due. It is in the light of this, that the Commission has designed a Code of Corporate Governance for Licensed Pension Operators to help them meet their own governance responsibilities.

1.2 The Code outlines minimum corporate governance requirements, meant to ensure that governance policies are entrenched in the companies.

2.0 Definitions

2.1 In broad terms, corporate governance deals with the manner in which companies are to be run to meet the owners' required return on invested capital and thus contribute to economic growth and efficiency and ethical behaviour in society.

2.2 Put differently, it refers to the processes and structure by which the business and affairs of the company are directed and managed, in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders.

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2.3 From the perspective of the pension industry, it embodies the structure and processes put in place for overseeing, managing and administering the pension schemes to ensure that fiduciary and other obligations of the scheme are met.

2.4 Deriving from 2.1 to 2.3 above, good corporate governance, therefore, embodies both enterprise (i.e. performance) and accountability (i.e. compliance) concerns.

3.0 Purpose of the Code

3.1 Essentially, the Code has been developed to create:

3.1.1 Necessary conditions for shareholders to exercise an active and responsible ownership role;

3.1.2 A clear delineation of authority between the owners, the Board of Directors and the Executive Management;

3.1.3 A clear division of roles and responsibilities between the various levels of authority; and

3.1.4 Transparency amongst operators.

3.2 However, the aim is not only to define what acceptable corporate governance practice is, but also to serve as a source of inspiration for operators to aim at installing reasonably good corporate governance practices in their organizations.

3.3 It promotes transparency and directs PFAs and PFCs to include in their annual report, a narrative statement of how they apply the relevant principles to their particular circumstance and also to post such information to their website.

3.4 Additionally, it directs the PFAs and PFCs to submit a separate report to the Commission on corporate governance activities within their organization. The report should include an explanation for any deviations from the rules and guidelines set out in this document.

3.5 The Code deals with two broad areas: (a) Board Issues (b) Industry Transparency

4.0 Code on Board Issues 4.1 Board Composition and Balance

4.1.1 The number of non-executive members (excluding the Chairman) of the Board shall at all times, in the minimum, equate the number of executive members, if applicable. This shall ensure that the Board has a balanced view of issues at all times.

4.1.2 Each Board shall have at least one Independent Director.

4.1.3 An Independent Director shall be one who has no relationship with the company, its related companies (i.e. subsidiary, associate or parent) or officers that could interfere, or be reasonably perceived to interfere, with the exercise of his independent business judgment, which is in the best interests of the company.

4.1.4 A director shall not be considered to be independent if he: (a) is being employed for any form of service by the company or any of its related companies for the current year or any of the past three (3) financial years; (b) has an immediate family member (i.e. spouse, child, adopted child, step-child, brother, sister and parent) who is, or has been employed by the company or any of its related companies at least in the last three (3) years; (c) is accepting any compensation from the company or any of its related companies other than compensation for Board service for the current or past three (3) financial years; or (d) is a substantial shareholder of, or a partner in (with 5% or more equity interest), or an executive officer of any profit-making organization to which the company made, or from which the company received significant payments, in the current or past three (3) financial years.

4.1.5 The relationships set out in 4.1.4 (a) to (d) above, are not intended to be exhaustive and are examples of situations, which could make a director not to be deemed as independent. If the PFA/PFC however wishes, in spite of the existence of one or more of these relationships, to consider the director as independent, it shall disclose in full, to the Commission, the nature of the director's relationship and explain why he should be considered independent.

4.1.6 The Board shall not exceed the size that will allow it to employ simple and effective methods of work to enable each director to feel a personal responsibility and commitment. The Board shall take into cognizance, the scope and nature of the operations of the company.

4.1.7 The Board shall comprise of directors, who as a group, provide core competencies that are beneficial to the operations of the company.

4.1.8 The roles of Chairman and Chief Executive Officer (CEO) shall be separate, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

From the perspective of the pension industry, it embodies the structure and processes put in place for overseeing, managing and administering the pension schemes to ensure that fiduciary and other obligations of the scheme are met.

4.1.9 The PFA/PFC shall disclose the relationship between the Chairman and the CEO, where they are related to each other.

4.2 Appointment of Directors

4.2.1 The Board shall specify and document the procedures and criteria for appointing a new director.

4.2.2 In the case of re-nominations, the criteria should have regard to the director's contribution and performance (e.g. attendance, preparedness, participation and candour) on the Board.

4.2.3 It shall constitute a Nominating Committee (NC) to make recommendations to the Board on all Board appointments.

4.2.4 The NC shall consist of at least three directors, including the Chairman and an Independent Director.

4.2.5 In the case of new appointments and re-appointments, the NC's recommendations shall be based on the agreed criteria for the appointment or re-appointment of directors. It shall also be based on the requirements of the Guidelines for Appointment to Board and Top Management Positions in PFAs and PFCs, GL/APPT/01, issued by the Commission.

4.2.6 The Commission shall be charged with the responsibility of determining, annually, whether or not the Independent Director is truly independent, bearing in mind the circumstances set forth in 4.1.4 (a) to (d) above and any other salient factors.

4.2.7 The PFA/PFC shall develop a comprehensive, formal induction programme that is tailored to the needs of the company and individual non-executive directors. A combination of selected written information together with presentations and activities such as meetings and a tour of the company's offices could help to give a newly appointed director a balanced and real-life overview of the company.

4.2.8 The induction process shall:

(a) Build an understanding of the nature of the company, its business and the market in which it operates. It shall necessarily cover:
i) the company's products or services;
ii) the company's Memorandum and Articles of Association, Board procedures and matters reserved for the Board;
iii) the company's major risks and risk management strategy;
iv) key performance indicators; and
v) Regulatory requirements.

(b) Build a link with the company's people including;
i) meetings with senior management; and
ii) visits to company's branches (in the case of PFAs), to see more of the company's operations and meet the employees in an informal setting.

(c) Build an understanding of the company's main relationships, including the major shareholders, PFC(s), corporate customers and competitors.

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(d) A new non-executive director shall be provided with necessary information to help ensure his early effective contribution to the company.

4.3 Responsibilities of Directors

4.3.1 The Board, based on what is in the best interest of the company, its shareholders and other stakeholders, shall set objectives for the company's business operations and make sure that the company has an appropriate strategy, organization and management for achieving these objectives.

4.3.2 The Board shall ensure that the company has an effective management team. It shall monitor and evaluate the performance of the management team on a regular basis.

4.3.3 The Board shall appoint and, if necessary, dismiss the company's Managing Director.

4.3.4 On a regular basis, the Board shall follow up and evaluate the company's operations against the objectives and guidelines established by the Board.

4.3.5 The Board shall ensure that control of the company's financial situation and also in respect of PFAs, the financial situation of the Fund administered by it, is satisfactory; that the company's risk exposure is reasonable; that accounting and financial management are of high quality and are monitored in a satisfactory manner; and that the company has good internal control.

4.3.6 The Board shall ensure that the company, in its reporting to owners, the Commission and other stakeholders, gives an accurate picture of the company's progress, profitability, financial position and risks.

4.3.7 The Board shall ensure that there is a satisfactory process to monitor the company's compliance with the law and rules and regulations governing its operations.

4.3.8 The Board shall ensure that necessary guidelines are established on the company's ethical conduct in its relations with employees, customers, competitors and other related parties. The guidelines shall be in line with the Code of Ethics and Business Practices for PFAs and PFCs, issued by the Commission.

4.3.9 The Board shall put adequate structures in place by which staff of the company may, in confidence, raise concerns about possible improprieties.

4.3.10 The management of the company shall have an obligation to supply the Board with complete and adequate information on the operations of the company, in a timely manner.

4.3.11 The Board shall not rely purely on information volunteered by the management and shall, in all circumstances, have separate and independent access to the company's senior management for further enquiries, as may be required.

4.3.12 The Board shall ensure that the company has a sound system of internal controls.

4.3.13 The Board shall be responsible for issuing the company's audited financial statements.

4.3.14 All members of the Board shall complete the Code of Conduct Forms for Directors, issued by the Commission.

4.4 Conduct of Affairs of the Board

4.4.1 The Board shall meet at least once every quarter of the financial year.

4.4.2 Written notices, including agenda of the meeting, shall be circulated not less than seven days before the meeting, except in the circumstance of emergency meetings, where the notice period may be reduced or waived.

4.4.3 The Chairman of the Board shall ensure that minutes of meetings are appropriately recorded and circulated to members.

4.4.4 The Board shall establish Board Committees to facilitate its work. The Committees shall include the Audit Committee, the Investment Strategy Committee, the Risk Management Committee, and the Nominating Committee.

4.4.5 Where the nomenclature, Nominating Committee is undesirable, the Board may adopt any other nomenclature considered suitable for the Committee. The Committee, however, irrespective of its nomenclature, shall be constituted as specified in 4.2.4, and shall perform the functions that shall include those specified in 4.2.3, amongst others.

4.4.6 Where the Board appoints a committee, it shall issue, in writing, the terms of reference to guide the committee's work and shall also spell out the authorities of the committee, and in particular, whether the committee has the authority to act on behalf of the Board or simply has the authority to examine a particular issue and report back to the Board with a recommendation.

4.4.7 The Board shall have a formal schedule of matters specifically reserved for the Board's decision, to ensure that the direction and control of the company is firmly in its hands.

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4.5 Performance Evaluation of the Board

4.5.1 The Board shall, on an annual basis, undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors.

4.5.2 Individual evaluation shall aim to show the contribution of each director to the Board, including time committed for Board and committee meetings and any other duties.

4.5.3 The outcome of the evaluation shall be prepared in two copies and one copy submitted to the Commission along with the company's annual report on

The Code of Corporate Governance essentially aims to set out rules based on best practices to guide PFAs (including CPFAs) and PFCs on the structures and processes to be used towards achieving optimal governance set up.

corporate governance.

4.5.4 The evaluation process shall be used constructively as a mechanism to improve Board effectiveness, maximize strengths and tackle weaknesses. The results of the Board evaluation shall be shared with all members of the Board. The Chairman shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board and, where appropriate, proposing the appointment of new members or seeking the resignation of non-performing directors.

4.5.5 The Board shall disclose, in the Corporate Governance Report to the Commission, the total number of Board meetings held in the financial year and names of the directors that attended each of the meetings.

4.5.6 The Board shall state in its Corporate Governance Report to the Commission, how such performance evaluation was conducted and actions taken to address the issues brought to fore as a result of the evaluation.

4.5.7 To bring objectivity to the process, the Board may consider the use of external third party to conduct the evaluation,

4.5.8 Where the use of external third party is not desirable, the PFA/PFC may decide to design and institute its own internal board review and evaluation process, or the following shall apply:

(a) The NC shall be responsible for evaluating the performance of the Board as a whole;

(b) the non-executive directors, led by the Independent Director, shall be responsible for performance evaluation of the Chairman, taking into account the views of the executive directors;

(c) the Chairman and the non-executive directors shall be responsible for the evaluation of executive directors; and (d) the Chairman and the executive directors shall be responsible for the evaluation of non-executive directors.

4.5.9 Where the PFA/PFC decides to design and institute its own internal Board review and evaluation process, as specified in

4.5.8, details of such processes shall be forwarded to the Commission for prior approval. 4.5.10 The following questions shall form the basis of the performance evaluation. They are, however, by no means definitive or exhaustive and the PFA/PFC shall be at liberty to tailor the questions to suit their own needs and circumstances:

4.5.11 **The Board:**

(a) How well has the Board performed against any performance objectives that have been set?

(b) What has been the Board's contribution to the testing and development of strategy?

(c) Is the composition of the Board and its committees appropriate, with the right mix of knowledge and skills to maximize performance in the light of future strategy?

(d) Are inside and outside the Board relationships working effectively?

(e) How has the Board responded to any problems or crises that have emerged and could or should these have been foreseen?

(f) Are the matters specifically reserved for the Board the right ones?

(g) How well does the Board communicate with the management team, company employees and others?

(h) How effectively does the Board use mechanisms such as the Annual General Meeting?

(i) Is the Board as a whole up to date with latest developments in the regulatory environment and the market?

(j) How effective are the Board's Committees? (Specific questions on the performance of each committee should be included such as, their role and effectiveness, their composition and their interaction with the Board.)

(k) Is appropriate and timely information of the right length and quality provided to the Board and is Management responsive to requests for clarification or amplification? Does the Board provide helpful feedback to Management on its requirements?

(l) Are sufficient Board and Committee meetings of appropriate length held to enable proper consideration of issues? Is time used effectively?

(m) Are Board procedures conducive to effective performance and flexible enough to deal with all eventualities?

4.5.12 **The Chairman:**

(n) Is the Chairman demonstrating effective leadership of the Board?

(o) Are relationships and communications with shareholders well managed?

(p) Are relationships and communications within the Board constructive?

(q) Are the processes for setting the agenda working? Do they enable Board members to raise issues and concerns?

(r) Is the Company Secretary being used appropriately and to maximum value?

4.5.13 **The Directors:**

(s) How well prepared and informed are they for Board meetings and is their meeting attendance satisfactory?

(t) Do they demonstrate a willingness to devote time and effort to understand the company and its business and a readiness to participate in events outside the Boardroom such as site visits?

(u) What has been the quality and value of their contributions at Board meetings?

(v) In the case of Executive Directors, how well have they handled the day-to-day operations of the company?

(w) What has been their contribution to development of strategy?

(x) How successfully have they brought their knowledge and experience to bear in the consideration of strategy?

(y) How effectively have they probed to test information and assumptions? Where necessary, how resolute are they in maintaining their own views and resisting pressure from others?

(z) How effectively and proactively have they followed up their areas of concern?

(aa) How effective and successful are their relationships with fellow Board members, the Company Secretary and senior management?

(ab) Does their performance and behaviour engender mutual trust and respect within the Board?

(ac) How actively and successfully do they refresh their knowledge and skills and are they up to date with the latest developments in areas such as corporate governance framework, financial reporting and the industry and market conditions?

(ad) How well do they communicate with fellow Board members, senior management and others, for example shareholders? Are they able to present their views convincingly, yet diplomatically and do they listen and take on Board the views of others?

The Board shall, on an annual basis, undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors. Individual evaluation shall aim to show the contribution of each director to the Board, including time committed for Board and committee meetings and any other duties.

4.6 Re-election of Members of the Board

4.6.1 Directors shall be appointed for specific tenors, subject to re-election in line with relevant statutory requirements and sections of the Memorandum and Articles of Association relating to the removal of a director.

4.6.2 The re-election of a director shall not be automatic and shall be based on the favourable performance of the director on the Board.

4.6.3 Where a director is not re-elected thus causing a vacancy on the Board, the shareholders shall appoint another director to replace the outgoing director, in line with the provisions of the Guidelines for the Appointment of Board and Top Management Positions in PFAs and PFCs, GL/APPT/01, issued by the Commission.

5.0 Code on Industry Transparency

5.1 Conflict of Interest - Relationship between PFAs and PFCs

5.1.1 The PFA shall not have any relationship with the PFC with which it chooses to do business, as specified in the Code of Ethics and Business Practices, issued by the Commission.

5.1.2 A relationship as in 5.1.2 above shall be deemed to exist in situations where:

(a) any director in a PFA is an employee or principal officer or shareholder in a PFC that the PFA appoints to carry on any form of business on its behalf, or in its subsidiary or associated company, or its parent bank;

(b) any director in a PFA is a director on the Board of a PFC later than two months after its financial year end.

5.4.3 The report shall include the description of corporate governance practices instituted in the company within the reporting year and shall also disclose and explain any deviation from any guideline of the Code. Specifically, the report shall include reports on:

(a) Delegation of authority by the Board to any Board Committee, to make decisions on certain Board matters.

(b) The number of Board meetings held in the year and the attendance of every Board member at the meetings.

(c) The number of Board committee meetings held in the year and the attendance of every Board committee member at the meetings.

(d) The terms of reference of all Board committees.

(e) The type of material transactions that require Board approval under the company's internal guidelines.

(f) The nature of a director's relationship and the reason for considering him as independent, where the company considers him to be independent in spite of the existence of a relationship as stated in 5.1.4 above that would otherwise deem him as non-independent.

(g) The relationship between the Chairman and the CEO where they are related (spouse, child, adopted child, step-child, brother, sister and parent) to each other.

The PFA shall not have any relationship with the PFC with which it chooses to do business, as specified in the Code of Ethics and Business Practices, issued by the Commission.

(h) The composition of the Nominating Committee.

(i) The process for the selection and appointment of new directors to the Board.

(j) Key information regarding directors, which directors are executive, non-executive or considered by the Nominating Committee to be independent.

(k) The process for assessing the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board.

(l) Composition of Risk Management, Investment Strategy and Audit Committees and details of the committees' activities.

(m) The adequacy of internal controls, including financial, operational and compliance controls and risk management systems.

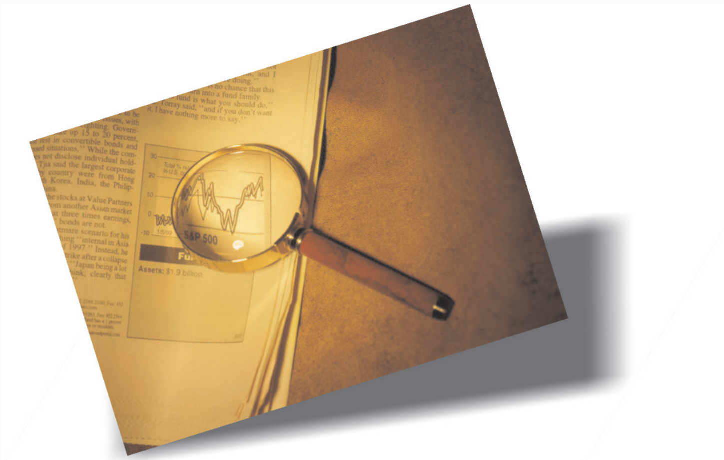
(n) How performance evaluation of the Board, its committees and its directors has been conducted.

5.4.4 The PFA/PFC shall attach the outcome of the annual evaluation of the Board, the Board committees and the directors, referred to in

5.5.1 above, to its Corporate Governance report.

5.5 Non Compliance

5.5.1 Non compliance to this Code will attract sanctions by the Commission



BANKING: QUALITY & INTERNAL CONTROL CHALLENGES

* By CHUKS NWAZE

In the first part of this serial we introduced the concept of service failure from the point of view of poor service quality and inadequate internal controls. We also looked at the undesirable consequences of fraud which is the ultimate destination of inadequate internal controls. However, all these were done in a rather generic fashion.

In this edition, we shall discuss the specific types of fraud in the banking environment as well as their impact on the service delivery machinery. For the sake of clarity, we shall categorise this into two: executive frauds and other frauds.

EXECUTIVE FRAUDS

Here, we shall look at the privileged few within the management echelon in the banking environment and the kind of things they do with their positions.

As the name implies, executive fraud refers to the situation where an employee uses the power, influence or other advantages that are conferred on him by his position or job function to make money for himself either through corruption or outright fraud at the expense of his employers.

It should be noted that because of the banking sector requirement for the highest level of trust, integrity, transparency and accountability, the dividing line between bribery, gratification, corruption and outright fraud is rather blurred, hence these terms can be used interchangeably. However, for our current purposes, we shall continue to refer to 'fraud' as the other terms are more applicable to public sector environments.

It is also important to note that there is no strict demarcation between executive frauds and other frauds which we are also going to discuss soon. The difference is simply the level of decision making, the rank of the perpetrator and the pattern of execution.

CHARACTERISTICS OF EXECUTIVE FRAUDS

Executive frauds present the following features:

They are difficult to prevent, detect or manage as the movement of fund is not always evident; no vouchers, no entries, no cheques, no physical cash, yet fraud is taking place, often on a horrendous scale.

- They usually involve the top executives of the bank who are taking the strategic, economic and financial decisions which, inevitably, results in the dispensation of favour either to others or to themselves or both.

Executive fraud refers to the situation where an employee uses the power, influence or other advantages that are conferred on him by his position or job function to make money for himself either through corruption or outright fraud at the expense of his employers.

- The level of secrecy and confidentiality are very high while planning and execution are faultless which is an obvious reflection of the calibre and intelligence of the people involved.
- Although the mastermind of an executive fraud must be an insider, an outsider may be involved as a matter of necessity to play the vital role of conduit. It does not need a large number of participants. Only a small syndicate with very loyal members; most of the time only two persons are involved.
- Even when the fraud or scam is discovered, it is not that easy to determine the actual amount involved because of the paucity of evidence, coupled with the strong accord as well as the tenacity and unity of purpose existing between the members; in fact, discovery is usually accidental.
- Although investigation may be conducted as a guide to the magnitude or ramifications of the fraud, the chances of recovery of the fund are very slim while prosecution is almost impossible not only because the amount involved is not clear but also because the executive mastermind is often linked or connected to the ownership.
- Executive frauds have the potential for adverse publicity and negative image in view of the amount involved as well as the status of personalities, hence the bank deliberately under-plays the matter, forecloses prosecution and avoids the media.

DISCOVERY OF EXECUTIVE FRAUDS: CHALLENGES

The characteristics of executive frauds earlier highlighted also constitute formidable obstacles to detection, investigation or recovery. In addition to that, however, the

The concept of executive fraud is very intriguing as the loss of money or the amount involved is ordinarily not evident to the unsuspecting on-looker.

following factors also present additional challenges to the detection of this category of frauds in the banking environment:

• Although the initial planning and negotiation may be done secretly as earlier mentioned, the implementation is done in the normal course of daily routine; nothing unusual, whatsoever.

• There is no visible contravention of operational procedures, guidelines or processes and there is no interruption in the normal flow of customers and service delivery.

