ZENITH

Zenith Economic Quarterly

A Publication of Zenith Bank Plc Vol. 5 No. 3 July, 2009 ISSN: 0189-9732

Banks and Economic MELTDOWN:

Stagnation, Recovery Or Relapse?

EDITORIAL
new paradigm or what?

PERISCOPE
economy: search for new paradigm persists

POLICY
guidelines for the licensing, operations and regulations of credit bureaus in nigeria

GLOBAL WATCH
banks and economic meltdown: stagnation, recovery or relapse?

ISSUES
nigerian banks: the challenges of adopting international financial reporting standards (2)

quality and internal control challenges: fraud investigation in banks
- *Chuks Nwaze*

positioning agriculture for nigeria's economic development

stock market: rebounding against odds
- *Chidiebere Okwuonu*

FOREIGN INSIGHTS
private sector associations as the engine of reform in ghana
- *Anna Nadgrodkiewicz*

nigeria - russia relations: a promising future

FACTS & FIGURES
economic, financial and business indices

STOCK MARKET:

Rebounding Against Odds

Zenith Economic Quarterly

C O N T E N T S

EDITORIAL

PERISCOPE
Looks at the entire economy during the second quarter, analysing major developments in key sectors of the economy - and pointing out some emerging trends. Pg. 5 - 10.

POLICY
Gives a rundown of the requirements for licensing, operating and regulating credit bureaus in Nigeria. Pg. 12-16.

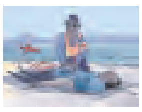
GLOBAL WATCH
Details and analyzes efforts and results achieved in putting life back into the US banks and others - in the face of the lingering economic meltdown. Pg. 18-25

ISSUES (I)
A continuation of the article on the challenges of adopting the International Financial Reporting Standards (IFRS) in Nigeria. Pg. 27-30

ISSUES (II)
Part of the series dealing with quality and internal control challenges - with a focus on fraud investigations in banks. Pg. 32-40

ISSUES (III)
Analysis of the heightening interest in agriculture and the possible gains. Pg. 44-51

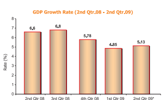
ISSUES (IV)
Summary of the travails and gains of the capital market in the second quarter and the forces that drove the trends. Pg. 53-57



FOREIGN INSIGHTS (I)
Captures the role of private sector business associations as the engine of reforms in Ghana. Pg. 59-65

FOREIGN INSIGHTS (II)
An analysis of the whole dimensions of relations between Nigeria and Russia - to expose trend and potentials. Pg. 67-74.

FACTS & FIGURES
Precis on the economic, financial and business indices during the second quarter. Pg. 76-80.



ZENITH ECONOMIC QUARTERLY
is published four times a year by Zenith Bank Plc.
Printed by **PLANET PRESS LTD.** Tel 234-1-7731899, 4701279, 08024624306,
E-mail:press@planetearthltd.com

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

All correspondence to:
The Editor,
Zenith Economic Quarterly,
Research & Economic Intelligence Group,
Zenith Bank Plc
7th Floor, Zenith Heights
Plot 87, Ajose Adeogun Street,
Victoria Island, Lagos. Tel. Nos.: 2781046-49, 2781064-65|
Fax: 2703192.
E-mail: marcel.okeke@zenithbank.com,
zeqeditor@zenithbank.com
ISSN: 0189-9732

ZENITH
ZENITH BANK PLC
www.zenithbank.com

New Paradigm or What?

"Managing a crisis as complex as this one has so far called for nuance and pragmatism rather than stridency and principle…only the foolish and partisan have rejected (or embraced) any solution categorically."

This statement, culled from a February 2009 edition of the Economist of London, aptly prescribes an ideal attitude for all economic agents in the face of the subsisting nondescript phenomenon variously referred to as a global economic recession, financial crisis, economic meltdown, et cetera. In deed, only the 'foolish' and 'partisan' have rejected or embraced any 'solution' categorically. Rather, the predominant posture at individual, corporate and national levels has been that of openness to experimentations—trial and error—if you will.

One way or the other, today, every seminar, conference, symposium or workshop has its theme, directly or indirectly, linked to the ravaging global economic crisis. From all these, varieties of suggestions or solutions are being churned out—with some practicable and the rest, purely academic or esoteric. As practical steps, corporate bodies are redrawing their business strategies—returning to the basics—to ensure their continued survival. Other more influential corporate citizens are lobbying their host governments to tinker with subsisting economic policies, and avail them with some fillip or breather in weathering the debilitating tide of the recession.

Ironically, most countries and regions of the world are eagerly looking up to the origin—the root or source—of the global phenomenon (the U.S.) to gain focus on the direction in search of answers to the nagging economic challenge. On its part, the US government and those of a few other advanced economies have remained prolific in trying several measures and ideas in their efforts to pull their people and countries out of the deep recession. And this is where the critical place of banks as economic catalysts has been brought to the fore. Thus, every effort is being made to inject life into as many banks as possible in the shortest time possible, even by the use of the taxpayer's money.

In the US specifically, the Barak Obama Administration initiated what it termed The Troubled Asset Relief Programme (TARP) as part of the overall Emergency Economic Stabilization Act 2009. Through the initiative, banks, especially major ones, must be prevented from collapsing under the burden of their huge 'toxic assets', by injecting substantial equity funds into them, and by so doing lift their liquidity position and empower them to begin to lend again. This is to act as a counterpoise to the biting credit crunch that fast-tracked the recession in the first place. Thus, under our cover piece: "Banks and Economic Meltdown: Stagnation, Recovery or Relapse?" we examined the TARP and similar initiatives as part of overall economic stimulus packages. Surprisingly, this lifeline has saved not a few otherwise dying banks in such a dramatic manner that they have moved from 'the red' to profitability, few months after taking the 'pill'.

Also, in appreciation of the topicality of our cover title in the last edition, we hereby serve Part Two of the piece: "Nigerian Banks: The Challenges of Adopting International Financial Reporting Standards". In it, we raised some technical implementation issues, including loan loss provisioning approaches, consolidation of entities, fair value measurement, among others. Similarly, we continued our series on quality and internal control challenges, focusing on fraud investigation in banks. In the same vein, in tune with the heightening interest in agriculture in recent times, we penned the piece: "Positioning Agriculture for Nigeria's Economic Development". Here, the author sums up that "no time can be more apposite than now for a concerted effort to revive agriculture in Nigeria".

> One way or the other, today, every seminar, conference, symposium or workshop has its theme, directly or indirectly, linked to the ravaging global economic crisis. From all these, varieties of suggestions or solutions are being churned out—with some practicable and the rest, purely academic or esoteric.

The focal place of the stock market, especially now, is not lost on us. And so, we captured the gains, travails and triumphs of the market under the title: "Stock market: Rebounding against odds". Our 'Foreign Insight' x-rays Nigeria-Russia relations, positing that the future is full of promise. The section also considered the critical, yet unfolding role of private sector associations as the engine of reforms in Ghana.

This edition of your upscale journal also contains all other usual sections, including the 'Periscope', 'Policy' and 'Facts & Figures'—all brimming with insightful presentations and informative analyses. All for your enrichment!

Marcel Okeke

I acknowledge with thanks, the receipt of your letter dated 30th April, 2009, of which you were kind enough to have forwarded a copy of your Zenith Bank Plc., Economic Quarterly which centers on the challenges of adopting the International Financial Reporting Standards (IFRS) in Nigeria as well as an assessment of the stimulus packages in the efforts to contain the present global economic downturn. On behalf of the Director-General, I wish to communicate to you that the Chamber appreciates your kind gesture and hope for a continued fruitful working relationship with your organization.

With best regards.

Yours truly,

Dele F. Ogunjobi
For: Director-General
The Lagos Chamber of Commerce & Industry

I write on behalf of Dr. 'Uju M. Ogbunka, Registrar/Chief Executive, CIBN, to acknowledge receipt of a copy of April, 2009 edition of Zenith Economic Quarterly focusing on "The Challenges of Adopting the International Financial Reporting Standards (IFRS) in Nigeria" which you sent to him. Dr. Ogubunka commends the quality of production of the publication and the though-provoking articles contained therein.

He wishes your Editorial Team well.

Yours sincerely,

Onyeacholem P.C. (Mrs)
Personal Assistant to Dr. Ogubunka
The Chartered Institute of Bankers of Nigeria

I am directed to acknowledge receipt of a copy of the April edition of the Zenith Economic Quarterly (ZEQ) and to appreciate the effort of the Zenith Bank Plc in addressing the critical economic issues in Nigeria through this. Please accept the assurances of the Honourable Minister's highest consideration.

Musa, B.O
For: Honourable Minister of Finance.
Federal Ministry of Finance

We wish to acknowledge with thanks, receipt of your letter dated April 30, 2009 together with a copy of Zenith Economic Quarterly (ZEQ). The magazine has continued to serve as credible source of information and rich reference material for the Consulate General.

S.O. Olaniyan
For: Consul General
Consulate General of Nigeria, New York

I am directed to acknowledge with thanks, receipt of the above mentioned Magazine and to inform that the Magazine is not only timely but also educative and a very valuable reference material. Please accept the assurances and warm personal regards of His Excellency, the Ambassador.

Peter A. Audu
For: Ambassador
Embassy of Nigeria, Thailand

I am directed to acknowledge with thanks the receipt of one (1) copy of Zenith Economic Quarterly Vol. 4 No. 2 of April, 2009. This was accompanied with a letter dated April 30, 2009. We are sure that this copy will provide interesting and educative information for our readers.

Thank you for your co-operation.

Owoloye, S.
For: Ag. Director Library Services.
Lagos State Library Board

I am directed by the Vice-Chancellor to acknowledge with thanks receipt of a copy of the April 2009 edition of the Zenith Economic Quarterly (ZEQ), which focuses on the challenges of adopting the International Financial Reporting Standards (IFRS) in Nigeria. With the Vice-Chancellor's warmest regards.

Thank you.

Margaret I. Aziba (Mrs.)
Principal Assistance Registrar
For: Deputy Registrar (Vice-Chancellor's Office)
University of Ibadan

I hereby write, on behalf of the Vice-Chancellor of the Federal University of Petroleum Resources, Effurun, Professor Babatunde Alabi, to acknowledge with thanks receipt of the April 2009 edition of the Zenith Economic Quarterly (ZEQ). Thank you.

Please accept the assurances of the Vice-Chancellor's warmest regards.

Ogundeji E.F.D. (Mrs)
Personal Assistant to the Vice-Chancellor, Federal University of Petroleum Resources, Effurun, Nigeria

I have been directed by the Hon. the Chief Justice of Nigeria to acknowledge with thanks, the receipt of your letter dated 30th April, 2009, and the enclosed copy of the April, 2009 edition of the Zenith Economic Quarterly (ZEQ).

Please accept the assurances of His Lordship's esteemed regards.

A. L. Elebute (Mrs.)
For: Chief Justice of Nigeria
Supreme Court of Nigeria, Abuja

We wish to acknowledge, with thanks, the receipt of the above mentioned document, which we have read as usual with considerable interest. There is no doubt that it will help Nigerians especially those involved in business activities to achieve success, as well as help salvage the economy of this country. Let us, therefore, hope that the laudable measures set-up in the policy guideline will be followed in to-to. Please accept the assurances of our highest consideration and esteem.

Yours sincerely,

Ambassador (Chief) V.N. Chibundu, IOM, FCIS, FNIM
Founder/Chairman, Hon. DG (IBC)
Nigeria-China Friendship Association

We wish to acknowledge with thanks, the receipt of a copy of the Zenith Economic Quarterly (ZEQ) for April, 2009 edition dated 30th April, 2009 which was sent to us in the Embassy of Nigeria, Athens, Greece.

We thank you for the invaluable service your Bank is rendering to the Nigerian Economy through the incisive analysis of the Economic climate in our dear country.

Regards

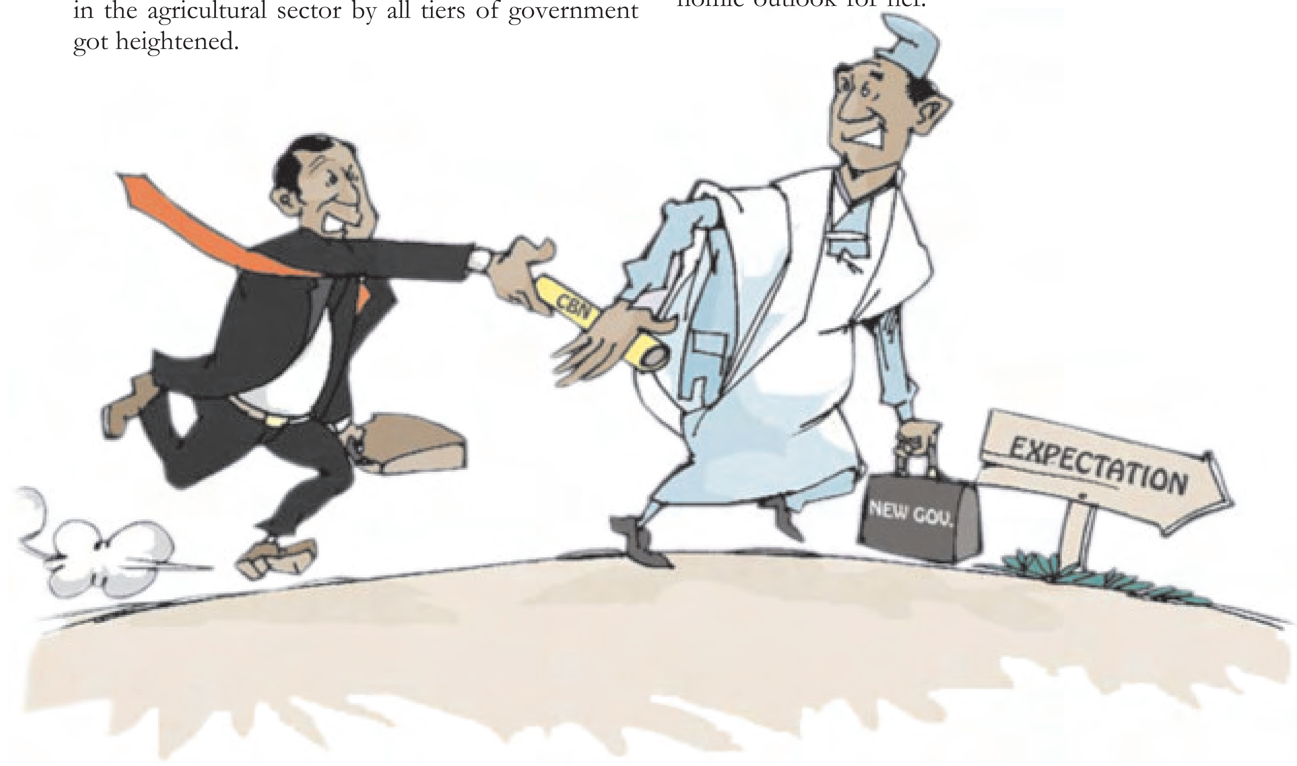
Mrs. L. O. Alaribe
For: Ambassador
Embassy of Nigeria, Athens

Economy: Search for New Paradigm Persists

*** By Marcel Okeke**

The most obvious effects of the global financial crisis, namely weak global demand, falling crude oil production and depleting external reserves continued to bite harder on Nigeria during the second quarter 2009. Moves to effectively contend with this by all tiers of government and other economic agents have led to some "palliatives" or "stimulus packages" through monetary and fiscal policy initiatives. State governments began moving in droves to raise funds through the bond section of the capital market to augment revenue shortfalls while renewed interest in the agricultural sector by all tiers of government got heightened.

Ironically, oil prices made dramatic recovery during the quarter, rising from the worrisomely low level of $37 per barrel very early in the year to hover between $60 and $72 per barrel by the close of the quarter. Still on the cheery side, the capital market achieved a significant rebound, with market indices making quantum leap. Also, unlike during the first quarter 2009 when Standard & Poor's (S & P) rating agency lowered Nigeria's overall rating outlook, Fitch Rating—another reputable global rating body—maintained the country's BB rating during the second quarter and projected a stable economic outlook for her.

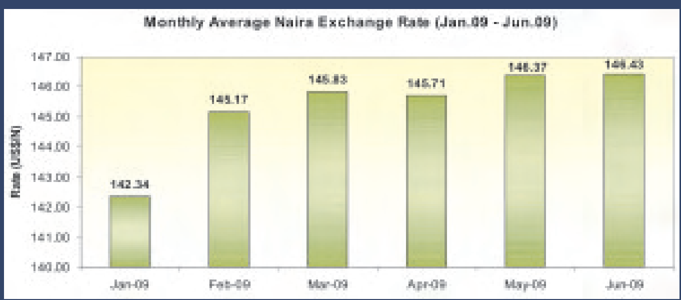


Specifically, Fitch reaffirmed Nigeria's long-term foreign and local currency issue default rating at "BB-" and "BB+" respectively, citing the country's sovereign balance sheet as the basis for the ratings. While acknowledging the negative implications of the youth restiveness in the Niger Delta on oil production, among other factors, Fitch insisted that low external debts, fast recovering oil prices as well as the well capitalized banking system give the country a stable footing in the face of the global economic downturn. Analysts at the Citigroup London also recognized that the upswing in crude oil prices (from April to June) has provided Nigeria with an estimated $20 to $25 windfall per barrel compared with the 2009 budget benchmark price of $45 per barrel.

In a rare move also, the Budget Office of the Federation prepared and released the first quarter 2009 budget implementation report of the Federal Government in which it noted that "revenue from both oil and non-oil sources were below projections in the first quarter". According to the report, during the first quarter 2009, the total revenue available for implementation of the Federal Government Budget (including the budgeted unspent balance of N75 billion for the first quarter of 2009 from the 2008 financial year) fell short of its budgeted estimate of N566.30 billion by N182.24 billion (or 32.18%). To manage this position, the unspent balance was further drawn down to N221.43 billion bringing the shortfall to N35.82 billion (or 6.32%).

The change of baton at the highest level of leadership at the Central Bank of Nigeria as well as the exit of the chief executive officer of the Securities and Exchange Commission during the quarter and the consequent policy shifts by those agencies also marked the period under review. In fact, while the new helmsman at the apex bank, Mallam Sanusi Lamido Sanusi, has initiated a new regime of "full disclosure" and improved risk management among money deposit banks (MDBs), the interim chief executive at SEC, Ms. Daisy Ekineh, commenced the implementation of aspects of a technical committee report aimed at growing the capital market. The Presidential Steering Committee on the Global Economic Crisis and the Financial Sector Regulatory Coordination Committee (FSRCC) have also directed the harmonization of codes of corporate governance across the financial services sector.

Specifically, under the new dispensation, the CBN has restricted banks' lending to the public sector, allowing only 10 per cent of total credit portfolio as facilities to all tiers of government and their agencies. The apex bank insists that "where the existing credit limit to the public sector has exceeded the prescribed maximum limit, it should be brought down to the new allowed limit by December 31, 2009". The apex bank enjoined all banks to apply the provisions of the prudential guidelines to all public sector credits and put in place appropriate measures to avoid excessive exposure to the sector. This new order, according to the CBN replaced the regulation that had been in place since 2002, under which banks were allowed to lend to the public sector but make 50 per cent provisions for the facilities when they are still performing loans and 100 per cent when non-performing.



Source: CBN

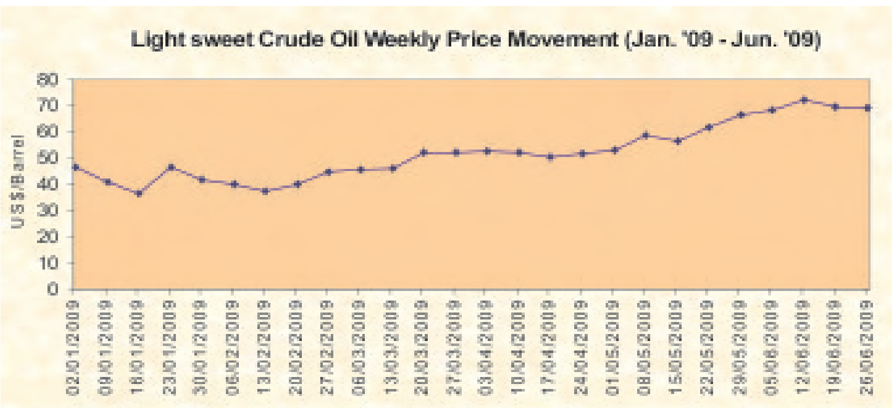
One other obvious impact of the global economic downturn on Nigeria was the continued depletion of her external reserves. The reserves which closed the first quarter at about $47 billion, further dropped to $43.20 billion by end-June 2009

One other obvious impact of the global economic downturn on Nigeria was the continued depletion of her external reserves. The reserves which closed the first quarter at about $47 billion, further dropped to $43.20 billion by end-June 2009; it opened the year at about $53 billion. A concomitant of this, has been some challenges in the management of the exchange rate of the Naira against major trading currencies. In fact, in an effort to shore up the Naira and to also conserve the reserves, the CBN had to order the discontinuation of the sale of both Basic Travel Allowance (BTA) and Personal Travel Allowance (PTA) to customers for the same trip. Before this directive, travelers, especially those on business trips can apply for a maximum of $5000 for BTA and $4000 for PTA, giving a total buy of $9000. This amount, under the new regime, has been reduced by half.

In the same vein, the apex bank re-intro-

duced the Wholesale Dutch Auction System (WDAS) into the foreign exchange market—a method that it suspended earlier in the year, in place of the Retail Dutch Auction System (RDAS). The upshot of all this has been relative stability in the exchange rate of the Naira; thus, the average monthly exchange rate of the local currency which stood at N145.83 to $1 in March, stabilized at N145.71 to $1 in April, N146.37 to $1 in May and N146.43 to $1 in June. Similarly, other macroeconomic indices, including inflation achieved stability or improved performances. Inflation rate (year-on-year), for instance, which stood at 14.40 per cent in March, dropped to 13.30 per cent in April and decelerated further to 13.20 per cent in May. It closed the second quarter 2009 at 11.20 per cent—a significant downward jump towards the single digit target of the 2009 Federal Government budget.

While the rate of inflation was steadily trending downwards, the price of oil which got disturbingly low during the first quarter 2009 trended upwards during the second quarter. In fact, the OPEC Reference Basket (ORB) price which closed the first quarter at $46.65 per barrel rose to $50.20 per barrel in April; it went up further to $56.98 per barrel in May and ended the second quarter at about $58.25 per barrel. On a 'spot' and 'futures' basis however, the price of oil per barrel remained within the range of $60—$70 for most part of the second quarter.



Source: New York Mercantile Exchange (NYMEX)

THE CAPITAL MARKET

Against all odds and expectations, the capital market experienced reasonable improvement during the second quarter 2009 relative the previous two consecutive quarters. This reflected in considerable share price appreciation as well as in the high volume and value of stocks traded during the period. Consequently, while the Nigerian Stock Exchange (NSE) All Share Index (ASI) depreciated by about 37 per cent in the first quarter 2009, it gained a whopping 35.40 per cent in the second quarter to close at 26,862 points. In fact, on June 2, the ASI hit a year-high of 30,924.97 with a corresponding market capitalization of 7.04 trillion naira. The market capitalization opened the quarter at N4.48 trillion.

This cheery trend is attributable to a number of factors, including the fact that several company results released during the quarter indicated continued strong performance despite the harsh operating environment. Also, most stock prices had bottomed out, a development which made their forward valuations very attractive, thereby providing an incentive for investors to buy them up. This trend may have also attracted some foreign investors who are out to take advantage of the obviously undervalued stock prices and their potential high returns. The consistently rising oil prices and Naira exchange rate stability during the period boosted optimism about global economic re-

covery, and confidence on the capital market turnaround.

With the cautious optimism about the rebound of the stock market, heightened interest and activity shifted to the bond segment of the capital market, where a number of state governments and corporate organizations now seek to raise huge sums. Statistics show that Lagos, Kwara, Imo and Niger state governments are raising sums totaling about N316.80 billion through bonds—and many more states are on queue to do same. This trend is attributable to the reality of shortfalls in Federation account allocations and reduction in cross-border capital flows due to the global financial crisis, as a result of which all tiers of government have to take steps to bridge their budgetary financing gaps. Also buoying the cheery trend in the bond market is the activity of the Debt Management Office (DMO)—the agency that has consistently and on a monthly basis issued several billion naira worth of FGN (Federal Government of Nigeria) bonds to the investing public. This, it is doing as part of its strategy for restructuring the domestic debt portfolio of the Federal government presently put at over N2.8 trillion.

Source: NSE, R&EIG

However, while the bond and secondary segments of the capital market were doing well during the period under review, the primary market was largely dormant. This is attributable to the poor performance of new listings since the market meltdown about mid-2008. In fact, the NSE approved only three public offers and private placements during the quarter under review namely, those of FinBank plc, Interlinked Technologies plc and Eterna Oil & Gas plc to raise a total of N20 billion from the market. Apparently owing to this poor trend and to enhance interest in the market, SEC cancelled the mandatory underwriting of new public issues by issuing houses—a measure that could also cause a decline in the cost of public offers. It now also requires all quoted companies to furnish it with audited quarterly reports, while the NSE, on its part, delisted about ten inactive companies from its daily official list.

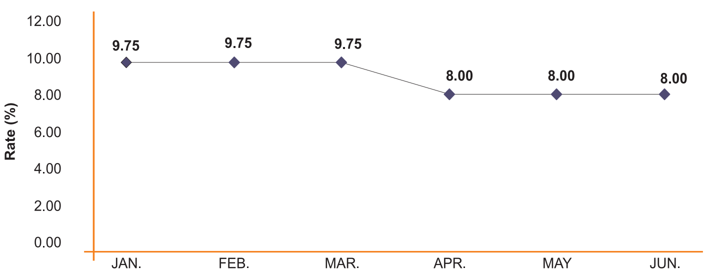
BANKING AND FINANCE

One significant development in the Nigerian banking industry during the quarter under review was the implementation of the new "full disclosure" policy of the Central Bank of Nigeria—a measure under which many banks have "written off" or made provision for their bad and doubtful debts to the tune of several billions of naira. Interestingly, no bank has recorded a net loss under the new reporting regime, a trend that constitutes one of the confidence boosters in both the capital market and the economy as a whole. A concomitant of this has been an intensifying debt recovery effort and push for deposit mobilization by all deposit money banks (DMBs), apparently towards the December 2009 common year-end, also introduced by the apex bank.

The return of operating license to Savannah Bank by the Nigeria Deposit Insurance Corporation (NDIC), the acquisition of Wema Bank by a core investor (SW8 Investment Limited) and its takeover by a new management team as well as moves by some banks to further re-capitalize were all features of the banking industry during the second quarter 2009. While Ecobank Nigeria plc got the nod of its shareholders to raise the sum of N120 billion through a rights issue, First Bank of Nigeria plc commenced moves to issue a N500 billion bond through the Nigerian Stock Exchange—for infrastructure development. On its part, Skye Bank plc floated a subsidiary in The Gambia following the granting of a banking license to it by the Central Bank of Gambia. Similarly, First Bank of Nigeria plc and Oceanic Bank plc secured the approval of the China Banking Regulatory Commission (CBRC) to set up Representative Offices in Beijing, China, having satisfied the prescribed requirements.

Efforts by banks to comply with the CBN directive on relocation of Automated Teller Machines (ATMs) that are installed outside their business premises was also on during the quarter under review. Although the deadline for the relocation of those machines was June 30, 2009, it had to be extended to end-August 2009 when, by the earlier date, most of those ATMs were still in their places. The apex bank has also commenced the process of registering and establishing two ATM consortia that would be responsible for deploying ATMs in public places across the country. Also, the dishonoring of cheques issued by Federal ministries, departments and agencies (MDAs) as directed by the CBN in line with the Federal Government's electronic payments policy began during quarter. The Federal Government through the CBN had earlier in the year issued a statement that all government payments must be done electronically, apparently as a step towards the cashless system.

Monetary Policy Rate (Jan.09 - Jun.09)



Source: CBN

OIL, GAS AND POWER

As stated earlier, price of crude oil which was largely volatile in the international market during the first quarter, made almost a consistent upward swing during the second quarter, hitting a high of over $72 per barrel. Although this was cheery news for Nigeria, the challenge posed by the youth restiveness in the Niger Delta reflected in the form of declining oil production and supply volume. Records indicate that although the 2009 budget oil production target was 2.292 million barrels per day (mbpd), actual production and export levels have remained far below this benchmark. In fact, Nigeria's export levels for March, April and May were 1.77mbpd, 1.72mbpd and 1.74mbpd respectively. Stakeholders in the industry have been contending with this state of affairs and initiating various measures to douse militancy and achieve a more conducive environment. Thus, the Federal Government set in motion the process of granting amnesty to the militant youths, and encouraging them to lay down their arms. It also reconstituted the board of the Niger Delta Development Commission, among other initiatives.

