Zenith Economic Quarterly

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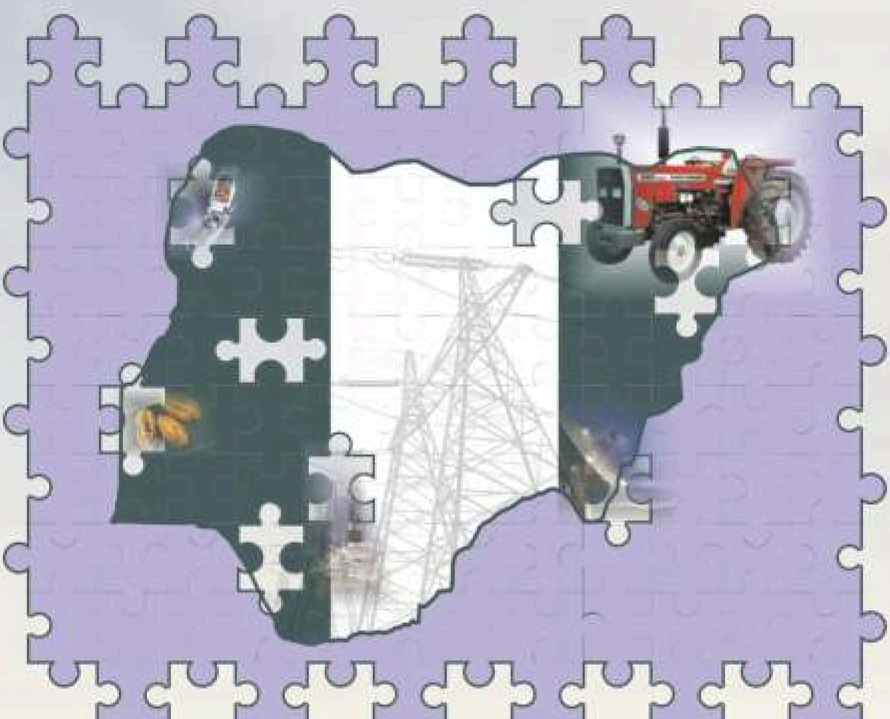
POST-ELECTION ECONOMY:

Yet Another Chance For Development



INSIDE

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Reliable Power Supply:

Way Forward For Nigeria (2011-2015)

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For The Economy, A Compass

The complementarity of politics and economics (or their mutual exclusivity) has for long been a honey-pot for scholastic debates, research and studies. While some scholars postulate and in deed propagate the ascendancy of politics, others insist on the superiority and independence of economics. For Frank Chodorov, a former director of Henry George School of Social Science, New York, in his book 'The Rise and Fall of Society': "The intrusion of politics into the field of economics is simply an evidence of human ignorance or arrogance, and is as fatuous as an attempt to control the rise and fall of tides."

This early Nineteenth Century position of Chodorov is however hardly valid any more, for the reality of various societies, especially developing countries, largely underpin the determinant role of politics. However, it has also become almost incontrovertible that the state of the economy has universally become the key yardstick for assessing the success or failure of the politicians (those who play politics) in all jurisdictions. Therefore, the ability to script an economic roadmap and effectively implement same—and through that advance the state of wellbeing (real development) of the citizenry remains a ubiquitous challenge of the politicians.

This early Nineteenth Century position of Chodorov is however hardly valid any more, for the reality of various societies, especially developing countries, largely underpin the determinant role of politics.

In our lead article, 'Nigeria's Post-election Economy: Yet Another Chance for Development', the author, using an in-depth analysis of the economic history of Nigeria, erects a development compass for the Government that emerged from the April 2011general elections in the country. To him, "those who ran the affairs of government during the oil boom of the 1970s in Nigeria were not the same people in charge of the Gulf War windfall of the 1990s and the oil market bull of the 2000s. A different set of people is now in charge of the affairs of government in the midst of yet a running oil wealth." He therefore challenges this "new set of people" to, even if for the very first time, utilize the enormous resources at their disposal to drive real economic development for Nigeria.