• Since the arrow-head is often the branch manager, departmental or divisional head, it is not usually discussed in the open, even if it is open knowledge, for fear of intimidation, victimization or other reprisals from the "boss" until there is enough evidence to trigger investigation by inspection or internal audit department.

• The 'big man' has enough clout and financial resources not only to maintain good relations with law enforcement agencies and keep them at bay, but can also afford the services of good lawyers to defend himself if it comes to that.

• He has a large army of smart, intelligent and loyal disciples who have benefited from him in one way or another and who are ready, able and willing to swear to his honesty, integrity and transparency, including the imputation of ethnic, tribal or other sentiments as the reason for his "persecution".

• He is also in a position to slow down investigation by destroying evidence, blackmailing investigators or raising controversial issues.

TREATMENT OF EXECUTIVE FRAUDSTERS

The following approach is recommended with respect to this category of individuals; on a step-by-step basis:

Conduct Investigation Behind Closed Doors

As much as possible, the investigation should be conducted in camera as it would be easier to get cooperation and evidence; this also preserves the sanctity of his exalted office and protects the occupant from ridicule since he is still in the bank.

Use Senior Inspectors

The investigation proper should be carried out by senior investigators or inspectors to avoid undue intimidation and disrespect on the part of the accused which will be the case if an inspector of banking officer rank is sent to go and investigate a general manager.

Punish or Apologize

Care must be taken to establish the veracity or otherwise of the allegation; commensurate punishment or apology must be administered on the executive, depending on whether he has been found guilty or the allegation is baseless. If the latter is applicable, he deserves an apology.

Report to Professional Body

In the event that the executive is found guilty and he belongs to a professional body, (e.g. chartered accountant, chartered banker, lawyer etc.), appropriate report should be made accordingly. This is a very bitter tonic and should be administered only when grievous fraud has been committed.

Give Publicity
Depending on the seriousness of the fraud, the amount involved and his own disposition, it may well be necessary to publicize the fraud. However, banks seldom do this for the reasons of public image already discussed. At best, it is reported to regulatory authorities

EXAMPLES OF EXECUTIVE FRAUDS

As mentioned earlier, the concept of executive fraud is very intriguing as the loss of money or the amount involved is ordinarily not evident to the unsuspecting onlooker. Yet, the financial benefit derived which also represents the loss incurred by the bank can be colossal. We must hasten to add, however, that while the vast majority of them translate to benefits in physical cash for the perpetrator, those of them that are discreetly engineered by the ownership or top management do not. The more common examples of executive frauds include, but not limited to the following:

Loan Application through Fronts: This is a system where the executive directs an organization owned, sponsored or promoted by him or a member of his family to apply for a credit facility in the bank for which he works. He uses his position to ensure that the facility is granted on favourable terms and the money comes to him even when the application would ordinarily not scale the hurdle. Sometimes, he has no intention of paying back the loan since the purported project may be a phony one. The facility goes bad and the bank is the loser.

Foreign Exchange Transfer Profiteering: In this case, a customer works into the banking hall and requests for an FX transfer service at an agreed exchange rate. Although this particular transaction is illegal from the point of view of regulatory authorities, it is an open secret that some of the banks engage in it, but that is not the issue here. As the foreign exchange rate is rather volatile, the branch manager confirms the rate at that moment and adds his own profit to it. He now goes ahead to strike a deal with the unsuspecting customer, debits his account with the whole amount, transfers the correct figure overseas and withdraws the difference (representing his profit) in cash.

A close understanding of the system shows that it is the customer that has lost money in this transaction and not the bank. The executive (i.e. branch manager) is simply guilty of setting up a parallel money making machine in competition with the bank for which he works which is unethical.

He can make a deal with the beneficiary on how much to ask for which will be subsequently shared between both of them when it is released. Alternatively, the executive can request for a specific amount from the bank to accomplish the objective, he goes ahead to pay a fraction of that to the beneficiary and pockets the balance.

Business Development/Public Relations Payments: Like all executive frauds, this one does not involve debit or credit to any internal or customer account that is outside the normal run of transaction processing. As the title is cosmetic, the substance of the matter is that those who assist the bank to get bulky or juicy deposits or other much needed favours are rewarded through cash payments.

The executive who is entrusted with that responsibility can line his own pockets in either of two ways. He can make a deal with the beneficiary on how much to ask for which will be subsequently shared between both of them when it is released. Alternatively, the executive can request for a specific amount from the bank to accomplish the objective, he goes ahead to pay a fraction of that to the beneficiary and pockets the balance. There is no receipt issued, no proof of disbursement and no reconciliation of any account

Customer opens account in other banks and builds artificial turnover in one bank by lodging instruments from his accounts in the other banks. Immediately the money clears he withdraws it and re-cycles again. Thus, the same amount of money is moving round different banks and generating turnover, the purpose being to improve his eligibility for loans.

Loan Recovery Fraud: In this case, the account officer or loan recovery executive advises the bank debtor on how to apply for waivers on interest or principal instead of paying the entire loan. The banker himself writes the application for the customer's signature which will be subsequently approved. Hence, the defaulting customer pays part of the outstanding amount to the bank, pays an agreed percentage or amount to the banker while the balance is written off, inevitably, by the bank.

Cost of Fund - Interest Padding: There is also the issue of paying depositor very high interest rate over and above the figure stipulated by the bank, in return for gratification. The way it works is as follows: If the deposit rate applicable to a specific amount is X% per annum, the manager gives the depositor X+2%. The additional 2% is shared between him and the depositor. The effect of this is that the bank's cost of fund increases which translates to a decrease in net profit. The executive can also line his pockets with gratification by charging the borrower a lending rate which is lower than expected; again the bank is the loser since the interest income will be less.

Property Rental Frauds: It is still the executives that are involved in the negotiation of the initial payments on the various rented property used by the bank and also renewal of existing ones. Hence, they have also devised ingenious ways of smiling their way to their bank accounts just as all other Nigerians involved in the execution of such assignments irrespective of where they work.

For instance, the bank officer bargains with the property owner and they agree on ₦X million. Thereafter, the executive rushes to his CEO or chairman and says it is ₦X + 5million and promptly gets approval for the disbursement of same to the landlord who in turn returns either the entire ₦5 million or a good proportion of it back to him, depending on the kind of deal that was struck.

The effect is similar to the preceding one, a higher operating cost and lower profit for the bank.

Over-invoicing on Purchases and other Contracts: Another gold mine at the disposal of senior officers in the banks just as in other organizations is the over- invoicing of LPO's for routine purchases of official requirements, equipment as well as contracts of all types. Although the impression is always given that several contractors were invited or that the job was given to the lowest bidder, this is only a smoke screen as everything is always arranged to meet the pre-determined outcome.

Utilization of Bank's Time and Other Resources: Although the impact is not generally appreciated, the fact remains that the executive that uses his secretary, official hours, bank stationery, official car, telephone, fax machine, photocopier etc. to run his personal business in addition to his full emoluments from the bank where he works is also committing fraud of monumental proportion with obvious implications for the bank.

Competition with Employer: It is a well-known fact, especially within the industry, that many bank managers and other well-positioned executives have set up deposit and lending outfits which are actively competing with their employers that are still paying their jumbo salaries.

Many of the businesses are flourishing so well that potential depositors and borrowers are being diverted to those places at the expense of the bank. Surely, this is not only fraudulent but also an abuse of office.

OTHER FRAUDS

When we talk of fraud in the banking industry, the type of frauds being referred to are the frauds that we are about to examine.

It is clear enough that this ugly phenomenon called fraud poses a formidable challenge not only because of the colossal financial losses involved but also having regard to the erosion of image and confidence in the banking sector which is a cardinal player in the economy.

Although there can be no exhaustive list of frauds, the following are examples of the more common ones which confront the banking industry on a regular basis:

PRESENTATION OF CLONED CHEQUES

This refers to the practice of presenting a 'fake' instrument to collect money from a customer's current account, while the genuine cheque leaf will still be inside the customer's cheque booklet. In recent times, it has become rather difficult to distinguish between the original cheque and the cloned one as a result of advancement in technology.

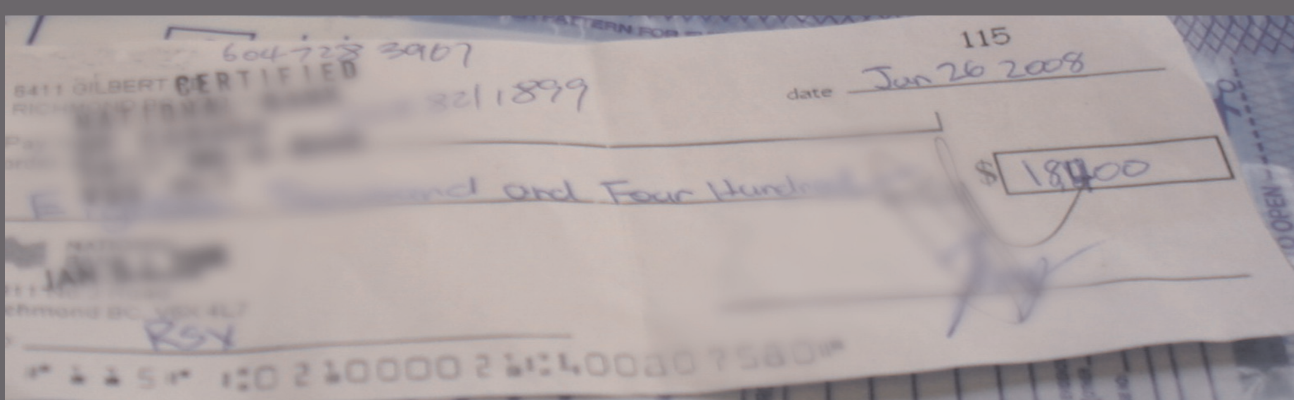
SIGNATURE FORGERY

In this case, the genuine cheque leaf is stolen from the booklet and the customer's signature is forged by the fraudster and used to collect money from his current account in the bank.

SUPPRESSION OF INSTRUMENTS

This can take any of the following forms:

- Incoming clearing cheque not debited to the customer's current account



- Customer is paid cash across the counter while his instrument is not debited into his account
- Customer receives draft in exchange for his own instrument and his account is not debited accordingly.

CASH SUPPRESSION

Cash can be suppressed in any of the following ways:

- Customer deposits cash across the counter and his account is not credited
- Customer drops his withdrawal instrument but does not receive cash or is short-paid.

FORGERY OF SIGNATURE ON MONEY TRANSFER INSTRUMENTS

Money transfer instruments such as bank drafts, certified cheques, banker's payments, etc. can also be forged and used to perpetrate fraud. Here, the documents will be genuine but the signatures will be forged to create the impression that it was duly authorised or signed by bank officials.

THEFT BY TELLERS

Dishonest front office staff who maintain regular interface with physical cash such as tellers are often found to have committed outright theft or pilfering. It is for this reason that many banks discourage them from wearing jackets into their work area to ensure that they are not tempted to hide money inside these clothes.

CHEQUE SUBSTITUTION

This particular fraud requires high efficiency in planning and execution and calls for a higher level of control and vigilance to detect it. Although it can be accomplished at several other points in the clearing process, it usually involves the intersection of the clearing box between a branch and head office central clearing department during which a particular clearing instrument is substituted with another one bearing the same amount and date but made payable to a different payee. In effect, the correct amount of money is cleared for the benefit of a wrong person.

OPENING OF FICTITIOUS ACCOUNTS

This is usually a prelude to cheque conversion. For instance, a fraud account can be opened in the name of FBIR Ltd., into which genuine but stolen instruments belonging to the Federal Board of Inland Revenue will be lodged and duly collected for the fraudster by either an unsuspecting or a collaborating banker.

KITE FLYING / CROSS FIRING

These are two different but related practices whose success has been severely limited in recent times by advancement in technology and other reasons.

• In one instance, customer deposits 'dud' inter-branch instrument and gets immediate credit. Since long distance branches are usually selected, before the cheque is returned (for lack of funds), several days would have elapsed during which customer would have used the money before repaying it. However, with the on-line real-time processing which has currently become the order of the day, this fraud is no longer popular, especially as clearing days have also been greatly shortened.

• In another case, customer opens account in other banks and builds artificial turnover in one bank by lodging instruments from his accounts in the other banks. Immediately the money clears he withdraws it and re-cycles again. Thus, the same amount of money is moving round different banks and generating turnover, the purpose being to improve his eligibility for loans. In recent times, however, lending decisions are made on the strength of several other factors, historical turnover is only one of them.

ABUSE OF SUSPENSE ACCOUNTS: In this case fund is released but no specific customer account or internal account is debited; instead the amount is warehoused in a suspense account to balance the transactions of the day. There are three reasons for doing this by a banker:

• To delay investigation where fraud has taken place

Thus, the same amount of money is moving round different banks and generating turnover, the purpose being to improve his eligibility for loans. In recent times, however, lending decisions are made on the strength of several other factors, historical turnover is only one of them.

• To buy time to enable him replace the money he has collected without authority.

• To buy time for a customer whose account would otherwise have been thrown into a debit position without prior approval.

UNAUTHORIZED RELEASE OF SHIPPING DOCUMENTS: This refers to the release of shipping documents or title to goods without payment by importer as required. It is achieved through financial inducement.

TEAMING AND LADING: This is a common fraud not only in banks, but also in any organization where customers pay cash in settlement of their bills. The cashier simply does not credit the account of NITEL, NEPA or whoever is the beneficiary of the bill, or he does so at a much later date with cash collected from another customer. In effect, some of the lodgments will be converted on a temporary basis while others will be permanently stolen by the cashier.

PRINTING OF CONTROL DOCUMENTS: Control documents include cheque books, investment certificates, letter-heads, withdrawal slips, deposit slips, money transfer documents, safe custody receipts, etc. each of which could be printed and used as if it genuinely originates from the bank. As colossal amounts of money might be involved in frauds of this nature, there is need for stringent internal controls over these documents as well as careful scrutiny whenever they are presented by outsiders as a basis for transaction with the bank.

FRAUDULENT FAX AND TELEX MESSAGES: These are modern, fast and very convenient media of data and fund transfer. Unfortunately, however, they are also targets of sophisticated fraud of horrendous magnitude and impact, especially where transfer of foreign exchange system by telex is involved.

FORGERY OF AIR TICKETS AND TRANSPORTATION RECEIPTS

It is a common occurrence for staff of banks and other organizations to collect money for air ticket in respect of an official duty only to turn round and go by road. Later, they go to the airport to procure used tickets to cover their tracks. In a similar manner, they can also purchase blank car hire receipts and claim transportation expenses which they never incurred. Most organizations are aware of this type of fraud but they seem not to be interested in fighting it. It could also mean that this category of fraud is difficult to track.

DIVIDEND CONVERSION FRAUDS

This has grown in popularity in recent times. Fraudsters impersonate genuine payees of dividend warrants and open current accounts in those names with forged documents. Stolen dividend warrants are then paid into those accounts which are cleared by unsuspecting or collaborating bankers.

TERM LOAN DISGUISED AS LEASE

There is an interesting kind of fraud being quietly perpetrated mostly by the lower and middle level staff of banks and other organizations who are desirous of taking term loans from banks but do not meet the stringent requirements. Although the fraud is usually perpetrated on a bank, the applicant does not need to be a banker.

It works like this: An employee approaches a bank and applies to lease a consumer asset such as generating set or household items such as refrigerator, television set, C.D player, washing machine, etc. repayable in twelve, eighteen or twenty-four months. He brings an invoice from a dealer of the item he wants to lease as well as a letter from his employer confirming his employment status as well as earnings. This forms the security for the lease, together with the asset being leased.

On approval of the lease, a cheque representing the price of the asset is made out in the name of the dealer. Since the applicant is not actually acquiring any asset, the dealer clears the cheque and hands over the proceeds to him, less commission or bank charges. Hence, although he applied for a lease, he has received a term loan which he pays on a monthly basis as long as his job continues.

It is important to note that there is no strict demarcation between executive frauds and other frauds. The difference is simply the level of decision making, the rank of the perpetrator and the pattern of execution.

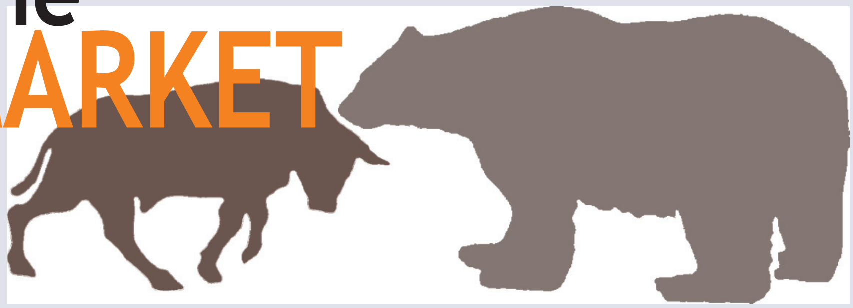
Being a lease contract, if the lessee defaults for any reason, the bank should repossess the asset leased; however, there will be no asset to repossess since the lessee did not take delivery of any. The dealer of the asset only played the role of an intermediary between the loan applicant (i.e. the lessee) and the bank (i.e. the lessor).

This fraud is not evident until there is a payment default and the lending bank attempts to enforce the conditions of the lease contract. It is only then it will be discovered that the security (i.e. the leased asset) does not exist and that there is nothing to lay claims to. As bankers and other employees are going out of job, many more lending banks are finding themselves in this ugly situation.

In the next part of this serial, we shall look at electronic banking frauds and the peculiar challenges it poses to service delivery.

(Chuks Nwaze is the Managing Consultant, Control & Surveillance Associates Limited)*

Bearish Trend: Time For STOCKTAKING At The STOCK MARKET



* By Vincent Nwanma

A call came through on my phone. The caller introduced himself: a trader who, a few years ago, became converted into the fold of stock investors. On the whole, he had invested about five million naira in stocks and had looked forward to a robust growth in his portfolio. But now, as he watched the stock prices in their free fall, he was full of regrets: he should have continued in his "buying and selling" that he has known all his life. He had read my book and was impressed. What should he do now? He was seeking my counsel.

We were separated by a physical distance of more than 600 km, but I could feel the hurt in the caller's voice. He sounded like someone who had been misled, lured into a seemingly right way by a friend, only to be left in utter darkness. As he watched the prices of his stocks, his portfolio was made up of mostly banking stocks, plummet, his heart sank, naturally.

At the time of his call – sometime in late June, 2008-ALL the banking stocks on the Nigerian Stock Exchange have fallen below their values at the beginning of 2008! And anyone familiar with the sterling performance of the market in the last part of the preceding year, knows that the stocks in question would have lost a great deal to have entered into the negative region by the middle of the year. This therefore should give the reader an idea of how much the caller's portfolio had shrunk by at that time.

The caller's case mirrors the agonies and traumas of millions of small investors, especially new converts, proselytes as it were, who have in the last three years or so, been converted and enthusiastically jumped unto the bandwagon of investors in Nigeria's stock market. With the fall in share prices, they have understandably been troubled, and wished, as the caller said, they had continued in the ways they had known all their lives.

The reaction to the near market crash situation is not necessarily "why" it happened. It goes beyond that. Much more important is for concerned operators, investors and regulators alike to learn from it so they can forge a common front to secure the future for this market.

As traumatic as the market downturn has been, it has presented a valuable time to reflect on the true nature of the capital market and see where the whole system went wrong.

Market operators, investors, regulators and analysts blame various factors as being responsible for the debacle. First, it is clear that the entire phenomenon was (is) the product of several factors, some of which came as part of the growth process in the nation's capital market. For a market that for the most part of its existence since 1961 had remained virtually an elitist club, the exponential growth it experienced in the wake of the banking consolidation was bound to produce the kind of consequences we have witnessed.

However, it has offered good lessons in the operations and rules of the capital market. These are universal, time-tested rules that operate as effectively in the advanced or mature markets in Europe, America and other places. What the Nigerian experience has so demonstrated is that violation of the rules must attract the appropriate sanction from the market itself, because the market is no respecter of persons.

Genesis of the Bearish Trend

Recall that prior to the public offer binge by banks in the run-up to the recapitalisation deadline ordered by the CBN, the percentage of the Nigerian population that held shares in the capital market was quite negligible. But bank-

ing recapitalization was to change that in a notable way. Following the advert blitz mounted by the banks, the regulators, especially the Nigerian Stock Exchange, and even some of the brokerage firms, knowledge of the stock market spread rather rapidly.

A professional stockbroker Ralph Emereuwa summarized the situation thus: "In the last one or two years, so many kinds of people have come to the stock market – even some business people who wound up their businesses and came into the market, expecting to make it bigger than they have done in their businesses."

"But they did not have a proper understanding of the market. It's a long-term market, not for short-term transient gains," he insists.

Individuals who hitherto had known only their trades and jobs as the legitimate means of earning income, were introduced to this market. To some of them the market was just another wonder of the world: that you could invest a few millions of naira in the market, and without undertaking any further work, you earned some multiples of that amount in just a few months'!

The banks and the companies involved in the flurry of public offers began to target some identified potential sources of funds, and aggressively went after them. This opened the floodgate to a mixed multitude of investors: civil servants, students, the unemployed by who could lay hands on some idle funds, traders whose previous preoccupation had been importation of goods, some from Asian countries, etc. They brought their perspectives of business turnover to the stock market. If they could successfully turn over their imported goods several times in a year, it was quite possible to do the same with their stocks, a process that involved less stress.

The issuers also identified several business and professional associations, churches, community associations, etc, as potential targets, and went after them.