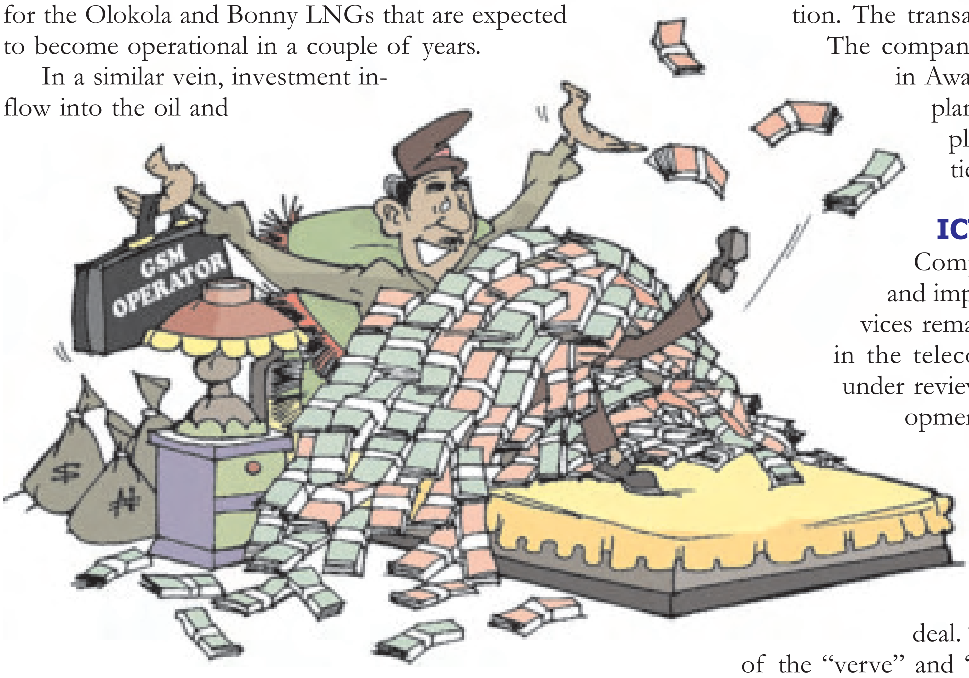
Installed Capacity of Functioning Power Stations in Nigeria

S/N	Power Station	Plant Type	Capacity (MW)	Operator
1.	Kainji	Hydro	500	PHCN
2.	Jebba	Hydro	578	PHCN
3.	Shiroro	Hydro	600	PHCN
4.	Egbin	ST/Gas	1320	PHCN
5.	Sapele	ST, GT/Gas	150	PHCN
6.	Delta	GT/Gas	625	PHCN
7.	Afam	GT/Gas	308	PHCN
8.	Egbin AES	GT/Gas	270	AES
9.	Okpai	CCGT/Gas	450	Agip JV
	Total	-	**4801**	-

Source: Power Holding Company of Nigeria (PHCN)

In the gas sub-sector, Government has taken steps to revisit its earlier freeze on export-oriented projects by approving the establishment of an ocean port at Brass LNG expected to process about 10 million tones of LNG per annum. Nigeria had suspended all export-oriented gas projects in a bid to channel gas supply to the manufacturing and power sectors locally. With this development, there is now the likelihood of a rebound in the country's gas export market, especially for the Olokola and Bonny LNGs that are expected to become operational in a couple of years.

In a similar vein, investment inflow into the oil and gas sector received a boost during the quarter under review, when the Russian energy giant, Gazprom, signed a Memorandum of Understanding with the New Nigeria Development Company to evaluate three oil blocs in Northern Nigeria, located in the Chad Basin and Benue Trough. Gazprom has also signed a $2.5 billion oil and gas exploration deal with the Nigeria National Petroleum Corporation (NNPC). Gazprom had early in 2008 announced that it would invest $30 billion to develop new gas transport pipeline in Nigeria to expand the country's gas delivery capacity. On its part, Nigeria's largest energy group, Oando, purchased 15 per cent interest in the production sharing contracts of offshore Nigerian oil mining lease 125 and 134, from Nigerian AGIP Exploration. The transaction is worth $1188 million. The company also recently commissioned in Awa Ibom State, a N20 billion gas plant, designed to boost power supply to industries and communities in the state.



ICT & TELECOM

Competition for more subscribers and improvement in the quality of services remained evident among operators in the telecom sector during the quarter under review. But by far, the major development that dominated attention in the sector was the sale of the 2.3GHz frequency by the Nigerian Communication commission (NCC) and the events that led to the eventual cancellation of the deal. There was also the deployment of the "verve" and "chip" cards for use by operators in the financial services industry. In June, the Federal Government revoked the sale of the Nigerian Telecommunications Limited (NITEL) and its mobile subsidiary, Mtel to Transcorp plc, and set up a technical committee to manage the affairs of the two organizations.

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

GUIDELINES FOR THE LICENSING, OPERATIONS AND REGULATION OF CREDIT BUREAUS IN NIGERIA

OWNERSHIP AND MANAGEMENT OF A CREDIT BUREAU

3.1 OWNERSHIP OF A CREDIT BUREAU

(i) Individuals/entities are at liberty to invest in a credit bureau subject to CBN approval.

(ii) Investment by a bank and its subsidiaries in a credit bureau shall not exceed 10% of the total paid-up capital of the credit bureau.

(iii) Banks shall not invest in more than one (1) credit bureau.

3.2 MANAGEMENT

3.2.1 DIRECTORS

(a) The maximum number of directors [including executive directors] on the Board of a Credit Bureau shall be eleven [11] (one of which must be an independent director), while the minimum shall be five [5]. The non-executive directors should comprise the majority of the members of the Board at any point in time.

(b) No individual shall be a director in more than one [1] credit bureau.

(c) The appointment/upgrade of a new director/ management staff shall be approved by CBN.

3.3 QUALIFICATION FOR DIRECTOR AND TOP MANAGEMENT APPOINTMENT IN A CREDIT BUREAU

The following minimum qualifications and experience are mandatory for officers who may occupy top management positions in the credit bureau:

(i) Managing Director/Chief Executive - a recognized university degree or its equivalent with at least ten (10) years relevant post-qualification experience.

(ii) Executive Director - a recognized university degree or its equivalent with at least eight (8) years relevant post-qualification experience.

(iii) Departmental/Unit Head - a recognized university degree or its equivalent with at least seven (7) years post-qualification experience.

(iv) Non-Executive Director – A non-executive director must possess a minimum of first degree or its equivalent and appreciable experience/ exposure in a reputable organization.

LICENSING REQUIREMENTS OF CREDIT BUREAU

An individual or a group shall not operate a credit bureau in Nigeria unless licensed to do so by the Central Bank of Nigeria.

The process of licensing a credit bureau is in three (3) stages:

(1) Receipt and appraisal of application.
(2) Issuance of Approval-in-Principle (AIP).
(3) Issuance of Final Operating License.

4.1 **Application**

A Promoter(s) seeking to operate a credit bureau in Nigeria shall apply in writing to the Governor of CBN. Such application for a credit bureau license shall be accompanied with the following:

a. Non-refundable Application fee of N250,000 (Two hundred and fifty thousand Naira only) made payable to the Central Bank of Nigeria (CBN).
b. Minimum capital requirement of N500,000,000.00 (Five Hundred Million Naira only) made payable to the Central Bank of Nigeria (CBN), fifty percent (50%) of which would be released upon the grant of Approval-in-Principle, while the balance would be released with the accrued interest on the grant of final license.
c. Memorandum and Article of Association.
d. Detailed feasibility report on the proposed credit bureau which will include:

i. The objectives and aims of the proposed credit bu reau.
ii. A detailed and comprehensive business plan of the credit bureau.
iii. A three (3) year financial projection for the operation of the credit bureau indicating its expected growth and profitability.
iv. Details of the assumptions upon which the financial projections have been made.
v. The organizational structure of the proposed credit bureau, setting out in details, functions, relationships and responsibilities of Board, Management and staff.
vi. The composition of the Board of Directors and the curriculum vitae (CV) of each member including information on positions held by them in other organisations.
vii. Proposed Management Information Systems, internal controls and procedures including manuals of operations.
viii. A table of the list of Promoters, Shareholders showing their residential address, their businesses/companies and addresses, amount invested as well as addresses of their bankers.
ix. Copy of the management or service level agreement, if any, which have been concluded with other parties or any Memorandum of Understanding in that regard.
x. Sworn declaration of the promoters and directors attesting to their willingness to adhere to a code of proper conduct and integrity.
xi. The conclusions based on the assumptions made in the feasibility report.

4.2 **Approval in Principle (A.I.P.)**

a. The CBN having satisfied itself with 4.1 above, shall issue an AIP to the credit bureau which will stipulate the conditions for granting of final licence.
b. An AIP granted to a proposed credit bureau shall be for a period of one hundred and eighty days (180 days) within which the proposed credit bureau must comply with all the conditions specified in the guideline.
c. If within one hundred and eighty days (180 days) the credit bureau fails to comply with the conditions as specified in the AIP, the CBN shall withdraw the AIP.
d. Where the application for a credit bureau license is declined, the reason(s) for decline shall be communicated in writing to the applicant.
e. Submission of specimen copy of credit status report as well as proposed charges for such reports

4.3 **Final Operating License**

The CBN shall grant final License to a credit bureau subject to the following:

a. The credit bureau has satisfied all conditions as specified in the (AIP).
b. The CBN has conducted on-site verification to ascertain its readiness to commence operations.

4.4 The credit bureau so licensed shall comply with the provisions of the guidelines, regulations and circulars as may be issued by the CBN from time to time.

4.5 A license shall automatically expire if a credit bureau has not commenced business during the first six (6) months immediately after the date of issue of the license.

4.6 All licensed credit bureau shall be required to add “Credit Bureau” to their names e.g. XYZ Company limited (Credit Bureau). Such names shall be incorporated by the Corporate Affairs Commission (CAC) in compliance with the Companies and Allied Matters Act (CAMA), 1990.

4.7 No credit bureau should be registered or incorporated with a name which includes the words “ Central”, “ Federal” “Federation”, “National”, “Nigeria”, “Reserve”, “State”, Christian”, “Islamic”, “Moslem”, Quaranic” or “Biblical”.

OPERATIONAL PROCEDURES OF CREDIT BUREAU

5.1 Permissible Purpose

To access any credit information from a credit bureau, the user (lending institution, person or entity) should have a permissible purpose.

The permissible purpose is represented in the following:

I. Application for credit by a borrower.
II. Reviewing of existing credit facilities.
III. Opening of new accounts (as part of KYC principle).
IV. Funds transfer of N1, 000,000 (One Million Naira) and above.
V. Prospective/current employee checks.
VI. Tenancy contracts (for identification purposes).
VII. Grant/review of insurance policies.
VIII. Acceptance of guarantee(s).
IX. Application for contracts/pre-paid services (telephone etc).
X. Court judgement.
XI. Credit scoring of the client by credit bureau.
XII. A written consent from the client.
XIII. Legislation.

5.2 Data collection:

A licensed credit bureau shall collect information on the background and credit history relating to the commitments of persons, enterprises and other organizations, in order to determine their overall debt exposure and repayment behaviour.

5.2.1 Credit bureau shall collect data from any of the following sources:

i. Banks operating in Nigeria
ii. CBN Credit Risk Management System (CRMS)
iii. Mortgage finance companies
iii. Finance/operating leasing companies
iv. Insurance companies
v. Institutions that offer credit to medium, small and micro enterprises
vi. Asset management companies
vii. Suppliers of goods and providers of services on a post-paid or instalment payment basis e.g. telecommunication, water, health, energy etc
viii. Other credit bureaus licensed by the Central Bank of Nigeria
ix. Other entities that have data and information that serves the purposes of the company.

5.2.2 At the time of receiving information on a holder/ data subject, a credit bureau shall ensure that all relevant information on the holder/data subject is obtained.

5.2.3 A credit bureau may consult other sources of information, provided that the confidentiality of the holder/ data subject shall be maintained.

5.4 **Information dissemination:**

Information obtained from credit bureau is vital for the development of a credit culture where holder/data subjects seek to protect their reputation collateral by meeting their obligations in a timely manner and holder/data subjects can also use the good repayment record as incentive for new credit(s).

A credit bureau shall provide credit information services to authorised users as listed in 5.1 (Permissible Purpose) or any other user(s) as may be approved by CBN from time to time.

5.4.1 A credit bureau may only divulge information regarding a holder/ data subject with that holder/data subject's consent.

5.4.2 For purposes of collecting, recording and keeping information, a credit bureau shall ensure that the lendinginstitution has received written authorisation to access the information from the holder/data subject.

5.4.3 All financial institutions must have data exchange agreement with at least two (2) credit bureaus.

5.3.4 All banks must obtain credit report from at least two (2) credit bureaus before granting any facility to their customers.

5.4.5 A credit bureau must maintain a credit file on each holder/data subject which should contain the clients' personal and credit data including:

a. **Personal History Data:**

i. **<u>Natural Persons:</u>** They include the name, nationality, date and place of birth, identification documents, present and past addresses in the last three years, profession, details of present and past jobs in the past three years, spouse name in addition to any other data that meet the requirements of the credit bureau.

ii. **<u>Legal Persons:</u>** They include the name, legal status, shareholding structure of 10% and above of the paid up capital, company registration certificate and any other information that meet the requirements of the credit bureau.

b. **<u>Credit Data:</u>** It includes loan value and/or authorized credit limit, the outstanding balances, type of facility or product, maturity date, outstanding instalments due and types of collaterals offered in addition to any other information that meet the requirements of the credit bureau.

c. **<u>Payment Habits:</u>** These are historical data for a minimum of five preceding years, reflecting the extent to which clients are regular in meeting their commitments on due dates and they include:

i. Positive information: Information that reflects the clients' payment of obligations on due dates.

ii. Negative information: Information related to clients' delinquencies including: payment delays, irregularities, dishonoured cheques and bills, defaults, delinquency, court sentences, seizures, protested bills of exchange, insolvency and bankruptcy.

d. **<u>Public Record Information:</u>** Information available in public records including civil, commercial, real estate, court registries, the Police, utilities, etc.

e. **Inquiries made to the credit file:** It includes the user's name, business and date of inquiry. The credit file should not contain data related to political party, other general organizations affiliation, religious beliefs or health condition.

5.5 **Responsibilities of credit bureau**

A credit bureau shall -

(a) Implement strict quality control procedures in order to ensure the quality of its database and the continuity of its services.

(b) Utilize the information collected solely for the purposes set out in this guideline.

(c) Adopt reasonable precaution to ensure that data provided is authentic, legitimate, reliable, accurate and that it reflects the existing situation of the holder /data subject at any given time.

(d) Where the data collected is found to be inaccurate or invalid, the credit bureau shall promptly take the corrective measures necessary to remedy the deficiencies.

(e) Provide to the CBN, unrestricted access to all the information managed by the credit bureau, either through access to its systems or in a manner stipulated by the Central Bank of Nigeria, for the purpose of supervision.

(f) Observe, through its shareholders, directors and officers, a perpetual duty of confidentiality with regard to the information in its database.

(g) A credit bureau shall not transfer, directly or indirectly, any database containing information to any person other than the Central Bank of Nigeria or its nominated recipient, for any reason.

A breach of items a-g above shall constitute a contravention of the guideline.

5.6 **Data Retention Period**

(1) A credit bureau shall maintain a historical database covering a five (5) year period for the purpose of providing detailed credit information, and shall keep the database for a period of not less than ten (10) years after which it shall be archived.

(2) A credit bureau shall implement procedures and systems that ensure that the information registered in its database is updated on an on-going basis.

(3) A credit bureau shall update its database as and when information is provided by the lending institution. The information shall be updated on a regular and as often as may be required in standardized formats/procedures.

5.7 **Maintenance of Data Integrity & Security**

(1) A credit bureau shall take the necessary security and control measures in order to avoid unauthorised/improper use or mismanagement of information in its database.

(2) A credit bureau shall not request, collect or grant information, other than information related to its official business.

(3) All data collected by a Credit Bureau on a holder/data subject must be aggregated and the resulting information made available on request to contributing/lending institutions or authorised users.

5.8 **FEES AND CHARGES**

(1) A credit bureau shall charge fees for its services. Such fees shall be approved by CBN.

(2) The holder/data subject may have access to his/her credit information free of charge in the event of a credit denial or negative report.

5.9 **UNIQUE IDENTIFIER**

(1) A Unique Identifier is a number or combination of numbers and alphabets that are generated to uniquely replace the name of the holder/data subject as a means of protecting his/her true identity.

(2) A unique identification system for individuals and corporate bodies should be generated for each holder/data subject to ease data collection, processing and dissemination. Such unique identifier must be generic to all credit bureaus and users.

DISPUTE RESOLUTION

6.1 A holder/data subject has the right of unhindered access to inspect his or her credit information at any credit bureau.

6.2 Where the holder/data subject believes that the information contained in the database is inaccurate he or she may request a review.

6.3 Any inaccuracy identified or observed shall be promptly remedied by the data provider.

6.4 The credit bureau shall review and investigate any disputed information, provide a response to the holder/data subject of its findings and correct any potential misrepresentation within ten (10) working days of receiving the complaint.

6.5 All credit Bureaus shall establish a complaint resolution unit to handle all complaints/disputes in respect of its operations.

6.6 For the duration of the investigation, the credit information in the credit bureau must indicate that the information is under dispute.

6.7 Where there are legal liability(s) or costs arising from the inaccurate data, the data provider shall be liable.

6.8 All parties to a credit bureau related dispute shall have recourse to the CBN.

6.9 The credit bureau shall render monthly returns on all disputes and complaints to the Central Bank of Nigeria.

OPENING AND CLOSURE OF CREDIT BUREAU OFFICES

7.1 A credit bureau must obtain the approval of the CBN before opening, relocating or closing its offices.

7.2 Such opening or closure of offices by a credit bureau must be approved by the Board of Directors in accordance with its business plan.

SUBMISSION OF RETURNS AND AUDITED ACCOUNTS TO THE CBN

8.1 Every credit bureau shall submit to the CBN on monthly basis details of its activities as specified by CBN ten (10) working days into the following month.

8.2 All credit bureaus shall submit their audited accounts not later than three (3) months after their year end for approval by CBN for publication.

8.3 CBN shall conduct yearly or as the need arises, the examination of the activities of the licensed credit bureaus.

8.4 The CBN as part of its supervisory functions of the activities of credit bureaus in Nigeria shall have unrestricted access to the database and records of all licensed credit bureaus.

COMPLIANCE WITH GUIDELINES

Credit Bureaus are expected to comply strictly with the provision of this guideline. However in case of confirmed contravention, CBN shall apply appropriate sanctions on the credit bureau.

9.1 Where a Credit bureau, through its shareholders, directors or officers illegally discloses any information in its database, before or after its dissolution, the responsible party is liable to pay a penalty of five hundred thousand naira only (N500,000.00) and, in the case of a continuing offence, an additional fine, not exceeding ten thousand naira only (N10,000.00) for each day on which the offence continues.

9.2 All the officers who are directly involved in the commission of the offence shall also be blacklisted by the CBN.

9.3. (i) A credit bureau may file a claim against the information providers whenever it is held liable for any incorrect information.

(ii) Users of risk information provided by a credit bureau shall be held liable in the event of wrongful or fraudulent use of the information, or if the users cause damage to the holder/data subject.

9.4 (i) A credit bureau shall have a customer claims and inquiry service section to attend to customers who may be affected by the information contained in the database and who may be contesting the information from the Credit Bureau.

9.5 (i) In the attainment of its corporate purpose and the performance of its activities, a credit bureau shall comply with any directives issued by the CBN.

(ii) The CBN may request, at any time, information it may require in order to evaluate complaints, accusations or inconsistencies detected in a credit bureau.

9.6 The chief executive officer of a credit bureau is responsible for ensuring compliance and internal dissemination, of these guideline.

DISSOLUTION, LIQUIDATION AND REVOCATION OF LICENSE

10.1 Where a credit bureau is to be dissolved and liquidated, it shall notify CBN in writing accompanied by the following documents:

(a) A copy of the minutes of the special meeting of shareholders in which the agreement to dissolve was recorded.

(b) Financial statements as at the date the agreement to dissolve was made, as well as a report from the external auditor appointed by the Central Bank of Nigeria.

(c) A sworn statement from the chief executive officer specifying outstanding obligation (if any).

(d) Evidence of appointment of a liquidator.

The Central Bank of Nigeria shall on receipt of notice of dissolution or liquidation conduct an investigation of the credit bureau.

10.2 A credit bureau shall comply with the decision of the Central Bank with regards to the management and control of its database on dissolution.

10.3 (i) A Credit Bureau shall deliver its/any database containing information to the Central Bank in the form, terms and conditions stipulated by the Central Bank.

10.4 A credit bureau license is valid until revoked by the CBN.

THE ROLE OF CBN CREDIT RISK MANAGEMENT SYSTEM (CRMS)

11.1 The CBN Credit Risk Management System (CRMS) shall continue to serve its regulatory functions.

11.2 Banks and other financial institutions shall continue to render the mandatory returns and comply with all relevant circulars and guidelines.

11.3 The CRMS shall operate as a public credit registry and would therefore share its information with the licensed credit bureaus.

11.4 The CBN shall not be liable or joined in any dispute(s) arising from wrong information given in respect of a credit report on a holder/data subject.

BANKING SUPERVISION DEPARTMENT
October 2008.

Banks and Economic MELTDOWN: Stagnation, Recovery Or Relapse?

* By Eunice Sampson

In critical economic times (such as these), the state of financial institutions becomes a fundamental barometer for measuring the chances of possible recovery.

For obvious reasons, all eyes are still on banks in the United States; and the US government and regulatory authorities are not oblivious of this. Policy measures have been put in place to douse tension in the financial services industry and rebuild scorched public confidence.

The TARP initiative is one of such measures. The Troubled Asset Relief Program (TARP) is a provision in the US Emergency Economic Stabilization Act of 2008 that empowers the **US Treasury** to spend up to **US$7**00 billion to purchase troubled assets from banks and auto companies at the heat of the financial crisis. TARP was conceived to prevent banks from sinking under the burden of the sub prime mortgage crises. By injecting huge equity funds into them, banks are then liquid enough to lend, to bring the credit-driven US economy back on track.

With the disbursement of the TARP fund, beginning last quarter 2008, the US government became a dominant investor in several banks and auto firms, including Citigroup (36%), GMAC (35.4%), American Insurance Group (80%), General Motors (70%), Chrysler (8%), etc. a development that has placed enormous ownership dilemma on these hitherto private companies.

During second quarter 2009, feelings remained mixed on whether or not the meltdown is abating. Not from the Breton Woods institutions nor from other global economic bodies have unanimous pronouncements emerged on whether the world economy has entered the path of full recovery. The general attitude is still mostly one of 'let's wait and see'.

But unlike the preceding quarters where it was all mostly tales of woe, economic data from governments and corporate entities during second quarter showed mixed blessings, which could be interpreted as a glimmer of hope – at least.

STRESS TEST AND OUTCOME

Though some of the drastic drop in the performance of financial institutions has since been halted, the United States, which has taken the knocks for regulatory failures that resulted in the current crisis, is not taking chances.

In February, Treasury Department announced a compulsory stress test on the country's biggest banks – banks with more than $100 billion in assets. Together, the 19 firms that took the test dominate the US banking system, holding two-thirds of the total assets and over 50 per cent of the loans in the system.

The financial assessments were designed to ascertain the health of these key banks, their capital adequacy and their ability to withstand harsher economic condition, if one arises.

The stress tests estimated how much each bank would lose if the economic downturn proved even deeper than it currently stands. The test was carried out based on the worst-case assumptions – a jobless rate of 10.3 percent, as against current reality of about 8.9 percent; an economic contraction of 3.3 percent this year; and a 22 percent further decline in housing prices.

The results of the test showed that should these worst case scenarios materialize, the 19 banks could suffer losses of up to $600 billion in total during 2009 and 2010, about 9 percent of the banks' total loans. $185.5 billion of this would be from mortgages; $82.4 billion from credit card loans and $53 billion from the beleaguered commercial real estate loans.

A major fallout of the stress test was a directive by the US Treasury for 10 of the banks to boost their capital by $75 billion. The other 9 banks were given clean bill of health.

The ten banks were given till June 8 to submit their plans for raising the money and till November to conclude the exercise.

The banks that must raise additional capital are Bank of America ($33.9 billion); Wells Fargo ($13.7 billion);

In critical economic times (such as these), the state of financial institutions becomes a fundamental barometer for measuring the depth of possible recovery.

GMAC ($11.5 billion); Citigroup ($5.5 billion); Morgan Stanley ($1.8 billion); Regions Financial Corp ($2.5 billion); SunTrust Banks ($2.2 billion); KeyCorp ($1.8 billion); Fifth Third Bancorp ($$1.1 billion) and PNC Financial Services ($600 million).

On the other hand, JP Morgan Chase, Goldman Sachs, American Express, BB&T, Capital One Financial, Bank of New York, State Street, US Bancorp and MetLife were issued clean bill of health.

Raising New Capital – how have they faired?

Though only few banks have returned to profitability, the halt in performance slide and the better than expected outcome of the stress test have been enough to boost public confidence.

On Friday May 8 when the stress test result was announced by regulators, Wall Street optimism experienced a surge and stock market indicators climbed.

19 Stress - Tested Financial Institutions

	Name of Institution	Outcome
1.	Bank of America	To raise $33.9 billion
2.	Wells Fargo	To raise $13.7 billion
3.	Citigroup	To raise $5.5 billion; in addition to the $52.5 billion it plans to bring in through a major shareholding offer to the US Treasury
4.	Morgan Stanley	To raise $1.8 billion
5.	GMAC (finance arm of General Motors)	To raise $11.5 billion
6.	Regions Financial Corp. of Birmingham, Ala	To raise $2.5 billion
7.	SunTrust Banks Inc. of Atlanta	To raise $2.2 billion
8.	KeyCorp of Cleveland	To raise $1.8 billion
9.	Fifth Third Bancorp of Cincinnati	To raise $1.1 billion
10.	PNC Financial Services Group Inc. of Pittsburgh	To raise $600 million
11.	JPMorgan Chase & Co	Clean bill
12.	Goldman Sachs Group Inc	Clean bill
13.	MetLife Inc.	Clean bill
14.	Capital One Financial Corp.	Clean bill
15.	American Express Co.	Clean bill
16.	BB&T	Clean bill
17.	Bank of New York	Clean bill
18.	State Street	Clean bill
19.	US Bancorp	Clean bill

Source: Research & EIG; US Treasury Department

The rekindled investors' enthusiasm about financial institutions has been reflected in the speed and ease with which most of the banks have been able to raise new capital. With at least 4 months to the deadline, many of the banks are already sure of meeting the November target.

Interestingly, even banks that were not compelled to, have leveraged on current investors' good will to boost their capital base.

Goldman Sachs raised the bar long before the stress test result was announced when it raised $5 billion in new

RETURN OF TARP FUND

Aside from the better than expected outcome of the stress test and the effortlessness with which banks have been able to raise new capital, another indication that the worse might be over is the eagerness of most banks to return the TARP fund - an indication that they no longer require taxpayer rescue.

During a meeting between the Presidency and major banks in April, Washington Post reports a humorous episode that occurred. Jamie Dimon, chief executive officer of JP Morgan Chase wittily presented Treasury Secretary, Timothy F. Geithner with a fake cheque, symbolizing the payback of the TARP fund. Geithner is reported to have looked at the cheque, and without smiling, handed it back to Dimon, like a joke in bad taste.

The humorous encounter demonstrates the eagerness of the 'strong' banks to return the compulsory TARP funds. On the other hand, it also indicates the reluctance of the US Treasury to accept the payback in any hurry, perhaps to avoid putting pres-

sure on other banks that might not be financially ready to do so.

But that incident was before the stress test. By June 10, US authorities announced a list of 10 banks that have been cleared to buy back government shares acquired under the TARP regime - JP Morgan Chase, Morgan Stanley, American Express, Goldman Sachs, U.S. Bancorp, Capital One Financial Corp., Bank of New York Mellon, State Street Corp. and BB&T - the same banks that passed the stress test.

capital; JP Morgan Chase, another bank that passed the stress test, has since raised about $5.7 billion.

Bank of America has so far raised $33 billion of the required $33.9 billion new capital. Wells Fargo has raised $8.6 billion of the $13.7 billion required. Though it is mandated to raise $1.8 billion, Morgan Stanley has so far raised about $8 billion, an offer that was oversubscribed by about $3 billion.

PNC Financial Services has raised the required $600 million; U.S. Bancorp has raised $2.5 billion; GMAC Financial Services which was compelled to raise $11.5 billion has been able to raise $3.5 billion through the U.S. Treasury; SunTrust Bank has raised $2.1 billion of the mandatory $2.2 billion; all far ahead of the November deadline.

From recent investors' responses, new government rescue plans for financial institutions during the current crisis could be unnecessary for majority of the banks.

RETURN OF TARP FUND

Aside from the better than expected outcome of the stress test and the effortlessness with which banks have been able to raise new capital, another indication that the worst might be over is the eagerness of most banks to return the TARP fund - an indication that they no longer require taxpayer rescue.

During a meeting between the Presidency and major banks in April, Washington Post reports a humorous episode that occurred. Jamie Dimon, chief executive officer of JP Morgan Chase wittily presented Treasury Secretary, Timothy F. Geithner with a fake cheque, symbolizing the payback of the TARP fund. Geithner is reported to have looked at the cheque, and without smiling, handed it back to Dimon, like a joke in bad taste.

The humorous encounter demonstrates the eagerness of the 'strong' banks to return the compulsory TARP funds. On the other hand, it also indicates the reluctance of the US Treasury to accept the payback in any hurry, perhaps to avoid putting pressure on other banks that might not be financially ready to do so.

But that incident was before the stress test. By June 10, US authorities announced a list of 10 banks that have been cleared to buy back government shares acquired under the TARP regime - JP Morgan Chase, Morgan Stanley, American Express, Goldman Sachs, U.S. Bancorp, Capital One Financial Corp., Bank of New York Mellon, State Street Corp. and BB&T - the same banks that passed the stress test.

For obvious reasons, all eyes are still on banks in the United States; and the US government and regulatory authorities are not oblivious of this. Policy measures have been put in place to douse tension in the financial services industry and rebuild scorched public confidence.

Before they got here however, the banks were given conditions to fulfill – they must be financially strong enough to keep lending to customers after they return TARP money; they must also have sold new shares to private investors and issued debt instruments that are not guaranteed by the FDIC.

On Weds June 17, the US government coffers became $68.2 billion richer when JP Morgan Chase and the nine other banks announced they had exited TARP in full, and with interest.

Now, why have these banks been so eager to return the

Major US Banks and their Tarp Fund Status

Company	Headquarters	Preferred Stock purchased by US Treasury (millions USD)	Date of repayment?
Citigroup	New York	$50,000,000,000	Not known
Bank of America	North Carolina	$45,000,000,000	Not known
American International Group (AIG)	New York	$40,000,000,000	Not known
JPMorgan Chase	New York	$25,000,000,000	June 17, 2009
Wells Fargo	California	$25,000,000,000	Not known
Goldman Sachs	New York	$10,000,000,000	June 17, 2009
Morgan Stanley	New York	$10,000,000,000	June 17, 2009
PNC Financial Services Group	Pittsburgh, Pennsylvania	$7,579,000,000	Not known
U.S. Bancorp	Minnesota	$6,600,000,000	June 17, 2009
GMAC Financial Services	Detroit, Michigan	$5,000,000,000	Not known
Capital One Financial	Virginia	$3,555,000,000	June 17, 2009
Regions Financial Corporation	Alabama	$3,500,000,000	Not known
American Express	New York	$3,389,000,000	June 17, 2009
Bank of New York Mellon	New York	$3,000,000,000	June 17, 2009
State Street Corporation	Massachusetts	$2,000,000,000	June 17, 2009

Source: Wikipedia; US Treasury Department

TARP fund? They want to have the US Treasury off their back, considering the many strings attached to the government largesse, including the latest clause introduced on February 5, 2009 prohibiting benefiting firms from paying bonuses to their 25 highest-paid employees.

Exiting the fund removes government's overbearing role in the activities of these institutions and restores full private ownership.

Moreover, some of the banks were more or less compelled to accept the fund in the first instance, as they repeatedly complained they did not require any government bailout.

Though some of the key US banks, especially Citigroup, Bank of America, Wells Fargo and GMAC are still a long way from exiting TARP, the return of the bailout fund by ten of the 19 biggest banks in the United States could be seen as one of the strongest indications so far that, though the industry is not out of the woods yet; the worst of the global financial meltdown might be over.

This is even more so since the US Treasury and the Federal Reserve repeatedly stressed that payback would not be allowed until regulators were satisfied that the economy as a whole is on the path of recovery and until they are certain of the health of the individual financial institutions.

Considering the hues and cries that greeted the announcement of a bailout plan for Wall Street about a year ago, certainly investors and taxpayers would now be heaving a sigh of relief.

TOP GLOBAL BANKS – THE NEW STRUCTURE

The global financial crisis has reshuffled the list of world's biggest banks. Some 'titans' have been pulled down and some 'underdogs' have been elevated; and this is true in virtually all critical performance indices.

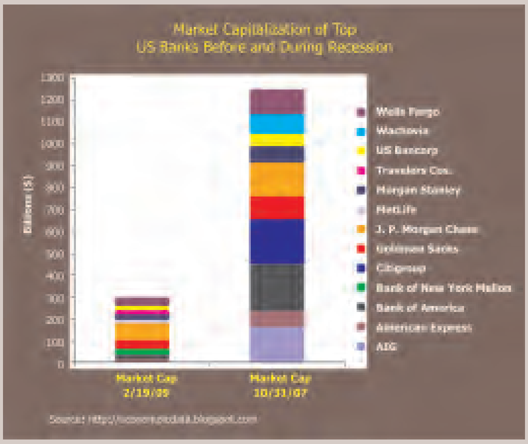
Market Capitalization

Shares of financial institutions which have nosedived in value in the last 18 months have surged recently following the better than expected outcome of the US stress test. In three months, the **Standard & Poor's 500 Financials Index** has gained 49 percent on rising confidence that the worst is over and that banks are gradually returning to viability.

As a result, banks are beginning to regain some of their drained market value. The chart below shows just how much US banks, for example, have dropped in market capitalization since the crisis begun. From about $1.2 trillion as at October 2007, the chart shows that market capitalization of US biggest banks shrunk to barely $300 billion at some point this February.

An even more interesting development is the major changes in the list of biggest banks in market capitalization. Banks like Citigroup, which topped the world list before the crisis in 2007 has not only relinquished the position in 2009, but has completely dropped out of the list of world's top 20, having shed over 82% of its market value since the crisis.

But there's an even more remarkable devel-



Source: Financial Times (UK)

The global financial crisis has reshuffled the list of world's biggest banks. Some 'titans' have been pulled down and some 'underdogs' have been elevated.

TOP 20 BANKS BY ASSETS: 2008 Ranking

Rank	Bank Name	Assets ($Bn)	Country	Year end	Market Cap ($bn)	Share price 12 month % change
1	Royal Bank of Scotland	3,807,892	United Kingdom	12/31/07	20.4	-91
2	Deutsche Bank	2,974,163	Germany	12/31/07	26.4	-56
3	BNP Paribas	2,494,412	France	12/31/07	42.7	-44
4	Barclays Bank	2,459,148	United Kingdom	12/31/07	14.8	-71
5	HSBC Holdings	2,354,266	United Kingdom	12/31/07	104.2	-41
6	Crédit Agricole Group	2,268,310	France	12/31/07	27.7	-48
7	Citigroup	2,187,631	USA	12/31/07	21.4	-86
8	UBS	2,019,173	Switzerland	12/31/07	34.1	-47
9	Mitsubishi UFJ Financial Group	1,817,571	Japan	03/31/08	61.3	-43
10	Bank of America Corp	1,715,746	USA	12/31/07	51.4	-81
11	Société Générale	1,577,745	France	12/31/07	25.1	-48
12	JP Morgan Chase & Co	1,562,147	USA	12/31/07	108.5	-37
13	UniCredit	1,504,134	Italy	12/31/07	27.3	-66
14	Mizuho Financial Group	1,494,960	Japan	03/31/08	25.3	-46
15	ING Bank	1,463,437	Netherlands	12/31/07	14.2	-77
16	Banca Romaneasca	1,390,853	Romania	12/31/06	Owned by National Bank of Greece	
17	Santander Central Hispano	1,343,905	Spain	12/31/07	60.2	-51
18	HBOS	1,336,299	United Kingdom	12/31/07	Now owned by Lloyds	
19	Credit Suisse Group	1,208,956	Switzerland	12/31/07	36.9	-24
20	ICBC	1,188,800	China	12/31/07	178.0	-33

Source: The Banker; The Guardian, UK

opment. The first three positions in the list of world's top 20 (by market capitalization) are now taken over by Chinese banks – Industrial and Commercial Bank of China, China Construction Bank, and Bank of China, in that order. United Kingdom's HSBC and US's JP Morgan Chase, completes the list of top five.

United States public has however staged an investment comeback in recent months, raising hopes that as soon as the current dusts settle, US and European banks could retake their lost positions. In the last couple of months, US Banks have raised over $65 billion in new capital through offer of new shares. The recent surge in bank share price in that country is another indication that banks could regain much of their lost market value in the near future. But as it currently stands; Chinese banks have taken the reign.

Total Assets

The 2009 ranking recently published by The Banker shows little or no change in the list of world's biggest banks in total assets. As it was in the 2007 ranking, Royal Bank of Scotland (UK) with $3.5 trillion in assets still leads the global pack.

But fallouts of the financial crisis have brought in new entrants into the list of top 25, including Agricultural Bank of China and Bank of China. Another interesting new entrant is US Wells Fargo, which feat was made possible by its acquisition of Wachovia late 2008.

The world's top five banks in assets are all of Western European origin – Royal Bank of Scotland (UK); Deutsche Bank (Germany); Barclays Bank (UK); BNP Paribas (France); and HSBC Holdings (UK). Among the US banks, Citigroup dropped from its 7th position in the 2008 ranking to the 9th position in the current ranking, replaced in its former position by JP Morgan Chase; while Bank of America dropped from the list of top 10 to the 12th position.

In all, the assets of 1000 biggest banks in the world

China Construction Bank Corporation, China.

China Construction Bank Corporation

TOP 25 BANKS BY TOTAL ASSETS: 2009 RANKING

Ranking	Bank	Country	Total Assets
1.	Royal Bank of Scotland	UK	$3.5 trillion
2.	Deutsche Bank	Germany	$3.06 trillion
3.	Barclays Bank	UK	$2.99 trillion
4.	BNP Paribas	France	$2.88 trillion
5.	HSBC Holdings	UK	$2.41 trillion
6.	Crédit Agricole Group	France	$2.23 trillion
7.	JP Morgan Chase & Co	USA	$2.17 trillion
8.	Mitsubishi UFJ	Japan	$2.02 trillion
9.	Citigroup	USA	$1.93 trillion
10.	UBS	Switzerland	$1.89 trillion
11.	ING Bank	Netherlands	$1.85 trillion
12.	Bank of America Corp	USA	$1.81 trillion
13.		France	$1.57 trillion
14	Mizuho Financial Group	Japan	$1.49 trillion
15	Santander Central Hispano	Spain	$1.46 trillion
16.	UniCredit	Italy	$1.45 trillion
17.	ICBC	China	$1.42 trillion
18.	Wells Fargo & Co	USA	$1.30 trillion
19.	Sumtomo Mitsui Financial Group	Japan	$1.21 trillion
20.	China Construction Bank	China	$1.10 trillion
21.	Credit Suisse Group	Switzerland	$1.10 trillion
22	Agricultural Bank of China	China	$1.02 trillion
23.	Bank of China	China	$1.01 trillion
24.	HBOS	UK	$1.00 trillion
25	Dexia	Belgium	$906 billion

Source: The Banker; 2009 Ranking

TOP 25 BANKS BY TIER 1 CAPITAL (US$)

Ranking	Bank	Country	Tier 1 Capital
1.	JP Morgan Chase & Co	USA	$136billion
2.	Bank of America Corp	USA	$120 billion
3.	Citigroup	USA	$118 billion
4.	Royal Bank of Scotland	UK	$101 billion
5.	HSBC Holdings	UK	$95 billion
6.	Wells Fargo & Co	USA	$86 billion
7.	Mitsubishi UFJ	Japan	$77 billion
8.	ICBC	China	$74 billion
9.	Credit Agricole Group	France	$71 billion
10.	Santander Central Hispano	Spain	$65 billion
11.	Bank of China	China	$64 billion
12.	China Construction Bank	China	$63 billion
13.	Goldman Sachs	USA	$62 billion
14	BNP Paribas	France	$58 billion
15	Barclays Bank	UK	$54 billion
16.	Mizuho Financial Group	Japan	$48 billion
17.	Morgan Stanley	USA	$48 billion
18.	UniCredit	Italy	$47 billion
19.	Sumitomo Mitsui Financial Group	Japan	$46 billion
20.	ING Bank	Netherlands	$44 billion
21.	Deutsche Bank	Germany	$43 billion
22	Rabobank Group	Netherlands	$42 billion
23.	Societe Generale	France	$42 billion
24.	Agricultural Bank of China	China	$39 billion
25	Intesa Sanpaolo	Italy	$37 billion

Source: The Banker; 2009 Ranking

grew 6.8% in 2008, to $96.39 trillion, despite massive sell offs of banks assets during this period.

Tier 1 Capital

By year end 2008, three US banks, JP Morgan Chase, Bank of America and Citigroup still occupied the first three slots in the ranking of world's biggest banks in tier 1 capital. These are followed by UK's Royal Bank of Scotland and HSBC in the top five spots.

The US banks are able to retain their dominance in tier 1 capital because, despite the billions of dollars in write-offs and loan losses, they have been compelled by regulators and market forces to raise fresh capital, more than in any other country. US Treasury has also injected about $300billion into US banks in the last 10 months.

Another factor is the series of mergers and acquisitions in 2008. JP Morgan's takeover of Bear Stearns and Washington Mutual propelled it into first position; Bank of America's acquisition of Merrill Lynch pushed it to second, and Wells Fargo's acquisition of Wachovia enabled it to jump from the 23rd to the sixth place.

According to The Banker, "the global financial industry raised $998.9 billion in total bank capital since the crisis began, against a total of $1,040.7 billion in write-downs and losses. In Europe, capital raising has exceeded losses, at $422.3billion versus $420.7billion, respectively. In Asia, banks have raised $75.9billion against losses of $37.3billion. Only in the Americas have losses outpaced capital raising, with $500.7billion versus $582.6billion".

Profitability

If there is one indicator that has been badly affected by the financial meltdown, it is banks' profitability.

2009 reports from The Banker show that total profits of listed banks plunged 85.3% from $780 billion to $115bn. Return on capital sunk from 20% in the 2008 ranking to a paltry 2.69% in the latest ranking. The report shows the top five banks losing a staggering $95.8 billion during year end 2008, with the US and UK banks leading the pack of biggest losers. UK's Royal Bank of Scotland suffered the biggest loss of $59.3 billion; followed by US's Citigroup, with $53 billion, and Wells Fargo, with a loss of $47.7 billion.

As in market capitalization, Chinese banks have leveraged on the ongoing crisis to take over the top positions in the list of world's most profitable banks, occupying the first, second, and fourth positions on the latest ranking.

In industry profit, the ranking shows that China banks also come first with aggregate pre-tax profits of $84.5billion in 2008, followed lamely in the second position by Japan with $16.5billion and Brazil in the third place with $11.7billion. US banks made an aggregate loss of $91billion; banks in the EU 27 recorded an aggregate loss of $16.1billion, and UK banks on aggregate, lost, $51.2billion.

The relatively impressive performance of Chinese banks during 2008, the year the heat of the global financial meltdown was most intense, is attributed to the success of China's economic stimulus package. The World

The relatively impressive performance of Chinese banks during 2008, the year the heat of the global financial meltdown was most intense, is attributed to the success of China's economic stimulus package.

Bank recently reviewed upward its earlier forecast for China's 2009 GDP growth rate, from 6.5 percent to 7.2 percent, citing China's successful fiscal stimulus.

How they fared First Quarter 2009

Performance reports during first quarter have shown a gradual rise in the profits of major banks. Among the very top banks, only few like HSBC, Citigroup and the Royal Bank of Scotland reported losses. In the month of May, Royal Bank of Scotland for example announced a loss of £857 million ($1.29 billion). The loss, despite a robust growth in earnings was the result of write-offs totaling £2.86 billion during the quarter.

In China, the world's new biggest bank, by market capitalization, Industrial and Commercial Bank of China (ICBC), grew its net profit by 6.16 percent from a year earlier to 35.2 billion yuan in the first quarter.

In the United States, the country's largest bank, Bank of America in April announced a profit of $4.2billion in the first three months of 2009, compared to a $1.02billion profit in the same period a year earlier. The better than expected performance was boosted by its recent acquisition of investment firm Merrill Lynch and Countrywide mortgage company.

Spain's Banco Santander, Europe's most profitable bank recorded €2.1billion net profit in the first quarter of 2009, a decrease of 5% from last year, but an increase of 8% compared to fourth quarter 2008.

JP Morgan Chase in mid April, reported first quarter net income of $2.1 billion, compared with net income of $2.4 billion in first quarter 2008; indicating a 10% drop in profit year on year; but a lot better than projected. The company's $8.3 billion net revenue was about $5.3 billion higher than its first quarter 2008 levels.

For most banks, first quarter 2009 performance was not as bad as anticipated.

THE FUTURE

In July, the struggling Citigroup shocked the world when it reported revenue of $30 billion and a net profit of $4.3 billion for second quarter 2009.

Considering its dismal performance in the few quarters, this was indeed cheery news for all stakeholders.

Especially being the first second quarter report published by a major bank, many optimists have been quick to see in this development, a possible signal of more good news to come from the Wall Street and the global banking industry in the very near future.

With the extent of progress made by US banks during the second quarter, especially the return of bailout funds, gradual upward trend in market value and a return to profitability, there is growing confidence that the financial crisis has started to subside.

While no miraculous turnaround is expected this year, some US and European banks, given their recent efforts, could spring major surprises and record significant comebacks. This is just what the world needs right now, as the earliest recovery of the battered global economy depends on it.

Lastly, it is remarkable that the ongoing crisis once again brings to the fore the dizzying speed of emergence of the Chinese economy. The ease with which China banks have risen to the occasion at this time is a great temptation to give a much more complimentary appraisal of the highly criticized Chinese economic model.

In future, China's 'old fashioned' but dependable financial industry could become a solid backup for the avant-garde western financial system in crisis situations like these that have become a seven-yearly affair.

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

Top 25 By Pre-Tax Profit ($M)

Ranking	Bank	Country	Pre-tax profits
1	ICBC	China	21,260
2	China Construction Bank Corporation	China	17,520
3	Santander Central Hispano	Spain	15,825
4	Bank of China	China	12,620
5	BBVA	Spain	9640
6	HSBC Holdings	UK	9307
7	Barclays Bank	UK	8859
8	Agricultural Bank of China	China	7659
9	UniCredit	Italy	6952
10	Royal Bank of Canada	Canada	6077
11	Societe Generale	France	5578
12	Commonwealth Bank Group	Australia	5514
13	BNP Paribas	France	5461
14	Dexia	Belgium	5396
15	Credit Agricole Group	France	5388
16	Bank of Communications	China	5241
17	Mizuho Financial Group	Japan	4956
18	Standard Chartered	UK	4810
19	Nordea Group	Sweden	4727
20	Banco Bradesco	Brazil	4615
21	Westpac Banking Corporation	Australia	4601
22	Bank of America Corp	USA	4428
23	Sberbank	Russia	4422
24	Toronto-Domino Bank	Canada	4153
25	US Bankcorp	US	4033

Source: The Banker; 2009 Ranking

While no miraculous turnaround is expected this year, some US and European banks, given their recent efforts, could spring major surprises and record significant comebacks.

No Lip Service
Just e-Service

(TRY OUR ELECTRONIC SERVICE)

Your travel experience with us keeps
getting easier by the day.
We have lots of online services for your convenience.

Firstly, you can book for your flight online through our **e-booking.**

You can **now** make **e-payment** from the comfort of your home, using any debit card or your bank's e-banking option, then obtain your **e-ticket** from your mail box.

Finally, you can **e-check-in** without stress.

Visit
www.nigeriaonline@flyvirgin.com or www.virgin.com/atlantic

You can also book your hotel, limo-service, online meal or massage and lots more.

That's the e-easy life.

Virgin atlantic

Nigerian Banks: The Challenges of Adopting International Financial Reporting Standards(2)

- Continuation of the same article in the last edition

*** By Mukhtar Adam**

SOME TECHNICAL IMPLEMENTATION ISSUES

The IFRS is generally principle based, which makes it applicable in different jurisdictions and circumstances. But this may also contribute to some inconsistencies, especially when those implementing IFRS have different levels of expertise. The highly and increasingly technical nature of IFRS also makes practical implementation more difficult, particularly in developing countries. Some areas of such complexities are:

a. Fair value measurement

This is an important feature of IFRS. Given the increasingly complex and innovative financial instruments and growing liquidity of financial markets, there are grounds to argue that fair value is more relevant to users (investors in particular) of financial information than historical cost.

In countries that have well developed capital markets, information required on fair-value measurement can be easily obtained. But in reality, the liquidity of capital markets around the world varies which could undermine the uniformity of the basis of determining fair-value. Alternatively, fair value information could be obtained by simulating a hypothetical market or by using a mathematical modeling. Such alternativels can be more consistently and accurately computed by professionals in developed countries since they have more experience and exposure to such estimations.

Recognizing estimated loss or gain based on market information while transactions are still pending might be a new and hard-to-grasp concept for preparers and users who are used to easily verifiable historical cost-based valuation.

The measurement requirements of IFRS in some cases include assessment or estimate that can only be properly computed by other professionals. Examples of this are actuarial estimation with respect to pension, investment property valuation, impairment testing, valuing share based payments.

The measurement requirements of IFRS in some cases include assessment or estimate that can only be properly computed by other professionals. Examples of this are actuarial estimation with respect to pension, investment property valuation, impairment testing, valuing share based payments. The availability of such professionals, and their ability to carry out such measurements and valuation in line with IFRS requirements is a challenge.

b. **Compliance with the provisions of IAS 32 & 39**

IAS 32 & 39 along with their related guidance is among the most complex and comprehensive accounting pronouncements under IFRS. Most of the balance sheet items of banks and other financial institutions are financial instruments that fall within the scope of IAS 32 & 39. Applying these two standards is expected to pose a challenge to reporting entities in the sense that;

- The level of development in the Nigerian financial market cannot properly support the use of fair value in measuring and recognizing financial instruments
- Derecognizing financial assets as thorough assessment and conclusion that the risk and reward attached to the asset has been transferred. This assessment is however complex and must be supported by testable quantitative information, aside the qualitative ones. The expertise and information required to carry out this assessment may not be available.
- Using hedged accounting under IFRS requires comprehensive risk management documentation in addition to the complications associated with testing for hedge effectiveness.

c. **Consolidation of entities**

Under IFRS, the consolidation is more driven by the power to control an entity to obtain economic benefit not merely by the ownership structure. For example, an entity that does not have more than half of the ordinary shares or voting of another entity can be said to have power to control the other entity through potential voting right or shares, management agreement, de facto control among others. IFRS also provides guidance on how to arrive at consolidation decision on special purpose entities (SPEs). Adopting IFRS may lead to consolidating a larger number of entities as against what currently obtains (consolidation is purely based on percentage of shareholding and composition of board). This poses a challenge of having to align accounting policies and chart of accounts of the additional entities to be consolidated in addition to redesigning consolidation packs.

The application of IFRS in areas such as provision for loan losses and impairment of investments generally require a high level of judgment and would require significant changes in the financial reporting process. For example, to estimate cash flows that will be recovered including those recoveries expected through sale of collateral requires a great deal of judgment. The basis of making such judgment and the assumptions underlying some of the basis could differ from one entity to another. This high level of judgments could be abused and may be a cause for worry to central bank.

The process of making loan loss provision under IFRS requires that for each individually significant exposure, an

assessment of impairment is carried out based on the facts and circumstances surrounding the recoverability and timing of future cash flows relating to the exposure. A credit exposure is classified as impaired if

The basis of making such judgment and the assumptions underlying some of the basis could differ from one entity to another.

there is an expectation that all contractual cash flows would not be recovered. If any of such credits is considered impaired the amount of impairment provision is measured on present value basis using effective interest rate of the exposure as the discount rate. For group of credit that are not considered individually significant, such as credit card receivables, impairment can be assessed on collective basis. General provision is permissible only to the extent that they relate to a specific risk that can be measured reliably and for incurred losses.

d. **Loan loss provision**

Currently banks in Nigeria are expected to comply with certain directives and guidelines issued by their primary regulator, the Central Bank of Nigeria (CBN). Quite a number of these directive affect the accounting policies and bases of classification and measurement of certain transactions and balances. For example, account-

ing policies adopted by banks for loan loss provision are based on the CBN prudential guidelines. Adoption of IFRS requires a change to such policies and this could have material impact on the financial statements of banks.

The application of IFRS in areas such as provision for loan losses and impairment of investments generally require a high level of judgment and would require significant changes in the financial reporting process. For example, to estimate cash flows that will be recovered including those recoveries expected through sale of collateral requires a great deal of judgment. The basis of making such judgment and the assumptions underlying them could differ from one entity to another. This high level of judgments could be abused and may be a cause for worry to central bank.

The application of IFRS in areas such as provision for loan losses and impairment of investments generally require a high level of judgment and would require significant changes in the financial reporting process.

> Companies are therefore advised to commence IFRS transition preparation far in advance of effective date of adoption.

The process of making loan loss provision under IFRS requires that for each individually significant exposure, an assessment of impairment is carried out based on the facts and circumstances surrounding the recoverability and timing of future cash flows relating to the exposure. A credit exposure is classified as impaired if there is an expectation that all contractual cash flows would not be recovered. If any of such credits is considered impaired the amount of impairment provision is measured on present value basis using effective interest rate of the exposure as the discount rate. For group of credits that are not considered individually significant, such as credit card receivables, impairment can be assessed on collective basis. General provision is permissible only to the extent that they relate to a specific risk that can be measured reliably and for incurred losses. IFRS does not permit provision expected or future loss.

The high level judgments required by IFRS and the comprehensive documentation and date needed to assess impairment of credit, will pose a challenge to reporting entities, auditors and regulators.

The following steps could be taken to minimize the impact of the technical implementation challenges.

- Identify the relevant IASs and IFRSs that could pose implantation challenge.
- Identify the expertise required (accountants and non accounts) to support the implementation of these standards.
- Identify the information needed, design an effective means of collecting them, and develop an efficient and testable means of determining fair value of assets and liabilities and carrying out impairment test, for example.
- Determine whether the systems and processes in place can support the implementation of those complex standards identified and make the necessary deployments, improvement or upgrades, as the case may be.
- Strengthen the key departments (such as risk management, treasury, IT and legal) by providing the tools required (including training) to obtain and maintain the necessary documentations needed to support the implementation of those complex standards identified.
- Obtain and deploy the necessary expertise and tools required to implement these standards.

THE WAY FORWARD

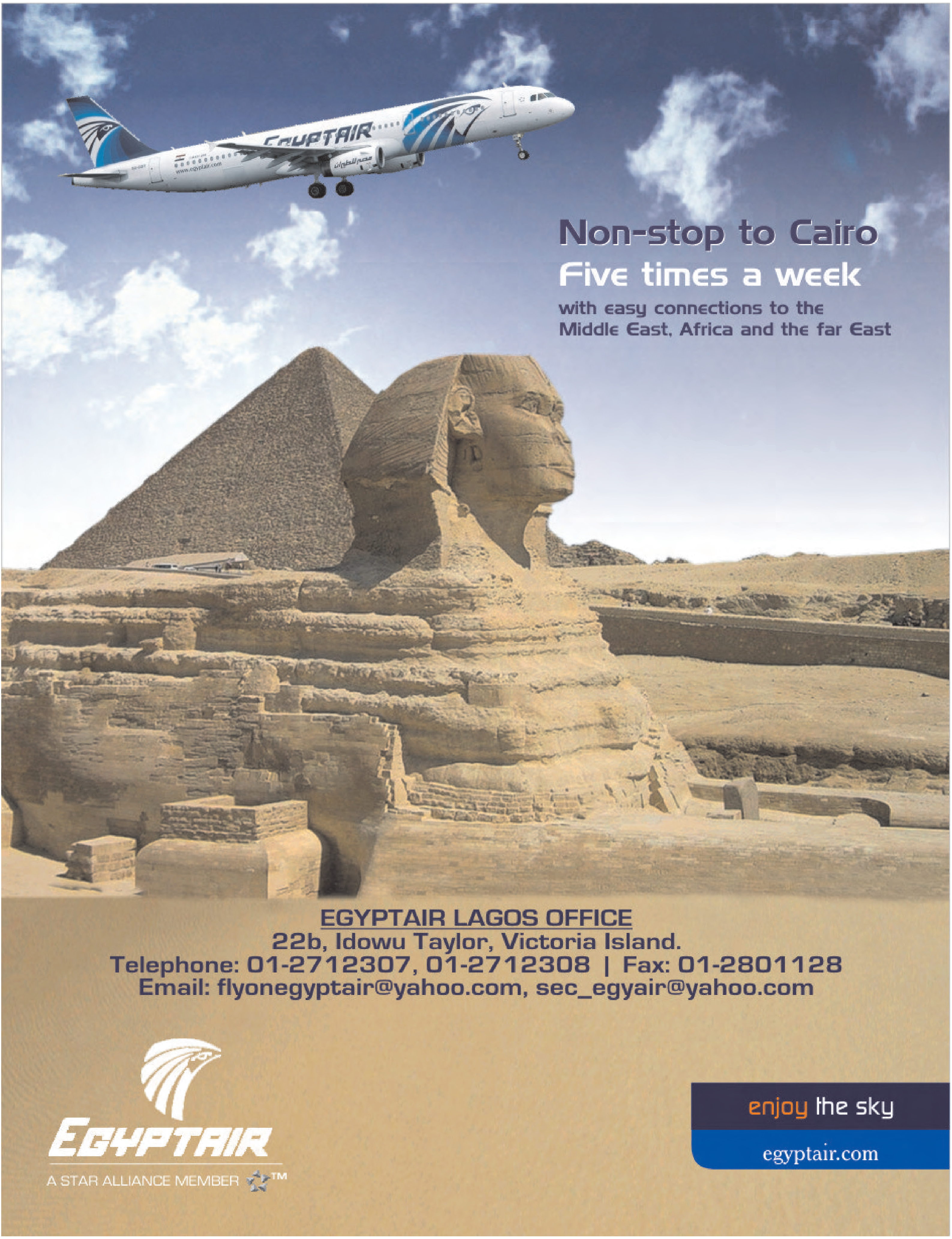
Given the numerous challenges that come with IFRS transition, the following steps are worth considering as the way forward.