The banks approached this matter with ingenuous creativity that in most cases ensured their success. They set targets for their staff, each according to his or her position in the organization. Some were given targets of more than a hundred million of naira, to be raked in during the offer period of about four weeks. And mind you, staff promotions in some of the banks were tied to employees' performance in the offer exercise.

Almost immediately, the rattled employees remembered their townsmen and women, their schoolmates and neighbours. They remembered their church members and professional colleagues. They remembered the big organisations that had idle cash stashed away, earning no returns, and they knew as bankers that it was not good business practice. And they went after them. The bankers – even with their limited understanding of the market - explained the workings of the stock market and the huge benefits of investing in stocks. They informed the potential investors that in fact one could sell these shares whenever one wanted to do so. Many banks hired stock market professionals to help educate the public, and in the process secure customers for the offers.

"In the last one or two years, so many kinds of people have come to the stock market - even some business people who wound up their businesses and came into the market, expecting to make it bigger than they have done in their businesses."

This led to the influx of many investors, including some who could not distinguish between money market and the capital market. Many came into the market for the purpose of making quick gains, a carryover from their trades.

The number of investors and amount in the capital market overwhelmed the issuers.

Thus, market in a flash moved from undersubscription to over- subscription in several multiples; this led virtually to the death of the primary market. Anyone familiar with this market would recall clearly that a few years ago, some companies had to warehouse some of their stocks after the public offers, as the reluctant and uninformed public shunned the offers. In fact, in a few cases, some public offers were cancelled

Anyone familiar with this market would recall clearly that a few years ago, some companies had to warehouse some of their stocks after the public offers, as the reluctant and uninformed public shunned the offers. In fact, in a few cases, some public offers were cancelled because they failed to meet the minimum patronage/subscription level.

because they failed to meet the minimum patronage/subscription level.

That changed fast. Offer after offer experienced a high degree of oversubscription. In each case investors were allotted mere fractions of the amounts they applied for. First Bank, Dangote Flour, Bagco, Zenith Bank, Access Bank, and lots more: they all were massively oversubscribed.

This is the point where the impact of margin account facility became evident. Industry sources say a sizeable chunk of the funds that were chasing the public offers came via margin facilities advanced to clients of brokerage firms. With so much money at their disposal, the clients had unfettered "buying power" with which to demand for the stocks. The impact of this on prices could not be seen on stocks in the primary market, where prices are fixed during the offer period. But it soon became evident in the secondary market, where the "returned monies" were subsequently channeled.

Consequently, attention soon shifted to the secondary market, where stocks, including the penny stocks, long overlooked by many investors, began to dry up as so much money chased them. Their prices began to race upwards in response to the demand pressure that was mounted on them.

Thus, the lucrative nature of the market lured more investors to take more and more loans to buy shares. In fact, in most cases, it was the banks that initiated the moves, suggesting this to their customers, especially when their own offers were involved. And in most cases the purchase of the stocks was done through brokerage houses that are also subsidiaries of the banks concerned.

So, in a singular transaction, the bank stood to gain in many ways: it charged interest rate on the fund given to the customers, in addition to a flat service charge, in some cases 2%; it benefited also through the commission to be charged by its brokerage subsidiary. Usually the agreement was structured in such a way that the brokerage firm would take custody of the share certificate until the customer liquidates the loan, including payment of the relevant fees.

This marked the start of the journey by many into the world of margin trading. It went even beyond the primary market, as the investors got offers from their brokers for margin trading facilities. The facility in some cases worked like: "Bring one and take one." For instance, if a client had stocks worth about two or five million naira, depending on the minimum requirement in a particular firm, then the brokerage house would grant him an equivalent amount in facility. But in some instances it was a case of telling a child that fire is used to cook the food that the family eats, without telling the baby that the same fire could burn and hurt someone.

"Given the way margin accounts are structured, once the price of stocks falls below the value that the borrower is supposed to contribute, the banks are supposed to sell," notes Emereuwa. How many of the beneficiaries of the margin account facilities knew about this condition ab initio is not certain, but industry operators believe many did not.

Whether the funds were provided by the banks or by brokerage firms, the truth is that they were commercial loans. And the readers should not forget that the banks and the brokerage firms are in business to make profit. They cannot therefore fold their hands and watch their loan portfolios deteriorate.

Perhaps there would have been no problem with the above scenario but for the twin impacts of margin account trading and the short-term disposition of a majority of the new entrants into the capital market. Borrowing to invest invariably means taking a long position on the market - the investor expects the prices to rise – but how soon that happens and by how much depend on the market conditions. Now, combine this with the trading (buying and selling) or short-term disposition of some of the new entrants, and what you get is a market that was under undue pressure to climb up. This explains the confession by some market operators that part of the increases in stock prices witnessed in the market came from such speculators.

How Did the Bubble Burst?

The table below presents the progress of the stock market for eleven years beginning from 1998. The exponential growth in both the All-share index and the market capitalisation in 2007 could be seen as the lagged effect of the various activities thus far noted earlier: the flurry of public offers, and the consequent influx of new entrants into the market. Their activities produced several consequences that became evident last year, especially in the high prices of stocks and the opportunity for quick gain from the market.

The above scenario sowed the seed for the inevitable burst. Part of prelude to the burst was disappointing corporate results, especially in the insurance industry. Following the recapitalisation in that sector, expectations were high that the insurance sector was set for dramatic turnaround. Besides the recapitalisation, insurance companies were also expected to benefit immensely from the government's Local Content Policy in the oil and gas industry, which was expected to see local insurers garner larger chunks of insurance underwriting in this industry. But that expectation has not been realised.

"Initially, everyone thought the insurance stocks would create a huge market. Although it did, corporate results from that sector were poor, and that affected the psyche of the investors," says Sam Onukwue, a stockbroker and managing director of Mega Equities.

Insurance stocks, the most visible of the penny stocks on the NSE, became the toast of several investors, who saw great prospects in that sector that was emerging from several decades of misrepresentation. As investors swooped on them during the scramble in the secondary market, their prices rose astronomically. But the poor results released by many of the companies this year have jolted many of the investors. Consequently, some insurance stocks had lost as much as 40% of their 2007 end-of-year values by July 2008.

Onukwue also believes that part of the discouragement to investors came from other policy statements by the regulatory authorities, including their stand on private placements by companies. According to him, many investors participate in such placements in the hope of capital gains between the (usually low) prices at which stocks are offered in such placements, and the prices at which they are ultimately listed on the Exchange.

However, as the spate of private placements rose, SEC and NSE warned the investing public of the dangers inherent in such activities. Besides, they also announced that such equities would henceforth be listed at the prices at which they were offered. This, says Onukwue, became a disincentive to investors.

But long before the downturn came, there had been warnings that the upward climb of prices would soon stall and in fact begin a reverse trend. Those who predicted this argued there was going to be a market correction. That was a tacit admission that some stocks had indeed been priced far beyond their true worth.

Performance of the Nigeria Stock Market, 1997-2007

Year	All-Share Index	Growth (%)	Market Cap (bn)	Growth (%)
1997	6,440.51	-7.9%	282.00	
1998	5,672.76	-11.9%	263.3	-6.7%
1999	5,266.43	-7.2%	300	13.9%
2000	8,111.01	54%	472.9	57.7%
2001	10,963.11	35.%	662.6	40.1%
2002	12,137.72	10.71%	763.9	15.3%
2003	14,565.45	20.0%	919.7	22.8%
2004	23,844.45	63.70%	1,925.9	109.4%
2005	24,085.76	1.01%	2,523.49	31%
2006	33,189.30	37.80%	4,227.13	67.5%
2007	57,990.22	74.73	10,180.29	140.83%
2008				

The Central Bank of Nigeria, SEC

In future , when the history of the development of Nigeria's capital market would be written, the catalytic role of the CBN will certainly occupy a large space. The banking reform programme offered to Nigerians a unique opportunity to become part of a market that for decades had remained an elitist club. But in the face of the lingering bearish trend in the market, both investors and some operators have pointed accusing figures at the regulatory authorities, blaming them for the margin account debacle. According to these people, CBN, in conjunction with other regulators such as the Securities and Exchange Commission, allegedly instructed the banks to withdraw the margin facilities that had enabled investors to put so much pressure on the market. This was an easy story to sell, especially given that within the same period, the leadership of the NSE changed the name of the account from Margin to Custody Account.

The allegation was that the regulators believed that this market has been driven by speculators, who took substantial loans from banks to play in the market. The CBN has in many ways and on different occasions denied giving such an instruction. Professor Chukwuma Soludo, the CBN Governor, has said this severally. But how much does the market believe him on this point? The denial, says one stockbroker, was merely an afterthought, because the bank never expected that level of impact by the action on the market.

"Their response was aimed at stemming the run on the capital market, but it's not easy to stop that kind of development in the market. You know that in the capital market, people do not listen to that kind of explanation. So, by the time the CBN explanation came, the harm had already been done," says the broker.

Flight to Safe Havens

One of the beneficiaries of the current lull in the equities market is the bond or debt market. As the downturn in stocks continued, many savvy investors, perhaps prodded by their financial advisors, have suddenly seen the beauty of the fixed-income securities. Understandably, the attractiveness of government's bonds has become more glaring against the backdrop of deep losses by the equities, some of which, at the time of this writing, have lost up to 30% of their values this year. Worse still, some stocks in other sectors have lost up to 40% of their values over the same period.

It is thus understandable why many of those who flocked to the equities market have also taken flight, at the earliest warning, to seek protection in the predictable world of debt instruments. As can be seen from the figures published by the Debt Management Office, it is clear that investors have moved more funds into the fixed-income securities. For instance, the FGN Bond May 30, 2018, issued on May 30, 2008, had an issue amount of N20b, but the subscription was N35.08b, showing an oversubscription of 75.4%. But only the issue amount was allotted, according to the DMO records.

It was virtually the same picture with the FGN Bond 9.45% January 25, 2013, issued on June 27, 2008. While only N30b was on offer and also eventually allotted, the total subscription amounted to N46.03b, showing an oversubscription rate of 53.4%. The range of bids for this bond was 9.45% – 12.50%, while the marginal rate was 10.70%.

The above picture contrasts sharply with the result for the Special FGN Bonds for Local Contractors 2011, issued in 2006. Both the subscription amount and the amount allotted of that bond were exactly the same with the amount on offer: N87.646b. This five-year bond has a marginal rate of13.5%, which is the rate at which the full amount on offer was cleared by the various bidders, although each bidder was allotted at successful marginal rates.

Perhaps this is understandable. By 2006 the Nigerian stock market was experiencing one of its great moment since its inception in 1961. That year was just the first year after the expiration of the deadline given by the CBN for banks in the country to meet the minimum capital base of N25 billion. Not many people could resist the attractiveness of the equities market due to the fund raising activities of the banks and the fallouts. Thus in that kind of milieu, with the various opportunities the market

Bid Position on the NSE on November 16, 2007

Stock	Demand (Qty)	Supply
JAPAULOIL	7.15m	0
INTBREW	1.29m	0
CAPOIL	4.35m	0
UNHOMES	4.28m	0
NEM	74.38m	0
CONTINSURE	40.02m	0
CONERST	55.81m	0
NASCON	0.699m	0
LASACO	47.50m	0
ECOBANK	1.59m	0
INTENEGINS	187.61m	0
LAWUNION	82.69m	0
TRANSCORP	0.230m	0
WAPIC	17.35m	0
MBENEFIT	55.60m	0
UNITYBNK	3.19m	0
DUNLOP	0.250m	0
GUINEAINS	17.35m	0
NIWICABLE	1.51m	0

Source: Fidelity Union Securities Limited

	STOCKS	Demand	Supply (m)
1	STACO	-	56.99
2	DUNLOP	-	36.12
3	OMATEK	-	21.69
4	CRUSADER	-	14.82
5	WEMABANK	-	11.50
6	FCMB	-	11.49
7	DEAPCAP	-	8.97
8	CILEASING	-	5.67
9	REGALINS	-	2.75
10	AP	-	0.75
11	BETAGLAS		0.53

potentially offered, not many people contemplated investing in fixed income securities such as bonds.

Also, the directive by the CBN on a uniform accounting year for the banks (their accounting year now runs from January to December), says Onukwue, has helped push interest rates up, as the banks compete for deposits to boost their balance sheets. When they operated different accounting years, he says, the banks freely lent funds to each other, but now, they are struggling to secure as much as possible of the market. And because Nigerians have a penchant for short-term investing, they have been drawn to the money market to take advantage of the new developments there.

Watch Out for the Cycles

What is happening or happened in the market, says Emereuwa, should not come as a surprise to people. But that could only be to people who understand the market. "The market is supposed to move in cycles," he says.

"If the market continues to move in one direction, you wouldn't have to do anything because if you knew that the market could move up or down anytime, this makes it more interesting."

These are some of the factors that have brought us to where we are in this market today. As can be seen from the bid position on November 16, 2007, the market was really moving in one direction. With investors' disenchantment with the public offers and the phenomenon of "returned money," their attention turned to the secondary market. This resulted in the growing list of stocks that were continuously on bid – which meant that there was demand for the stock but no supply from willing or ready sellers.

On Friday, July 18, 2008, only one stock – Julius Berger – was on bid, where 11 others were on offer. This scenario contrasts with the situation in the last quarter of 2007 and also in the early part of 2008, when the list of stocks on bid grew almost everyday.

However, these trends despite the negative impression they give, do not suggest that the market has collapsed, as some people think. It was this thinking that forced such people to sell in fear that the market would continue its downward trend.

The statistics on the bid and offer positions do not really show that investors are dumping their stocks. Yes, *some* people did say so, but if truly the market was collapsing, the list of stocks on offer and their volume would have exceeded what it has been so far. Onukwue says his clients are not dumping their stocks. "They understand the cyclical nature of the market. For someone who is losing money, the advice should not be to sell."

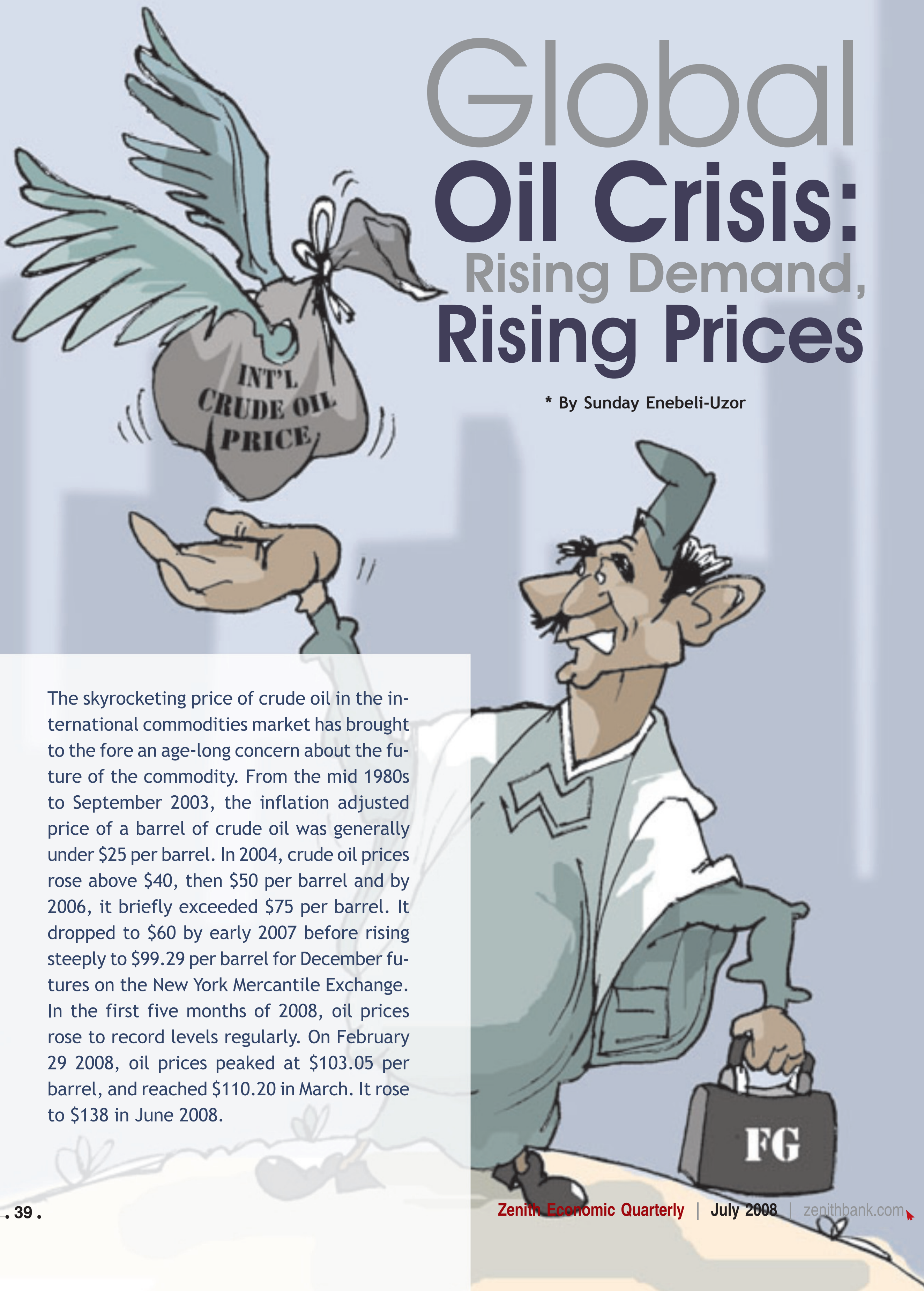
Emereuwa shares this view and stresses that what should bother the investors more is the length of the current downturn. "In the stock market, the most important question is: when a cycle comes, how long will it last? This is the question that should engage the minds of market operators now."

In fact, the current situation even offers savvy investors an opportunity for a greater stake in the market because "when the market is low, that is the time to buy. You can average out," Onukwue advises, because there is hope for a rebound.

*(*Vincent Nwanma, a journalist, is the author of **Creating Wealth Through the Stock Market**, and **Do It Well**.*

Global Oil Crisis: Rising Demand, Rising Prices

* By Sunday Enebeli-Uzor



The skyrocketing price of crude oil in the international commodities market has brought to the fore an age-long concern about the future of the commodity. From the mid 1980s to September 2003, the inflation adjusted price of a barrel of crude oil was generally under $25 per barrel. In 2004, crude oil prices rose above $40, then $50 per barrel and by 2006, it briefly exceeded $75 per barrel. It dropped to $60 by early 2007 before rising steeply to $99.29 per barrel for December futures on the New York Mercantile Exchange. In the first five months of 2008, oil prices rose to record levels regularly. On February 29 2008, oil prices peaked at $103.05 per barrel, and reached $110.20 in March. It rose to $138 in June 2008.

photo: wikipedia.com

OPEC Headquarters, Vienna, Austria

Analysts have predicted that prices could reach as high as $200 a barrel during the next 18 months. In May 2008, Barclays Capital raised its forecast for average crude oil price in 2008 from a previous prediction of $100.80 to $116.90 per barrel. Goldman Sachs issued its prediction that oil prices were likely to rise to between $150 and $200 per barrel within the next two years. Also in June 2008, Russian energy giant Gazprom warned that the price of crude oil was likely to hit $250 per barrel sometime in 2009.

Besides shortfall in supply from some oil producing countries in the Middle East as a result of political tensions, and Nigeria due to the activities of restive youths, analysts have attributed the price surge partly to financial speculations, not just the interplay of market fundamentals. The rise in crude oil prices in recent times has also been attributed to the phenomenal surge in demand from the United States, China, and India. China's demand for crude oil and refined petroleum products has grown exceptionally in recent times. This is due to high growth in industrial production and transportation, thus making China the second largest oil consumer in the world after the United States. The country has also been contending with the United States for the varieties of crude oil that are most easily refined into motor fuels. The apparent unquenchable appetite for crude in the booming economies of Asia – inflated in many countries by generous state subsidies on refined products has also aggravated demand problems.

India's crude oil demand has also been on the rise. India's crude oil imports surged in April to reach a record high of about 2.7 mbpd, increasing by about 220,000 barrel per day or 9 percent from the previous month despite higher crude oil prices. Higher crude oil imports in April brought India's average crude oil imports for the first four months of 2008 to about 2.5 mbpd, an increase of 4.2 percent or 100,000 barrel per day over the same period last year. Refinery utilization ran at 106.6 percent of installed capacity in April, 4 percent higher than a year earlier. Forecasts suggest that robust demand is expected to continue in India, at least through the remainder of this year.

Global demand for crude oil has been on the increase in recent times. World demand for crude oil in 2008 is put at 86.9 million barrels per day. OPEC production accounts for 32.29 million barrels per day (as at June 2008) of global oil supply.

Indonesia Withdraws from OPEC amidst Supply Fears

Amidst the price upsurge of the commodity is the fear of supply shortage. In May 2008, Indonesia, a member of the Organisation of the Petroleum Exporting Countries (OPEC), announced its membership withdrawal. The country has become a net importer of oil due to declining production levels. It however hopes to return to the fold in the future if production improves to the level that gives it a status as a net oil exporter. Indonesia, which joined OPEC in 1962, is the only Southeast Asian country in the 13-member oil cartel. Oil production in Indonesia has steadily decreased in the last decade due to disappointing exploration efforts. The country's current quota for crude oil as set by OPEC was 0.85 million barrels a day (June 2008 deliveries).

The country's oil output has slumped 49 percent from a peak of 1.686 million barrels a day (mbpd) in 1977 while subsidies to cap domestic diesel and gasoline prices may exceed $13 billion this year. Since 1996, total production has dropped by 32 percent. Indonesia raised fuel prices by almost 30 percent in May this year to reduce government's subsidy burden. Indonesia's daily crude output has fallen below 1 mbpd since February 2004. It produced an average 883,000 barrels of crude oil a day in 2006, while its consumption of refined oil products that year was 1.061 mbpd. In 2006, the country imported more oil than it exported and the trend has continued till date.

Are we running out of oil or just crying wolf?

Crude oil no doubt is not an inexhaustible resource; it is nonrenewable and at some point in the future its supply in the Earth's crust will be exhausted. The quantity remaining and how soon the resource will run out have fuelled speculations which have culminated in price increase. Despite the environmental concerns it has raised in recent times, there is still no reliable alternative to the commodity, and the global economy is closely knit to supplies of crude oil. Modern production technique is inextricably linked to crude oil. Its essential role in modern day living makes it indispensable. The future of oil, its ownership and control, have led to several armed conflicts in various regions of the world and in some instances, nations have been forcefully occupied to guarantee its continuous flow.

Every gallon of petroleum burned today is unavailable for use by future generations. Fears of oil scarcity have had a fairly long history. Over the years, geologists and other scientists often have predicted that oil reserves would run dry within a few years. In 1919, the director of the U.S. Bureau of Mines predicted that within the next two to five years the oil fields of the U.S. will reach their maximum production, and from that time on there will be an ever-increasing decline. That same year, National Geographic magazine predicted that oil shales in Colorado and Utah would be exploited to produce oil, because the demand for oil could not be met by existing production. In 1956, Marion King Hubbert forecast that world oil pro-

duction would peak sometime between 1993 and 2000. In 2007, Saudi Arabia, the world's largest exporter of crude oil announced that production is on the decline. The 1973 Arab oil embargo also exacerbated claims that the world's oil supply would be exhausted shortly. The validity of the claim of declining production has not been ascertained due largely to the fact that the economics of crude oil production is often shrouded in secrecy.

Despite the rise in global consumption of crude oil, proven reserves have increased steadily over the years. Enhanced technologies and deep water discoveries have improved forecast of oil reserve in some regions. The actual world oil reserve is not still known despite claims and counter-claims by geologists. To ascertain when crude oil stock will run out, it is pertinent to know how much of the commodity there is. Crude oil stock includes proven reserves, undiscovered resources, and resources which may be potentially recoverable in the future if technology is available. This makes it difficult, if not impossible, to say with certainty when crude oil stock will be exhausted.

Despite the rise in global consumption of crude oil, proven reserves have increased steadily over years. Enhanced technologies and deep water discoveries have improved forecast of oil reserve in some regions.

OPEC Production Quota for June 2008 (mb/d)

Country	Production Quota
Algeria	1.41
Angola	1.90
Ecuador	0.50
Indonesia	0.85
IR Iran	3.84
Iraq	2.44
Kuwait	2.61
SP Libyan AJ	1.72
Nigeria	1.87
Qatar	0.86
Saudi Arabia	9.35
UAE	2.63
Venezuela	2.31
Total	**32.29**

Source: OPEC

U.S. Moves to Force Crude Oil Price down

Agitated by the spiraling price of petroleum products, especially gasoline (petrol) which has hit over $4 a gallon, President George W. Bush of the United States of America beckoned on the American Congress to end a 27-year ban on crude oil exploration in the coastal waters. The President claims that the move would reduce dependence on imports as existing restrictions on offshore drilling were outdated and counter-productive. If this move succeeds, there will be less demand for the commodity from the United States and this will likely stabilise the price of the commodity. A 1981 congressional moratorium has prohibited oil and gas drilling along the east and west coasts and in the eastern Gulf of Mexico, an area accounting for some 80 percent of the United States' Outer Continental Shelf. The federal bans were enacted in part to protect tourism and lessen the chance of oil spills washing on to beaches. The U.S. President has also renewed his call for the Arctic National Wildlife Refuge in Alaska to be opened up to drilling.

The move is already heating up the polity as Senator John McCain, the Republicans' presumptive presidential candidate, is opposed to opening up Alaska and had previously backed the moratorium on drilling in coastal waters. He has however called for the ban to be lifted to help counter U.S. dependence on foreign oil. His opponent, Senator Barack Obama dismissed McCain's call as political posturing. He is rather inclined to conservation and the search for alternative green energy supplies. Be that as it may, U.S. demand for crude oil affects global demand and price and the earlier a solution to U.S. insatiable demand for the commodity is found, the better for all concerned.

OPEC's Position

The Organisation of the Petroleum Exporting Countries (OPEC), a 13-member cartel is a permanent intergovernmental organization created at the Baghdad Conference of 1960. The core mission of OPEC member countries is to coordinate their oil production policies in order to help stabilise the oil market and to help oil producers achieve a reasonable rate of return on their investments. This policy is also designed to ensure that oil consumers continue to receive stable supplies of the commodity.

OPEC has predicted that the price of crude oil could reach $200 a barrel this year. This sounds pessimistic but more realistic when juxtaposed with other predictions and the realities on the ground. The organisation's position is hinged on the fact that the weakening dollar is not showing convincing signs of quick recovery; and youth restiveness in the oil-rich Niger Delta region in Nigeria is continuing unabated. The armed conflict in the Middle-East has also encumbered supply of the commodity. OPEC President Chakib Khelil blames the high price of crude oil on geopolitics and speculation.

World Proven Crude Oil Reserves by Country (2006)

Country	Proven Reserve (mb)
Algeria	12,200.0
Angola	9,035.0
Egypt	3,700.0
Gabon	2,146.0
Libya, S.P.A.J.	41,464.0
Nigeria	36,220.0
Sudan	6,402.0
Africa others	6,405.4
ASIA and PACIFIC	39,016.9
Australia	4,015.0
Brunei	1,105.0
China	16,271.0
India	5,693.0
Indonesia	4,370.3
Malaysia	3,000.0
Vietnam	3,250.0
Asia and Pacific others	1,312.6
Total World	**1,195,318.0**
OPEC	**922,482.4**
OPEC percentage	77.2

Source: OPEC

OPEC production accounts for 32.29 million barrels per day (as at June 2008) of global oil supply. This is about 40 percent of the world's total production. The organisation has repeatedly rejected calls to increase output quotas of its members to boost global supply. It insists that the current upsurge in price is due principally to the weak U.S. dollar, political tension in some regions, and speculative trading based on panic and not because of supply shortage. The organisation has consistently reiterated that it has no plans in the short run to increase production quotas at least not before its next scheduled meeting in September 2008. It however plans to invest more than $160 billion in crude oil expansion programmes that will produce 500 million barrels of crude oil by 2012 to curb soaring crude oil prices and to alleviate the adverse effects of high crude oil prices on poor nations.

If and when the Organisation increases production quotas, Saudi Arabia is believed to be the only member that has the capacity to quickly boost output significantly in the short run. Other members of the cartel may not be able to increase output in the short run as a result of infrastructural contraints and difficulties being experienced in exploration. For instance, Nigeria's production quota has dropped in recent times due to hostage taking and disruption of production by restive youths. From a production quota of 2.18 million barrels per day as at December 2007, the country's production quota has declined to 1.87 million barrels per day in June 2008.

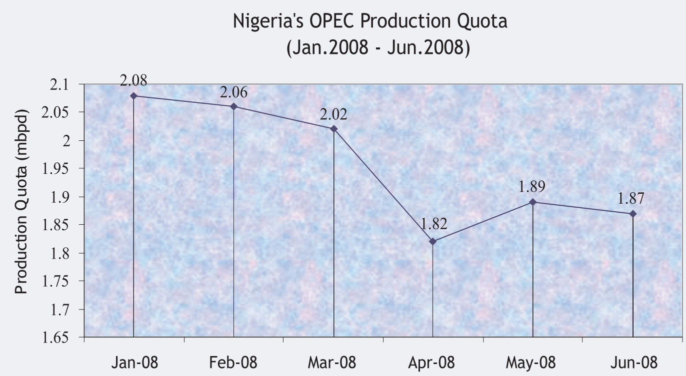
OPEC and the Dollar

A looming problem that could aggravate the energy crisis is the move by some OPEC members to dump the dollar as the reference currency for crude oil transaction. Venezuela and Iran are calling on the group to abandon the dollar and denominate its transactions either in euros, against which the dollar's fall has been stark, or a basket of currencies. In February, Iran made bold its threat and opened trading oil in euros and Iranian rial on Kish Island. Iran's action passed largely unnoticed – and did not trigger the collapse of the dollar as feared but elsewhere among the OPEC nations, the momentum for a switch away from the dollar is growing. In February, OPEC's secretary-general, Abdulla El-Badri, hinted that OPEC can price oil in euro but it will take time. How long this will take no one knows but be that as it may, OPEC's threat is not to be treated with levity because of the central role of crude oil in the global economy. Oil prices remain an important determinant of global economic performance.

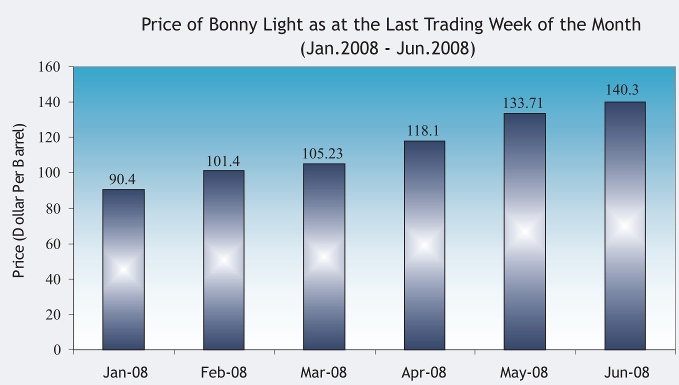
This pessimistic view is not peculiar to the enemies of the United States in Tehran and Caracas. A U.S. senator from Texas, Ron Paul, claimed two years ago in a statement to the House of Representatives that U.S. wars in the Middle East are as much about defending the dollar as they are about oil. He posited that using force to compel people to accept money without real value can only work in the short-run; it ultimately leads to economic dislocation, both domestic and international, and always ends with a price to be paid.

Analysts however believe that it would not just be the US that will suffer if the move succeeds. China holds its foreign currency reserves in dollar and it stands at almost $1.5 trillion; Japan's foreign reserve is almost $0.9 trillion; and Russia's is almost $0.5 trillion. Over 60 percent of global reserves are denominated in dollars. Should OPEC give in to Iran and Venezuela and suddenly demands euros instead of dollars for its transactions, the plummet in dollar's value will reverberate and would not be embraced. Should China sell its dollars, the currency would certainly collapse but China's trade relations with the U.S. will grow sour and will not be able to export goods to the U.S. – its main trading partner. The Euro Zone is also not likely to be inclined to such a move because it will erode the benefits the zone enjoys by buying crude oil in dollars. The shift from dollar to euro may not enjoy the support of other members of the organisation notably Saudi Arabia – a strong U.S. ally. Saudi Arabia has long dismissed the currency shift idea and it is pertinent to note that the country is the most influential member of the cartel.

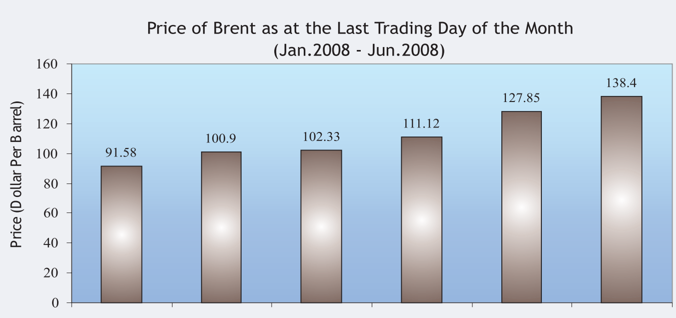
There are other essential reasons why a switch from the dollar to the euro would not work despite the move by Iran and Venezuela, and Dubai's threat as the new regional trading hub for commodities. Analysts claim that the 13-member cartel has no 'real ability' to determine the price of crude oil in the international commodity markets. The organisation merely follows the rhythm and trend in New York and London. It is however believed that there could be some short-term turbulence in the currency markets but ultimately the market would adjust.



Source: OPEC



Source: EIA



Source: EIA

The Shell Bonga Deepwater Field, Offshore Nigeria.

Nigeria Moves to stop Crude Oil Theft

Nigeria has been a prominent member of the 13-member OPEC cartel since 1971. Its production quota has been declining due to activities of restive youths in the Niger Delta region which holds most of the country's oil reserve. However, the country loses some quantity of crude to theft and smuggling, and part of the proceeds are spent on unlawful activities in the region. The supply short fall and speculations of further supply cuts due to youth restiveness have contributed significantly to the skyrocketing price of the commodity.

Unrest in the Niger Delta, the heartland of the oil industry in Nigeria – Africa's top producer, has largely been propelled by restless groups alleging neglect by successive governments but has become increasingly intertwined with bunkering. Some gangs have sustained themselves through the lucrative trade in stolen oil. The resulting crisis has led to drop in Nigeria's oil output.

In the just concluded G-8 Summit in Hokkaido, Japan, President Umaru Musa Yar'Adua sought global clampdown on illicit trade in stolen crude oil as an antidote to the problem. The president argued that stolen crude oil ought to be treated globally in the same manner as stolen diamonds because they both generate blood money, aid corruption and violence and can provoke war. It is believed that if the gangs do not have markets for the stolen crude, there will be no incentive to continue in the nefarious act. The president however noted that his government is taking steps to holistically address the developmental challenges of the Niger Delta. Yar'Adua was emphatic in his government's resolve to dismantle the criminal dimension of the problem in the region and that the crisis was now being aggravated by some international cartels.

Analysts believe that oil prices could hit \$200 – \$250 in 2009 in the worst case scenario, given soaring demand coming in from the U.S., China, India and other emerging economies because of the close link between development and energy consumption. There is another side to the spiraling oil prices – should the world go for alternative sources of fuel that are environmentally-friendly (biofuel) and leave the human race with less food on the table? Until an alternative is found, the price of oil will continue to depend on the strength of the U.S. dollar, speculative activities of dealers and other market dynamics.

(Sunday Enebeli-Uzor is an Analyst, Zenith Economic Quarterly)*

Global Corporate Citizenship

The New Era of Opportunity

*Don Eberly

The world is in the midst of tectonic shifts in how the poor are viewed and how poverty is confronted. Top-down approaches to social justice and empowerment are losing their value and appeal, and exploding outflows of private assistance make the debate over official foreign aid less and less reality-based. And the capital that already exists in poor countries far exceeds the combined value of foreign aid, investment by the private sector, and philanthropy. This is the age in which the trillions of dollars currently held by the poor, but trapped in the underground economies of poorly managed developing nations, will be harnessed for productive enterprise.

This also is the era of a global corporate citizenship movement in which CEOs aspire to be social entrepreneurs and companies look for ways to combine profit with social responsibility. Growing numbers of corporations are embracing a creed that promotes volunteerism and combines business investment with strategic philanthropy and even hands-on emergency assistance.

Finally, this is the era of global civil society, in which voluntary associations are proliferating and creating the first global electorate. The language of this new era is social capital, capacity building, philanthropy, and global democratic civil society. This is the era, in short, of "bottom-up" participatory civil society and market-based enterprise. Civil society, combined with small-scale enterprise and trade, is poised to contribute much to the reduction of persistent and extreme poverty in the twenty-first century.

The Bad News and the Good News

Any discussion of world poverty must start with the recognition that news from the Third World is often staggeringly bad. Three billion of the planet's inhabitants – fully half the world's population – live on two dollars a day or less. According to the United Nations, 842 million are chronically hungry.1 Even so, there is a growing sense that the conditions exist for general improvements in developing economies and for strengthening their social and economic institutions.

The good news is that a new model for development is emerging. This new model focuses on the power of civil society and its many functions in building stronger communities and nations. It recognizes the vital role that citizens and local non-governmental organizations play in improving social and economic conditions. Therefore, the formula for sustainable development as well as for the expansion of democratic participation is the wider inclusion of citizens in identifying and solving local problems. The key principles are partnership and participation – building partnerships with the widest array of new non-governmental actors on the development scene, and promoting the widest possible participation of the poor themselves.

One of the things that policymakers have learned with certainty about effective international development is that state reforms are an indispensable element of the process. The poor cannot be well served without healthy institutions, both private and governmental. At the same time, perhaps the chief untapped resource in development is the creativity, knowledge, and motivation of local citizens. Social programs that incorporate the participation principle can also help cultivate political skills among the poor. The civil society approach, in other words, simultaneously promotes economic and political empowerment, strengthening the forces of democracy and freedom around the world.

Wealth, Poverty, and the Rise of Corporate Citizenship

The preponderance of opinion among development scholars now accepts that conventional government-dominated aid relying on large transfers of money is not going to lift the Third World out of the mire of poverty and dysfunction. The problems are far bigger than any government or combination of governments is capable of solving. The job can't be done without the help of business and private wealth, or without the creativity of thriving private sectors in developing countries.

Professor Stuart Hart of Cornell University argues that what is required is a "new, more inclusive brand of capitalism" that brings in more people, more voices, and the concerns and needs of four to five billion people – fully two-thirds of humanity – who have been ignored in the past. The corporate sector, he says, can "become the catalyst for a truly sustainable form of global development – and prosper in the process."2Most companies, aware that many developing countries will languish without a major investment in education and human capital, are now making social investments too numerous to catalogue. Many businesses have sprouted up for the sole purpose of finding new solutions to global social problems, or to take proven concepts or technologies into the developing world. Many more companies are simply trying to reach the poor by cultivating customers in emerging markets. New customers, new markets, and new partnerships with large firms also result in the cultivation of smaller firms, linking them as suppliers and distributors to globally connected firms. As the entire world becomes a potential marketplace, companies have unprecedented opportunities to combine altruism with entrepreneurialism. The roles that are available for business to fill in promoting prosperity for the poor are nearly limitless. Business associations, such as the U.S. Chamber of Commerce, now regularly promote a worldwide role for business in social and economic development. The

photo: google.com

chamber's non-profit arm, the Business Civic Leadership Center, helps companies practice social responsibility and engage in public-private partnerships. In a study analyzing the effects of globalization, the U.S. Chamber of Commerce reports that "there are public-private partnerships on every continent, spanning an array of issues, from community safety and healthcare to education, environmental care, and small business development." Globalization and Corporate Citizenship Global realities have changed the way business views the world, and they have changed how business operates. The larger a company's radius of operations, the greater the number of stakeholders who factor into that company's success and whose interests have to be kept in sight. Companies operating internationally face pressure from the media, international institutions, stockholders, and host nations, who demand transparency, codes of ethical conduct, better labor standards, and help in promoting human rights. "Business no longer operates in a vacuum," says John D. Sullivan, Executive Director of the Center for International Private Enterprise. "There is today an indivisibility of business and community" involving expectations and mutual dependence. Today's companies "carry the expectation of social responsibility." They are "no longer purely economic but also civic entities." Therefore, corporate citizenship is essentially an outgrowth of a company's core values. Businesses not only consume the social capital available in communities, they play an important part in regenerating it. Corporate charity has long been motivated by an unstated rule that the community must be compensated by the business for the privilege of operating there. Businesses were expected to "give something back" to the community as a form of conscience repayment for what they "took out" in the course of creating wealth. Traditionally, business and philanthropy were viewed as two separate functions: first the company made a profit; then it turned around and tried to figure out how to "make a difference" to society. Today, however, social concern is being made an integral part of a company's mission as companies are increasingly expected to develop a clear vision for service and philanthropy and build it into their business culture. Most entrepreneurs hope that their legacy will bring about prosperity for others besides themselves and their co-investors. Most companies recognize that they have a role to play in improving economic and social conditions and they tailor their corporate citizenship projects around their core products or services, often involving a combination of philanthropic giving, technical assistance, and on-the-ground organizing. Globalization has brought unprecedented opportunities for business to apply their corporate citizenship vision around the world and make a positive difference.

photo: google.com

Corporate Social Responsibility

Carrying forward the social values that are expected of businesses is a movement loosely called corporate social responsibility (CSR), which involves a set of corporate goals and practices that go well beyond altruistic purposes and philanthropy. At the core of the corporate social responsibility movement is the recognition that profitability and social improvement go hand in hand. Corporate social responsibility can be an important tool in promoting sustainable development because it is helping to build the legal and ethical infrastructures of market-based economies.

The purpose of CSR should not be to challenge or change the core mission of business. To do so would make it less successful. A key to the successes of the CSR movement is its voluntary nature. Businesses are engaging in socially responsible activity because it makes perfect sense to do so, not because they are coerced by government or pressured by NGOs. Many have elected to join precisely because there is flexibility to integrate social responsibility objectives into business objectives.

Many philanthropists today believe the world of philanthropy could be more effective if it learned some basic principles of business. Entrepreneurs want their profit-making savvy to be applied directly to non-profit causes. A distinct category of corporate giving to emerge recently is *strategic philanthropy* or *venture philanthropy*, which replaces casual giving with a highly targeted form of giving that often reflects the company's core values or mission. Whether designed for altruistic purposes or corporate objectives, venture philanthropy leads to effective synergies between business operations and social purposes.

Corporate Citizenship's Bottom Line

Few doubt that the best thing that could happen to the developing world would be for countries to generate their own economic growth. And the best thing foreign businesses can do to advance both their own interests and those of the poor in developing countries is to help cultivate small businesses to employ people who, in turn, become new customers and participants in a global trading system.

Business is often lectured on the need to "put people above profits," as if it were possible to separate the two. But succeeding in business is a service to humanity in itself. The measure of success for business is its ability to make a profit and employ people, which is hard enough. There is no need for private enterprise to apologize for this. Of all the contributors to society, it is the entrepreneur who is not rewarded for his time and investment unless he succeeds at pleasing customers. The mission of business is to generate products and services in response to customer demands, and in the process to generate wealth and jobs. This is its contribution to society; any other achievement is secondary and optional.