- Coordination of the IFRS transition and implementation process among all stakeholders (at the national level) supported by well planned and carefully articulated transition strategy. This strategy should include series of activities broken down into pieces such that progress can be monitored at various stages.
- Regulatory agencies, the accountancy bodies all stakeholders affected should identify their roles in the IFRS transition and implementation process and prepare far in advance of the effective date. Some legislative backing or amendments may have to be secured.
- A review of the accountancy curriculum in the country might need a quick and speedy consideration.
- Entities should be aware of the likely changes that adopting and implementing IFRS will cause to their financial reporting systems and processes. These changes would need to be planned, managed, tested and executed in advance of the implementation date. Such changes are likely to be time and resource consuming. Companies are therefore advised to commence IFRS transition preparation far in advance of effective date of adoption.

(Muhtar Adam is a staff of Zenith Bank Plc)*

REFERENCES

1. KPMG India, *IFRS Convergence: Challenges and Implementation Approaches for Banks in India* (No date).
2. International Federation of Accountants (2004), *Challenges and Successes in Implementing International Financial Standards: Achieving Convergence to IFRSs and ISAs.* New York.
3. United Nations Conference on Trade and Development (UNCTAD) (2008), *Practical Implementation of International Financial Reporting Standards: Lessons Learned*, New York.
4. Ernest and Young (2006*), Facing the Challenges of IFRS adoption.*
5. Standard & Poor, *IFRS beyond transition. CreditWeek, Volume 27, No. 5, 31* January, 2007.
6. **THE NORWALK AGREEMENT**, 18 September 2002.
7. Completing the February 2006 Memorandum of Understanding: A progress report and timetable for completion, September 2008.


EGYPTAIR
Non-stop to Cairo
Five times a week
with easy connections to the
Middle East, Africa and the far East
EGYPTAIR LAGOS OFFICE
22b, Idowu Taylor, Victoria Island.
Telephone: 01-2712307, 01-2712308 | Fax: 01-2801128
Email: flyonegyptair@yahoo.com, sec_egyair@yahoo.com
EGYPTAIR
A STAR ALLIANCE MEMBER ™
enjoy the sky
egyptair.com

Quality and Internal control challenges: Fraud investigation In Banks

By Chuks Nwaze

In the previous edition of this serial, we concluded our discussion on fraud prevention as the ultimate antidote against service failure in the banking environment. In this edition, we are going to look at the way forward when fraud has actually taken place.

The reality that we must brace up to is the fact that fraud must and do occur not only within the banking system but also in the larger society and when it occurs , it needs to be investigated. It can never be overemphasized, however, that it is cheaper, better and more convenient to prevent fraud than investigate it.

We shall now proceed to discuss in detail the actions to be taken when fraud occurs, i.e. fraud investigation, the objectives, procedure, communication of findings as well as disciplinary and deterrent actions. It should be borne in mind at the onset that these are my professional views about how things should be done which is also in line with standard procedure in other parts of the world. Some banks may, however, deviate from it for reasons of domestic or organizational peculiarities and no one should quarrel with that.

1. FRAUD INVESTIGATION: OBJECTIVES

The objectives for investigating fraud will be discussed from two perspectives: social responsibility and institutional.

1.1 Social Responsibility Objectives

As a good corporate body, a bank must investigate fraud for the following reasons:

(i) To find out more about the activities of fraudsters with a view to defeating their nefarious agenda, hence making the entire society a better place.

(ii) To cooperate with or assist the police and other law enforcement agencies as well as the various courts to fight and punish criminals in every way possible.

(iii) Specifically, to expose criminals, whether inside the bank or outside, thus contributing to rid the banking industry of such unwanted elements.

1.2. **Institutional Objectives**

For the individual banks, the objectives are driven by considerations which include the following:

(i) To establish whether or not loss has occurred and how much.

(ii) To mount immediate recovery efforts with the assistance of the security agencies and other banks as the case may be. Usually, speed is of the essence in this regard.

(iii) To confirm the identity of the suspect and hand him over to the police for due process of the law to take its course.

(iv) To ascertain the extent of the bank's actual, potential or contingent liability, if any, for the loss arising from the fraud.

(v) To study the pattern of the fraud and determine whether it is due to control lapses or weaknesses and recommend appropriate remedial actions.

(vi) To determine the actual causes of the fraud whether immediate or remote as a basis for policy reforms within the bank.

Although any officer of the bank may be requested to conduct a fraud investigation, it is usually the inspection department that is entrusted with that responsibility.

(vii) To encourage internal cohesion and discipline and foster diligence, vigilance and dignity of labour among staff.

(viii) To use as a basis for strengthening the bank's preventive surveillance and internal control measures to nip future frauds in the bud.

(ix) To determine the level of involvement of staff as a basis for disciplinary action.

(x) To uphold the integrity and ethical code of the banking profession, protect the image of the bank and preserve public trust and confidence.

(xi) To comply with regulatory requirements that every fraud must be duly investigated and reported to them.

2. PROCEDURE WHERE FRAUD IS SUSPECTED

Although the primary objective of an audit is not to detect fraud, nonetheless if he is "put on enquiry" the auditor should not hesitate to probe the matter to the bottom and establish the facts. The following approaches should be adopted once the auditor considers that there is a reasonable ground for the suspicion of fraud prior to investigation:

- Recheck the facts.
- Conduct proper questioning to establish that the suspicion is genuine.
- Preserve all vital records.
- Establish all the areas of activity that suspect is involved in.
- Where physical cash is involved, "cash up " in the presence of suspect and a witness to avoid controversy.
- Communicate with the chief internal auditor by confidential means to authorize full investigation

The inspector should cast his net as wide as possible for possible clues even from apparently unlikely quarters. Every evidence, contribution, opinion or suggestion must be in writing.

3. FRAUD INVESTIGATION: SUGGESTED MODALITIES

Although any officer of the bank may be requested to conduct a fraud investigation, it is usually the inspection department that is entrusted with that responsibility. The police will always do their own investigation if they are called in but this aspect will be discussed in another section of this series. For now, we are concerned with fraud investigation, by internal surveillance officers i.e. bank inspectors.

The following approach is suggested:

- There is need for the inspector to be properly briefed on the issue at stake to enable him proceed in a logical, cautious and discreet manner.
- If there is need to liaise with another bank, this should be done preferably through the chief inspectors of the two

banks.

- The original copies of vital evidence concerning the fraud should be taken into safe custody to be released only against court order.
- It is better to confine investigation to internal suspects, especially if the case has already been referred to the police. However, the inspector should cast his net as wide as possible for possible clues even from apparently unlikely quarters. Every evidence, contribution, opinion or suggestion must be in writing. However, informal or anonymous assistance should not be jettisoned.
- There is need for patience, perseverance and close attention to details as well as keeping of an open mind for clues, fresh evidence and unexpected developments.
- As a matter of procedure, a staff suspected of fraud should be suspended from duty to prevent him from obstructing investigation or tampering with evidence. Prior to this, however, he must be made to submit a formal report on his involvement, including confessional statement, if any. A formal interview of the suspected staff is absolutely necessary.

There is need for patience, perseverance and close attention to details as well as keeping of an open mind for clues, fresh evidence and unexpected developments. As a matter of procedure, a staff suspected of fraud should be suspended from duty to prevent him from obstructing investigation or tampering with evidence.

4. FRAUD INVESTIGATION : INTERVIEWING

The following guideline on interviewing was adapted from Venables, J.S.R and Impey, K.W (1985).

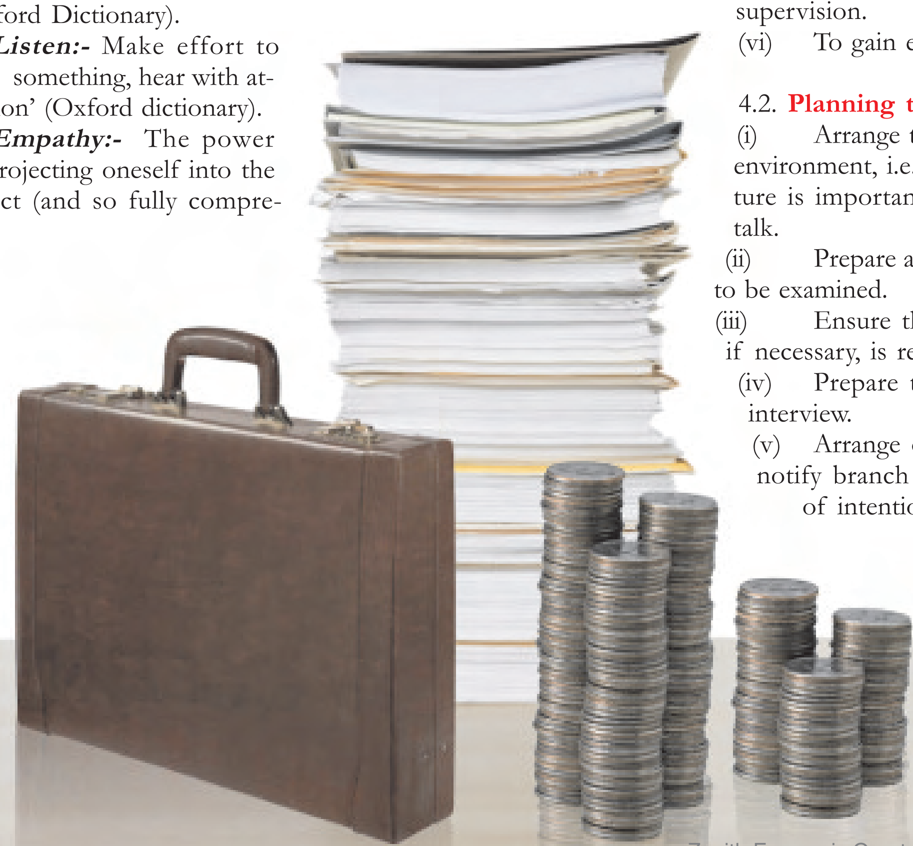
Definitions:

The following three definitions are of assistance:

Interview:- A meeting of persons face to face specially for the purpose of formal conference on some point' (Oxford Dictionary).

Listen:- Make effort to hear something, hear with attention' (Oxford dictionary).

Empathy:- The power to projecting oneself into the object (and so fully comprehending), of contemplation (Oxford Dictionary), i.e. the establishment of a rapport between interviewee and interviewer.



These three factors are fundamental to interviewing.

4.1 Aim of an Interview

(i) To establish facts
(ii) To extract information
(iii) To obtain opinions
(iv) To gain interviewee's impressions of work environment
(v) To identify weaknesses in administration-instruction/supervision.
(vi) To gain evidence

4.2. Planning the Interview

(i) Arrange the room to allow for a relaxed environment, i.e. type and positioning of furniture is important to encourage interviewee to talk.
(ii) Prepare a planned outline of subject area to be examined.
(iii) Ensure that supporting documentation, if necessary, is readily available.
(iv) Prepare to have notes taken to record interview.
(v) Arrange convenient time, location and notify branch manager/head of department of intention to interview one of his staff

and if he wishes to attend.

4.3. **Conducting the Interview**

(i) Avoid interruptions
(ii) Aim to create a relaxed atmosphere (empathy).
(iii) Allow the interviewee to do the talking
(iv) Lead interviewee into areas that require discussion
(v) Avoid questions which can leave a direct Yes/No response
(vi) Question with purpose.
(vii) Get at the truth by indirect questions and use similar questions to verify a previous statement, e.g. how old are you/when were you born?
(viii) Follow up opinions thoroughly to establish validity of opinions expressed.
(ix) Use interview to supplement evidence already obtained.
(x) Make notes during the interview
(xi) If fraud is suspected, ensure that a witness is present.

After the interview, enter report on file which can be used as a basis for discussion with the chief internal auditor should this be necessary.

4.4. **Auditee Interview Tactics: Be Focused**

As previously mentioned, the auditee may have entirely differing perceptions as to the auditor's role and objectives and this will affect his reactions to the audit interview. The auditor or investigator even if he has not experienced the following auditee tactics, should be aware of them in order to recognise them and take evasive action when they occur. The following are typecasts which have been identified by A J Sayle in his book *Management Audit.*

• **Time-wasters:** Audit time being restricted; the longer an auditee wastes time the less time is available for audit work or investigation:

a. **The waffler:** The auditee speaks at length and does not answer the question, ie achieves nothing.

b. **The 'dog and pony show':** A long elaborate presentation and discussion used to impress the auditor ie it may be hard for the auditor 'to see the wood for the trees'. Auditor should courteously call an end to the proceedings.

c. **Long lunch break:** The idea is to form a 'good working relationship' whereby auditee begins, 'I know a good pub, would you care to join me for a drink?' the pub is miles away, after many drinks auditor returns unable to work.

d. **Late arrival:** Again this tactic wastes limited audit time, it is aimed at preventing a detailed examination of auditee's work.

e. The long way round system or factory, as above is to consume auditor's time.

FRAUD INVESTIGATION: REPORTS

No matter how detailed an investigation has been, if the findings are not properly communicated, the entire exercise virtually comes to naught. Report writing is, therefore, the most critical aspect of investigation work and needs to be accorded a commensurate level of seriousness, logical thinking and professionalism.

In my several years of involvement with investigation activities, I have found the following report format useful, effective and acceptable to internal stakeholders.

Section 1: **Background:**
Give a summary of the fraud, the people involved and the amount of loss, whether incurred or envisaged. One paragraph containing a few lines is enough. Remember that your report is addressed to the MD/CEO and that he needs to read this section.

Section 2: **Summary of Facts/Findings:**
In this section, you will present the FACTS as they are; no sentiments, no opinions, no hearsay. These facts must be verifiable. It does not matter if this section is long as the MD/CEO is unlikely to read it in the normal course of work, unless the issues at stake are critical or fundamental. It should be structured into 'bullet' points.

f. **The forgotten document:** This can be effective from the auditee's viewpoint, as it brings proceedings to a halt and may break the auditors line of questioning.

g. **Interruptions:** These make interviewing the auditee difficult, if not impossible.

h. **The 'clean' room:** e.g. ensuring the auditor abides by complex hygiene and safety regulation which others in the organisation do not have to comply with. This again is a delaying mechanism.

i. **Lack of preparedness:** If personnel are not forewarned by management they may not be available for discussion with the auditor.

Other Tactics:

a. **The Cooks Tour:** Auditee attempts to determine the areas the auditor should investigate.
b. **Provocation:** Auditee attempts to provoke auditor into strong personal argument to stop work.
c. **Fixed Ballot or Loaded Dice:** Auditee attempts to select auditor's sample.
d. **Special Case:** A device used to explain internal control lapses.
e. **Trial of Strength:** Auditee attempts to reveal auditor's lack of knowledge or expertise.
f. **Insincerity:** Auditee attempts to flatter auditor with false admiration, so becoming over familiar and losing independence.
g. **'Poor Me':** Auditee tells tales of woe to make auditor pity him, thus disregarding critical findings.
h. **Indispensable Person:** Access to certain information is not possible because this key individual is absent (sickness, holiday).
i. **Amnesia:** Auditee continually, 'forgets' to provide data.
j. Bribery.
k. **The Quisling:** Auditee prepared to shop other people in order to avoid investigation into his own work

These are but a few tactics which may be adopted by an auditee and which the auditor must be experienced in overcoming, in a polite and courteous way.

5. FRAUD INVESTIGATION: REPORTS

No matter how detailed an investigation has been, if the findings are not properly communicated, the entire exercise virtually comes to naught. Report writing is, therefore, the most critical aspect of investigation work and needs to be accorded a commensurate level of seriousness, logical thinking and professionalism.

In my several years of involvement with investigation activities, I have found the following report format useful, effective and acceptable to internal stakeholders.

Section 1: **Background:**
Give a summary of the fraud, the people involved and the amount of loss, whether incurred or envisaged. One paragraph containing a few lines is enough. Remember that your report is addressed to the MD/CEO and that he needs to read this section.

Section 2: **Summary of Facts/Findings:**
In this section, you will present the FACTS as they are; no sentiments, no opinions, no hearsay. These facts must be verifiable. It does not matter if this section is long as the MD/CEO is unlikely to read it in the normal course of work, unless the issues at stake are critical or fundamental. It should be structured into 'bullet' points.

Section 3: **Comments/Opinion**
In the light of the facts and the entire circumstances of the case, you may now present your views, comments or opinion about what happened. This is what brings out the analytical ability and experience of the inspector. There is a chance that the MD/CEO might read this section, especially if the investigator already has a track record of independence and professionalism.

Section 4: **Recommendations**
Specifically recommend the way forward not only for the bank but also for the individuals or suspects involved in

Although most banks have a staff handbook which contains different types of offences and penalties applicable to staff in the normal course of their banking career, the issue of fraud is so complex that it does not lend itself to such a clear cut, predictable and unambiguous interpretation.

the case. Recommendations must be brief, logical, reasonable and specific since the MD/CEO will most likely read it even if he does not read any other section of the report.

It should be noted that only a **full report** is comprehensive like this. An **interim report** (i.e. progress report) should not exceed one page.

6. FRAUD INVESTIGATION: DISCIPLINARY PROCEDURE

Although most banks have a staff handbook which contains different types of offences and penalties applicable to staff in the normal course of their banking career, the issue of fraud is so complex that it does not lend itself to such a clear cut, predictable and unambiguous interpretation. In other words, every fraud presents its own peculiarities and challenges and must, therefore, be considered on its own merit.

It is often not the best for the judgment of the chief inspector/chief internal auditor or even that of the MD/CEO to whom he reports to be the final on fraud cases in view of the complexity of operations coupled with the careers of the suspected staff members which are at stake. Gladly, however, most banks now operate a disciplinary committee (DC) system where the erring staff is invited to defend himself with the chief inspector as prosecutor and head, human resources as secretary. This committee makes final recommendations to the MD/CEO (see Appendix for typical rules and disciplinary procedure in respect of various offences in a banking environment).

Typically, however, disciplinary actions are meted out along the following lines in respect of fraud cases involving bank staff, in ascending order of severity (see table).

	OFFENCES	PENALTIES
1.	Minor Infringements	Caution
2.	Unintentional contravention of operational procedure without loss of fund	Warning
3.	Unintentional contravention with loss of fund but no fraudulent intent	Warning and refund of money to bank
4.	Contravention without loss of money but with fraudulent motive	Termination of appointment
5.	Fraudulent contravention involving loss of fund	Summary Dismissal and possible recovery of money

For fraud cases involving customers, the bank must work through the security agencies and the courts to determine the civil and criminal implications of their actions in line with the due process of the law.

Minor offences shall without limitation include lateness to work without adequate cause, unsatisfactory attendance or any other improper behaviour of a minor nature. These offences will attract a verbal or written caution which is just a reminder to the employee that he is stepping out of line or that his behaviour is unsatisfactory to the bank.

APPENDIX:

SUGGESTED RULES AND DISCIPLINARY PROCEDURES IN A BANKING ENVIRONMENT

It is generally agreed that discipline is essential to all organizations so as to enable them accomplish their goals. Banks maintain a positive posture to discipline viz:

- To correct improper conduct and rehabilitate offenders
- To promote fairness and order in the treatment of individuals.

1. RULES

The following basic rules are therefore produced for employees of banks while others (such as high degree of integrity and honesty) are implicit for all employees in the banking industry like ours. All branch managers/sectional heads must ensure that employees know the rules and standards expected of them. Generally, all employees of the bank are required to conform to certain standards expected of employees of a reputable bank. Specifically, employees are forbidden from the following:

(i) Issuing post-dated cheques or over drawing their accounts without making prior written arrangement to this effect.
(ii) Maintaining an account in any branch other than where they are posted
(iii) Standing as a guarantor (whatsoever) either individu-

ally or severally/jointly

(iv) Accepting any office or gainful employment while still in service without Management's consent.

(v) Accepting gratuities or commission for performing their duties. Moreover, gambling, betting, lending, or borrowing are prohibited.

(vi) Performing any act prejudicial to the general business of the bank and the interest of its customer's security.

(vii) Additionally, employees shall not be interested whether directly or not, in any advance, loan or credit facility and if interested, he must declare the nature of interest to the bank.

(viii) Grant any unauthorized loan or credit facility. He should also not benefit from such facility.

(ix) Disclose anything about the bank's business or that of the bank's customers either during or after employment

(x) Use abusive or insulting language on any person of authority over them or their colleagues.

(xi) Disobey reasonable instructions of their immediate supervisors, sectional heads and other members of management of the bank.

(xii) Enter into any form of contract or carry out any transaction on behalf of the bank without receiving express authority.

2. PROCEDURE

Stage I

(i) All complaints against an employee for any breach of rules shall in the first instance, be investigated by the sectional head.

(ii) The employee shall be given a query to explain the circumstances that led to the breach of rules

(iii) For minor offences like lateness to work etc, the sectional head may, with the approval of the branch manager/head of department issue verbal or written caution. A copy of this caution letter shall be placed in the employee's file.

Stage II

If the sectional head is not satisfied with the employee's explanation and/or for serious offences, the case will be referred through the branch manager/head of department to the head of Human Resources department for further investigation and decision. Both the sectional head and branch manager/head of department are required to add their comments to such explanations before forwarding it to head of staff/services department.

Stage III

Human Resources department shall forward the reports and comments to the head of audit department for further investigation, if considered to be with fraudulent intent. The recommendations of the audit department will be returned to staff/services department.

Stage IV

Human Resources department shall take necessary disciplinary action relating to non-fraudulent cases involving junior employee.

Stage V

Human Resources department shall send case reports/recommendations involving supervisors and above to the staff committee and executive management committee as applicable. Breaches of bank's rules and regulations and other cases of indiscipline shall be dealt with as follows:

A. CAUTION

Minor offences shall without limitation include lateness to work without adequate cause, unsatisfactory attendance or any other improper behaviour of a minor nature. These offences will attract a verbal or written caution which is just a reminder to the employee that he is stepping out of line or that his behaviour is unsatisfactory to the bank.

B. WARNING

For serious offences involving proven unsatisfactory behaviour, the employee will be given letter of warning; without limitation, such major offences will include the following:

(i) Absenting himself at any time from the place proper and appointed for the performance of his work without leave or other legitimate cause.

(ii) Unfitting himself for the proper performance of his work during working hours, for example by becoming intoxicated

(iii) Neglecting to perform any work which it was his duty to have performed, or carelessly or improperly performing any work which from its nature was his duty to perform carefully and properly.

(iv) Using any abusive or insulting language or becoming guilty of insulting behaviour to any person placed in authority over him;

(v) Refusing to obey any proper instruction of any person placed in authority over him whose instruction it was his duty to obey; and

(vi) Any other offences as set out by management. Generally, before a warning is issued, the employee shall first be given a written query and opportunity of stating his case in writing

All warnings issued to an employee shall be kept in his personal file for record purposes and such employee shall not be entitled to an annual increment for that year.

All warnings issued to an employee shall be kept in his personal file for record purposes and such employee shall not be entitled to an annual increment for that year. If an employee is suspected of dishonesty or any other serious misconduct, he will be suspended from duty for a period not exceeding six months during which investigations shall be concluded.

C. **SUSPENSION**

(i) If an employee is suspected of dishonesty or any other serious misconduct, he will be suspended from duty for a period not exceeding six months during which investigations shall be concluded.

However, if the investigations are not concluded within six months, the employee shall remain suspended until such a time that the investigations are concluded. During the period of such suspension, the employee shall be paid half of his basic salary and full transport and housing allowances. If after such investigations he is exonerated, he shall be recalled and the balance of his basic salary shall be made good to him from the date of suspension. If however, the employee is found guilty he will be dealt with in accordance with the appropriate section of the disciplinary procedure.

(ii) If an employee is suspected of a criminal offence by the police, he may be suspended and paid half of his basic salary from the date of suspension for a maximum period of eighteen (18) months. If he is exonerated within that eighteen (18) months, he shall be recalled and the balance of his basic salary and any other entitlements due to him will be made good to him from the date of his suspension. If however the case has not been disposed of, his appointment shall be reviewed provided that the matter is not in a court of law.

(iii) An employee on suspension may where practicable, be required to report each working day (morning or afternoon) for two hours to an official designated by the employer.

D. TERMINATION

(i) An employee's service may be terminated if, within any period of 12 (twelve) months, he had been guilty on two occasions of committing any offence for which warning letters have been issued. Termination may only be effected on the second occasion provided warning has been given to the employee in respect of the previous offence within the preceding 12 (twelve) months. Persistent offenders, however, will be treated in accordance with their previous records even though they may have become ineffective after 12 (twelve) months from the date of warning.

(ii) An employee whose services have been terminated under the provisions of this paragraph shall nevertheless be entitled to one month's notice in the case of the probation or salary in lieu.

E. SUMMARY DISMISSAL

An employee may be summarily dismissed for certain offences covered by the broad heading of gross misconduct; such offences include proven cases of:

(i) Theft, fraud, dishonesty, defalcation and irregular practice in respect of cash, vouchers, records returns or customer's account and foreign exchange transactions:

(ii) Willful disobedience of a lawful order or serious negligence:

(iii) Drunkenness or taking drugs other than for medical reasons rendering the employee unfit to carry out his or her duties;

(iv) Intentionally divulging confidential information in breach of any "Declaration of Secrecy"

(v) Conviction for a criminal offence;

(vi) Prolonged and/or frequent absence from work without leave or reasonable cause;

(vii) Fighting and assault or engaging in disorderly behaviour during working hours on the office premises or within its immediate surroundings:

An employee whose services have been terminated under the provisions of this paragraph shall nevertheless be entitled to one month's notice in the case of the probation or salary in lieu.

(viii) Deriving any benefit in the course of his official duties which places him in such a position that his personal interest and his duty to the employer or to any customer of the employer are in conflict;

(ix) Failure to report promptly any irregularity on the part of any other employee after having knowledge of such irregularity

(x) Abusive or insulting language or behaviour to any client which is prejudicial to the business interest of the employer; and

(xi) Any other offences which may be set out by management of this bank.