Yet businesses around the world are eager to go beyond their most basic raison d'être and engage in various CSR projects. That is because real corporate social responsibility, as Stuart Hart says, is not about "mere philanthropy." It is about adopting new business strategies altogether, combining the strengths of established business firms with the potential of businesses at the bottom.

Those who still see entrepreneurial success as separate from social engagement might consider what businesses say about the rewards of being civically minded. In a survey of over five hundred companies of various sizes conducted by the U.S. Chamber of Commerce and the Center for Corporate Citizenship at Boston College, most accepted that businesses have responsibilities beyond making money, creating jobs, and paying taxes. Regardless of the size or type of the business, a majority of firms reported regularly providing cash, volunteer time, or donated goods for local communities. Studies also show that investors and financial analysts are interested in companies that are socially committed and these companies are able to attract more capital and borrow at lower cost. In other words, corporate citizenship makes for better business.

Helping the Poor Help ThemselvesIn *The Mystery of Capital*, Hernando de Soto dismisses the tempting thought that poverty has something to do with the poor themselves. According to de Soto, the suggestion that culture explains the success of diverse places such as Japan, Switzerland, and California, or the relative poverty of equally diverse places is "unconvincing." De Soto observes that the cities in developing countries are teeming with entrepreneurs. What they lack is the lifeblood of capitalism - which is capital itself. They are lacking in the right to own houses or land with proper titles, and in laws that encourage the formation of business. Thus, the principal obstacles to business development are not primarily physical or geographic, but legal and political. De Soto estimates that upwards of $9 trillion in equity exists in the hands of the world's poorest, but it cannot be used ef-

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fectively to leverage business development because of insufficient banking institutions, property titles, and laws protecting private enterprise. Another great impediment to the growth of a small-business sector in developing countries is the long and often exasperatingly difficult process of obtaining legal permission to operate. Common barriers to entrance involve permits, licensing requirements, and an assortment of regulations that often consume large portions of the startup capital and frequently require bribing officials. Those barriers also discourage outside investors from committing their capital in risky developing markets.It falls to responsible authorities in developing country governments and responsible voices among NGOs to push for the kind of systemic reforms that will make the poorest countries attractive to capital investment. And this is where government, NGOs, and business become necessary partners. But if this partnership is to succeed, an effort must be made to establish a clear understanding of the distinct missions of governments and companies. Each must perform its vital functions without encroaching on the other. Creating wealth is not the job of government. Establishing rule of law is not the job of business. The mission of government is to maintain a stable political and legal system that enables citizens to pursue economic and social progress in a safe environment. Where business – domestic or foreign – operates without rule of law, crony and corrupt capitalism is almost inevitably the result. Governments cannot create business enterprise, but they can and must secure the best possible "enabling environment" for private enterprise to flourish. This requires establishing a basic system of law, starting with simplified licensing requirements and regulations. In order to attract foreign investment, governments of developing countries must also do more to protect intellectual property rights and reduce corruption. Corruption is said to add 10 percent to the cost of doing business in many parts of the world and may be the single greatest factor blocking opportunities for the poor and for businesses seeking to invest. What Can Businesses Do? How can the current trends in corporate citizenship be harnessed to develop indigenous markets in developing countries? The greatest act of social responsibility would be for American and multinational firms to create a worldwide network of businesses and business associations committed to the rule of law, strict curbs on corruption, and a variety of other badly needed state reforms. Business should be at the vanguard of improving the "enabling environments" of developing countries by encouraging the reform of laws and policies. Corporations should disclose evidence of bribery that they uncover, and work with governments to establish sound auditing and accounting procedures, corruption hotlines, and whistleblower protection laws. Companies should also evaluate their policy alliances and humanitarian partnerships for evidence that a particular NGO is promoting the rights of poor entrepreneurs. They should direct financial support to the many fledgling indigenous think tanks and social and political movements in developing countries that are advocating rule of law, property rights, and micro-enterprise. Too little effort has been made by the business community to catalogue and quantify the steep "transaction costs" associated with entering developing markets. Once compiled, this information could be taken to local government authorities and international bodies for review and action.

Finally, corporate foundations can do a better job of using their philanthropic dollars to build capacity within the entrepreneurial sector of developing countries. Many small to medium-sized enterprises need assistance in presenting better business plans and improving management capacity in order to raise the confidence of investors. This presents an opportunity for firms or foundations to provide mentoring and technical assistance.

Unlocking the Mystery of Capital

Until recently, not much was known about wealth-creating capacities among the poor themselves. Hernando de Soto believes that polity leaders in the West have been so successful at integrating the poor into their own economies that "they have lost even the memory of how it was done, how the creation of capital began." The reason that the aspirations and energies of common people were channeled into economic productivity, says de Soto, has a lot to do with the legal systems that were built by Western governments. The assets, property, and labor of the poor in developing countries today require similar legal protection so that capital that already exists in their hands can be used to generate wealth.

The world's poor have long been regarded as the concern of large international aid agencies or as wards of the state, possessing minimal intrinsic talent or creative power. But in reality they are customers, entrepreneurs, and producers, waiting to enter the global economy. So why, with all our technology, investment capacity, and managerial know-how, have we been unable to create a more "inclusive capitalism" and reverse the disenfranchisement of the poor? Professor C.K. Prahalad of the University of Michigan says the process must start with respecting individuals at the bottom of the pyramid as consumers and problem solvers. He asks, "What if we mobilized the resources, scale, and scope of large firms to co-create solutions to the problems at the bottom of the pyramid, those 4 billion people who live on less than $2 a day?"

Global trends are unlocking opportunities that could not have been imagined a short time ago. Many advocates for the poor are moving beyond failed foreign aid and charity models to promote a range of growth-producing strategies, including village banking, micro-franchising, and partnerships between established companies and fledgling businesses in developing countries. When a customer base is developed at the bottom of the wealth pyramid, the benefits are not merely to the poor, but to business as well. For instance, Hindustan Lever Ltd., the Indian subsidiary of the Dutch consumer products giant, is looking to reach into some of India's 638,000 villages through unconventional sales and marketing schemes. Hindustan Lever is enlisting about 20,000 poor women to sell products such as soap and toothpaste in villages that were once considered too small and remote to matter for large businesses. Hindustan Lever is among a growing number of companies that now see the potential for doing good while doing well.

The key to capitalist success among the poor is the same as with the rich: capital. But something so simple as capital is not simple at all when one considers the wide range of legal and institutional barriers that prevent the poor from gaining access to it. Standing between extreme poverty and the first rung of the economic ladder may be just a small loan, but banks in developing countries frequently refuse to make money available to the poor because of perceived credit risks. Studies show that 90 percent of small entrepreneurs are excluded from financial

The world's poor have long been regarded as the concern of large international aid agencies or as wards of the state, possessing minimal intrinsic talent or creative power. But in reality they are customers, entrepreneurs, and producers, waiting to enter the global economy.

services in their countries. Hence one of the most promising anti-poverty initiatives to arise in recent decades has been the microfinance movement. But microfinance is not a universal remedy. Without the necessary infrastructure and modern services such as electricity and telecommunications, micro-enterprise will be limited. And building the institutional infrastructure of the rule of law and democratic governance is as important as the physical one.

Conclusions

The future of poor countries more than ever depends on effective public-private partnerships that foster development. Attempts by development policy experts to bring prosperity through command-and-control bureaucracies have mostly failed and most of today's participants in the debate over international development acknowledge that the only truly effective solution to poverty is economic growth and prosperity. The government dominated the past. Non-governmental entities and forces will dominate the future. The key will be to find new ways to harness the best of both the public and the private sector to create a new era of experimentation, one that relies on market and civil society, with the poor everywhere serving as partners in their own development.

Global trends are unlocking opportunities that could not have been imagined a short time ago. Many advocates for the poor are moving beyond failed foreign aid and charity models to promote a range of growth-producing strategies, including village banking, micro-franchising, and partnerships between established companies and fledgling businesses in developing countries.

This new era starts with an appreciation of the limitless potential at the bottom of the pyramid, the power of participatory democracy, and the importance of local institution building. Creating prosperity and jobs is what businesses specialize in, so it is not surprising that they have a seat at the table. And the emergence of business as a major partner in world development will spur change both in how private enterprise is perceived and how development programming is carried out. This is the era of emerging global corporate citizenship.

Governments and NGOs expect that firms operating in the global marketplace will subject their activities to standards that contribute directly to improving social conditions in the communities where they operate. Companies are being asked to support human rights, to ameliorate labor conditions, and to address a host of environmental concerns in the course of doing business. They are being asked to take a hard line on corruption by applying new standards of transparency to their business practices and supply chains and they are expected to promote ethics in their corporate governance.

But while only the drive and innovation of risk-taking entrepreneurs creates economic growth and jobs, there is much that governments can and must do. If the error of the past several decades was the assumption that government bureaucracies have all the answers to global poverty, it would be equally misguided to believe that business entrepreneurs are the only actors. Without the appropriate "enabling environment" of rule of law and institutions that governments in developing countries must create, local markets will inevitably disintegrate into predatory cronyism and corruption. But if the indigenous entrepreneurs themselves are given a voice in what is to be done to improve business environment in their countries, both democratic governance and equitable markets will be strengthened. Local businesses, with support from foreign companies and NGOs operating in their countries, can and should spearhead this reform effort.

We are grateful to the CIPE for permission to publish this article.

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US-NIGERIA Trade Relations: Dormant Growth Opportunities

* By Tony Monye

Today, the United States of America is not only the world's largest economy but also its only surviving super power. It is argued that the American influence in the world along such terrains as international affairs, diplomacy, culture, politics and even sports is drawn from the fact of its economic might. Being rich definitely has its many advantages. Its trade counterpart, Nigeria, is no midget too, insofar as some of these indices are concerned. The West African nation is the largest economy within its sub-region and the country also boasts of its military might along the west coast of Africa. Nigeria is the second largest economy not only in sub-Saharan African but in Africa, although some distance behind the continent's leading market, South Africa. The United States presents to the West Africans, home to the largest concentration of Nigerians in the

Diaspora who are making a living and contributing to the growth of the economy of any country in the world. Nigerians are found in all the fifty states of the United States and even in the world's most famous district, Washington.

Key Demographic Measures and Physical Features: Nigeria and United States

Index	Nigeria	United States
Population (millions)	148.5 (June 2007)	303.8
Population Growth Rate (%)	2.382 (2008 est.)	0.88
Life Expectancy at Birth:		
Total Population (years):	47.81	78.14
Male (years):	47.15	75.29
Female (years):	48.5 (2008 est.)	81.13 (2008 est.)
Total Fertility Rate (TFR):	5.41 Children born / Woman (2008 est.)	2.1
HIV/AIDS Adult Prevalence Rate (%)	5.4 (2003 est.)	0.6
Land Area:		
Total (sq. km - million)	0.924	9.827
Land (sq. km - million)	0.911	9.162
Water (sq. km - thousands)	13.000	664.707
Land Boundaries (km - thousands)	4.047	12.034
Land Use:		
Arable Land (%):	33.02	18.01
Permanent Crops:	3.14%	0.21
Others:	63.84% (2005)	81.78 (2005)
Administrative Divisions	36 States and a Federal Capital Territory (FCT) Abuja	50 States and 1 District (Washington D.C.)

Source: Central Intelligence Agency and other websites

United States V Nigeria: Comparing Some Demographic and Physical Features

Demographically, the United States ranks third on the basis of two yardsticks in comparison to the rest of the world. The North American nation is the world's third largest by size with almost ten million square kilometres after Russia (the world's largest, 17.075million square kilometres) and Canada (the world's second largest, 9.976million square kilometres). It is the third by population with over 300 million inhabitants, coming after two Asian nations, China (with over 1.3 billion in population) and India (with over 1.1billion). On the other hand, Nigeria is dwarfed, placed side by side with any of these nations on even these two plains. Nigeria's population is at present around the 150million mark, making her the most populated country in Africa. While Nigeria is home to the largest concentration of black people in the world, the United States is residence to the largest black population outside Africa. The size of the West African nation's landmass is below the one million square kilometre mark, twelfth largest in Africa.

photo: google.com

Nigeria, with an annual population growth rate of about 2.5 per cent is higher than the United States' figure of less than one per cent. Should Nigerians consider this desirable? This is another matter that can generate diverse opinions. The Nigerian number is not assisted by many facts and practices in the country such as the low acceptance of birth control, family planning methods and of course, the wholesome recognition of some marital forms (bigamy and in some cases, polygamy). The picture is reversed when the U.S situation is considered. Birth control and family planning methods are wholly established. In fact, it is legally considered criminal for a man to be married to more than one woman in the United States at a time, although it is rumoured that in some homes especially amongst African-Americans and in some cases, Hispanics, such a practice is still found.

On the average, Americans live much longer than Nigerians. This can be reasoned out – better healthcare, better living wages and working conditions etc. Across the total population with life expectancy put at 78.14 years, the average U.S. citizen is expected to live more than one and a half times his Nigerian counterpart with 47.81 years. This is understandable as medical facilities

Ten Most Populated Countries in the World (Million -Population)

Rank	Country	Population	Date	% of World Population
	World	6,671.226	July 2007	100
1	China	1,325.003	July 2008	19.86
2	India	1,135.526	July 2008	17.02
3	United States	304.627	July 2008	4.57
4	Indonesia	231.627	-	3.47
5	Brazil	187.276	July 2008	2.81
6	Pakistan	163.834	July 2008	2.46
7	Bangladesh	158.665	-	2.38
8	Nigeria	148.093	-	2.22
9	Russia	141.912	May 2008	2.13
10	Japan	127.690	May 2008	1.91

Source: Wikipedia

5 Largest Countries in terms of Land mass area and Nigeria

S/No.	Country	Capital City	Area (Million Sq. Km.)
1	Russia	Moscow	17.075
2	Canada	Ottawa	9.976
3	United States	Washington	9.629
4	China	Beijing	9.597
5	Brazil	Brasilia	8.512
6	Nigeria	Abuja	0.924

Source: World Fact book

(hospitals, laboratories and research centres) in the United States are some of the highest standards in the world. In a nutshell, it is claimed that the U.S. provides medical services to the world as one of her foreign exchange earners. This is not the case with Nigeria. In fact, medical services are a drain to the nation's coffers as some of her highly placed citizens visit hospitals and clinics abroad for medical checkups and therapies. Besides, standard of living is sharply different in the two economies, while in the U.S., the standard of living is quite high, it is not so in Nigeria. At best the West African nation can only boast of commensurate standards that can be found in other developing nations. There is some similarity when one considers life expectancy along the sexes. In Nigeria as well as in the United States, women are expected to live longer than the male counterpart. But when females in both countries are compared, the North American nation still leads with 81.13 years as against 48.5 years for the average Nigerian woman. Maternal mortality rate in Nigeria is still high benchmarked against the United States'. This surely is one of the many phenomena that have aided the tilt in favour of the North American country's women apart from poor access to maternal health care, poverty etc.

At more than five children per woman in Nigeria, total fertility rate is higher compared to the American figure put at slightly above two children per woman. The America statistic can be further decomposed along racial lines: African-Americans have the highest number of children per woman, followed closely by Hispanics and white Caucasians have the least. This trend could be argued along two major fronts - cultural and economic.

The American waterway is more than 664 thousand square kilometres, that is about fifty-one times that of Nigeria which is put at about 13 thousand. In fact, the American figure dwarfs that of all the whole countries of West Africa summed together. Arable land in Nigeria, in percentage terms, at over 33 per cent is more than the United States' figure at 18 per cent.

Administratively, the two nations are quite similar as they both operate the federal system of government. Nigeria has not always been a federally administered country. On Freedom Day in October 1960, the country inherited the British System, her former colonial master. But by 1979, the country was done with it as the then military authorities led by Gen. Olusegun Obasanjo adopted the American system and handed same to the civilian dispensation that came on board. It has remained so ever since. Nigeria has thirty-six states with a federal capital territory located at the centre of the country as against the American fifty states with Washington D.C. (District of Columbia) located on the western periphery.

Political Relations: Nigeria and United States

To the Americans, Nigeria is one of the most important African nations, especially on issues affecting the continent. The significance of the West African nation to the Americans is anchored on many fronts: political, economic, and cultural. Trade and energy etc also give Nigeria some relevance. The American governments, since the time of Jimmy Carter, feel that when Nigeria is brought into the mainstream of international affairs, cooperation and development, it will engender some far reaching benefits for Africans and the world. Nigeria supplies about 8 per cent of the U.S. oil imports and the U.S. petroleum companies (Chevron, Texaco) have invested about US$10billion in the West African nation's oil sector. The Americans were quite appreciative of Nigeria's efforts towards the enthronement of peace in some former war-torn countries in Africa. Liberia is a good example –a country where some decent percentage of the population were largely off-springs of American immigrants that settled in the West African nation. With the return of democracy to Nigeria, the United States have been quite supportive of some of her development programmes such as in helping to build democratic institutions, restoring economic growth etc. The Americans also contributed to the debt relief of about $18billion Nigeria enjoyed from the Paris Club in the later half of 2005.

To the Americans, Nigeria is one of the most important African nations, more especially when it comes to issue affecting the continent. The significance of the West African nation to the Americans is anchored on many fronts: political, economic, and cultural.

It must however be noted that the U.S. - Nigeria political relations have not always been quite rosy because there have been times when it trekked through rough terrains. For instance, in the seventies, Nigeria supported the decision of the Organisation of African Unity (O.A.U.) to throw its weight behind the Government of Agostinho Neto and later Jose Eduardo dos Santos in Angola against the U.S. backed National Union for Total Independence for Angola (UNITA) led by the late Jonas Savimbi, who died in February 2002 in a clash with government troops. Another instance was during the regime of the late Gen. Sani Abacha when the U.S. applied limited sanctions on the military government and some selected top government officials over the hanging of environmental rights activist, Ken Saro-Wiwa and 8 others. Aside these two bad patches in a supposedly cosy relationship, the two nations have enjoyed some good times in their interactions, with each understand-

National Assembly, Nigeria

Stoney Lonesome Photos

US senate building

ing and respecting the importance of the other.

Key Economic Measures: Nigeria and United States

Index	Nigeria	United States
GDP (Purchasing Power Parity)	$294.8 billion (2007 est.)	$13.84 trillion (2007 est.)
GDP (Official Exchange Rate)	$126.7 billion (2007)	$13.84 trillion (2007 est.)
GDP Real Growth Rate (%)	6.3 (2007)	2.2 (2007 est).
GDP Per Capita (PPP)	$2,200 (2007)	$45,800 (2007 est.)
Market Value of Publicly Traded Shares	$32.82billion (2006)	$17trillion (2005)
Military Expenditures - % of GDP	1.5 (2006)	4.06 (2005 est.)
Foreign Reserves	$50.33 billion (2007)	$70.57billion (2007)
GDP Composition by Sector: Agriculture: Industry: Services:	 17.6% 53.1% 29.3% (2007 est.)	 0.9 (%) 20.5 (%) 78.5 (%)
Exchange Rate to the US$	N117	US$1.00
Labour Force: Labour force - by occupation Agriculture: Industry : Services : Unemployment Rate:	50.13 million (2007) 70% 10% 20% 5.8% (2006 est.)	153.1 million (2007 est.) 0.6% 22.6 76.8 4.6% (2007 est.)
Investment (Gross Fixed)	24.3% of GDP (2006)	18.8% of GDP (2007 est.)
Stock of Direct Foreign Investment at home: Stock of Direct Foreign Investment abroad:	$31.66billion (2006 est.) $12.44billion (2006 est.).	$1.967 trillion (2007 est.) $2.627 trillion (2007 est.)
Budget: Revenue: Expenditures:	 $20.5 billion $21.82 billion; including capital expenditures. (2007)	 $2.568 trillion 2.73 trillion (2007 est.)
Inflation Rate (Consumer Prices):	6.5% (2007)	2.9% (2007 est.)
Public Debt:	14.8% of GDP (2007)	60.8% of GDP (2007 est.)
Debt External	$5.815 billion (2007)	$12.25 trillion (June 2007)
Agriculture products	Cocoa, peanuts, palm oil, corn, rice, sorghum, millet, cassava (tapioca), yams, rubber, cattle, sheep, goats, pigs; timber, fish etc.	Wheat, corn, other grains, fruits, vegetables, cotton, beef, pork, poultry, dairy products, fish, forest products.
Natural Resources:	Natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, arable land etc	Coal, copper, lead, molybdenum, phosphates, uranium, bauxite, gold, iron, mercury, nickel, potash, silver, tungsten, zinc, petroleum, natural gas, timber.
Exports: Total: Commodities: Key Partners:	 $61.81 billion f.o.b. (2007) Petroleum and Petroleum products, 95%, Cocoa, rubber. US. 48.9%, Spain 8.0%, Brazil 7.3%, France 4.2% (2007)	 $1.149 trillion f.o.b. (2007 est.) Agricultural products (soybeans, fruit, corn) 9.2%, industrial supplies (organic chemicals) 26.8%, capital goods (transistors, aircraft, motor vehicle parts, computers, telecommunications equipment) 49.0%, Consumer goods (automobiles medicines) 15.0% (2003). Canada 22.2%, Mexico 12.9%, Japan 5.8%, China 5.3%, United Kingdom 4.4% (2006)
Imports: Total: Commodities: Key Partners:	 $30.35 billion f.o.b. (2007) Machinery, Chemicals, transport equipment, manufactured goods, food and live animals etc. China 10.7%, US. 8.4%, UK5.8%, Netherlands 6.2%, France 5.6%, Brazil 5.1%, Germany 4.5% (2006).	 $1.965trillion f.o.b. (2007 est.) Agricultural products 4.9%, industrial supplies 32.9%, (Crude oil8.2%), Capital goods 30.4% (computers, telecommunications equipment, motor vehicle parts, office machines, electric power machinery), Consumer goods 31.8%% (automobiles, clothing, medicines, furniture, toys) (2003) Canada 16%, China 15.9%, Mexico 10.4%, Japan 7.9%, Germany 4.8% (2006)

Sources: Central Intelligence Agency (CIA), United Nations Development Programmes (UNDP), African Development Bank (AfDB), National Bureau of Statistics (NBS) and Research & Economic Intelligence Group.

Comparing Economies: Nigeria V United States

The United States is at the head of the few countries ranked as 'trillion dollar economies' that makes her the world's largest economy. Nigeria is quite far off this league and it has been suggested that it would take a while before the West African nation's economy touches the one-trillion dollar mark. Nigerians graciously await the year. According to the figures from America's Central Intelligence Agency (C.I.A.); the United States, with USD.13.84trillion gross domestic product (GDP) at purchasing power parity (PPP) as at end-2007 is ranked as the world's greatest economy well ahead of some notable ones like Japan, Germany, and China etc. The Nigerian economy is not placed on such footing. The world's most populous black nation's economy with GDP put at USD.166billion as at end-2007, ranks as the second largest economy in Africa. South Africa, with GDP almost twice as large as Nigeria's, leads the rest of the continent. Algeria was third at the end of the same period. The dizzying gap between the two economies, Nigeria and United States, could be brought out when looked at comparatively. The American economy is really large, (larger than the four economies of Japan, Germany, China and the UK put together), about eighty-two times that of its Nigerian counterpart. A difference that can be described by many words but insignificant.

On the average, the Americans are much wealthier than Nigerians especially seen through the prism of per capita income. With US$45,800 as per capita income, the United States citizens are arguably the richest in the world. This is a measure in which the Nigerians are doing quite poorly sometimes, benchmarked against some economic midgets in Africa, the world's poorest continent. Population size, a decimator in per capita income calculation hasn't been of much help to Nigeria given poor national output level. Nigeria's per capita figure as at end-2007 stood at a meagre USD.2,200.00, a value quite low, about twenty-two times less than the US worth.

The dominance of the US economy over its Nigerian counterpart pales into insignificance when one considers the annual percentage real growth in gross domestic product (GDP). The Nigerian economy grew by about 6.4 per cent for the year 2007, according to the CIA's World Fact

Book. A commendable growth figure! On the other hand, the US real GDP growth over the same period was estimated to be in the region of 2.2 per cent. It can be argued that one of the factors that served the growth of one of the economies was responsible for stifling the growth of the other. Nigeria's impressive growth rate was largely assisted by the continuously rising crude oil prices in the international market and also increasing contribution from her non-oil sectors. This oil price trend has hit the U.S. economy on the wrong side, apart from many others, like the credit crunch and mortgage crisis in its financial system etc.

The market value of publicly traded securities (shares) in both countries is a reflection of the contribution of the private sector to the growth of both economies. The US value as at the end of 2005, was put at US$17trillion, a figure that makes it over 530 times the Nigerian worth. With this figure, the U.S., without doubt, is a massive economy. Benchmarked against the GDP, it shows that the US economy has more private sector involvement in its economic life as against the Nigerian scenario where the private sector contributes about 11 per cent. This is understandably so as Nigeria is slowly moving out of the mixed economy system that she practised in the period immediately, and up to a few decades after independence on 1st October 1960.

Foreign reserves positions for the two economies, Nigeria and the United States, were as at end-2007 put at US$50.33billion and US$70.57billion, respectively. In terms of reserves accumulation, Nigeria ranks as the third largest in Africa, behind Algeria and Libya with US$126.91billion and US$79.00 billion correspondingly, whereas the Americans are not ranked amongst the largest accumulator in the world. The disturbing question then becomes, why are the Americans yet to catch the 'bug' of storing wealth in foreign reserves like most nations of the world? There are many reasons for the American attitude. One would be that the American economy is presently in recession and much cannot be set aside as savings. A further but yet flimsy argument could be that the Americans have a steady pool of funds to tap into given the advent of not-so-sunny days. Yes, most countries of the world are willing to lend to the Americans, especially the Chinese and the Japanese – these two countries have a huge stock of the U.S. treasury bills as one of their investment outlets. At the moment, the world's economy is closely linked to the Americans'. So, in this sense, it blows no one some blissful air in the event of its collapse.

Top-20 Economies in the World as at end-2007 by GDP (Nominal)

Rank	Country	GDP (trillions of USD)
1	United States of America	13.84
2	Japan	4.38
3	Germany	3.32
4	China	3.25
5	United Kingdom	2.77
6	France	2.56
7	Spain	1.44
8	Canada	1.432
9	Brazil	1.31
10	Russia	1.29
11	India	1.10
12	South Korea	0.96
13	Australia	0.91
14	Mexico	0.89
15	Netherlands	0.77
16	Turkey	0.66
17	Sweden	0.46
18	Belgium	0.45
19	Indonesia	0.43
20	Switzerland	0.42

Source: IMF - 2007/ Research & Economic Intelligence Group, Zenith Bank Plc

10 Economies in Africa as at end-2007 by GDP (Purchasing Power Parity)

African Ranking	Country	GDP (Billions of USD)	Position in the World
1	South Africa	282.63	30
2	Nigeria	166.78	41
3	Algeria	131.57	50
4	Egypt	127.93	52
5	Morocco	73.43	57
6	Angola	61.36	61
7	Libya	57.06	62
8	Sudan	46.16	65
9	Tunisia	35.01	75
10	Kenya	29.30	79

Source: IMF - 2007/ Research & Economic Intelligence Group, Zenith Bank Plc

The United States sits at the apex of the most developed economies in the world as reflected in the contributors to her gross domestic product (GDP). It is not the same tale for Nigeria, as she is only ranked as one of the emerging world economies. The services sector made the largest contribution to the United States economy as at the end of 2007 with over 78.5 per cent. This sector took the second slot for the Nigerian economy with about 30 per cent as its inputs. Bringing up the rear for both economies is the primary sector, agriculture. The Nigerians enjoyed about 18 per cent to the U.S. 1 per cent. In terms of labour force engagement, agriculture serves as the primate sector to Nigeria with about 70 per cent; compared to the U.S. where it provided jobs for less than 1 per cent of the populace. In terms of the per capita output of the agricultural sectors of both economies, the United States leads the rest of the world. Nigeria is, however, the continent's food basket. This also reveals that while agriculture is highly mechanized and at the same time commercialized in the United States, it is not so in Nigeria where most of the implements used for cultivation and production in the sector are crude and farming is still largely being done on subsistence basis. The services sector in the United States provides the largest source of employment while the sector does so as the second largest to the Nigerians.

Since the third coming of democracy in Nigeria (1999), the economy has witnessed some commendable growth, averaging about 6 per cent and in a way, it has been speculated to be one of the main drivers of growth in the sub-region. When Nigeria is well, the sub-region is sound. This has driven down the country's unemployment rate from double digits figures in the late eighties, when millions of youths roamed the streets of the country in search of unavailable jobs, to 5.8 per cent as at end-2007. The United States closed year-2007 at slightly above a percentage less than the Nigerian figure. Are these unemployment rates sustainable for both economies in the long run? If any conclusion could be hazarded from the projections of growth for both economies by Goldman Sachs (a leading economic and financial institution), one could say quite authoritatively that the Nigerian economy is more likely to sustain its unemployment rate at commendable level compared to the United States. This is as a result of very favourable growth projections for Nigeria, put at an average of seven per cent as against the U.S. figure that is below three per cent, going into the future.

Projected Real GDP Growth – The Economies of the United States and Nigeria

Avg. % YoY		United States	Nigeria
2005	2010	2.8	**5.0**
2010	2015	2.2	**5.5**
2015	2020	2.1	**5.7**
2020	2025	2.2	**6.1**
2025	2030	2.5	**6.6**
2030	2035	2.7	**7.0**
2035	2040	2.7	**7.1**
2040	2045	1.8	**7.0**
2045	2050	1.6	**7.0**

Source: Goldman Sachs

Nigeria and the United States exist at different sides of the public debt threshold. For the West Africans (Nigerians), they have a commendable west side of the brink position of about 14.8 per cent of GDP as public debt. It is on the east side for the United States with over 60 per cent. But will the Americans bother much about this? The answer most likely will be negative, as they seem to be well hedged against any adverse effects of this not-too impressive profile. One phenomenon greatly impacted on this low public debt profile for Nigeria – the Paris Club debt cancellation of 2005 and subsequent fiscal discipline that has become the order of the day in the country unlike in the pre-debt deletion years. Another factor is the favourable crude prices in the energy market for the West African nation, the continent's largest crude oil supplier to the international market. Nigeria, therefore, has a large pool of reserves in case she finds herself in dire need of funds.

These two nations, America and Nigeria, are leading producers/ suppliers to the world food market. It is said that the West Africans feed the African continent with her cassava produce; the Americans do so to the rest of the world by way of wheat supply and other agricultural by-products. Cocoa, Nigeria's main export product in the

In terms of reserves accumulation, Nigeria ranks as the third largest in the continent of Africa, behind Algeria and Libya with US$126.91billion and US$79.00billion, correspondingly whereas the Americans are not ranked amongst the largest accumulator in the world.

pre-oil years, in recent times, is gradually bouncing back to reckoning as foreign exchange earner. In terms of natural resource endowments, the two countries could be said to be well blessed. Nigeria and the United States are both producers of the black gold. The difference between the two of them is simple – while one (Nigeria) produces largely for exports; the other (United States) produces for local consumption and for storage in her reserve tanks scattered all over the country. Nigeria is the United States' largest import source of all the sub-Saharan African countries as a result of her dependence on the West African nation for her energy needs. Apart from petroleum, these countries are also endowed with other minerals in great and enviable commercial quantities. Nigeria has natural gas (one of the largest reserves in the world), tin, iron ore, limestone, lead, coal etc. The United States has copper, coal, molybdenum, gold, iron, natural gas etc.

Nigeria and the United States have continued to contribute significantly to world export trade with a lot more coming from the North American nation. In 2007 both countries supplied goods to the tune of US$1.211 trillion to the global markets; of this value, the Nigerian share was just about US$61.81billion, leaving the Americans with the lion split of US$1.149trillion. The American figure as at end-2007 was about 20 times that of Nigeria. Ninety-five per cent of the Nigerian supplies to the world exports market were largely petroleum and petroleum products; cocoa and rubber usurped the remaining. The United States' contributions were more diverse as she supplied goods ranging from agricultural products (soybeans, fruits, corn, 9.2%), industrial supplies (organic chemicals, 26.8%), capital goods (transistors, aircraft, motor vehicle parts, computers, telecommunications equipment, 49.0%), consumer goods (automobiles, medicines, 15.0%). The United States was Nigeria's most favoured export destination with 48.9 per cent of her goods delivered to some of the coastal states in the North American country. To the United States, her North American neighbour, Canada, was her most favoured export destination with 22.2 per cent of the Yankees' exports. Some of Nigeria's key export partners include, Spain (8%), Brazil (7.3%), France (4.2%) as at end-2007. On the other hand, the Americans had exports from Mexico (12.9%), Japan (5.8%), China (5.3%), and United Kingdom (4.4%) etc. Quite recently, American automobiles have found some appeal with the Nigerian consumers. Some of these include high brand names such as Lincoln, Ford and Chevrolet etc, pushing old favourites like the French, Peugeot, the German, Daimler Benz and the Japanese, Toyota and Honda brands for market share.

On the import side of international trade, Nigeria and the United States imported goods worth about US$1.995trillion, with the Africans contributing just about

Photo: Gary Gardiner/Bloomberg News

Coal Mine at Powhatan Point, Ohio, USA

U. S. Import Trades - Top-10 Sub-Saharan Countries (US$ '000)

S/No.	Country	2005	2006	2007	2007 Percentage Figure
1	Nigeria	23,875,179	27,863,412	32,525,048	50.51
2	Angola	8,466,134	11,513,833	12,210,961	18.96
3	South Africa	5,854,118	7,497,257	9,131,863	14.18
4	Gabon	2,885,673	1,330,984	2,146,911	3.33
5	Congo (ROC)	1,662,438	3,045,473	3,098,745	4.81
6	Equatorial Guinea	1,561,519	1,718,077	1,682,878	2.61
7	Chad	1,472,053	1,904,713	2,238,277	3.48
8	Cote DIvoire	1,140,983	722,674	585,403	0.91
9	Lesotho	403,471	408,407	443,018	0.69
10	Kenya	347,754	352,804	326,086	0.51

Source: United States International Trade Commission

U. S. Export Trades - Top-10 Sub-Saharan Countries (US$ '000)

S/No.	Country	2005	2006	2007	2007 Percentage Figure
1	South Africa	3,652,401	4,234,080	5,204,285	47.68
2	Nigeria	1,577,149	2,145,636	2,688,619	24.63
3	Angola	922,527	1,542,655	1,263,965	11.58
4	Kenya	625,910	516,103	576,220	5.28
5	Ethiopia	513,272	135,574	165,949	1.52
6	Ghana	324,068	282,424	403,928	3.70
7	Equatorial Guinea	248,427	551,209	234,482	2.15
8	Senegal	150,323	91,540	150,584	1.38
9	Guinea	124,120	63,113	71,589	0.66
10	Cote DIvoire	119,363	145,444	156,118	1.43

Source: United States International Trade Commission

U. S. Trade Totals - Top-10 Sub-Saharan Countries (US$ '000, Custom Value)

S/No.	Country	2006	2007	Total 2008 YTD	2007 Percentage Figure
1	Nigeria	27,863,412	32,525,048	13,433,062	50.53
2	Angola	11,513,833	12,210,961	5,658,341	18.97
3	South Africa	7,497,257	9,131,863	3,259,478	14.19
4	Congo (ROC)	3,045,473	3,098,745	1,797,898	4.81
5	Chad	1,904,713	2,238,277	1,027,232	3.48
6	Equatorial Guinea	1,718,077	1,682,878	676,790	2.61
7	Gabon	1,330,984	2,146,911	645,234	3.34
8	Cote dIvoire	722,674	585,403	513,768	0.91
9	Cameroun	223,517	306,742	114,470	0.48
10	Lesotho	408,407	443,018	104,723	0.69

Source: United States International Trade Commission

US$30.35billion of the sum. The balance was the US import figure for year-2007. Nigeria's key import items include machinery, chemicals, transport equipment, manufactured goods, food and live animals while the United States' imports were slightly tilted in favour of industrial supplies, 32.9% (crude oil, 8.2%), consumer goods, 31.8% (automobiles, clothing, medicines, furniture, toys). On an aggregate basis, Nigeria imports most of her goods from Europe (UK 8.4%, Netherlands 6.2%, France 5.6%, and Germany 4.5%). However, when one considers country by country contribution to the Nigerian import figure, China leads the train with about 10.7%, followed by the United States with 8.4%. Canada also remains the United States' most favoured import source with about 16 per cent of her import. The other large exporter nation to the United States will include China (15.9%), Mexico (10.4%), Japan (7.9%) and Germany (4.8%). From the trade figures, country proximity seems to count more for the Americans unlike the Nigerians in their international trade relations.

Nigeria - United States Trade: The Discussions

Nigeria and the United States have historically enjoyed some healthy trade relationship regardless of the system of government in the West African nation. Although this does not in any way hurt the United States democratic credentials, it rather underscores the crucial nature of the relationship between both countries. In the three years period (2005 – 2007), Nigeria enjoyed favourable trade balance with the United States and consistently ranked as the most-favoured import source and the second most-favoured export destination for the North American country behind South Africa. In recent times, the United States has tried to create a new window for African countries wanting to boost exports to the self-christened, 'God's own state' through the African Growth and Opportunity Act (AGOA). The trade Act was introduced in 2000 and has recently been extended till 2015 and it gives more liberal terms of access to the US market from eligible sub-Saharan African countries. 38 countries are qualified to trade with the U.S. under AGOA. Among the few countries not eligible are Zimbabwe, Sudan, Eritrea, Somalia and Equatorial Guinea. There are over six thousand products that could be exported under the arrangement. Nigeria, has however, identified four key sectors, namely, textile and apparel, leather and leather products, agro-allied products and handicraft – areas in which Nigeria, arguably, has some comparative advantage. These are products that have, for some years now, been exported to Europe, ECOWAS and the far-east markets. AGOA presents the Nigerian business class and exporters with a challenge – to exploit opportunities as provided by the US market, as some countries in sub-Saharan Africa are already tapping into AGOA's benefits. To Nigerians, especially players in the non-oil sectors, the time is ripe to make the movement from awareness to action.

photo: google.com

Cloth Knitting in Northern Nigeria

Nigeria-United States Trade Relations: Import Figures

Nigeria has consistently dominated import trade by the United States from countries in sub-Saharan Africa, a region of four trade blocs (Economic Community of West African States, ECOWAS, Southern Africa Development Council, SADC, East African Development Community, EAC and Economic Community of Central African States, ECCAS). Countries in this regional grouping fall under the categorization of some of the least developed in the world with the exception of the continent's giant, South Africa and oil rich nations of Angola and Nigeria. In 2005, Nigeria exported goods slightly more than fifty per cent of the top-ten exporter-countries to the United States. This figure dropped marginally to below the fifty per cent mark the following year and went up a tad in 2007 to over fifty per cent. Angola, in this period under review, consistently took the second slot, chased by the South Africans. The top-two exporting countries in the group, Nigeria and Angola are a good source of George Bush's country's energy needs.

In value terms, the Nigerian export went up by about 16.7 per cent between 2005 and 2006; from US$23.875billion to US$27.863billion. The United States' import from Nigeria also went up by about 17 per cent in the following year to US$32.525billion. The climb does not actually paint the true picture of import position of the U.S. This is because of the effects of continuous rise in the price of crude in the international market. That is, a smaller quantity could have been bought at a higher price. Generally, the top-ten countries in sub-Saharan African countries' exports to the United States went up appreciably by over 35 per cent, from US$47.669bn achieved in 2005 to US$64.389bn in 2007. The East African country, Kenya, brought up the rear in all the years profiled, usually with less than one per cent of the US imports.

photo: google.com

A Detroit metropolitan gas station

On the import side of international trade, Nigeria and the United States imported goods worth about US$1.995trillion, with the Africans contributing just about US$30.35billion of the sum.

Nigeria-United States Trade Relations: Export Figures

It is a completely different scenario for Nigeria's imports from the United States compared to the West African nation's exports as she lost the top slot to the South Africans in all the years profiled. One is thus forced to ask, 'What constitute the South African imports from the

United States?' In 2005, slightly over 19 per cent of the United States exports to the top-ten import-countries in sub-Saharan African found their way into Nigeria and with dollar value slightly above the one point five billion mark. Compared to the South Africa's figure of over 44 per cent and with dollar value nearing the four billion mark, the Nigerian value seems to have fallen short of its full potentials. It is when these figures for both sub-Saharan African countries, Nigeria and South Africa, are brought under the telescope of per capita US export that the gap is further revealed.

In subsequent years, the Nigerian values cheeringly went up both in absolute and percentage terms. In 2006, Nigeria took up over 22 per cent of the United States exports to the top-ten importer-economies in sub-Saharan Africa. This figure further went up to about 25 per cent the following year. In dollar term, the Nigerian imports figure went up by about 36.1 per cent between 2005 and 2006, from US$1.577billion to US$2.146billion. This growth rate could however, not be sustained the following year as the percentage growth went up by only about 25.3 per cent to US$2.688billion. With 15.94 and 22.91 per cents for 2006 and 2007, respectively as growth rate for sub-Saharan leading importer-country, South Africa trailed behind its Nigerian figure. As at end-2007, South Africa consumed about 47.68 per cent of US export to the Nigerian value of 24.63 per cent, almost twice the Nigerian import figures. Angola unswervingly took the third position all through the outlined years as Cote D'Ivoire and Guinea brought up the rear in different years.

According to the figures from the United States International Trade Commission, Nigeria with trade totals of US$32.525billion as at end-2007 with the North American country ranks as the most-favoured trading nation, south of the Sahara.

According to the figures from the United States International Trade Commission, Nigeria with trade totals of US$32.525billion as at end-2007 with the North American country ranks as the most-favoured trading nation, south of the Sahara. Nigeria grossed in about 51 per cent of the US trades, followed by Angola with 18.97 per cent. South Africa, the continent's leading economy, placed third with 14.19 per cent. Cameroun, a bilingual country as well as an eastside neighbour to Nigeria, brought up the rear with less than half a percent as her trade totals with the United States.

Nigeria and the United States appreciate that they are both of strategic importance not only to each other but to the rest of the world. At least, the U.S. counts on the West Africans (Nigeria) to maintain peace and security along the west coast of the continent. That is, if not the rest of Africa. In addition to this expectation, the Americans will always look up to Nigeria and a few other countries in sub-Saharan Africa (Angola, Equatorial Guinea) for her energy needs. Nigeria is ranked as one of the top five AGOA beneficiary countries, along with Angola, South Africa, Chad and Gabon. But are the Nigerians availing themselves of its benefits in the true sense of the ranking? Not really. Nigerians (especially the business class and exporters) need to come to the realities, that is, AGOA. It is not just an Act of the United States' Congress, signed into law by the President and archived in the U.S. Statute books. AGOA presents to countries in the sub-region (sub-Saharan Africa) a new world of economic opportunities. If crude oil contribution to U.S. – Nigeria trade (especially the West African country's export) is zeroed out, Nigeria's export to the Americans will dwindle in value. What this tells us is that there is an urgent need for the West Africans to diversify their exports to one of the countries that gave the world a foot hold on Space. In the mean time, somehow, we have got to understand that the relationship between Nigeria and the U.S. is at the foot of the mountain. We await its ascent.