F. GENERAL

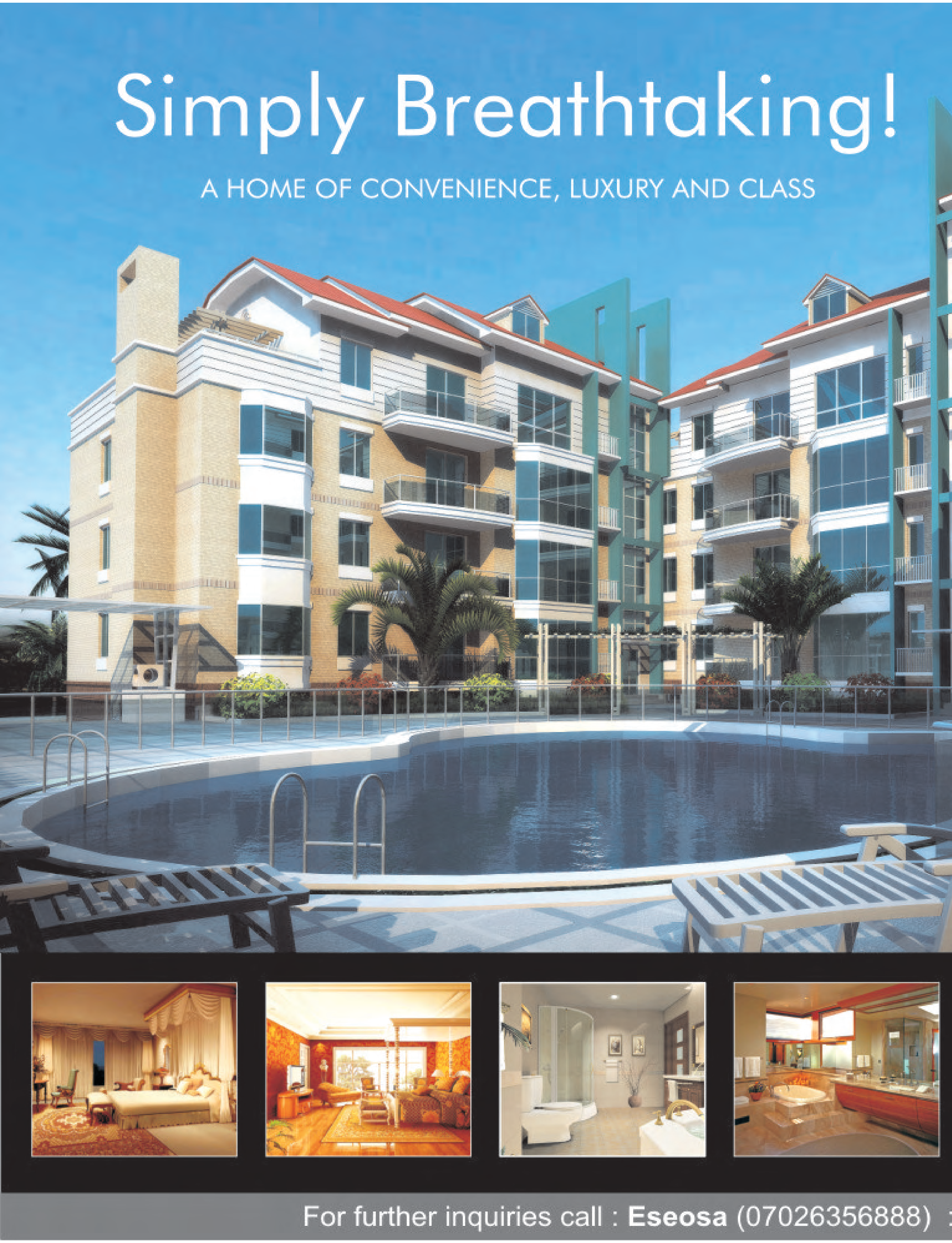
Where an offence has been committed which merits summary dismissal but where the bank does not exercise its prerogative of dismissal through mitigation, a "first and last" or a "second and last" warning letter may be issued and the fact that the warning is a final one will be made clear in the letter.

Before either summary dismissal or warning letter is effected the employee shall be given a written query and afforded the opportunity of defending himself in writing except where the employee has absconded.

Next Edition

In the next edition, we shall attempt an economic and social prognosis of the banking industry malaise called fraud as a basis for future direction.

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


Simply Breathtaking!
A HOME OF CONVENIENCE, LUXURY AND CLASS
For further inquiries call : **Eseosa** (07026356888)

Positioning Agriculture for Nigeria's Economic Development

*** By Sunday Enebeli-Uzor**

Apparently, owing to the onset of the global economic meltdown about a year ago and the concomitant decline in crude oil earnings and the associated food crisis, development focus is suddenly being shifted to agriculture. This is coming at a time when the need to diversify the revenue base of Nigeria and conserve her fast depleting foreign reserves has not only become visible but also urgent. Diversification has long been identified as a pre-condition for accelerated development of the economy and the agricultural sector could bolster the competitiveness of the economy in the emerging global economic order.

As part of the numerous measures to reposition and jumpstart activities in agriculture, the Federal Government recently approved ₦6 billion as a special intervention fund to boost research in agriculture in a bid to improve productivity. The special fund would be accessible to all researchers and is to be operated by the Agricultural Research Council of Nigeria. The government is also promoting an agric credit guarantee fund, which encourages states and local governments to stake five and one percent respectively of their statutory earnings in agriculture financing. The Federal Government has also earmarked ₦250 billion as grant to enable farmers sustain and improve their productivity, harness the potential of agriculture, and address the multiple challenges of economic growth, wealth creation, and unemployment. The fund is being administered by the Central Bank of Nigeria to both small and big-time farmers in a cooperative system.

On its part, the Central Bank of Nigeria has packaged a ₦200 billion agric bond to encourage farmers with a view to reducing the nation's over-dependence on oil revenue. Similarly, a number of financial institutions are floating Agriculture Support Schemes to take advantage of the new investment paradigm. The funds in the Agriculture Support Schemes are targeted at all segments of the agric chain, from small and medium scale farmers to large industrial farming projects.

Agriculture has been the mainstay of the Nigerian economy despite its decline especially since the oil boom of the 1970s that heralded the petro-dollar era.

STATES STEP UP EFFORTS

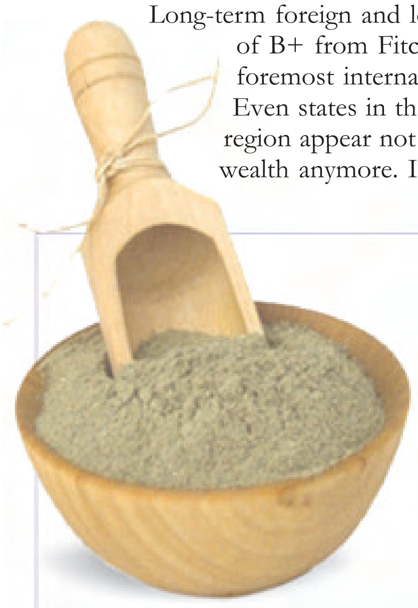
The decline in crude oil earnings and the resultant drop in revenue accruing to states from the federation account has somewhat brought the reality of looking beyond the federation account to bear on some states of the federation. There appears to be a sudden panic; thus, 'economic diversification' has now become the buzzword in the national development vocabulary. Consequently, some governments have showed renewed commitment in agriculture as an alternative source of revenue. In Yobe State for instance, the government is embarking on large scale production of castor oil seeds. This initiative is expected to engage about 100,000 farmers and more than 10,000 hectares of land will be cultivated. Castor oil has a plethora of uses in the aviation and pharmaceutical industries. The Yobe State castor oil project has attracted ₦2 billion carbon credit from the World Bank as part of its global warming initiative because of the environmental friendliness of the crop.

Also in Katsina State, the government has stepped up the cultivation of Neem (locally known as dogonyaro) to serve the dual purpose of combating desertification and earning foreign exchange. The plant is a useful source of raw material in the production of fertiliser, soap, waxes, cosmetics, pharmaceuticals, insecticides and lubricants. India is believed to earn about $2 billion annually from Neem export. Kano, a predominantly agrarian state has also renewed its commitment to agriculture by offering farmers subsidy to enable them acquire farm machinery. The Kwara State government has embraced commercial farming and this has contributed to earning the state a National Long-term rating of AA-(minus) and Long-term foreign and local currency ratings of B+ from Fitch Ratings, the foremost international rating agency. Even states in the oil-rich Niger Delta region appear not to be regaling in oil wealth anymore. In Delta State for instance, the government has been encouraging farmers through its micro-credit financing scheme to revamp agriculture in the state. This initiative recently earned the state government accolades from the Central Bank of Nigeria.

LOOKING BACK

Agriculture has been the mainstay of the Nigerian economy despite its decline especially since the oil boom of the 1970s that heralded the petro-dollar era. Till date, a greater proportion of the population – about two-thirds of the total labour force of the nation, depends on the sector for their livelihood and the rural economy is propelled by agriculture. It is the main source of food for most of the population and is also the dominant economic activity in terms of employment and linkages with the other sectors of the economy, serving as a major source of raw material for the agro-allied industries and a potent source of foreign exchange. The sector has been the highest contributor to the nation's GDP over the years – accounting for 42.07 percent in 2008, 35.8 percent in the first quarter of 2009, and 2.2 percentage points to the growth in real GDP in first quarter of 2009.

In the era preceding the discovery of crude oil in commercial quantity, agriculture was the major source of foreign exchange for the economy. The groundnut pyramids of the Northern region, cocoa farms of the West, and palm plantations of Eastern Nigeria were the major sources of foreign exchange that sustained their respective regions. The pathetic story



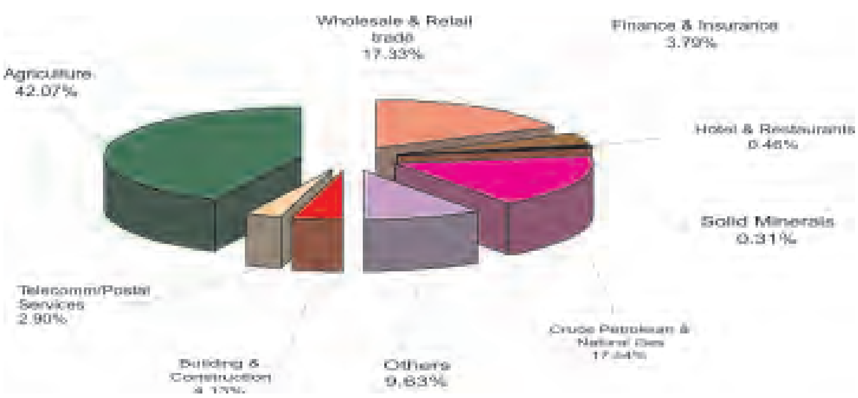
The Katsina State government has stepped up the cultivation of Neem (locally known as dogonyaro) to serve the dual purpose of combating desertification and earning foreign exchange. The plant is a useful source of raw material in the production of fertiliser, soap, waxes, cosmetics, pharmaceuticals, insecticides and lubricants. India is believed to earn about $2 billion annually from Neem export.

Neem powder is highly anti-bacterial, and the leaves have been used for centuries to make anti-bacterial washes and poultices. Add neem powder to cosmetic clays to make a face pack or body wrap that is suitable for acne prone skin.

of Malaysian farmers learning the rudiments of palm cultivation in Nigeria but now exporting palm produce to Nigeria underscores the level of neglect and decay that agriculture has suffered. Oil palm is currently Malaysia's leading agricultural export and the country is the world's largest producer of the commodity. The success story of the sector in the pre-oil boom era has been consigned to the footnote of history following the emergence of crude oil as the prime mover of the nation's economy. This, in turn, created a false sense of affluence that scorched agriculture which culminated in low productivity and relegation of the once thriving sector. The decline in the share of agriculture in foreign exchange earning is an apt illustration of negative correlations with oil revenue earnings.

Nigeria has become a net importer of food, including staples such as rice where local production accounts for just 500,000 tonnes, whereas annual consumption stands at over 2.5 million tonnes, leaving a huge deficit of about 2 million tonnes which has to be met with imports. It is estimated that the country spends over

Sectoral Contribution to GDP (2008)



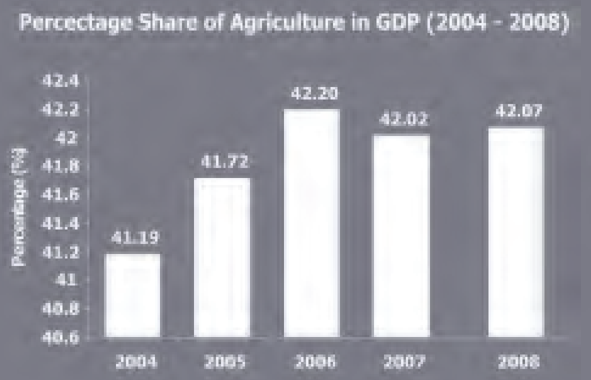
Source: National Bureau of Statistics

US$300 million annually on rice imports alone. In the heat of the food crisis in 2008, the federal government spent ₦80 billion in one instance for the importation of rice and also slashed duties on rice imports from 100 to 2.7 percent to cushion the effects of food shortage on the citizenry. The large volume of rice import has over the years sustained rice farmers in business in other climes while domestic opportunities abound. Current forecast is that sub-Saharan Africa, including Nigeria, will need to double grain imports to 50 million tonnes by 2010 in a fiercely competitive world market. The massive importation of agricultural produce is dangerous in that it does not only drain the nation's reserves, it also exposes the economy to external shocks and vagaries especially inflation.

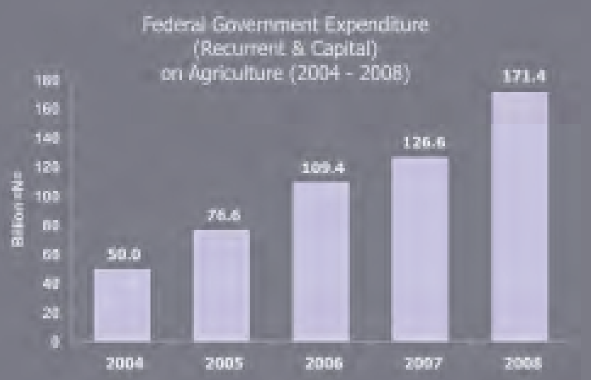
CHALLENGES OF AGRICULTURE IN NIGERIA

Agriculture has faced obvious challenges since crude oil earnings overtook it as the nation's cash cow. Consequently, it has experienced stunted growth. Between 1970 and 2008, the sector grew at about 1.7 percent per annum on the average, a growth rate that is not commensurate with a population growth rate of 2.7 percent.

In the era preceding the discovery of crude oil in commercial quantity, agriculture was the major source of foreign exchange for the economy. The groundnut pyramids of the Northern region, cocoa farms of the West, and palm plantations of Eastern Nigeria were the major sources of foreign exchange that sustained their respective regions. The pathetic story of Malaysian farmers learning the rudiments of palm cultivation in Nigeria but now exports palm produce to Nigeria underscores the level of neglect and decay that agriculture has suffered. Oil palm is currently Malaysia's leading agricultural export and the country is the world's largest producer of the commodity. The success story of the sector in the pre-oil boom era has been consigned to the footnote of history following the emergence of crude oil as the prime mover of the nation's economy and the false sense of affluence that asphyxiated agriculture which culminated in low productivity and relegation of the once thriving sector.



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

Although agriculture has propelled economic growth in countries that share developmental similarities with Nigeria notably Malaysia, Indonesia, and Brazil, the plethora of challenges the sector has faced due largely to neglect has relegated the nation to the list of net importers of food.

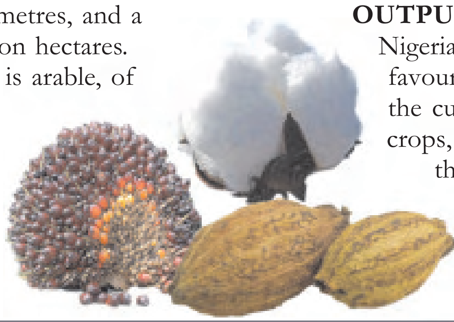
The foremost problem of the sector in Nigeria is that it is still largely informal, subsistent, rain-fed, and lacking mechanisation. Transportation which is important for the evacuation of produce is virtually non-existent, leading to huge losses which in turn discourage farmers in the next planting season. The efficient flow of agricultural produce from the farms to the markets requires good feeder road network between the rural areas where agricultural production mainly takes place and the urban areas where major markets exist. Another major bane of the sector is lack of storage facilities. The absence of storage facilities culminates in huge post-harvest losses especially during periods of bumper harvests. It is estimated that between 15 and 40 percent of agricultural commodities produced in the country are lost annually through post-harvest waste as a result of lack of processing and storage facilities. The absence of an efficient pricing mechanism is another serious disincentive to farmers. There is virtually no provision to compensate farmers during periods of sharp price fluctuations to cushion the effects of losses on them.

Dearth of skilled manpower is a major challenge for agriculture in Nigeria, where women account for about 70 percent of the labour force engaged in the sector. Able-bodied young men that would have been more productive in agricultural production often migrate to urban areas in search of 'white-collar' jobs. This rural-urban migration became fashionable after the famous 'Udoji awards' when stupendous remuneration was approved for public servants in the early 1970s. The new found wealth encouraged profligate spending among urban dwellers who at that time were mainly public servants. The affluent lifestyle of these urban dwellers attracted their compatriots in the predominantly rural agricultural societies who then jettisoned agriculture and migrated from the 'squalor' of the villages to the 'Eldorado' of urban centres in search of paid employment. In a bid to produce skilled manpower for agriculture, a plethora of tertiary institutions were established to train agricultural scientists and extension workers who are supposed to come up with research findings and convey same to practitioners in the farms for improved productivity. How well these specialised universities and colleges of agriculture have fared in delivering on their mandates is yet a matter for debate.

Availability and affordability of fertiliser is central to the success of modern agriculture. In order to meet the fertiliser needs of farmers in the country, the federal government established the National Fertiliser Company of Nigeria (NAFCON) in Onne, Rivers State, in 1981, the first and the largest modern nitrogenous fertiliser complex, not only in Nigeria, but also in West Africa. The plant commenced production in 1987 but became comatose years after. In its renewed bid to meet the fertiliser needs of farmers, the federal government through the Bureau of Public Enterprises (BPE), privatised the moribund NAFCON and sold it for $152 million. Now Notore Chemical Industries Limited, the company has undergone complete rehabilitation to realise its potential and meet the fertiliser demands of Nigerian farmers. The fertiliser plant which gulped a total investment of $400 million, has the potential to dominate the sub-Saharan Africa agro-allied market and become the number one agro-allied company by market share and profitability in Africa.

NIGERIA'S AGRIC POTENTIAL

To emphasise Nigeria's agricultural potential will amount to restating the obvious. Nigeria spans an area of about 924,000 square kilometres with topography ranging from the Sahel, Sudan and Guinea Savannah of the North to the Southern rain forests – thus making it possible to produce many varieties of crops and livestock. The country has a highly diversified agro-ecological condition with a total agricultural land of 79 million hectares, surface water of 267 billion cubic metres, underground water of 57.9 billion cubic metres, and a potential irrigable area of 3.14 million hectares. About 75 percent of Nigeria's land is arable, of which over 50 percent is not cultivated. Some 10 percent of the total land is covered with forest, including large stands of tropical trees including mahogany, walnut, and obeche – veritable sources of timber. Bountiful flora and fauna, constituting a rich source of biodiversity that could serve as a reservoir for the pharmaceutical industry and a sustainable source of genetic materials that can improve the nation's food production potential towards self-sufficiency. The country is also endowed with rich fishery resources and potential for large-scale fish farming.



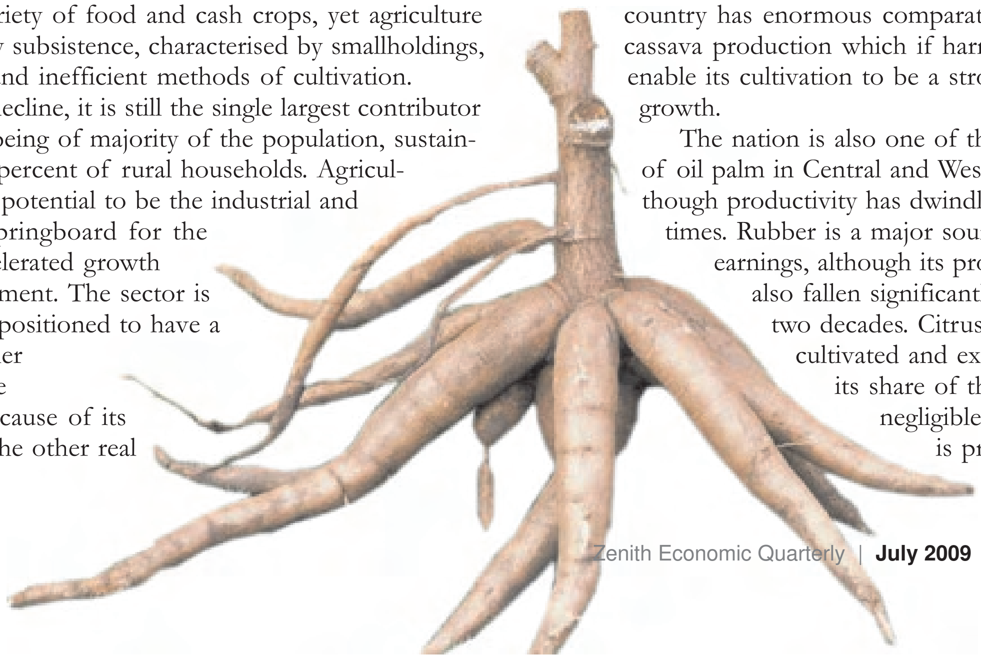
Nigeria is endowed with rich soils and favourable climatic conditions that allows for the cultivation of a wide variety of food crops, including cassava (of which Nigeria is the largest world producer), millet, sorghum, maize, yams, millet, plantains, bananas, rice, and sorghum.

The diverse climatic conditions allow for the production of a variety of food and cash crops, yet agriculture is still largely subsistence, characterised by smallholdings, traditional, and inefficient methods of cultivation. Despite its decline, it is still the single largest contributor to the well being of majority of the population, sustaining over 86 percent of rural households. Agriculture has the potential to be the industrial and economic springboard for the nation's accelerated growth and development. The sector is strategically positioned to have a high multiplier effect on the economy because of its linkages to the other real sectors of the economy. Economic development literature is replete with evidences of the potency of agriculture as a driver of sustained economic growth and development. The experiences of Brazil, Malaysia, and Indonesia – countries with developmental characteristics similar to Nigeria, are instructive. These countries have been able to transform their agriculture prowess to facilitate the process of industrialisation from predominantly agrarian economies.

NIGERIA'S MAJOR AGRICULTURAL OUTPUTS

Nigeria is endowed with rich soils and favourable climatic conditions that allows for the cultivation of a wide variety of food crops, including cassava (of which Nigeria is the largest world producer), millet, sorghum, maize, yams, millet, plantains, bananas, rice, and sorghum. The principal export crops are cocoa, cotton, groundnuts (peanuts), palm oil and rubber, which together account for nearly 60 percent of non-oil merchandise exports. Livestock also thrive in the country. These include: cows, donkeys, ducks, geese, goats, chicken, guinea fowls, pigeons, pigs, sheep, and turkey. The main export destinations for Nigeria's agricultural produce are in the EU, the United States, and Canada. Nigeria is the world's fourth largest producer of cocoa, and the crop is the country's second largest foreign exchange earner after oil. Cassava is unarguably the most farmed commodity in Nigeria – accommodating over 40 million farmers that manage to produce about 49 million tonnes annually. The country has enormous comparative advantage in cassava production which if harnessed could enable its cultivation to be a strong driver of growth.

The nation is also one of the top producers of oil palm in Central and West Africa although productivity has dwindled in recent times. Rubber is a major source of export earnings, although its production has also fallen significantly over the past two decades. Citrus fruits are also cultivated and exported although its share of the market is still negligible. Cotton which is predominantly



produced in the north has suffered decline despite being a major cash crop, due to farmers' preference for sorghum and corn. Although rice production has expanded by about 50 percent year-on-year between 2003 and 2008, domestic demand still far outstrip production by about 2 million tonnes.

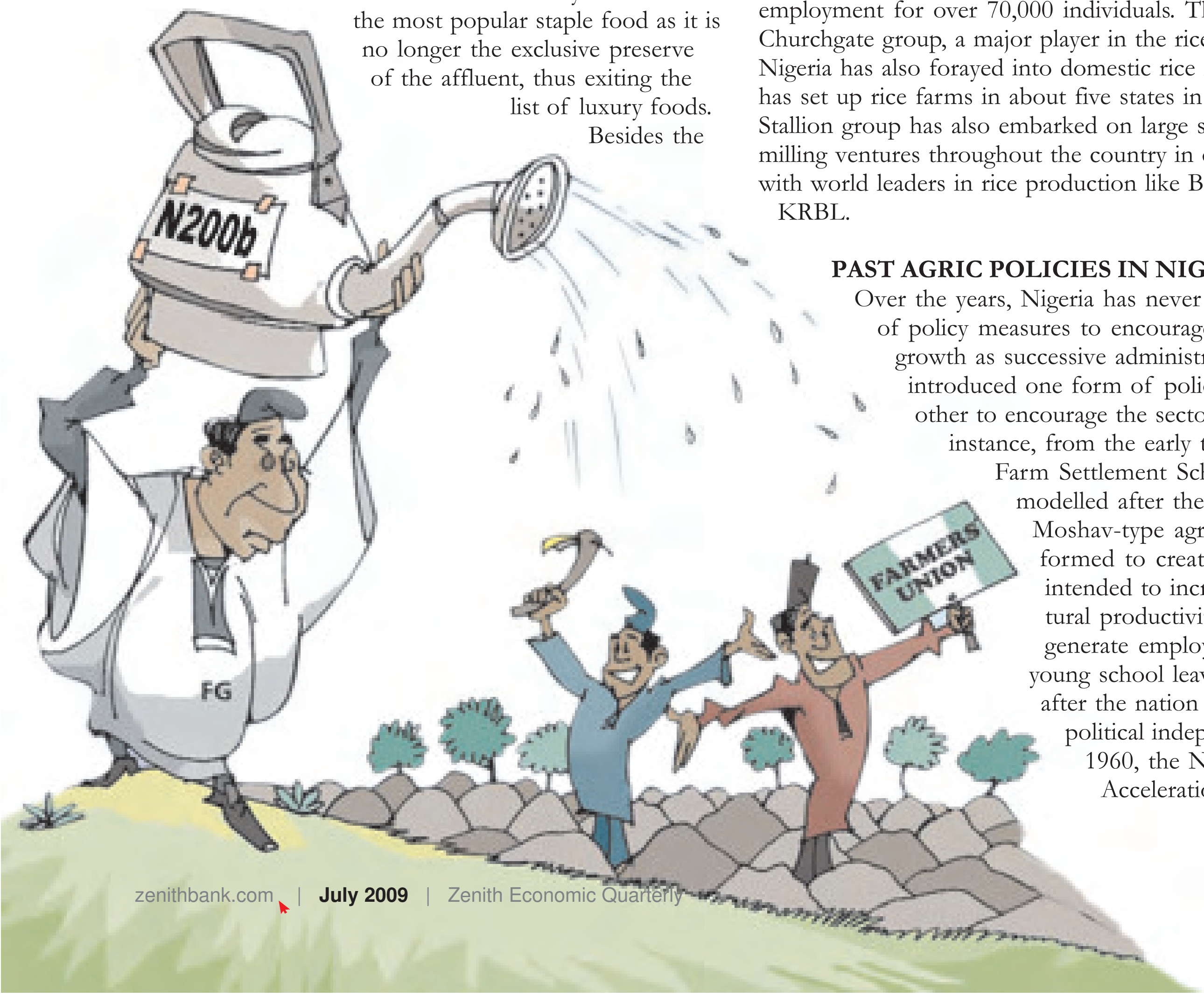
> The foremost problem of the sector in Nigeria is that it is still largely informal, subsistent, rain-fed, and lacking mechanisation. Transportation which is important for the evacuation of produce is virtually non-existent, leading to huge losses which in turn discourage farmers in the next planting season.

INVESTMENT OPPORTUNITIES IN RICE PRODUCTION

Rice imports represent over 25 percent of agricultural imports in the country. The commodity is an important staple food in the diet of a greater proportion of the population. The United States Department of Agriculture (USDA) reckons that rice is one of the most important staple foods for about one-half of the world's population. The rice industry in Nigeria is about 70 percent import-based despite the country's potential to produce the commodity to meet domestic demand and even export surplus. Rice can be cultivated in all the ecological zones of Nigeria, although with varying prospects from one location to the other.

Demand for rice in Nigeria is expected to be sustained as the commodity has become the most popular staple food as it is no longer the exclusive preserve of the affluent, thus exiting the list of luxury foods. Besides the demand from households which has been on a steady rise, the bourgeoning fast food business or 'joints' presents a new frontier for rice demand with increasing urbanisation. In order to meet the surging demand, some firms are beginning to look inwards by developing interest in domestic production while others have already commenced production. For instance, Veetee Group invested about $15 million in a rice milling plant in the Ofada rice growing area of Ogun State to boost domestic production of rice.

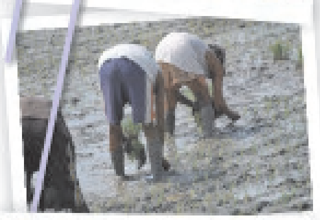
Also, Notore Chemical Industries Limited has ventured into the lucrative rice farming segment of the agricultural sector. The firm recently signed Memoranda of Understanding with the governments of Cross River and Taraba states. The two projects have 500,000 metric tonnes of rice milling capacity, which would provide employment for over 70,000 individuals. The Churchgate group, a major player in the rice industry in Nigeria has also forayed into domestic rice milling and has set up rice farms in about five states in the country. Stallion group has also embarked on large scale rice milling ventures throughout the country in collaboration with world leaders in rice production like Buhler and KRBL.



PAST AGRIC POLICIES IN NIGERIA

Over the years, Nigeria has never been bereft of policy measures to encourage agricultural growth as successive administrations have introduced one form of policy or the other to encourage the sector. For instance, from the early to mid 1950s, Farm Settlement Schemes (FSS) modelled after the Israeli Moshav-type agriculture were formed to create farmsteads intended to increase agricultural productivity and generate employment for young school leavers. Shortly after the nation gained political independence in 1960, the National Food Acceleration Production Programme (NAFPP) was introduced by the new nationalists who sort to use periodic national economic development plans as a means of achieving sustained growth and development. The First National Development Plan, spanning 1962 – 1968, had agriculture as its main thrust with an investment of 2.3 billion US dollars provided for by the plan. The focus of the plan was the establishment of farm settlement schemes that would be exclusively dedicated to the cultivation of export crops. The 1967-1970 civil war marred the plan as it was jettisoned during the period.