(Tony Monye is an Assistant Editor, Zenith Economic Quarterly)*

Global Food Crisis & The Food-for-fuel Agenda: The Issues, The Politics

* By Eunice Sampson

For the first time in human history, man is growing food not to feed fellow men, not even to feed animals; but vehicles. Though the 'initiative' is just evolving, the world is already paying dearly for the anomaly. The ongoing global food price crisis calls for deep reflections on the future of food security in the new era of 'food-for-fuel'.

Josette Sheeran, head of the UN World Food Programme (WFP) describes the worrisome scenario succinctly as "the new face of hunger". "There is food on shelves but people are priced out of the market".

While the current predicament is blamed on several factors, the most disturbing is the diversion of food for 'untraditional' purposes. Analysts attribute 30%-50% of the current food crisis to the food-for-fuel programme. President George W. Bush of the United States during a press conference in April argued that the 'arrival of ethanol' contributes only about 15% to the crisis, putting 85% of the blame on poor weather, increased demand and high energy costs. Whatever the actual extent, the emergence of bio-fuel poses a major threat to global food security.

THE EMERGENCE OF BIO-FUEL

Bio-fuel technology is the generation of fuel, diesel, alcohol, etc from renewable, biological sources such as corn, wheat, sweet sorghum, sugar cane, vegetable oil, palm oil, cassava, etc. So far, the most utilized food crop, especially in the United States (the biggest bio-fuel producer) is corn.

While many energy products could be generated from this technology (solid, liquid, gas), the most common currently is ethanol, a liquid form of fuel used for powering vehicles and other engines, as an alternative to conventional fossil fuel generated from crude oil.

Some experts have commended bio-fuel for its environmental friendliness. Since bio-fuel is mostly generated from **photosynthetic plants**, many believe it is more or less **carbon neutral,** which reduces the greenhouse gas emissions from its production and usage. Another perceived advantage of bio-fuel technology is that it is renewable and easily regenerated, unlike crude oil which reserves are exhaustible.

Awareness about bio-fuel is growing rapidly in the Americas, Europe and parts of Asia. While the United States, the world's largest energy consumer, is its greatest proponent, other developed countries like the United Kingdom, Sweden, Spain, France and Germany also pursue the bio-fuel ambition. Asia, India and China, also major energy users, have embarked on bio-fuel generation as alternative to fossil fuel.

President George Bush in 2006 mandated the US to replace 75% of imported oil with bio-fuel by 2025. In the United Kingdom, the target is to ensure that all vehicles in that country run on 5% renewable fuel by 2010.

To meet these targets, tons of billions of food crops hitherto consumed by humans would be converted to bio-fuel; and not much measure has been put in place to close the enormous food gaps these ambitions would create.

Disturbingly, the current world hunger is biting harder in countries where 'bio-fuel' is still an unfamiliar concept. Statistics show that while an average American currently spends about 10% of his household income on food, in third world countries like Bangladesh, Ethiopia, Nigeria, and many others, the poorest of families (and these are in the majority) spend as much as 70% of their income on just food; raising questions, not for the first time, about the strengths and otherwise of the much preached gospel of globalization.

GROWING ANXIETY

The last time global leaders had to contend with food price escalation of this magnitude was between 1972 - 1975 when the Soviet grain crisis sent the world into a major food shortage. Analysts see the experience then as 'child's play' compared with the unfolding scenario now before us.

According to the United Nations Food and Agriculture Organization, about 850 million people today do not have sufficient food for an active, healthy life. The agency also says that the average price of food worldwide has risen 80% since 2005. By Wikipedia's estimates, the world's average price of rice has risen by 217% since the start of 2006; price of wheat has risen by 136% and maize by 125%.

Another cause for worry is the inflationary pressure the price hike is putting on global economies. The International Monetary Fund (IMF) says inflation is mounting in

GLOBAL FOOD PRICE CHANGE

Food Item	1 year % change	5 years % change
Rice	215%	410%
Soybean	73%	110%
Wheat	68%	132%
Peanuts	63%	99%
Maize (corn)	56%	126%
Barley	47%	106%
Food - Overall	***44%***	***95%***
Bananas	34%	220%
Coffee	24%	111%
Sugar	20%	56%
Lamb	19%	19%
Beef	6%	57%
Chicken	5%	29%

Primary source: The International Monetary Fund (IMF). Data to 31 May 2008.
Secondary source: Colonial First State Investments Limited

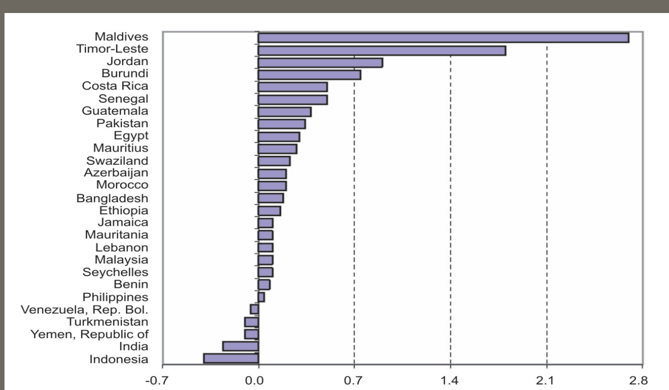
both advanced and emerging economies – despite ongoing economic slowdown – driven by higher food and fuel prices. The Bretton Woods institution says 'food price increases accounted for almost 70% of headline inflation in 2007 in emerging economies'.

If warnings from experts around the world are anything to go by, the situation is not likely to abate anytime soon.

Shouting news headlines across the world show growing anxiety as millions of the world's poorest populations become more at risk of starvation than ever before.

The United Nations' World Food Program says about thirty countries are at risk of food shortages in 2008 owing to rising prices. Twenty-two of these are in Africa. Zimbabwe, Mauritania, Sudan, Somalia, Ethiopia etc, are already faced with wide scale food emergencies.

Change in Food Price Subsidies as a percent of GDP: 2006 to 2008



Source: IMF

As the hunger spreads, so does the anger in many Third World economies. On April 12 2008, the Prime Minister of Haiti, Jacques Edouard Alexis, was forced to step down following deadly riots over rising costs of food and falling standard of living in that country. Alexis lost his job after 16 senators voted him out for his incompetence in handling high food price and skyrocketing cost of living. Similar pprotests have been reported in countries such as Senegal, Mauritania, Cameroon, Burkina Faso, Côte d'Ivoire, Mauritania, Mozambique, Egypt, and Indonesia.

GRAPPLING WITH THE SITUATION

Individual economies and multilateral institutions are making efforts to manage the food crisis, without much success.

At the end of April, the United Nations' (UN) Secretary General, Ban ki-moon, set up a task force on the Global Food Security Crisis, with membership drawn from the Bretton Woods institutions, UN agencies and other specialized groups, to map out strategies for tackling the menace. Relevant agencies are advocating for a significant increase in the budget for food relief and poverty alleviation programmes in the world's poorest countries.

At national levels, some major food producing economies are placing export restrictions on commodities such as rice, wheat, maize, etc to ensure that their domestic markets are well supplied.

In many countries, governments and merchants are taking the rationing option, especially for rice and wheat. There were reports in April of major retailers in the United States (notably Wal-Mart and Costco) placing restrictions on the specific quantity of rice their customers could buy.

In the face of tightening supplies and rising prices, countries like Haiti have opted for subsidies in the price of rice; the likes of Guinea have placed outright ban on the export of the commodity.

By 2050, the world population is expected to rise from its current 6.4 billion to the 9 billion mark. Experts estimate that the world would have to grow more food in the next 5 years than it did during the past 10,000 years if the growing food demand for the fast growing human population is to be met. But how this can be achieved in the face of flourishing bio-fuel ventures and other challenges is still a predicament.

UNVEILING THE IMPEDIMENTS

In addition to the controversial bio-fuel technology, the food crisis is worsened by environmental factors such as global warming, drought, soil degradation, famine, etc, in some major food exporting countries. Other factors include growing food demand (blamed on rising population and emergence of the *nouveau* rich in India and China); underinvestment in agricultural production, especially in developing economies; skyrocketing price of crude oil and the resultant rise in cost of food production and distribution; global economic prosperity and rising inflation; depreciating food reserves put at almost 50-year low; the depreciating value of the US dollar and the bearish condition of most capital markets which have shifted investors' interest from the capital/money market to the more lucrative commodity market.

Fuel Price Factors - With crude oil prices projected to breach the $150 per barrel mark soon, global concern about rising energy cost is mounting.

The Rapid rise in the price of refined petroleum products is fuelling the cost of foodstuffs since the cost of food production – fertilizers, mechanization, transportation, etc - is also rising.

In the United States for example, the price of gasoline has gone up by about $1.50 this year alone; a gallon of gasoline now sells for about $3.70, up from about $2.30 as at year end 2006. The story is the same in almost all countries of the world, calling for immediate and long term measures that would help check the crises.

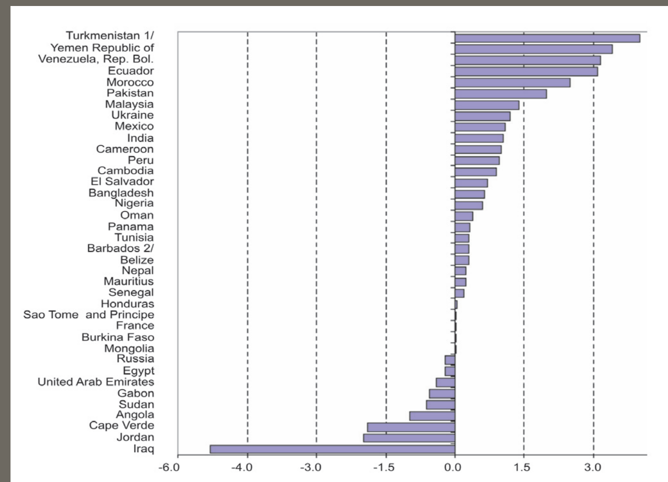
Even in China where energy cost is heavily subsidized, the populace is not sparred. Beijing on Thursday June 19 raised its gasoline price by 17% and diesel by 18% in a move expected to moderate China's strong appetite for crude oil, the world's second largest oil consumer after the United States. China's strong demand has been blamed for the increasing price of the commodity. Other countries like Taiwan, India, Malaysia, Indonesia, etc where fuel subsidy is popular have also been compelled to raise prices recently.

Ethanol Factors - The use of corn and other food items for the manufacture of ethanol, as an alternative to fossil fuel is generally blamed for the food crisis. Much of the grains that would have gone for human consumption end up as refined fuel, thus increasing demand for and cost of grains.

In the United States, government's huge subsidy for ethanol (51 cents per gallon) and high duties on imported fuel (54 cents per gallon) is luring more farmers away from growing crops for human use, putting pressure on global food supplies.

Wikipedia reports that an "estimated 100 million tonnes of grain per year are being redirected from food to fuel" - about 5% of world output (total world grain production was just over 2 billion tonnes in 2007). It is estimated that in 2008, about a quarter of U.S. corn will be used for ethanol production instead of for food.

Developing Economies: Change in Fuel Price Subsidies as % of GDP: 2006 to 2008

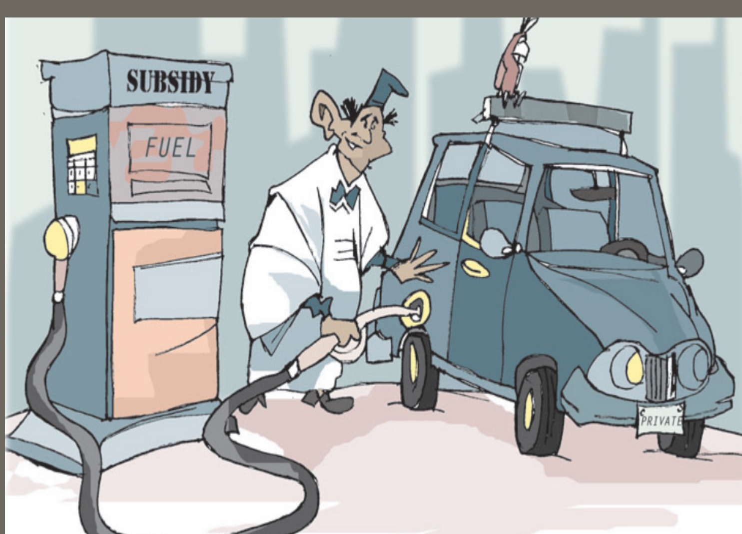


Source: IMF

By the estimates of the International Monetary Fund, the corn-to-ethanol initiative in the US and other rich countries is responsible for at least half the rise in world corn demand in the last three years, a development that is also pushing up the prices of other crops as farmers worldwide demonstrate their preference for the cultivation of the now highly lucrative corn.

If more countries pursue the ethanol dream as a 'viable alternative' to hydrocarbons, more food meant for human plates would end up in the tanks of vehicles.

Before now, no human mind would have conceived the possibility of ever having to make a choice of either 'filling the tank' or 'filling the stomach'. But the world has reached that point in human history – thanks to the 'arrival of ethanol'. Unfortunately, the major impact of this absurdity would be borne mostly by people outside the developed world.



The hunger for hydrocarbon alternatives downplays the risks of starvation and death faced by hundreds of millions of children and adults in the world's poorest countries.

Natural Factors - Experts have for long drawn attention to the impact climate change and increasing world population could have on global food availability. Population explosion, global warming, soil degradation, natural disasters of various dimensions have become daily media footnotes.

The current food crisis is blamed in part on natural disasters that have occurred in major food producing countries. In Australia, Argentina, Ukraine, Kazakhstan, China, etc, one natural mishap or the other has affected agricultural productivity in recent times. For example, the prolonged drought in Australia's grain-rich **Murray-Darling Basin** - the world's second largest exporter of wheat - led to shortages in global supply of wheat and other grains.

Series of natural disasters including tsunamis, quakes, mudslides and droughts have hit Indonesia in recent years, reducing the country's food production capacity and forcing it this April to consider the option of curbing exports owing to declining food stockpile. The **Cyclone Nargis** of May 2008 washed away tens of hectares of rice farms, driving up the price of the commodity in the global market.

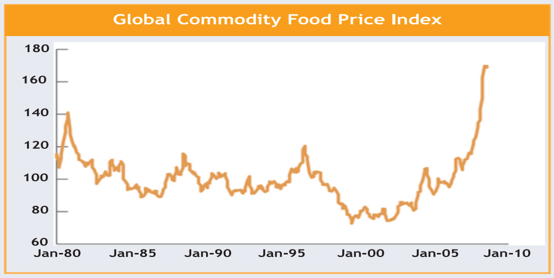
A highly quoted report from The *Guardian Unlimited* (UK) of August 31, 2007 shows that about 40% of the world's arable land is now seriously degraded. Central America is the worst hit, with up to 75% land degradation; a fifth of Africa's soil is degraded; while in Asia, 11% of the land is rated as unsuitable for farming.

Demand/Supply Factors - Rising demand from the 6.4 billion human population puts a strain on global food supply chain. Dwindling harvests in many countries including Indonesia, India, Thailand, etc is spurring dependence on food importation even among hitherto principal exporters.

Data from the United States department for agriculture shows that food stock is at its lowest in 50 years while demand is at an all time high.

Supply worries are inducing adoption of export control measures while encouraging massive imports and hoarding. Major food producers and exporters including China, India, **Brazil,** Indonesia, Argentina, Egypt, Vietnam and Cambodia now impose restrictions on export as declining inventories and price inflation threaten domestic food availability.

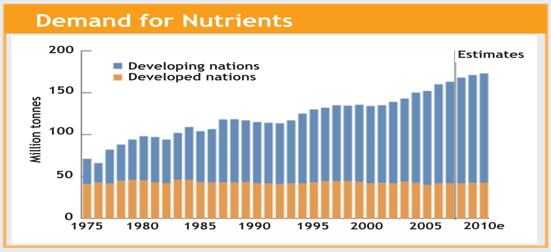
photo: google.com



Primary Source: IMF, 2005 =100. Data to May 31, 2008
Secondary source: Colonial First State Investments Limited

Food Price Changes in Selected Countries	
Country	**1 year % change**
China	21%
*Nigeria	18%
Indonesia	14%
Thailand	8%
Australia	6%
Europe	6%
UK	5%
US	4%
Japan	2%

Primary source: Bloomberg
*Secondary source: Colonial First State Investments Limited. * R&EIG*



Primary Sources: CFS, International Fertilizer Industry Association
Secondary Source: Colonial First State Investments Limited

HOW THE POOR ARE FAIRING

The least developed countries are the major victims of the current food crises. Low agricultural productivity, meagre income and wages, widespread illiteracy and unemployment, high dependence on imports, highly devalued local currencies and skyrocketing inflation and pervasive poverty make the Third World extremely vulnerable.

World Bank reports show that every 1% increase in food prices leads to a drop by 0.5% of food calories available to the world's poor.

Before the food crisis, 520 million people in Africa, Latin America and Asia were ranked by the World Bank as the "absolute poor", living on less than $1 a day; 15 million children die every year of hunger related complications. With the '*the new face of hunger*' triggered by the food crises, world's hunger statistics will only grow more disturbing.

Between early 2007 and mid 2008, the prices of wheat and rice, the world's staple food items more than doubled; so has the prices of meat, milk and fish in most countries.

Ironically, income for individuals and aids to the developing economies has remained at best, constant in the face of skyrocketing food and energy costs. UN reports show that aids from the rich to the poor countries have been on the decline since 2005.

The World Food Programme (WFP) reports that millions of people are at risk of starvation unless urgent measures are taken. In March 2008, the WFP raised alarm over a shortfall of more than $500 million in its 2008 budget for its food relief operations in 78 poor countries. The development is alarming since the population facing food insecurity is actually on the rise worldwide and nations' lists of the 'hungry' grows longer.

Worse still, the biggest donor to the Programme, the United States has announced it might cut its contribution, citing shortfalls as a result of the food and energy crises and escalating signs of economic recession as reasons.

There have been public protests in Indonesia compelling the government to subsidize food prices by over 30%. In China, government has increased taxes and imposed quotas on food exports, while removing duties on imports. India has banned the export of some varieties of rice while spending billions of US dollars in massive importation of wheat, a commodity it once exported in huge quantity.

In Egypt, the world's largest wheat importer, food subsidies have been increased to alleviate the suffering of the populace; in Nigeria, government only recently dipped into its strategic food reserve for distribution at subsidized rates; countries like Thailand are considering putting a freeze on prices of food to protect the interests of the less privileged.

THE FOOD SHORTAGE ARGUMENT

Is there a global food shortage? Most analysts would say No! The United Nations Food and Agriculture Organization reckons that "enough food is produced in the world to provide over 2,800 calories a day to everyone - substantially more than the minimum required for good health, and about 18% more calories per person than in the 1960s, despite a significant increase in total population"…. "Global Food 'Crisis' - Engineered Depopulation via Starvation"; **Scott Fox**; May 12, 2008.

While there is indeed growing demand for food worldwide, food production has actually been advancing at a more or less commensurate pace. Man-made factors such as the bio-fuel obsession; controversial WTO trade terms; and uneven distribution of global resources are responsible for at least 70% of the current food crisis.

For example, the ear-tingling report that dog and cat food sales in the United States reached a record high of over $14.3 billion in 2005 points to the startling level of global resource distribution imbalance; coming at a time when hundreds of millions of children in Africa, Latin America and Asia are dying of hunger, malnutrition and treatable diseases.

Impact of Global Food Price Crisis on Inflation (increase in inflation in the 12-month since end-2007)

Country	Increase in Inflation (%)	Period
Ethiopia	13.9	March 2008
Vietnam	12.6	May 2008
Ukraine	9.6	March 2008
Jordan	9.7	April 2008
Pakistan	8.4	April 2008
Egypt	7.9	April 2008
Sri Lanka	7.5	May 2008
Haiti	7.0	March 2008
Tajikistan	6.9	April 2008
Sao Tome	6.2	March 2008
Libya	5.8	March 2008
Paraguay	5.3	May 2008
Venezuela	5.3	March 2008
*Nigeria	12.4	June 2008
*South Africa	10.4	May 2008

*Source: IMF; * R&EIG*

With the meagre income at the disposal of the world's poor, a sizeable portion still goes into feeding alone. While the poorest households in the United States spend only 16% of their income on food; recent reports show that Indonesians spend 50%; Vietnamese 65%; Nigerians 73%. Surveys conducted by international media show that a greater percentage of Nigerians spend more of their earnings on food than any other country. This is not surprising considering that a bag of rice in the country is currently twice the minimum wage of ₦7,500 (about US$63); and an estimated 70% of the 140 million population lives on $l or less per day.