At the end of the civil war, the federal government modified the programme to a less ambitious one – the National Food Acceleration Production Programme (NFAPP). This new policy only sort to improve peasants' productivity in staple food crops and consequently failed to solve the problem of declining food productivity. Government also established Agricultural Development Programmes (ADPs) in all states of the federation to help organise farmers for more productive agriculture through the provision of modern inputs. The succeeding government introduced Operation Feed the Nation (OFN) in May 1976 with the specific focus of increasing food production on the premise that improved availability of affordable food would ensure a higher nutrition level and invariably culminate in national growth and development. The programme provided ₦2.2 billion for agriculture and rural development.



The River Basin and Rural Development Authorities (RBRDAS) were also established by the federal government in 1976 to facilitate and accelerate the production of food crops and mobilise the rural agricultural population towards increased food production. Currently, the following are the existing river basin development authorities (RBDAs): Anambra-Imo River Basin Development Authority; Benin-Owena River Basin Development Authority; Chad River Basin Development Authority; Cross River Basin Development Authority; Hadejia-Jama'are River Basin Development Authority; Lower Benue River Basin Development Authority; Lower Niger River Basin Development Authority; Niger Delta Basin Authority; Ogun-Osun River Basin Development Authority

Others are: Upper Benue River Basin Development Authority; Upper Niger River Basin Development Authority; Sokoto-Rima River Basin Development Authority. They were put in place to solve the problem of declining agricultural productivity and encourage the diffusion of agricultural innovation through extension services to the rural areas to improve the living standard of the rural dwellers.

In May 1980, the succeeding administration embarked upon yet a new programme, the famous Green Revolution, to boost agricultural productivity in the country. The main thrust of the initiative was to create the means to meet the needs of smallholder farmers and spread the benefits of rural development. The programme also sort to encourage Nigerians in both urban and rural areas to go into agriculture for both commerce and for the provision of food for home consumption. Government's focus on jumpstarting activities in agriculture changed in 1986 with the establishment of the Directorate of

Demand for rice in Nigeria is expected to be sustained as the commodity has become the most popular staple food as it is no longer the exclusive preserve of the affluent, thus exiting the list of luxury foods. Besides the demand from households which has been on a steady rise, the bourgeoning fast food business or 'joints' presents a new frontier for rice demand with increasing urbanisation. In order to meet the surging demand, some firms are beginning to look inwards by developing interest in domestic production while others have already commenced production.

Food, Roads and Rural Infrastructure (DFRRI). The directorate was established as an enabling facility management organisation to coordinate and streamline all rural development activities in the country and accelerate the pace of integrated rural development with agriculture as an important segment.

Besides the programmes that sort to directly improve agricultural productivity, the challenge of funding was also identified by successive administrations and they established institutions to meet the need of financial intermediation for the sector. For instance, the Nigerian Agricultural and Cooperative Bank (NACB) was set up in 1973 with the responsibility of providing credit for the production, processing, and marketing of agricultural produce. Its target groups comprised individual farmers, cooperative organisations, limited liability companies, states and the federal government. It has however metamorphosed into the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) Limited following its merger with former People's Bank of Nigeria (PBN) and the risk assets of the Family Economic Advancement programme (FEAP).

As a result of the inability of the Nigerian Agricultural and Cooperative Bank to deliver on its mandate, the Agricultural Credit Guarantee Scheme (ACGS) was established in 1977 under the management of the Central Bank of Nigeria. The scheme was designed to encourage banks to increase lending to the agricultural sector by providing guarantee against inherent risks associated with agricultural production. The scheme guarantees credit facilities extended to farmers by banks up to 75 percent of the amount in default net of any security realised. Between 1978 and 1989 when the government stipulated lending quotas for banks under the Scheme, there was consistent increase in the lending portfolios of banks to agriculture, but after the deregulation of the financial system, banks started shying away by reducing their loans to the sector due to the perceived risk. The Agricultural Credit Guarantee Scheme is one of the few initiatives that has stood the test of time and outlived the administration that midwifed it perhaps due to the fact that its management is vested with the Central Bank of Nigeria.

Also, in order to mitigate the risks associated with agricultural activities, the federal government established the Nigerian Agricultural Insurance Corporation (NAIC) in 1987 to provide risk cover for farmers. Specifically, the insurance corporation was set up to promote agricultural production by enhancing greater confidence in adopting new and improved farming practices and at the same time bring about greater investment and increased productivity. It was also expected to provide financial support to farmers in the event of losses arising from natural disasters. The corporation was expected to increase the flow of agricultural credit from lending institutions to farmers and also minimise or eliminate the need for emergency assistance provided by government during periods of disasters. Despite the avalanche of programmes to resuscitate agriculture over the years, the country still faces acute shortage of food supply.

> The enormous foreign exchange dissipated on food imports which sustains farmers in business in other climes will not only be conserved, the economy will also be less susceptible to external shocks and vagaries. No time can be more apposite than now for a concerted effort to revive agriculture in Nigeria.

GOING FORWARD

Nigeria has the potential of a dual economy – a modern sector driven by crude oil overlaying a traditional agricultural and trading economy. A holistic development of the economy will remain elusive without a strong agricultural base. Increases in agricultural production had been the traditional pathway to industrialisation and countries that industrialised rapidly achieved such feats by building a strong agricultural base. Besides the fact that agriculture can ameliorate the problem of unemployment and create wealth, the need to achieve self sufficiency in food production in the country cannot be overemphasised. The enormous foreign exchange spent on food imports which sustains farmers in business in other climes will not only be conserved, the economy will also be less susceptible to external shocks and vagaries. No time can be more apposite than now for a concerted effort to revive agriculture in Nigeria.

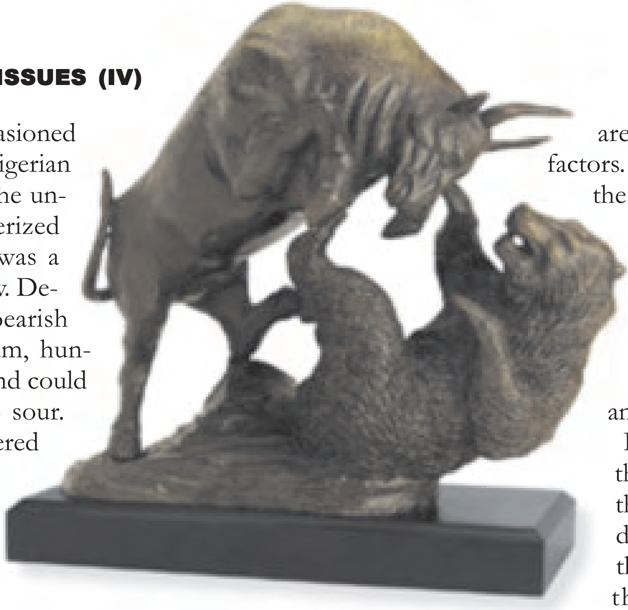
(* Sunday Enebeli-Uzor is an Analyst, Zenith Economic Quarterly)

Stock Market:
Rebounding Against Odds

*By Chidiebere Okwuonu

Nigeria stock market has battled against several odds this year, but it's poised to come clean, though with many bruises along the way. Its mood has swung frequently in response to the move of the economy, but more importantly that of the banking sector. But all that has happened to the market this year is in the interest of the economy and the investors, many of whom have (or should have) become wiser through experience.

At the end of the tortuous journey, the market managed to weather the odds, including apathy from some previous patrons, and ended the first half of 2009 on a modest note. For a market that was castigated and even shunned by many who tagged it a poor performer, the result was impressive. It fell short of the 2008 closing value by just a minimal point.



True, the slump in stock prices occasioned by the global meltdown left many Nigerian investors broken and limping. After the unbroken nine-year boom that characterized the market, the burst that followed was a bitter pill for many investors to swallow. Despite warnings by analysts that the bearish trend would not continue ad infinitum, hundreds of them still would not believe and could not understand why things turned so sour. Thus, 2008 ended with several unanswered questions on their minds. But that is the way of the stock market.

In assessing the market performance in the period up to late July this year, one would need to look at the significant factors that impacted the market, including those that were introduced by human factor. But for a proper assessment of the market, we may have to break the period into three segments that reflect different moods of the market, which themselves are indications of various factors. These factors include the very poor performance of the market in 2008, which pulled it down the valley, and the resultant apathy on the part of several investors, especially Nigerians.

Besides, there was also the peculiar influence of the banking sector on the domestic market, given that the banks dominate the equities market. Therefore, with the difficult situation in which the banks had found themselves, it was impossible for the market to escape the inevitable impact of the pressure on the banks.

More importantly, what affected the market in the critical first half of the year was policy pronouncements, comments and in some situations lack of comments or clarification by regulatory agencies when needed by the relevant stakeholders. Given that the stock market by nature is driven by information, such lapses in either policy announcement coordination or clarification created room for diverse and sometimes improper or wrong interpretation of market signals by investors. The consequences were quite significant for the market.

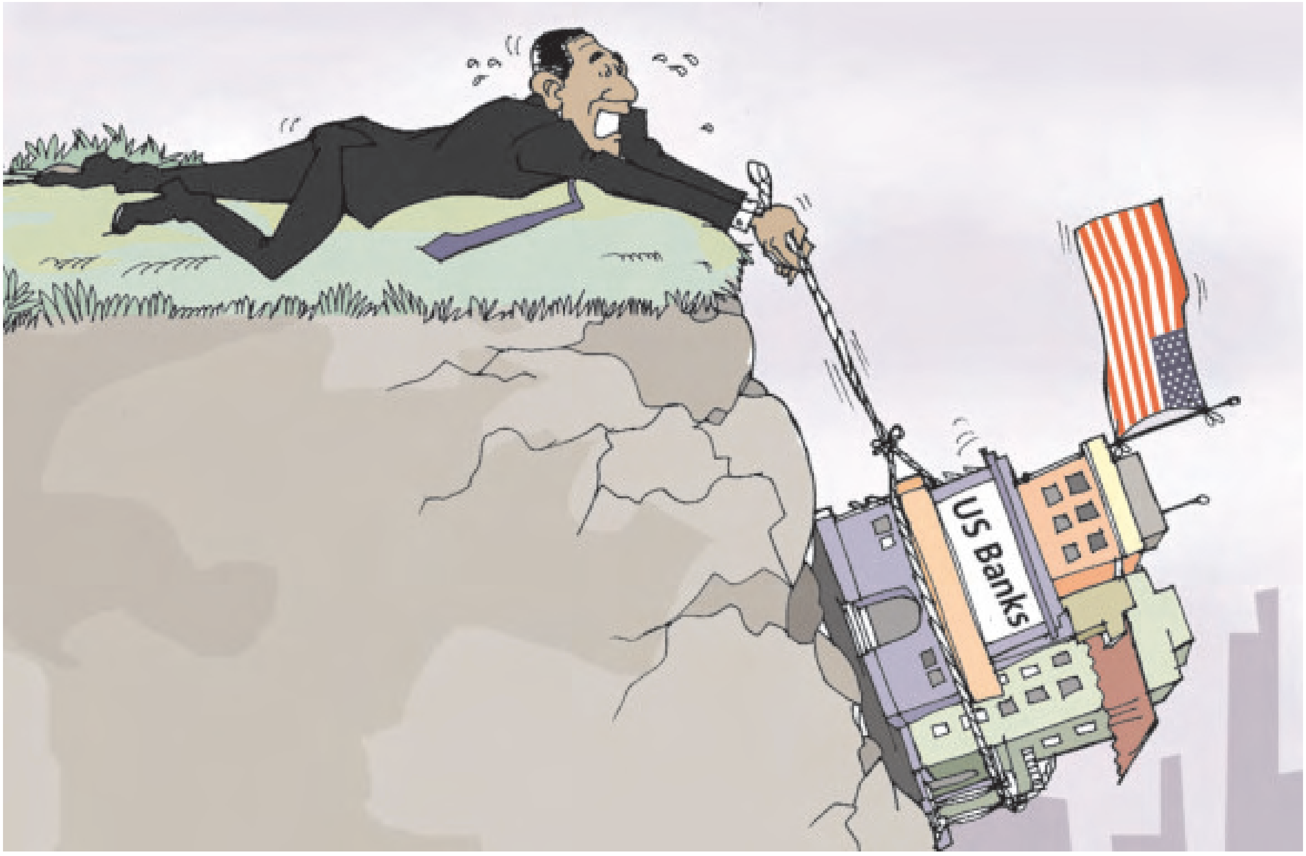
Year	NSE ASI	Y-o-Y Growth (%)	Market Cap (bn)	Y-o-Y Mkt Cap Growth (%)
1997	6,440.51	-7.9%	282.00	
1998	5,672.76	-11.9%	263.3	-6.7%
1999	5,266.43	-7.2%	300.0	13.9%
2000	8,111.01	54%	472.9	57.7%
2001	10,963.11	35.0%	662.6	40.1%
2002	12,137.72	10.71%	763.9	15.3%
2003	14,565.45	20.0%	919.7	22.8%
2004	23,844.45	63.70%	1,925.9	109.4%
2005	24,085.76	1.01%	2,523.49	31.0%
2006	33,189.30	37.80%	4,227.13	67.5%
2007	57,990.22	74.73	10,180.29	140.83%
2008	31,450.78	-46.0%	6,957.00	-32.0%
2009*	23,924.1	-24.0%		

*As as July 24, 2009

In assessing the market performance in the period up to late July this year, one would need to look at the significant factors that impacted the market, including those that were introduced by human factor.

The First Segment

To put things in their proper perspective, it is appropriate to first highlight the state of the Nigerian market at the turn of this

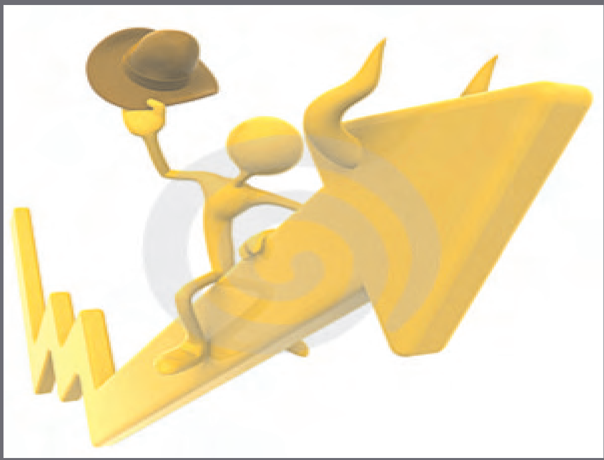


year. Recall that this is a market that in virtually all parameters, surpassed most of the other markets, both in the developed economies and among the emerging markets (see table). This sterling performance was however truncated by both the global financial crisis and Nigerians' peculiar way of responding to it. Thus, as the table shows, early 2009 was definitely a period of re-evaluation by several investors who, having seen the good performance, and some of them having been drawn into the market by what they said or heard, were definitely disappointed at the turn of events.

But that beautiful picture turned sour as the market nosedived at the close of last year. Recall that the Nigerian market closed last year with a decline of about 46% in the All-Share Index (ASI), the broad measure of returns in the country's equities market. This was the major determinant of the prevailing mood in the market at the beginning of 2009. Investors were downcast, wondering whether the end had come for a market that held so much promise. But it was not a static mood; instead, the market continued its downward slide, perhaps as many investors sought to salvage whatever remained of their stocks. This invariably led to frantic offloading by many of them, thus further depressing the market.

Consequently, from a value of 31,450.78 at the end of

Beyond the floor of the market, operators and regulators were making frantic moves to secure a lifeline for the embattled market. They appealed to the government for a bailout, in the mould of what Barrack Obama had done for the American economy, where longstanding institutions had been washed away by the torrents unleashed by the global meltdown.



One of the factors that impacted positively on the market was the quality of results that listed companies released during the period. Indeed, one recurring message from the NSE and the brokerage community was the fact that the listed companies were still sound. In the parlance of the investment community, they told all who cared to listen to them that the "fundamentals of the companies" were still sound.

Some investors began to alter their impressions as the results continued coming to the market.

last year, the ASI dropped steeply to close the first quarter at 19,851.89, showing approximately a drop of 37% within the first quarter of the year. That was quite scary for many investors, and many did panic. At this stage, the average investor needed some measure of reassurance that the bottom had not been knocked out of the market leading everyone into a bottomless pit. The only explanation for this was simply that investors were dumping their shares, having concluded within them that the party had ended.

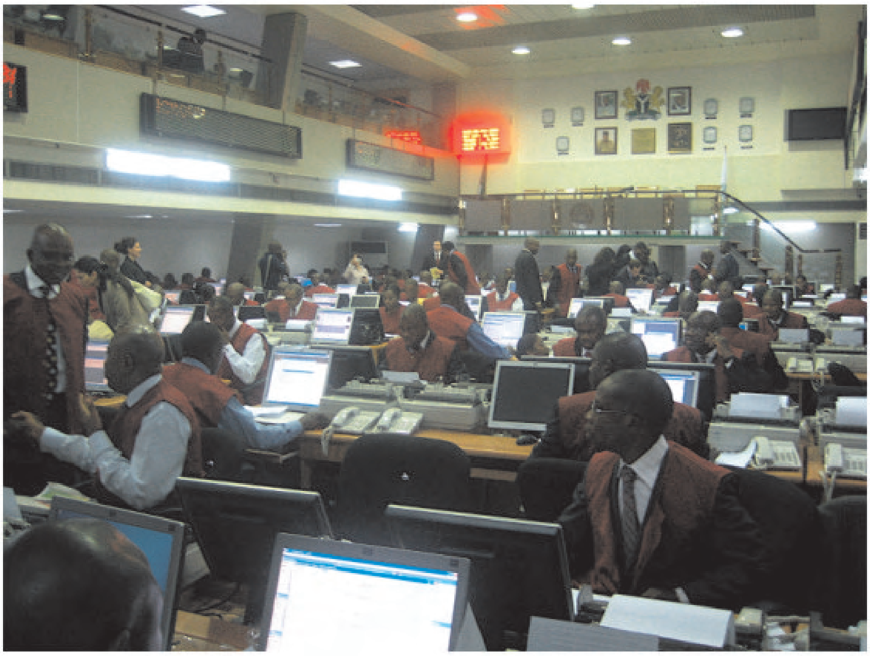
This was indeed a critical stage for the survival of the market. Beyond the floor of the market, operators and regulators were making frantic moves to secure a lifeline for the market. They appealed to the government for a bailout, in the mould of what Barrack Obama had done for the American economy, where longstanding institutions had been washed away by the torrents unleashed by the global economic meltdown. The brokers asked for the bailout package, the Nigerian Stock Exchange (NSE) supported, saying it was needed. Even the House of Represesentative Committee on the Capital Market, led by Honourable Aliyu Wadada, pleaded for a bailout.

The Second Segment: Impact of companies and their reports on the market

One of the factors that impacted positively on the market was the quality of results that listed companies released during the period. Indeed, one recurring message from the NSE and the brokerage community was the fact that the listed companies were still sound. In the parlance of the investment community, they told all who cared to listen to them that the "fundamentals of the companies" were still sound.

The fact that the companies were still in good state of health, the market operators said, meant there was hope of recovery for the market. That, in effect, meant that the companies were still profitable and therefore in a position to make profit and in turn reward their shareholders by way of cash dividends and bonus shares. In many ways, this was seen by investors and skeptics as mere marketing by the Exchange and the brokers, who needed to say sweet things to investors.

But some investors began to alter their impressions as the results continued coming to the market. One after the other, these results came from the banks, manufacturing, and building materials and other sectors. Thus began the change in the mood of the market that was witnessed after the first quarter of the year. The cumulative impact of these results was the start of a rally in the market, as investors sought to buy more stocks, perhaps convinced that the market had not collapsed after all.



The Nigerian Stock Exchange

Segment Three: Change of Baton at CBN, SEC, Others

One of the dramatic periods in the Nigerian capital market was marked by the change of baton at the Securities and Exchange Commission and the Central Bank of Nigeria. With the exit of Prof. Chukwuma C. Soludo, Mallam Sanusi Lamido, who until then was the Chief Executive Officer of First Bank of Nigeria Plc took over the mantle.

His ascendancy to the position of Nigeria's Number One banker marked yet another round of changes in policies. The Senate screened him on June 3, and confirmed him, the first of such screening.

Sanusi's coming coincided with the peak of the rally in the stock market that began in the second quarter of the year. That rally began after the All-Share Index hit its lowest value this year of 19,851.89 at the close of the first quarter, and continued until June 2, when it hit the year-high of 30,924.97, with a corresponding market capitalization of 7.04 trillion naira. Thus, by the time that round of rebound was ebbing out, the market had risen by 55.78 per cent over its lowest value attained at the end of the first quarter. But that still left the market with a year-to-date loss of 1.67%. That was not bad for a market that faced so many obstacles. Policies by the new helmsmen at the CBN and SEC began to chart new directions for the market. For example, the apex bank's order to the banks to submit records of margin loan exposures in the Nigerian capital market and in the oil and gas industry signalled a new direction in the market. Market analysts saw this measure as capable of boosting confidence in the stock market.

The Nigerian stock market holds a lot of promise, but it may not exhibit the steep rise that characterized it in the immediate past years.

Apparently, this is why till date, the market holds a lot of promise, although it may not exhibit the steep rise that characterized it in the immediate past few years. The fundamentals of several quoted companies on the Nigerian stock exchange obviously promise decent and juicy returns for both the existing and potential investors. Discerning investors will obviously take advantage of the current market situation especially for medium and long term gains.

(* Mr. Chidiebere Okwuonu, a Capital Market Analyst, is based in Lagos.)


visafone
Your Passport
To Reach
The World
...don't leave home without it.

Private Sector Associations As the Engine of Reform in GHANA

* By Anna Nadgrodkiewicz

Introduction: Ghana's Agricultural Sector

Agriculture is the backbone of many developing economies, as it is in Ghana. The largest sector of the economy is agriculture, accounting for 60-70 percent of the labor force, about 40 percent of GDP, and more than 55 percent of foreign exchange earnings[1]. Ghana's agriculture is dominated by small farmers and the average size of farms is less than an acre. Yet, despite their large numbers, rural entrepreneurs often lack proper representation and a unified voice in policy debates on the issues crucial to their livelihood. Most of them are not able to access credit, inputs, extension services (use of research-based knowledge to improve farming), and markets for their produce. This makes an increase in agricultural productivity and income generated by it difficult.

Helping farmers raise chronically low agricultural productivity remains a key challenge in Ghana and throughout Africa. The recent growth spurt of 5.5 percent annually between 2001 and 2006 was driven largely by extension of the land under cultivation, not productivity growth, and therefore is unsustainable. If only the needs and concerns of farmers could be better addressed, Ghana's potential for lasting productivity growth is very promising. Yield gaps between the country's current productivity levels for various crops and estimated achievable yields are in the range of 20 percent for oil palm, 40 percent for maize and rice, and 60 percent for cocoa[2].

From 2006 to 2009, Ghana's economic and social development has been guided by a medium-term plan known as the Growth and Poverty Reduction Strategy (GPRS) II[3]. The plan's central goal is to accelerate economic growth so Ghana can achieve "middle-income country" status.

From 2006 to 2009, Ghana's economic and social development has been guided by a medium-term plan known as the Growth and Poverty Reduction Strategy (GPRS) II[3]. The plan's central goal is to accelerate economic growth so Ghana can achieve "middle-income country" status. Built into this strategy is a provision to accelerate agricultural productivity and income, reduce poverty, improve food security, and modernize the Ghanaian agricultural sector.

An important part of reaching this objective is strengthening farmer-based associations to enhance their access to credit and other services and to give them a voice in shaping agricultural policies. However, farmer-based associations in Ghana typically lack capacity to advocate and influence policies that directly affect the agricultural sector. The Private Enterprise Foundation (PEF), a Center for International Private Enterprise partner, is a non-profit organization devoted to the developmental needs of the Ghanaian private sector[4]. PEF set out to provide the Ghanian private sector a voice and to create an enabling environment for private sector-led economic growth and development.

Empowering Private Sector Organizations

Over the past decade and a half of democratic transition in Ghana since the restoration of the Constitution and the return of multi-party politics, the decision-making processes of the executive and legislative branches of government have become increasingly open, inviting civil society to participate more actively in policymaking. Still, the democratic transition has not been enough to improve the livelihoods of many Ghanaians because of outdated or inadequate legislation and regulations that increase the cost of doing business, hampering economic growth. These laws and rules hit small and micro enterprises, especially in agriculture, the hardest. PEF has been working to improve the business environment of those enterprises by engaging them in public policy advocacy.

PEF is an umbrella organization of private sector associations in Ghana whose members include some of the country's largest and most important business associations, including the Ghana Chamber of Mines, the Federation of Associations of Ghanaian Exporters, the Ghana National Chamber of Commerce and Industry, the Association of Ghana Industries, Ghana Employers' Association, and the Ghana Association of Bankers. These associations represent a broad spectrum of over 3,600 large, medium, and small businesses.

PEF's objectives are to proactively influence policy by providing informed, evidenced-based private sector input into policy and law making and to raise public awareness of private sector concerns and policy positions. In doing so, PEF helps to build widespread support for the necessary reforms to create a better business environment in Ghana. PEF works to strengthen the advocacy capacity of business associations so that they can serve as an effective voice of the business community. Given the importance of the agricultural sector to the country's economy, PEF has recently

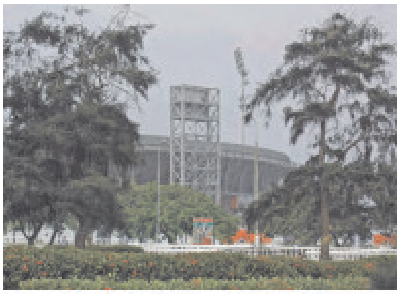

Ethiopian

turned its attention to specific needs of Ghanaian farmers. Farmer-Based Associations and AdvocacyPublic policy advocacy is an effective way to include previously marginalized groups in the democratic decision-making process and ensure grassroots ownership of reforms. Hernando de Soto, the renowned Peruvian economist, emphasized in his work that in most developing economies the large majority of entrepreneurs – and population – is forced to work in the informal sector because of deficient laws and regulations that make entering the formal economy infeasible for most. De Soto's initial research in Peru has proven highly relevant in other countries around the world – as did his approach of reforming institutional frameworks so that small entrepreneurs can fully participate in policymaking and in the economy. The situation of most entrepreneurs in Ghana is not unlike the situation in Peru a quarter of a century ago. Small farmers are among the country's largest constituents, but their involvement in economic policymaking has been non-existent, leaving their needs and concerns out of the public eye. To change this, PEF has used advocacy as a tool to give farmer-based associations and other business organizations visibility in the public policy arena. The first step was to provide advocacy training for the most promising farmer-based associations. PEF started with extensive analyses of the existing farmer organizations and their activities in 10 districts selected for their relatively high agricultural activity and potential for production of high-volume export crops such as pineapple, pawpaw, mangoes, and various vegetables. PEF staff administered detailed questionnaires and conducted personal interviews and discussions with personnel of each district directorate of agriculture. PEF then identified three districts to take part in the pilot project: Awutu/Effutu/Senya in the central region, South Tongu in the Volta region, and Yilo Krobo in the eastern region. These districts were chosen based on the production of agricultural export commodities and crops as well as the existence of active farmer-based associations. PEF subsequently conducted a needs assessment of those associations to determine their operating environment and to understand their existing capacities. The needs assessment revealed that while the farmer-based associations had the necessary leadership ability, they lacked the expertise to carry out a comprehensive advocacy strategy. Several associations received previous professional trainings, but none on advocacy in particular. In response to that identified need, PEF developed advocacy training manuals with CIPE's input and conducted two-day seminars in the three pilot districts. One-hundred and eighty executives from approximately 90 associations participated. The discussion focused on defining the concept of advocacy, the utility of advocacy programs for farmers, and the key components of an effective advocacy program.The participants also received guidance on conducting policy analysis and research, including how to analyze existing channels for associations to participate in decision-making, how to identify target audiences, how to formulate policy goals, and how to identify potential allies and opponents of their initiatives. After the seminars, PEF followed-up with the participants to assess the impact of the training and to discuss the problems and challenges of implementing advocacy programs. Several of the organizations began developing their own advocacy activities soon after the training with impressive results:

- The Agomeda Cooperative Bee-Keepers Society in the Yilo Krobo district started an advocacy program aimed at the formulation of district assembly bylaws on bee-keeping operations in Ghana.
- The Yilo Krobo Nursery Operators Association (YKNOA) in the Yilo Krobo district advocated to solve land acquisition problems and related issues affecting their members. YKNOA met with the landowners and the local chiefs and was able to secure five acres of land to be used by its members. Providing such an alternative dispute resolution mechanism

School children standing in front of Ghana's Parliament

Kofi Annan Peace Keeping Centre



was very constructive, given that nearly 60 percent of all cases in Ghana's court system are related to land disputes[5].