FOOD CRISIS AND OIL POLITICS

From what is known, the West pursues the ethanol dream for three key reasons – to circumvent the rising cost of

Top 12 Crude Oil Producers and their Reserves Positions as at 2007

Country	Reserves[1]		Production[2]		Reserve life[3]
	10^9bbl	10^9 m^3	10^6 bbl/d	10^3 m^3/d	years
Saudi Arabia	260	41	8.8	1,400	81
Canada	179	28.5	2.7	430	182
Iran	136	21.6	3.9	620	96
Iraq	115	18.3	3.7	590	85
Kuwait	99	15.7	2.5	400	108
United Arab Emirates	97	15.4	2.5	400	106
Venezuela	80	13	2.4	380	91
Russia	60	9.5	9.5	1,510	17
Libya	41.5	6.60	1.8	290	63
Nigeria	36.2	5.76	2.3	370	43
United States	21	3.3	4.9	780	112
Mexico	12	1.9	3.2	510	10
Total of top twelve reserves	1,137	180.8	48.2	7,660	65

Notes:

1. Claimed or estimated reserves in billions (10^9) of barrels (converted to billions of cubic metres). (Source: Oil & Gas Journal, January, 2007)
2. Production rate in millions (10^6) of barrels per day (converted to thousands of cubic metres per day) (Source: US Energy Information Authority, September, 2007) [10]
3. Reserve life in years, calculated as reserves / annual production. (from above)

Source: Wikipedia

hydrocarbon fuel; to ensure energy security and also, to achieve 'environmental friendliness'.

On environmental friendliness, recent studies have shown that unlike previously thought, reduction in greenhouse gas emissions from ethanol usage is not as significant as it was first thought. This, coupled with the negative impact ethanol is having on global food security makes the venture quite unappealing to many.

The other issues - high crude oil price and supply fears - could be addressed significantly if the West would explore more of their own crude oil reserves while more humane alternatives are being sought for the commodity.

For the avoidance of doubt, the United States has 21 billion barrels of proven crude oil reserve, next to Nigeria and coming 11th in the list of top 12 countries. Its neighbouring Canada has the second largest proven oil reserve in the world (179 billion barrels) after Saudi Arabia.

The United States has huge oil deposits in the Gulf of Mexico, Texas, California, Alaska and other regions of the country. But billions of barrels of its offshore deposits are left untapped owing to fears that resulting environmental hazards could compromise the nation's booming tourism industry.

Canada's crude oil reserve has an estimated lifespan of 182 years, the longest lasting reserve among the top12 producing countries; the United States' comes second at 112 years. The crude oil reserve of Nigeria, Africa's largest producer and exporter is estimated to last the next 43 years at current level of production, an indication that the country's reserve is fast drying up.

Reasons for the estimated longevity of United States' and Canada's reserves are not far-fetched. While these rich countries can afford to be 'economical' in the exploration of their crude oil - pursuing instead the policy of massive importation and stockpile of strategic petroleum reserves - developing economies like Nigeria depend solely on oil exploration for their national livelihood.

However, the United States is faced with a major dilemma arising from its huge oil consumption. Experts have calculated that if the US was to meet its entire demand of 21 million barrels per day through local exploration, its existing reserves would dry up in just three years.

This explains the age long 'oil politics' and the desperate foreign policy measures aimed at ensuring the uninterrupted flow of crude oil from the developing world. It also explains the frenzy for an alternative source of energy - bio-fuel.

CONCLUSION

The unprecedented diversion of food for the manufacture of bio-fuel has amplified the ongoing food crisis; impoverishing the poor and further eroding their purchasing power even for life's most basic need - food.

In 2007 alone, about 100 million tons of grain - enough to feed over 400 million people - was converted into ethanol in efforts to meet the US federal mandate to generate a quarter of the country's gasoline need from renewable fuel.

Surely, there must be other more 'human friendly' ways of handling the energy crisis than sacrificing global food security at the alter of energy security. That is all the food-for-fuel initiative has accomplished so far.

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

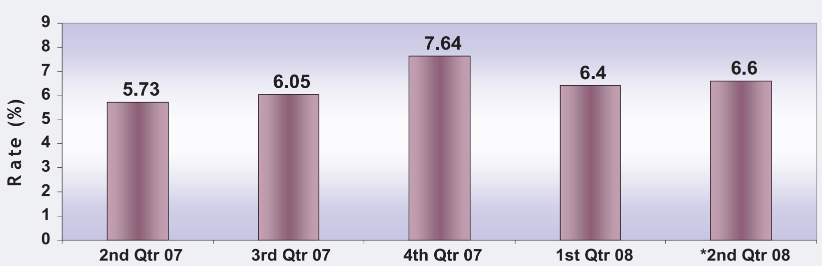
MACROECONOMIC ENVIRONMENT

The Nigerian economy grew marginally in the second quarter of 2008, despite some noted uncertainties during the period. Some of the macroeconomic indicators continued to perform above expectations, while others missed projected targets. Gross domestic product (GDP), for instance, went up in the second quarter. Inflation movement disturbingly missed projected target in the period. Another form of income to the nation's coffers, the foreign reserves, crossed some appreciable milestone in its ascent but dropped marginally at the end of the quarter. On the other hand, the nation's legal tender, the naira stayed firm in value against some major currencies of the world most especially the dollar. Interest rate benchmark, the monetary policy rate (MPR) was reviewed twice during the quarter. The bears continued their dominance in the nation's stock market against the wishes of many players in the market. In the international oil market, crude prices crossed hitherto record highs, in the process setting new ones.

GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) grew, quite marginally in the quarter benchmarked against the previous quarter. The recorded growth in the period has been largely attributed to the impact of the expansion in the non-oil sectors. According to the apex monetary authorities, the Central Bank of Nigeria (CBN), GDP in the period went up by about 0.2 per cent, up from 6.4 per cent achieved in the first quarter. The non-oil sectors was said to have contributed about 80 per cent to the marginal shift in GDP while the oil sector took up the balance. Agriculture has continued to dominate the non-oil sectors' contributors to the GDP. Youth restiveness in the Niger-Delta continued in the quarter and it impacted gravely on oil production and distribution activities. The nation, in a way, has been unable to meet up with its Organisation of Petroleum Exporting Countries (OPEC) quota. Oil production is presently estimated at 1.874 million barrels per day, 21.9 per cent short of the nation's OPEC quota of 2.4 million barrels per day. GDP is being forecast to improve in the coming quarter as a result of the impact of new policy initiatives of both the government and the monetary authorities.

GDP Growth Rate (2nd Qtr.07 - 2nd Qtr .08)

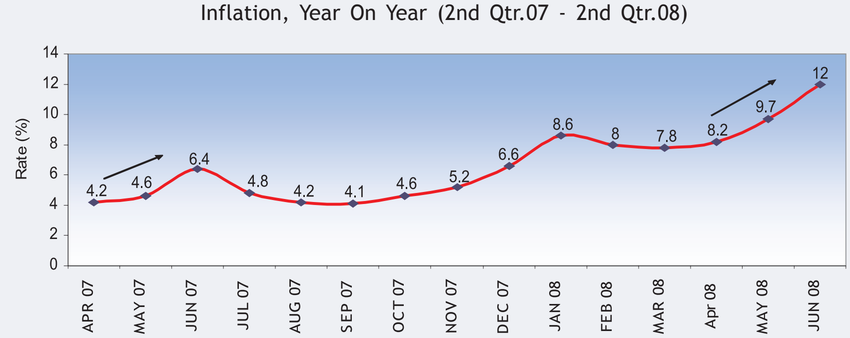


*Source: CBN; *CBN's Projection*

INFLATION

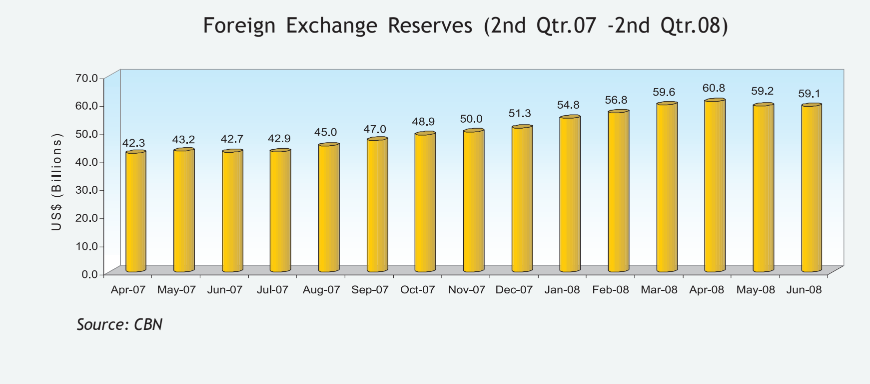
Inflation in the second quarter went up against concerted efforts by the monetary authorities to check it. The year-on-year (y-o-y) inflation rate was recorded at beginning-quarter to be about 8.2 per cent, rising up to 9.7 per cent in May 2008. At the close of the second quarter, inflation had gone up further to 12 per cent – for the first time crossing the double-digit benchmark in well over two years. These inflation movements contrast sharply with what occurred in the first quarter, where it moved downwards in relatively stable steps. Several factors contributed to the undesirable movements in inflation figures. Some of these include, rising food prices (wheat, corn, rice etc) currently facing the world, imported inflation that penetrated our borders since the economy is largely import-dependent, rising crude oil prices in the international market. Other factors include fiscal injections by the three tiers of government and the uniform year-end directives to deposit money banks (DMBs) in the country by the Central Bank of Nigeria.

Inflation, Year On Year (2nd Qtr.07 - 2nd Qtr.08)



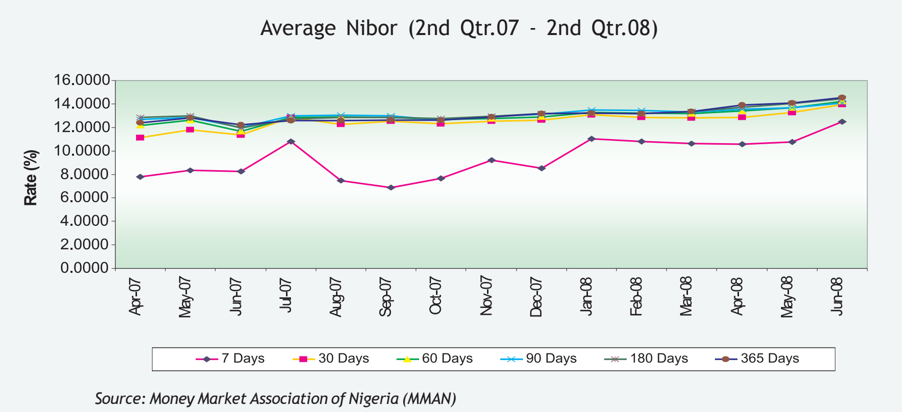
Source: National Bureau of Statistics

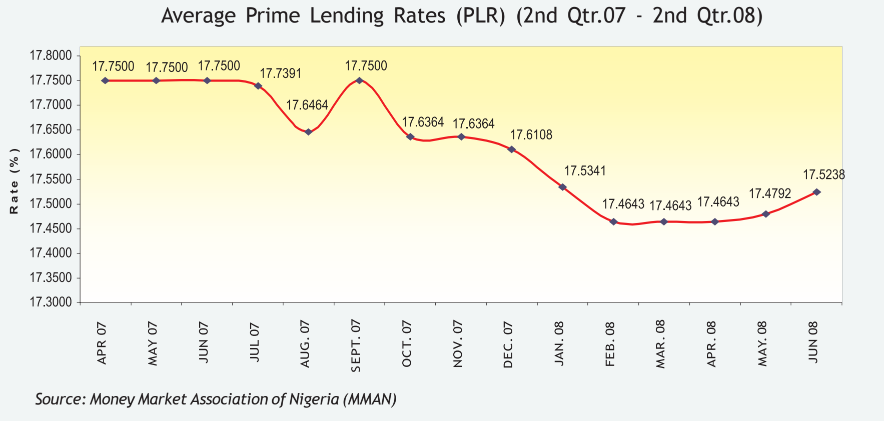
External Reserves



In the second quarter, the nation's foreign reserves experienced mixed movements, periods when it moved up and others when it dropped. External reserves as at end-March were put at US$59.6billion, it rose by about US$1.2billion at second quarter. The growth movement halted by mid-quarter as it began its descent, from US$59.2billion as at end-May to US$59.1billion at the close of the second quarter. It must however be noted that it was during the quarter that foreign reserves crossed the US$60 billion mark. According to the CBN, the reserves position could finance not less than 22 months of imports.

INTEREST RATE





The CBN during the course of the quarter raised the benchmark interest rate, Monetary Policy Rate (MPR), twice. It was raised by about 50 basis points, from 9.5 per cent to 10 per cent in April but by June, it was further raised by 25 basis points. The June increase in MPR, according to the CBN was a pre-emptive move to stem the inflationary effects of the over US$2billion (about N240billion) shared among the three tiers of government.

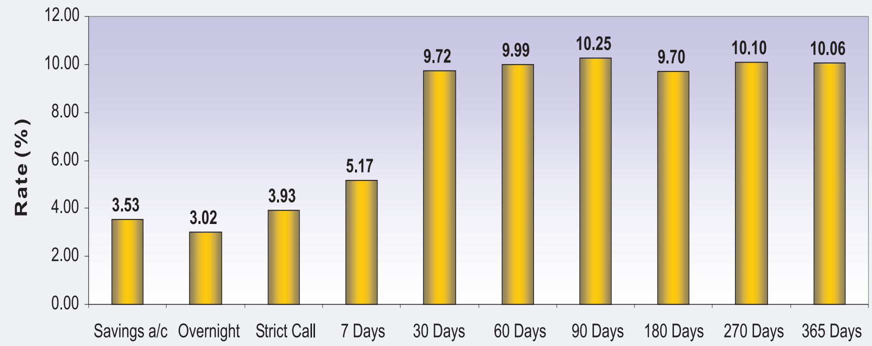
Prime Lending Rates (PLR) in the quarter witnessed negligible increase as against the downward trend experienced during the first quarter. Average PLR stayed between 17.46 and 17.52 per cents. At mid-quarter, PLR was estimated to be around 17.48 per cent.

The average deposit rates remained relatively stable with minimal volatility across most investment horizons, with the exception of an upswing of more than a quarter basis points on the 180, 270 and 365 days. The deposit rate on these horizons increased by 28, 52 and 32 basis points respectively; from 9.42, 9.57 and 9.74 percent to 9.70, 10.10 and 10.06 percent, respectively.

The average monthly rates in the inter-bank market went up across most investment horizons in the second quarter of 2008. The inter-bank rates went as high as 14.77 percent on the 365 days tenor in June. Volatility on the inter-bank

rates was higher on the 7, 30 and 60 days; with rates increasing by 191, 108 and 81 basis points, respectively. This might mean that financial institutions faced dearth of funds for the shorter term horizons. There are fears that MPR, in the coming quarter, might be increased to curb the further rise of inflation, which at the moment does not seem to be the objective of the authorities.

Average Savings Rate (2nd Qtr 2008)

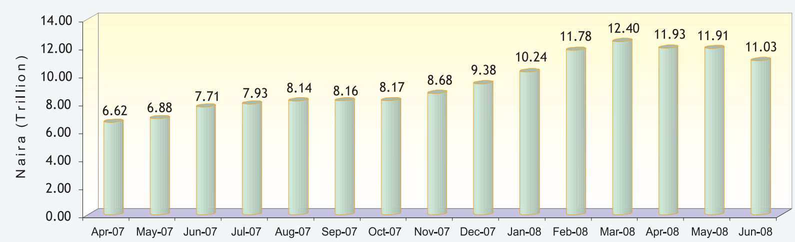


Source: Money Market Association of Nigeria (MMAN)

CAPITAL MARKET

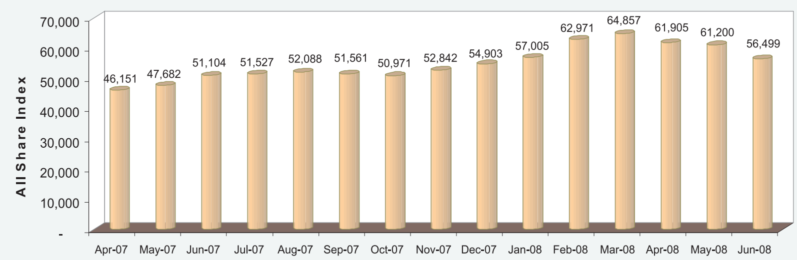
The capital market was one area that gave so many people so much concern in the second quarter as the bears continued their dominance of the market. Two market indices, the All-Share index (ASI) and market capitalisation (MC), in the period, went down. All-Share index and market capitalisation closed the first quarter at 63,147.04 and N12.151trillion, respectively. At the end of the second quarter these indices had plunged by about 11.4 and 10.13 per cents, to 55,949.04 and N10.920trillion, respectively. These drops in both indices have raised concerns among market players (regulators, operators and investors) as the presence of bears in the Exchange meant many things but growth. Stock market analysts and traders have adduced many reasons as being responsible for the bearish trend in the market. These include but not limited to the stoppage of margin trading facilities by banks to short-term investors (although this has been denied severally by the monetary authorities), the common financial year directive to banks by the CBN which also impacted activities on the Exchange as funds became quite expensive to borrow and the growth of the real estate sector. According to some market watchers, the bearish drift could be a means of market correction as they argued that some of the stocks were priced beyond their true value, regulatory directives coming from the managers of the Exchange that stocks must now trade a minimum of 100,000 units before there could be any price adjustment. It is however being speculated that the days of the bears are numbered as analysts and traders believe that it’s now time for the bull to take charge of the money. They also are of the opinion that the time to harbour panic had come and gone; investors should take advantage of the prevailing drop in the prices of most stocks for gains.

NSE Market Capitalisation (2nd Qtr.07 - 2nd Qtr.08)



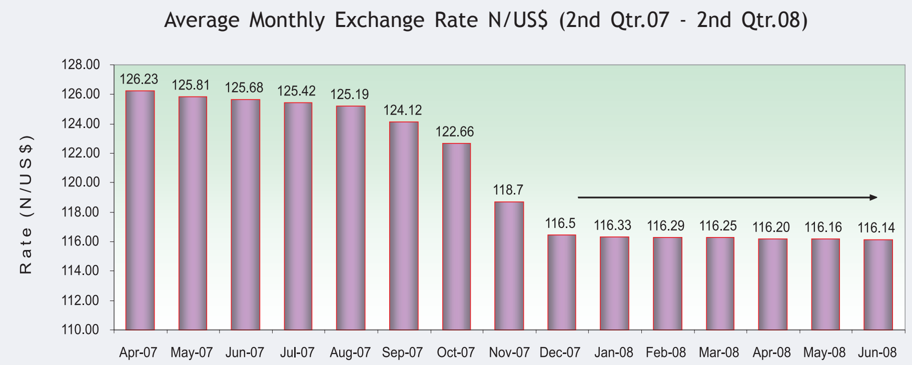
Source: Nigerian Stock Exchange

All Share Index (ASI) (2nd Qtr.07 - 2nd Qtr.08)



Source: Nigerian Stock Exchange

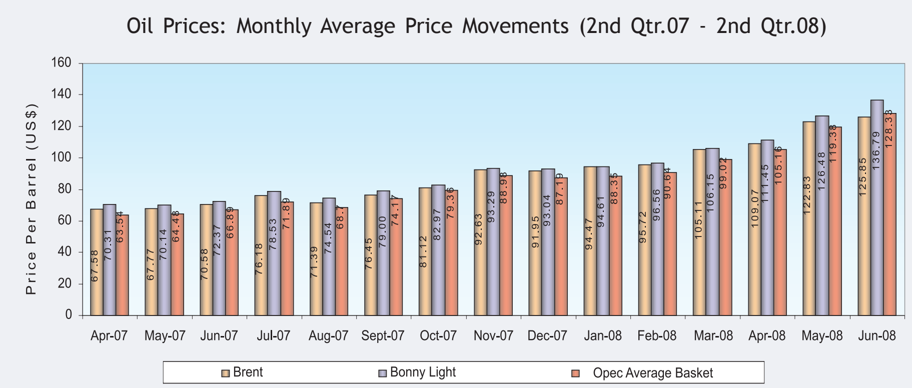
EXCHANGE RATE



Source: CBN

The nation's currency, the naira in the second quarter, remained stable against the dollar throughout the second quarter, a position carried forward from the previous quarter. Both first and second quarters combined have been the longest period of such stability in the value of the naira against the dollar, thereby providing a tightening margin for arbitrage opportunities. At the beginning of the quarter, naira traded at N116.20 to the dollar and by the close of the quarter, the naira had gained some strength as it sold N116.14 to the U.S. dollar. The strong showing of the naira against the dollars has been attributed to the nation's foreign reserves position and the weakening value of the dollar in the international market. Increasing dollar inflows from several sources (oil and non-oil exports), multinationals etc have added to the renewed strength of the naira.

OIL PRICES



Source: Energy Information Administration (EIA)/OPEC

Crude oil prices broke through many record highs in the quarter. In fact, it was one phenomenon that defined the quarter and oil players would ever remain slow to forget as new oil price highs were reached almost at every trading day. The price of the Nigerian premium crude, Bonny Light, went up remarkably over 29 per cent, from a monthly average of US$106.15 as at end of the first quarter to about US$136.79 at end second quarter. The price of Bonny Light crossed a new benchmark at US$140.21 per barrel towards the end of the quarter. While OPEC blamed much of the increase on the activities of speculators; great oil consuming nations like the United States feel differently, arguing that there was need on the part of OPEC member-countries to improve supply situation in the market as against rising demand from China and India. The United States would want the removal of fuel subsidies in most nations as this might check excess consumption concern and consequently, rising price. Much of the surge in oil prices in the reviewed period has been largely attributed to the rising tensions in the Middle-East over the Iranian decision to have nuclear power. Other factors include restiveness in the Niger-Delta which led to a drop in supply from Africa's largest oil exporter, dwindling value of the dollar against other international currencies. The forecast for the remaining half of the year, according to the Energy Information Administration (EIA) is that of rising demand for oil. In fact, it is estimated to hit the 1.2million barrels per day. If supply stays constricted, the likelihood of a price rise is given.