• The Ayensu Cassava Farmers Association (ACFA) in the Awutu/Effutu/Senya district successfully advocated for the completion of a cassava factory in Ayensu. The government selected this district to pilot the President's Initiative on Cassava, providing farmers with loans to cultivate cassava on a large scale. However, the construction of the processing factory was delayed, placing local farmers in danger of not being able to recoup their investment in the cassava business. ACFA petitioned the district and regional authorities as well as the Minister of Food and Agriculture for the timely completion of the factory. As a result, the project gained additional support from the Export Development and Investment Fund and the factory is currently operating to the farmers' full satisfaction.

• Farmer-based associations in the Awutu/Effutu/Senya district formed an umbrella organization to advocate more effectively on behalf of local farmers. A new 15-member executive body held meetings with representatives from all farmer-based associations in the district, visited individual associations to hear their concerns, and established relations with the District Director of Agriculture. The new organization formed a partnership with the Ayensu Cassava Farmers Association to seek support from Ghana's Agriculture Development Bank in assisting 500 farmers with expanding their farms and meeting production costs. Funds have also been secured from the African Development Bank for office equipment, 5 tractors, cultivation of an additional 100 acres of land, and training the organization's executives and selected farmers. Moreover, the Obrapa Vegetable and Mango Farmers Association obtained support from the Export Development and Investment Fund for the provision of irrigation facilities to its members.

PEF started with extensive analyses of the existing farmer organizations and their activities in 10 districts selected for their relatively high agricultural activity and potential for production of high-volume export crops such as pineapple, pawpaw, mangoes, and various vegetables.

Farmer-Based Associations and AdvocacyPublic policy advocacy is an effective way to include previously marginalized groups in the democratic decision-making process and ensure grassroots ownership of reforms.

Legislative Review and Building Support for Reforms

Increasing the private sector's participation in the policymaking process in an open and transparent manner is important for a better business climate and the country's development as well as for better democratic governance. Various types of enterprises – agribusinesses included – can become effective engines of reform through the work of business associations that represent them and umbrella bodies such as PEF.

While working with farmer-based associations, PEF also pursued a legislative advisory program meant to give Ghana's broader private sector a voice in the policymaking process at the national level. Since Parliament's agenda did not include any business-related bills for the second year in a row, PEF decided to take a pro-active approach to influence legislation in 2007. Rather than waiting for a bill to be included on the agenda, it consulted with the private sector to identify which existing laws need to be reviewed. PEF held stakeholder consultations with its member organizations and chose to address two bills: the Registration of Business Name Act of 1962 and the Professional Bodies Registration Decree of 1973.

Registration of Business Name Act of 1962

Given that this law was passed over four decades ago, many businesses believed it was high time to revise it along with two other pieces of legislation regulating business in Ghana: the Companies Code (1963) and the Incorporated Private Partnerships Act (1962). PEF's private sector consultations concluded that the laws should take into account the central role that business is expected to play in Ghana's economic development. Consultation participants suggested that the Registration of Business Name Act should go beyond the mere registration of names and provide a comprehensive legal and regulatory framework for sole proprietorships. Other recommendations included extending the period for the renewal of business registration from one year to three or four years and making the District Court a court of first instance for businesses seeking redress under the Act (rather than the High Court) to facilitate easier access to the legal process.

Professional Bodies Registration Decree of 1973

Professional bodies play a crucial role within the economy since they have the responsibility of regulating those practicing particular professions as well as ensuring public confidence in a high quality of goods and services. To carry out this role effectively, they must be able to monitor their members' compliance with applicable rules and standards. PEF brought together stakeholders from the various professional bodies in Ghana to discuss the current law and to identify potential areas for reform. Their recommendations included considering previously unregulated professions (such as banking) for regulation; penalizing non-compliance with not just the expulsion from a professional body but with the withdrawal of a professional license; and amending the law to make the Supreme Court, and not the Court of Appeal, the final arbiter of disputes.

PEF brought together stakeholders from the various professional bodies in Ghana to discuss the current law and to identify potential areas for reform.

PEF developed position papers that summarized the private sector's views on these two laws and recommendations for change. It also held meetings with members of the business community to review the final drafts of the position papers before making them public. The papers were presented at a meeting with several members of government and parliament, including the Chairman of the Parliamentary Committee on Legal and Constitutional Affairs, representatives of the Registrar-General's Department, the Law Reform Commission, and major business and professional associations.

PEF subsequently held a press conference and roundtable events to raise awareness about the position papers and their policy recommendations. PEF also featured them in several editions of the *Enterprise Report*, its quarterly publication distributed to various public and private sector organizations, including ministries, district assemblies, business associations, and Ghanaian diplomatic missions abroad. The outcomes of PEF's legislative review were also covered in print and television media.

PEF position papers are consistently sought by relevant authorities, including the Ministry of Justice and the Attorney General's Department. Meanwhile, PEF continues to work with relevant policymakers, encouraging Parliament to review business laws that affect the private sector and the economy as a whole. As a result of its high-quality work in the legislative advisory arena, PEF is now regularly invited to participate in and provide feedback during ministerial committee meetings devoted to the review of laws and regulations relevant to Ghana's business community.

Moving Forward

PEF's pilot advocacy program for agribusiness associations in the country's southern districts led to the development of a similar initiative in the northern and Brong Ahafo regions of Ghana. The need for increased agricultural productivity is particularly urgent across these regions, given that the poorest rural Ghanaians tend to be concentrated there . In 2008, PEF's agribusiness advocacy program was expanded to these significantly poorer and less developed regions. The objective remains the same as in the previous project: to strengthen the capacity of farmer-based associations to advocate for policy changes and to improve farmers' access to local government officials and government-sponsored community development programs.

PEF is currently working to enhance the capacity of farmer-based associations in four districts of the northern and Brong Ahafo regions (Savelugu/Nanton and Tamale Metro in the northern region, and Asunafo North and Jaman South in the Brong Ahafo region), helping them engage more effectively in public policy formulation and community development. In May 2009, PEF staff will conduct three training sessions with about 30 farmer-based associations in each of these districts to help them gain the necessary skills to effectively advocate for their members' needs. PEF laid the groundwork for these advocacy programs by conducting a situational analysis to assess the prevalence of farmer-based organizations, relevant economic activities, and specific needs of farmer-based organizations. If business in general and agribusiness in particular is going to become a powerhouse of Ghana's economy and an equal participant in public policy discourse, business associations must play a more active role in representing the views and concerns of entrepreneurs. PEF recognized that need and, with CIPE's assistance, set out to build the advocacy capacity of farmer-based associations and to improve the business environment by giving the business community a voice in policymaking. Its pilot program on advocacy training and assistance strengthened several such important associations and helped make them effective grassroots vehicles for reform. PEF ensured local ownership of the reform recommendations through training local farmer-based associations in advocacy, reviewing bills important to how businesses in Ghana operate, soliciting policy input from the private sector, and building awareness through media outreach, position papers, and roundtables. Its work with the farmer-based associations has had a particularly significant impact, given that several of the organizations participating in the training are now pursuing their own advocacy campaigns and strategies. PEF's policy position papers, developed through consultation with the private sector, suggested concrete improvements to Ghana's legal and regulatory framework to make rules and regulations workable and transparent, and to ensure a business environment characterized by fair competition and the rule of law. PEF's proactive approach to reviewing bills through stakeholder workshops provided an unmatched opportunity for parliamentarians, policymakers, the press, and the larger public to be exposed to private sector positions on issues. It has also contributed to building a sense of reform ownership and opened up participation in the decision-making process, reinforcing the democratic transition in Ghana.

We are grateful to the Centre for International Private Enterprise (CIPE) for permission to publish this article.

(**Anna Nadgrodkiewicz is Program Officer for Global Programs at the Center for International Private Enterprise).*

Notes

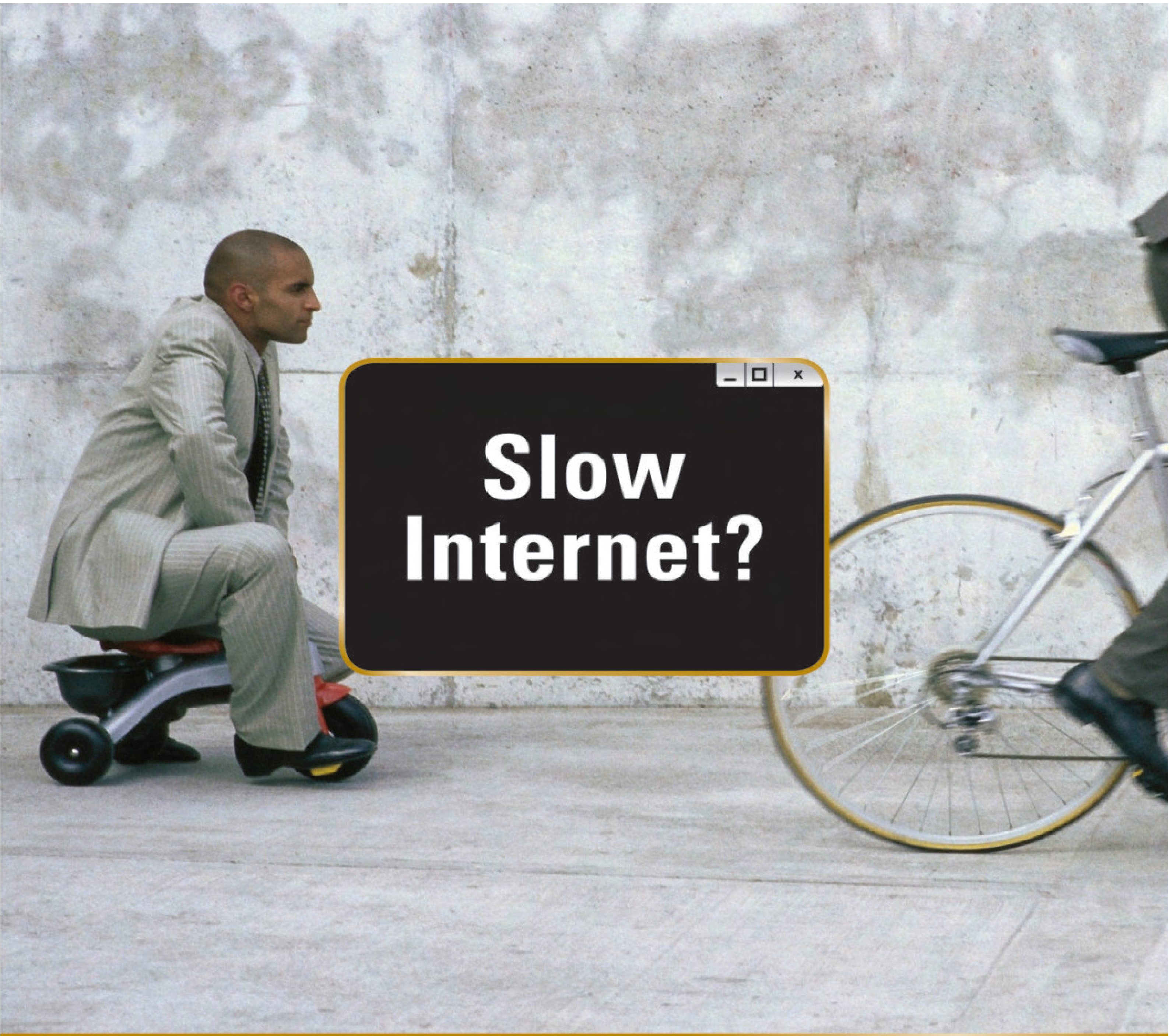
1"Ghana and the Millennium Challenge Corporation: Building a Partnership for Poverty Reduction Through Economic Growth," MCC Fact Sheet, 20 Feb 2008, http://www.mcc.gov/documents/factsheet-022008-ghana.pdf

2 Nankani, Gobind, "Ghana: Challenge of Agriculture – What Is to Be Done?" 2 March 2009, http://allafrica.com/stories/200903021100.html

3 "Growth and Poverty Reduction Strategy (GPRS II) 2006-2009," National Development Planning Commission, Republic of Ghana, November 2005, http://siteresources.worldbank.org/INTPRS1/Resources/GhanaCostingofGPRS_2(Nov-2005).pdf

4 Learn more on the PEF website, www.pefghana.org/mainsite/home/

5 Subasinghe, Oliver, "New Service Allows Ghanaians to Register Land Cheaply," DevEx blog, 26 Feb 2009, http://devex.com/blogs/17/blogs_entries/59208


Slow
Internet?

NIGERIA - RUSSIA RELATIONS: A PROMISING FUTURE

*** By Charles Ujomu**

There appears to be good prospect between Nigeria and Russia relations, especially looking at the different social, economic, diplomatic and political gains that stand to be harnessed through bilateral relations.

Apart from the differences in the level of economic development and climate, Russia and Nigeria share some similarities. They both have large populations, with a variety of mineral resources. They are both suppliers of oil and play significant roles in regional and world affairs. Nigeria and Russia are two countries with large deposits of mineral resources like crude oil and natural gas among others. Nigeria and Russia are emerging economies, though Russia is far ahead in economic development.

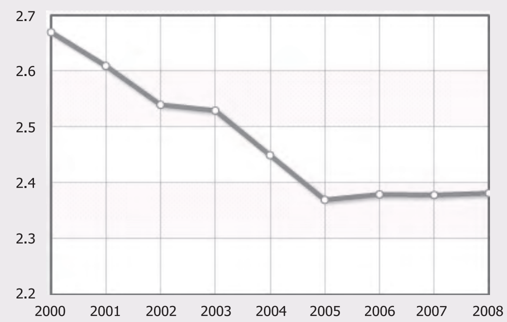
Recently, Russian president Dimitry Medvedev made the first ever visit to Nigeria by a Russian president. The visit was aimed at initiating new bilateral relations between the two countries while strengthening already existing ones. The two countries reached some fruitful agreements in the areas of investment promotions and protection, space agencies collaborations, and a landmark joint venture agreement between the Russian gas giant, Gazprom and Nigerian National Petroleum Corporation (NNPC). Well-defined cooperation between Nigeria and Russia in key, strategic sectors to both economies are really the cornerstone on which a solid and successful bilateral relation could be built.

Nigeria and Russia's Human Development Indices 2006 and Underlying Indicators

	Nigeria	Russia
HDI Value	0.499	0.806
Life Expectancy at Birth	46.60	65.20
Adult Literacy Rate (% Ages 15 and Above)	71.0	99.50
School Enrolment Ratio (%)	52.50	81.90
Human Poverty Index (HPI)	37.0	7.5
Probability of Surviving Not Past Age 40 (%)	39.0	10.7
People Without Access To An improved Water Sour ce (%)	53.0	3.0
Children Underweight (%)	29.0	3.0

Source: UNDP

Nigeria - Population Growth Rate (%)



Source: Index-Mundi

Source: Wikipedia

Nigeria Vs Russia: Demographic and Physical Features

The human development indices (HDIs) of both Nigeria and Russia look beyond their GDPs to a broader definition of well-being of their peoples. They provide a composite measure of three dimensions of human development in the two countries: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary levels) and having a decent standard of living (measured by purchasing power parity, PPP, income). These give a broad prism for viewing human progress and the complex relationship between income and well-being in both Nigeria and Russia.

The average Russian life expectancy of 65.20 years at birth (though 10.80 years shorter than the overall figure in the European Union) is higher than that of Nigeria's 46.60 years at birth. Also, the probability of not surviving beyond 40 years; lack of access to a good water source; and the ratio of children that are underweight; are other indicators where Russia fares far better than Nigeria. These differences are as a result of the state of their respective healthcare systems.

A comparative analysis of the general health system shows that Nigeria still suffers from ageing healthcare facilities, long years of neglect, among other challenges, compared to the situation in the Russian federation. Russia parades a free education system that assures a universal right to all its citizens and has a literacy rate of about 99.50 percent, unlike Nigeria that boasts of around 70 percent literacy rate (though one of the highest figures in Africa). Under its free education scheme, the Russian government allocates funds to pay the tuition fees within an established quota, or number of students for each of its states' institutions. Apparently, this is considered important as it provides equal access to education

The Russian federation like its Nigerian counterpart is a diverse, multi-ethnic society of at least 160 ethnic groups and native people, as against Nigeria's over 250 ethnic groups with varying languages and customs, creating a country of rich ethnic diversity.

Sydney Opera, Russia.

as opposed to only those who can afford it. This underscores its 81.90 percent school enrolment ratio compared to Nigeria's 52.50 percent. Interestingly too, many institutions in Russia also have persistently growing commercial positions meant to address the need for a skilled work-force especially, for high-tech, emerging industries and economic sectors. Hence, the multiplier effect of this is a robust adult literacy rate (ages 15 and above), and highly sophisticated and equipped work-force in the country.

The Russian federation like its Nigerian counterpart is a diverse, multi-ethnic society of at least 160 ethnic groups and native people, as against Nigeria's over 250 ethnic groups with varying languages and customs, creating a country of rich ethnic diversity.

Nigeria is the 9th most populous country in the world with a population of about 149 million and ranks slightly above Russia (with over 140 million people and 10th in the world). It is often said that out of every four Africans is at least one Nigerian; and this explains the country's status as the most populous black nation in the world. Its birth rate is significantly higher than the death rate at 40.40 and 16.90 percent per 1,000 people, respectively, compared to Russia's 12.10 and 14.70 percent per 1,000 people for birth and death rates, respectively. Nigeria's 1.99 percent population growth rate is attributable to its explosive birth rate and is one of the highest growth and fertility rate in the world. Unlike the Nigeria case, Russia's population growth rate declined from 0.48 percent in 2007 to -0.47 percent at the end of 2008. The primary causes of Russia's population decrease are a high death rate and low birth rate. Russian Health Ministry has however predicted that both the death and birth rates will equal by 2011 due mainly to increase in fertility rate and decline in the country's mortality rate.

Some Demographic and Physical Features: Nigeria Vs Russia

Index	Nigeria	Russia
Population (millions)	149,229,090	140,041,247
Total Fertility Rate	4.91 Children Born/Woman (2009 est.)	1.41 Children Born/Woman (2009 est.)
Population Growth Rate (%)	1.99%	-0.47 %
Life Expectancy at Birth:		
Total Population (years):	46.94	66.03
Male (years):	46.16	59.33
Female (years):	47.76	73.14
Land Area:		
Total (sq. km)	923,768	17,075,200
Land (sq. km)	910,768	16,995,800
Water (sq. km)	13,000	79,400
Land Boundaries (km)	4,047	20,241.5
Irrigated Land	2,820	46,000

Source: World Fact Book - 2009

The Russia federation is located in the Northern Asia (the area west of the Urals is considered part of Europe), bordering the Arctic Ocean, between Europe and the North Pacific Ocean. It has a total area of 17,075,200 sq km, approximately 1.8 times the size of the United States and about 18.5 times the size of Nigeria. The country's land boundary is 20,241.5 km and has the world largest forest reserves. Its coastline (37,653 km) is 44.14 times that of Nigeria's (853 km). Russia has thousands of rivers and inland bodies of water, providing it with one of the world's largest surface water resources. Nigeria, with its abundant natural resources does not equal Russia's. Russia has a wide natural resources base unmatched by any other country, including major deposits of petroleum, natural gas, timber, coal and many strategic minerals.

Nigeria is the 9th most populous country in the world with a population of about 149 million and ranks slightly above Russia (with over 140 million people and 10th in the world).

Nigeria Vs Russia: Economies

Russia and the rest of the old Soviet Union operated on the basis of a centrally planned economy for almost six decades. The means of production, investments and consumption decisions throughout the economy were strictly under the control of the state. The country's economic policies were made according to the dictates of the Communist Party, which was in charge of all the economic activities.

Since the collapse of communism in the early 90s, Russia had

Key Economic Indicators: Nigeria and Russia

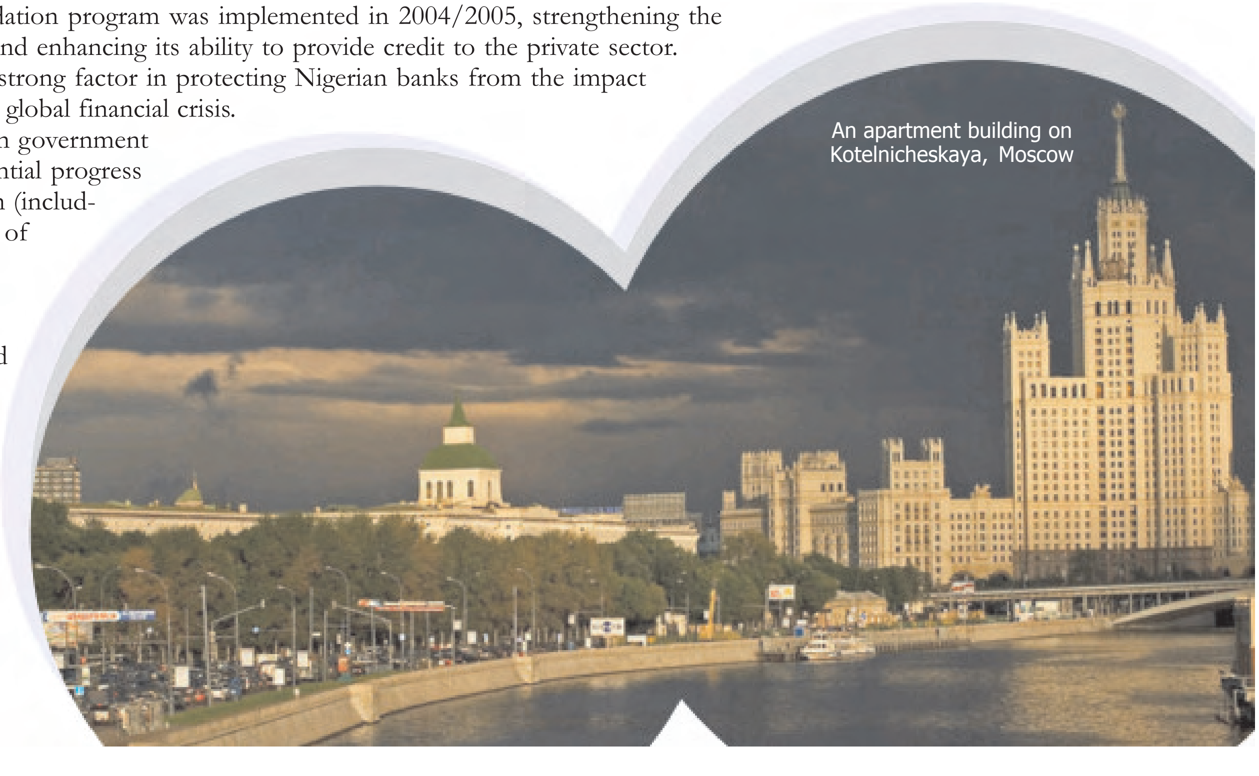
Indicators	Nigeria	Russia
GDP (PPP, US$)	338.1 billion (2008 est.)	2.076 trillion (2008 est)
GDP Real Growth Rate (%)	6.1 (2008 est.)	6.0 (2008 est)
GDP Per Capita (US$)	2,300 (2008 est.)	15,800 (2008 est)
Labour Force (million)	51.04 (2008 est.)	75.7 (2008 est)
Labour Force By Occupation:		
Agriculture (%)	70	10.2
Industry (%)	10	27.4
Services (%)	20	62.4
Investment (% of GDP)	21.40	24.70
Inflation Rate (%)	10.60 (est. 2008)	13.90 (2008 est)
Oil Proved Reserves (bbl)	36.22 billion	79 billion
Natural Gas Production (billion cu m)	34.10	654
Natural Gas Proved Reserves (trillion cu m)	5.21	44.65
Current Account Balance (US$ billion)	7.722 (est. 2008)	97.60 (est. 2008)
Exports (billion f.o.b.)	83.09 (est. 2008)	476 (est. 2008)
Exports Commodities	Petroleum and Petroleum Products 95%, Cocoa, Rubber	Petroleum and Petroleum Products, natural gas, wood and wood products, metals, chemicals and a wide variety of civilian and military manufactures
Exports Partners	US 51.6%, Brazil 8.9%, Spain 7.7% (2007)	Netherlands 12.20%, Italy 7.80%, Germany 7.50%, Turkey 5.20%, Belarus 5.0%, Ukraine 4.70%
Imports (billion f.o.b.)	46.36 (est. 2008)	302.0 (est. 2008)
Imports Commodities	Machinery, Chemicals, Transport Equipment, Manufactured Goods, Food and Live Animals	Vehicles, machinery and equipment, plastics, medicines, iron and steel, consumer goods, meat, fruits and nuts
Imports Partners	China 10.6%, Netherlands 7.9%, US 7.8%, South Korea 6.6%, UK 5.7%, France 4.3%, Brazil 4.2%, Germany 4.1% (2007)	Germany 13.3%, China 12.2%, Ukraine 6.7%, Japan 6.4%, US 4.8%, Belarus 4.4%, South Korea 4.4%, Italy 4.3% (2007)

Source: CIA

experienced difficulties in making the transition from a centrally planned economy to a market based one. Nevertheless, during the past decade, poverty and unemployment declined steadily and the middle class continued to expand. Russia also improved its international financial position, running balance of payments surpluses since 2000. Its economy witnessed 10 consecutive years of growth averaging 7 percent annually since the financial crisis of 1998.

The country's fixed capital investment growth and personal income growth averaged 10 percent, but experienced slower rates in 2008. Interestingly, Russia's foreign exchange reserves grew from US$12 billion in 1999 to about US$600 billion by mid-July 2008, representing almost 4,900 percent growth. These reserves include $200 billion in two sovereign wealth funds: a reserve fund to support budgetary expenditures in cases of a fall in the price of oil, and a national welfare fund to help support pensions and infrastructure development. These positive trends however began to reverse in the second half of 2008 as investors' concerns over corporate governance, the Russia-Georgia conflict and the global financial crisis caused Russia's stock market to drop by almost 70 percent, principally due to margin calls that were quite hard for several companies in Russia to meet. On the other hand, Nigeria's economic reforms that started in 2001 have recorded some achievements. A Banking consolidation program was implemented in 2004/2005, strengthening the financial sector and enhancing its ability to provide credit to the private sector. This has been a strong factor in protecting Nigerian banks from the impact of the subsisting global financial crisis.

Also, Nigerian government has made substantial progress with privatization (including concessions) of several major companies in petrochemicals, ports, mining and steel, among others. Nigerian economy depends on the oil and gas sector which



An apartment building on Kotelnicheskaya, Moscow contributes about 99 percent of export revenues and 85 percent of government earnings. However, only recently, the oil sector's contribution to the country's gross domestic product (GDP) has dropped to about 18 percent due to unrests in the Niger Delta region and the drop in demand and price in the global markets.

In recent years, the Russian economy has really experienced some boom. After the crisis associated with the collapse of the then Soviet Union, Russia's economy gradually began its recovery until the financial crisis of 1998 that broke this positive trend. The economy again rebounded from the financial crisis with industry-led growth aided by the devalued currency, the rouble.

The table above shows Nigeria and Russia's GDP growth rates from 2000 to 2008 and also depicts the rapid advancement that was experienced during the period. In absolute terms, Russia's estimated gross domestic product (purchasing power parity) at the end of 2008 stood at US$2.076 trillion, compared to Nigeria's US$338.1 billion. This obviously shows that Russia's economy is about 6 times that of Nigeria. The main determinants of Russia's GDP size are crude oil prices in the international market, which were reasonably high within these years, favourable exchange rates and investments. Economic experts have also opined that not only did oil prices and real exchange rates play significant role in Russian economy, but that their effects were greater than generally acknowledged. The obvious result of this is its foreign exchange reserves that grew from US$12 billion in 1999 to about US$600 billion by mid-July 2008. Though Nigeria also experienced some

Real GDP Growth Rate Table: Nigeria Vs Russia

Year	Nigeria GDP - real growth rate (%)	Russia GDP - real growth rate (%)
2000	2.70	3.20
2001	3.50	6.30
2002	3.50	4.00
2003	3.00	4.20
2004	7.10	7.30
2005	6.20	6.70
2006	6.90	6.40
2007	5.30	6.70
2008	6.30	8.10

Source: Index-Mundi

Source: Index Mundi

Unemployment Rate: Nigeria Vs Russia

Year	Russia Unemployment Rate (%)	Nigeria Unemployment Rate (%)
2000	12.4	28.0
2001	10.5	28.0
2002	8.0	28.0
2003	7.8	28.0
2004	8.5	-
2005	8.3	-
2006	7.8	2.9
2007	6.6	5.8
2008	5.0	5.8

Source: Index-Mundi

Top 10 Economies in the World by GDP-PPP

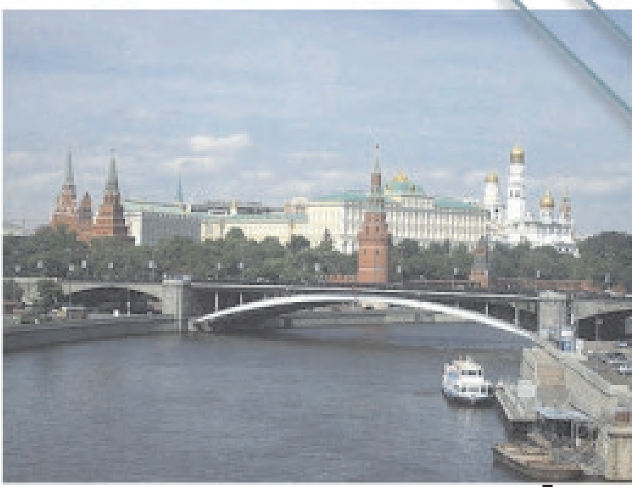
Ranking	Country	[illegible]
1	United States of America	13.860
2	China	7.043
3	Japan	4.305
4	India	2.965
5	Germany	2.833
6	United Kingdom	2.147
7	Russia	2.076
8	France	2.067
9	Brazil	1.838
10	Italy	1.800

Source: CIA World Fact Book


National Theatre, Iganmu, Lagos.

growth in its GDP (PPP) during the period, Russia however expanded at a more rapid rate.

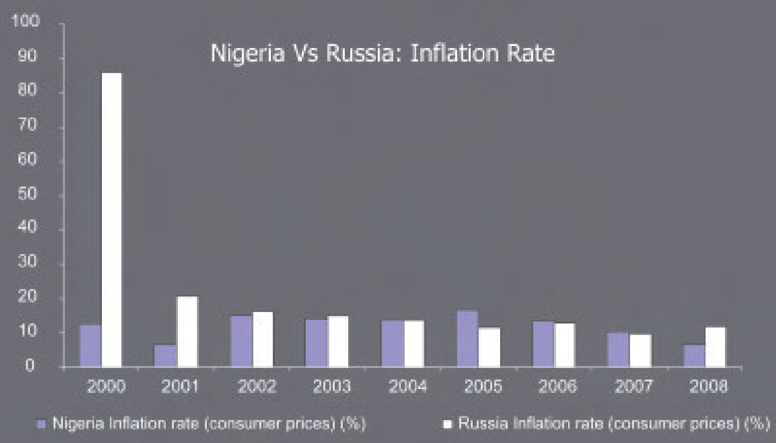
Nigeria's real GDP growth rates vary from 2.70 percent to 6.30 percent between 2000 and 2008. The relatively strong growth seen in Nigeria's GDP is linked to the various reforms embarked upon since the emergence of civilian administration in 1999. The nation's telecommunication sector for instance, witnessed some phenomenal growth that improved the country's fortunes. Russia's real GDP growth rate also rose from 3.20 percent in 2000 to 8.10 percent at the end of 2008, in between low and high investment scenarios. However, one of the major challenges in the Russian economy has been the absence of viable investment windows into which to channel domestic


Kremlin from the Moscow River

Inflation Rate: Nigeria Vs Russia

Year	Nigeria Inflation rate (consumer prices) (%)	Russia Inflation rate (consumer prices) (%)
2000	12.5	86.0
2001	6.5	20.6
2002	14.9	16.2
2003	14.2	15.0
2004	13.8	13.7
2005	16.5	11.5
2006	13.5	12.7
2007	10.5	9.8
2008	6.5	11.9

Source: Index-Mundi, R&EIG



Source: Index-Mundi

and foreign savings. This also led to a situation where all investments were financed from the country's retained investments. This, in turn adversely affected the financing of small and medium-sized enterprises, which partially prevented the nation's SMEs from becoming the engine of economic growth.

Like Nigeria, Russia remains heavily dependent on export of commodities, particularly oil, natural gas, metals and timber, which account for over 80 percent of its exports, leaving the country vulnerable to swings in world prices. Its agricultural sector accounts for about 10.20 percent of the economy, compared to Nigeria's 70 percent. Russia's agricultural sector is beset by uncertainty over land ownership rights which has discouraged needed investments and restructuring.

In Nigeria, despite the significant contribution of the agricultural sector to the economy, it is still beleaguered by lack of mechanized farming methods. The sector remains in the hands of peasant farmers that can hardly produce enough for the nation's teeming population.

Russia's industrial base contributes 27.4 percent to its GDP compared to Nigeria's 10 percent. The major industries in Russia are construction, textiles, foodstuffs, hip building and agricultural mining while Nigeria's are textiles, construction, iron mining, chemicals and pharmaceuticals, among others. The differences in both countries are due to the years of neglect of the manufacturing sector in Nigeria. The percentage contributions of services in Russia and Nigeria are 62.40 and 20 percent respectively. Russia services sector witnessed some growth between the early 1990s and today. Ironically, this rapid growth and shift occurred not mainly because of the country's economic growth and development but due to the economic crisis that proved most devastating for the agriculture and industry sectors. This notwithstanding, communication and computer services in the country are still in short supply, relative to other European countries.

According to the CIA, annual inflation rates have been relatively lower in Nigeria than in Russia. Russia experienced persistent inflation for most of the past decade, gradually dropping from 86 percent in 2000 to 11.9 percent at the end of 2008. Surging international food and energy prices and loose monetary and fiscal policies mainly pushed Russia's consumer price index (CPI) up before regulatory intervention checked

Interestingly, Russia's foreign exchange reserves grew from US$12 billion in 1999 to about US$600 billion by mid-July 2008, representing almost 4,900 percent growth.

Oil and gas exports have lifted Russia's foreign reserves to about $600bn, the world's third largest

inflation in the country.

Inflationary pressures however eased in Russia in late 2008 as energy and crude commodity prices collapsed and the international credit flows virtually causing money supply growth to halt. In Nigeria, government's monetary policy target of sustaining one-digit inflation figure has consistently kept its under pressure despite it share of the rising commodity prices in the global market before now.

Nigeria Vs Russia – Trade Relations

Nigeria is Russia's second largest trade partner among the sub-Saharan African countries. However, the current trade value of about US$300 million dollars between the two countries is considered very low given the huge potential and the sizes of their economies. Russian industries need raw materials, agricultural produce and other consumer goods that are cheaply available in Nigeria while Nigerian industries also make use of manufactured Russian products. Apart from lack of sound legal mechanisms between Nigeria and Russia in terms of trades, changing import-export tariff policies has been one of the reasons why the trade opportunities between the two countries have not been effectively exploited. Nigeria's exports grew by 371.83 percent from US$13.10 billion in 2000 to US$61.91 billion in 2008 while that of Russia rose by 384.08 percent from US$75.40 billion to US$365 billion during the period.

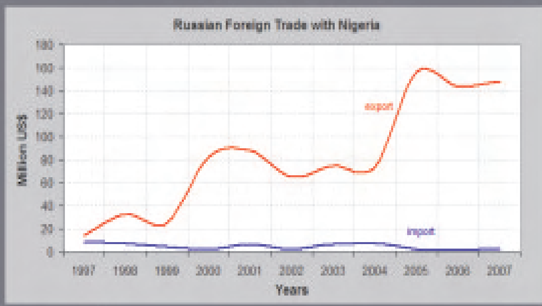
Nigeria Vs Russia – Exports

Generally, Nigeria's export commodities are petrol and petroleum products, cocoa, rubber and some raw food items. Its major export partners include the United States

Exports Figures: Nigeria Vs Russia

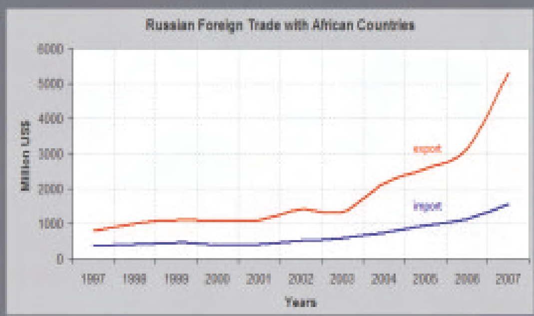
Year	Nigeria Exports (Billion $)	Russia Exports (Billion $)
2000	13.1	75.4
2001	22.2	105.1
2002	20.3	104.6
2003	17.3	104.6
2004	21.8	134.4
2005	33.99	162.5
2006	52.16	245.0
2007	59.01	317.6
2008	61.81	365.0

Source: Mundi, R&EIG



Source: globalnet

Source: Mundi, R&EIG

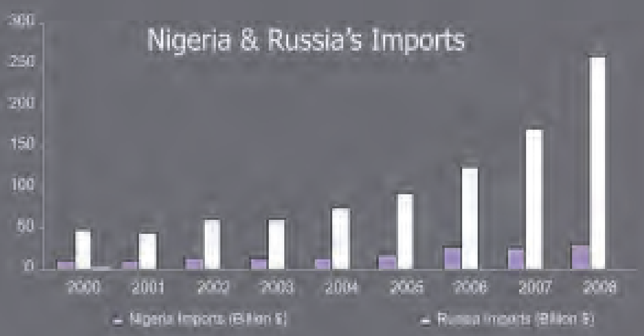


Source: globalnet

Imports Figures: Nigeria Vs Russia

Year	Nigeria Imports (Billion $)	Russia Imports (Billion $)
2000	10.0	48.2
2001	10.7	44.2
2002	13.7	60.7
2003	13.6	60.7
2004	14.54	74.8
2005	17.14	92.91
2006	25.95	125.0
2007	25.1	171.5
2008	30.35	260.4

Source: Index-Mundi, R&EIG



Source: Index-Mundi, R&EIG

of America, Brazil and Spain among others. US accounted for over half of Nigeria's exports (51.6 percent) in 2008 alone. Nigeria's major export commodities to Russia are agricultural raw materials and some food items, while Russia exports machinery and equipment, consumer goods, military and civilian manufactured products to Nigeria. Russia's main export partners are Netherlands (12.20 percent), Italy (7.80 percent), Germany (7.50 percent), Turkey (5.20 percent), Belarus (5 percent) and Ukraine (4.70 percent). Considering the huge potential in the two economies, there exists the prospect of growing exports from Nigeria to Russia and vice versa. This outstanding trade prospect will not only boost the two countries' exports proceeds but also in the long run, create an enabling environment for other bilateral cooperation.

> Considering the huge potential in the two economies, there exists the prospect of growing exports from Nigeria to Russia and vice versa.

Nigeria Vs Russia – Imports

Nigeria's imports from the world include machinery, chemicals, transport equipment, manufactured goods, food and live animals, among others. Its major import partners are China (10.60 percent), Netherlands (7.9 percent), US (7.8 percent), South Korea (6.60 percent), United Kingdom (5.7 percent), France (4.3 percent), Brazil (4.2 percent), Germany (4.10 percent), etc. On the other hand, Russia Federation imports fruits and nuts, meat, consumer goods, medicines, plastics, and so on. Russia also imports from countries like Germany, China, Ukraine, Japan, and the US.

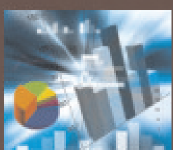
The similarity in abundant natural resources found in both Nigeria and Russia has somehow affected the level of trade between the two countries. However, the imbalance in trade relations between the two can be reduced. In this regard, it is necessary that trading opportunities in items other than pure natural resources be explored and exploited. Already, the two countries are looking into a number of areas of mutual interests. The recent visit of the Russian president, Dmitry Medvedev, to Nigeria is also expected to help strengthen the trade relations between the two countries.

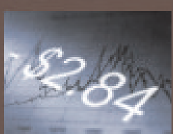
(* Charles Ujomu is an Analyst, Zenith Economic Quarterly)

Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

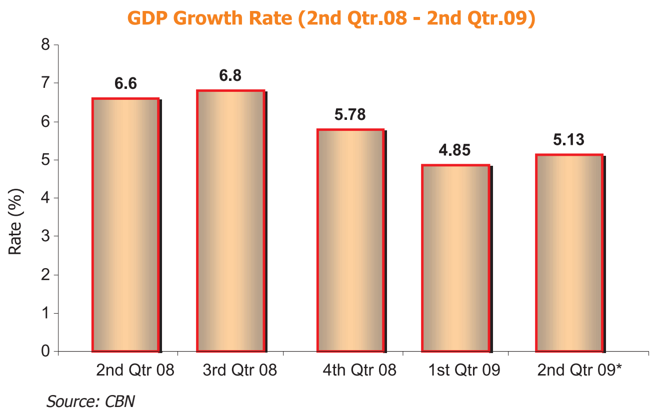
The Nigerian economy grew in the second quarter of 2009, despite the uncertainties occasioned by the global financial crisis. Some of the macroeconomic indicators rebounded earlier than anticipated with astonishingly improved performances; while others continued to miss projected targets. Gross Domestic Product (GDP), for instance, rose during the second quarter; inflation dropped sharply, moving closer to the 'single digit' zone; the foreign exchange reserves dwindled as export revenues retreated. The nation's currency, the Naira, remained relatively stable against other major currencies, especially the dollar. The Monetary Policy Rate (MPR) was reviewed downward during the quarter. However, it was a jolly ride in the capital market as stock prices rebounded strongly for most of the quarter but closed on a bearish note. In the international oil market, crude oil prices surged and recovered some of their previous losses.

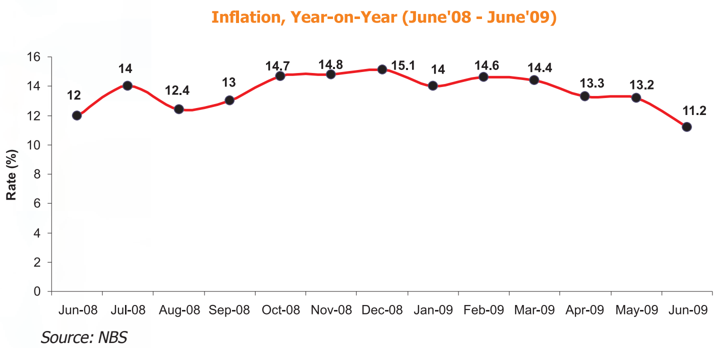




GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP), grew at 5.13 percent in the second quarter, a marked improvement when compared to the 4.85 percent recorded in the preceding quarter. The development was attributed to the continued expansion of the non-oil sector which grew at 8.3 percent. Although the rains arrived later than expected in some parts of the country, agriculture maintained its lead over other sectors with a growth of about 2.8 percent, ahead of both the retail and services sectors at 2.2 and 2.28 percent, respectively. For the oil sector, the nation was unable to meet up with its Organisation of Petroleum Exporting Countries (OPEC) quota as youth restiveness in the Niger Delta dropped production by about 22 percent. Oil production was estimated at 1.753 million barrels per day, falling far short of the 2.2 million barrels per day OPEC quota.



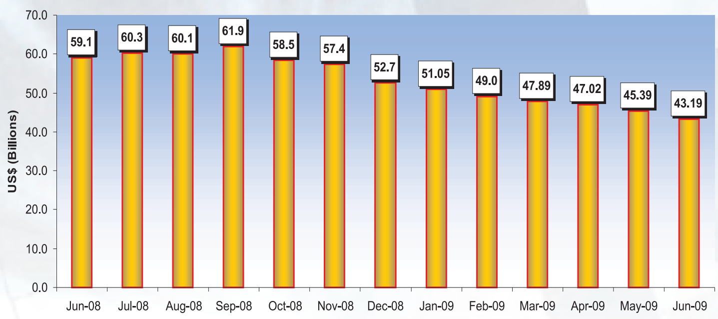


INFLATION

The year-on-year inflation rate in the second quarter tumbled for the first time in almost a year to 11.2 percent in June. The slow down brought some relief to regulatory authorities who have tried for months to bring down surging price levels. The much awaited downswing started earlier in March. Inflation dipped to 13.3 percent in April. The momentum was halted in May owing to a nation-wide strike in the downstream oil sector, which resulted in higher costs of transportation and services. This was however short-lived as inflation witnessed its sharpest monthly drop in over two years in June following the combined impact of subdued demand and lower imported inflation. Despite the downward trend however, surging food prices - especially bread, fish, sea food, fruits and potatoes – still posed a challenge during the period. On a positive note, core inflation declined consistently during the quarter. In upcoming quarters, the authorities remain confident of achieving a single digit rate as more agricultural produce become available and government agencies' spending reduces due to shortfall in revenues.

EXTERNAL RESERVES

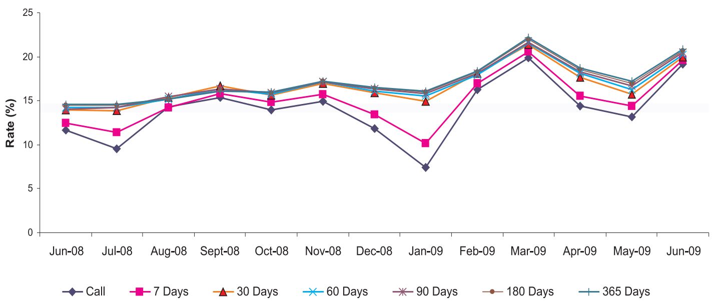
FOREIGN EXCHANGE RESERVE (Jun.08 - Jun.09)



Source: CBN

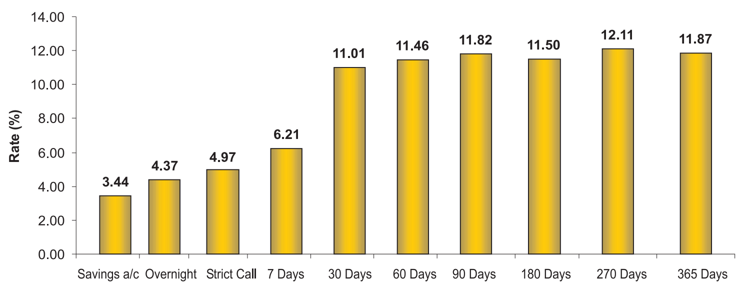
The nation's external reserve continued dwindling in the second quarter of 2009, despite a recovery in crude oil prices in the international markets. Foreign exchange reserve has contracted by about 32 percent in the last nine months, from a record high of $64billion in August 2008. The stock of external reserves stood at about US$43.19billion as at end June 2009, capable of financing up to 15 month of imports. The authorities attributed the drop in reserves to demand pressure in the foreign exchange market coming from the divestment and repatriation of capital by foreign investors; lower revenues flows from crude oil exports; the growing import finance bill (about US$20 billion and US$100 billion annually); lower remittance inflows; among others. In the coming quarters, the CBN expects the draw down on reserves to moderate due to recovery prospects in the US and other key emerging markets such as India and China. While pressure on external reserves is likely to ease in the coming quarters, however analysts argue that with the current low levels of oil production, prices would have to rise to about $80 per barrel to meet the foreign currency demand in the country.

Monthly Average NIBOR (2nd Qtr.08 - 2nd Qtr.09)



Source: Financial Markets Dealers Association (FMDA)

Monthly Average Deposit Rates (2nd Qtr.09)



Source: Financial Markets Dealers Association (FMDA)

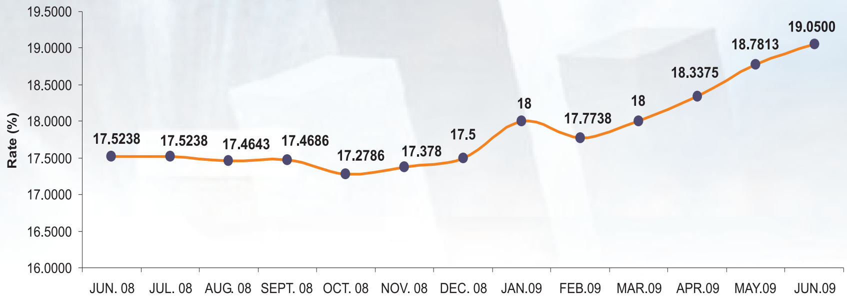
INTEREST RATE

Amidst soaring cost of borrowing the Central Bank of Nigeria (CBN) lowered interest rate in the second quarter. The Monetary Policy Rate (MPR) was cut by a whopping 175 basis points from 9.75 to 8.00 percent, a sharp cut that could only be likened to one last witnessed over 4 years ago. According to the CBN, the MPR was lowered to ease tightness in liquidity.

The average monthly interbank rate (NIBOR) slid downwards in the first two months of the quarter but skyrocketed again in June. Rates dropped sharply in April and May due to the policy agreement by the Bankers Committee in March to cap both lending and deposit rates. Volatility was higher on call and 7 day tenors as CBN injected more funds into the system by reducing the liquidity ratio (from 30.0 percent to 25.0 percent) and the Cash Reserve Ratio (from 2.0 percent to 1.0 percent) in April. Call rates dropped as low as 9.41 percent. However, rates shot back up in June as CBN clarified that the cap was not applicable to the interbank market. Rates however eased temporarily at the tail end of the month as about N329billion FAAC allocation hit the system. In terms of cost of borrowing, the average Prime Lending Rate

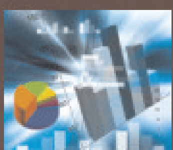
(PLR) rocketed to as high as 19 percent in the second quarter. The spread reflected the premiums banks were prepared to lend due to uncertainties in market conditions.

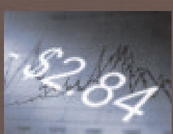
AVERAGE PRIME LENDING RATE (JUN'08 - JUN'09)



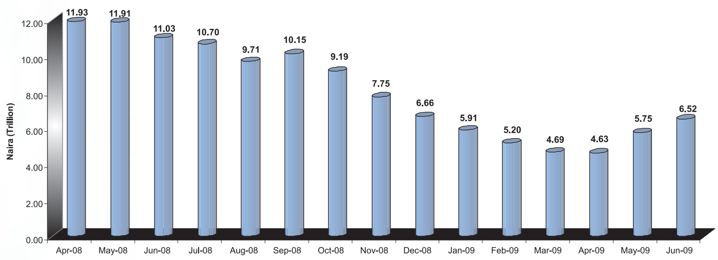
Source: Financial Markets Dealers Association (FMDA)

The average deposit rates inched up across most investment horizons in the second quarter. Rates on the longer term tenors went up in April and May as investors opted for shorter term placements due to risks averseness. The rates on the 180 Days, 270 Days and 365 went up by 56, 52 and 67 basis points respectively. In June however, rates remained relatively stable across most tenors.



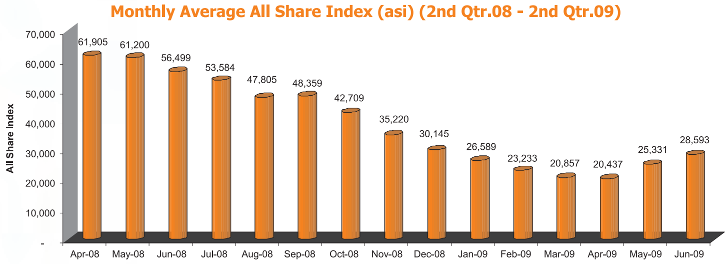


Monthly Average NSE Market Capitalisation (2nd Qtr.08 - 2nd Qtr.09)



Source: NSE

Monthly Average All Share Index (asi) (2nd Qtr.08 - 2nd Qtr.09)



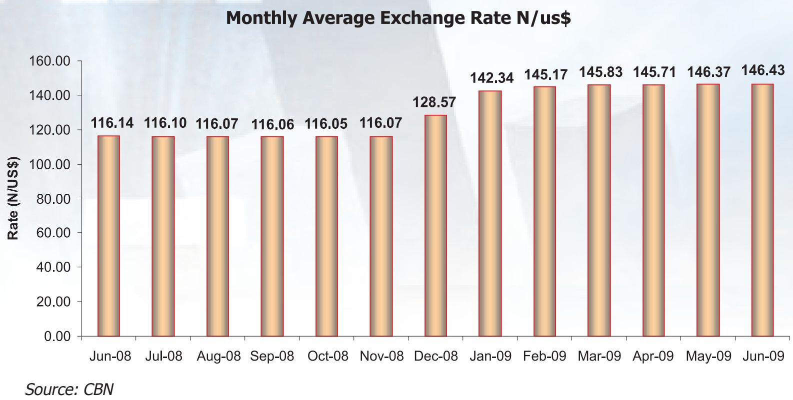
Source: NSE

CAPITAL MARKET

The capital market rebounded sharply in the second quarter of 2009 after more than a year of steep slump. Investors were upbeat after stock prices began a slow climb in the market. The All-Share Index (ASI) and market capitalization closed the quarter higher at 26,861.55 and N6.125 trillion, respectively, compared to 21,491.11 and N4.883 trillion in the preceding quarter. In April, the market bumped along the bottom with tentative signs that the steepest phase of the slump was over. Buoyed by increased investor confidence, the ASI rebounded from its steepest quarterly decline in more than a decade (about 37 percent) to gain about 35 percent in the second quarter. The market recovered about N2.55 trillion in just six weeks, with market capitalization regaining its initial 7-months high of N7 trillion in June. Market sentiments were uplifted as quoted companies churned out impressive results. Zenith Bank and GTBank declared generous bonus issues of 1 for 2 and 1 for 4 shares held, respectively. The return of the bulls impacted positively on the market as the NSE approved nine new issues in the form of Initial Public Offering and special placements involving bonds and mutual funds, such as the Kwara State Government's N17 billion bond; BGL funds; Afromedia, among others. In June however, the market took a breather after considerable gains recorded in May, as profit taking slowed momentum. The ASI slumbered into its worst monthly performance this year, with a negative 16.04 percent that month.

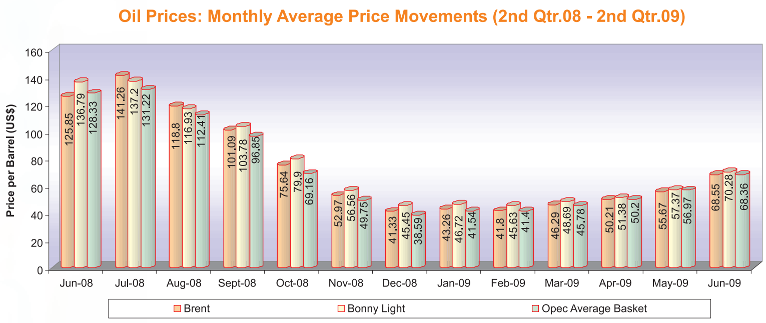
Source: NSE

EXCHANGE RATE



Source: CBN

The nation's currency, the Naira, remained relatively stable against the dollar in the second quarter. The exchange rate stood at about US$146.43/US$1 as at end June 2009. The Naira has lost about a quarter of its value against the dollar in recent months, hitting an all-time low of N151/US$1 at the interbank market in January. However, the restrictions imposed by the CBN in the previous quarter yielded successes earlier than anticipated, as the Naira stabilized at around US$146/US$1. In efforts to shore up the Naira, the CBN lifted sales restrictions in May and the Naira gained as much as 12 percent against the dollar in the parallel market. Although the uncertainties that affected the Naira were reduced, the growing appetite to hold dollars remained as the apex bank supplied a total of US$6.62billion at its Retail Dutch Auction System (rDAS) during the period, compared to US$5.91billion in the preceding quarter. Currency analysts believe the Naira firmed up against the dollar mainly due to the relaxation of controls such as: banks no longer required to re-sell unused dollars to the CBN; increasing banks' foreign exchange net open position (NOP) from 1 percent to 2.5 percent; the removal of the 1 percent limit on banks' foreign exchange transaction around the CBN's rate; allowing government agencies and oil companies to sell foreign exchange at the interbank market, rather than to the CBN only; and more active participation of the CBN at the interbank market, among others. In the next coming quarters, analysts believe that the Naira will gain value in the parallel segment of the market as the CBN further liberalizes market transactions.



Source: Energy Information Administration

CRUDE OIL

Crude oil prices in the international market rose sharply in the second quarter 2009, recovering some of their initial losses. The prices of crude oil jumped more than 20 percent during the period on rising confidence that the global slump has eased. Oil prices surged to their highest levels since October 2008, climbing to an eight-month high of about $73 per barrel in June. Nigeria's brand of crude oil, Bonny Light, gained about US$12 in the second quarter, from about $54 per barrel in March to US$67 per barrel at the end of June. Despite the surge in prices, industry players have been left perplexed as the market has been sending out mixed signals. While on the one hand, surging prices suggested OPEC could pump more output, continuing inventory build up signaled the opposite. Analysts believe that many of the factors that pushed oil prices up in 2008 resurfaced during second quarter 2009, including: the weakening of the US dollar against major currencies; increased flow of speculative money; supply fears; signs of stabilization in US demand after a year of very steep decline; youth restiveness in Nigeria's oil-rich Niger Delta; increased fears of political instability in Iran; increased demand coming from China; and the impact of the very steep OPEC production cuts; among others. Some analysts believe that in the coming quarters, higher prices may be short-lived as compliances level among cartel members in the second quarter was estimated at about 70 percent.