At the heart of this new development drive being clamoured for is the erection of the country's infrastructure—the substructure of meaningful development every where. And without doubt, for Nigeria, the most critical among all infrastructure categories is electric power, given the country's antecedents. Our article, 'Reliable Power Supply: Way Forward for Nigeria (2011—2015)' therefore delves into the poor state of power supply in the country over the years. Tracing the very tortuous roads that had been taken in the efforts to improve power supply in the country, the author ends on a note of hope. His masterful analysis of the past and current power sector reforms gives a clear basis for his very informed recommendations. For instance, for him, in pursuit of the power sector reform goals, Nigeria needs to strengthen international cooperation and exchange, especially with respect to tapping into opportunities in the West African Power Pool.

Beyond all this, we also have a focus on the global economy during the first quarter of this year, with an analysis of the numerous disasters and turmoil in parts of the world. The impact of all these on commodity prices and implications for economic growth prospects are also surveyed in-depth. With this is also a review of the global market dynamics during the quarter as well as the factors and sentiments driving investment decisions.

Our other regular sections are not left out; in deed, they contain the usual highly informative, enlightening and educative stuff that is our trademark.

Just read, and enrich yourself!

Marcel Okeke

from our mailbox

We are pleased to note that this edition is of world standard characterized by its intellectual richness and focus on such burning issues as fiscal governance, youth and democracy and road infrastructure. Its report on Nigerian and global economy is exemplary.

Kindly accept our profound appreciation for this wonderful and noble initiative of yours in the world of business and journalism. Thank you.

Yours faithfully,
Abiodun Olamosu
Deputy Secretary General
Association of Senior Staff of Banks, Insurance and Financial Institutions Lagos

I am directed to acknowledge with thanks and appreciation the receipt of your letter dated 4th March, 2011, forwarding the January, 2011 edition of your magazine, which focuses on fiscal governance and treatise on options for the transformation of the Nigerian road infrastructure as well as the youth and democracy.

The Mission finds the publication essential and useful reference material to our diplomatic assignment for Nigeria.

Please accept the assurances of His Excellency's highest consideration.
Basher I. Ma'aji
for: Ambassador
Embassy of the Federal Republic of Nigeria, Saudi Arabia

I am directed to acknowledge with thanks the receipt of your January, 2011 edition of the Zenith Economic Quarterly (ZEQ) by the Vice-Chancellor of this University. It is hoped that the journal will as usual be useful to both staff and students of this University for information and research purposes.

Once again thank you for making the University of Uyo one of the recipients of this unique Journal of your establishment.

Yours faithfully,
Winifred I. Ekpo (Mrs.)
for: Vice-Chancellor
Office of the Vice-Chancellor
University of Uyo, Nigeria

I wish to acknowledge with thanks the receipt of the above mentioned publication (January 2011) for use of our Departmental Library.

It is hoped that in the future you would continue to send similar publications as you promised to enrich our library.

Thank you for your good gestures.

Yours faithfully,
Dr. Bello Sabo,
Head, Department of Business Administration
Ahmadu Bello University, Zaria

I am directed to acknowledge the receipt of the January 2011 edition of the Zenith Economic Quarterly (ZEQ). The information contained in the journal about Nigeria and the global economy is quite useful and educative, particularly in the areas of strategic planning and policy.

Please accept the warm regards of the Honourable Minister.
O. K. Abegunde (Mrs.)
for: Honourable Minister
Federal Ministry of Information and Communications
Office of the Permanent Secretary

I am directed to acknowledge the receipt of your January, 2011 edition of Zenith Economic Quarterly publication with a focus on fiscal governance in Nigeria.

Going by the focus of the publication, I have no doubt that it would be a useful reference material to us as an organization especially at this stage of our practical Democratic governance.

No doubt, the journal will be handy as a reference point, giving that it contains critical information on Nigeria and global economy for strategic policy decisions.

While we appreciate your kind gesture, please accept the assurances of our highest esteem.
Felix Dabo
for: Director Finance and Admin
Federal Capital Development Authority Abuja

I am directed to acknowledge with thanks the receipt of a copy of the January, 2011, edition of the above magazine.

No doubt, the journal will be handy as a reference point, giving that it contains critical information on Nigeria and global economy for strategic policy decisions.

Best regards.
A. N. Madubike
Head of Chancery
for: Ag. High Commissioner
High Commission of the Federal Republic of Nigeria, Pretoria

I am directed to acknowledge receipt with thanks, of the Zenith Economic Quarterly, January, 2011 Edition which you sent to us under cover of your letter dated March 04, 2011 and to inform that the Embassy has found the publication to be highly informative and educative as usual.
M. Yusuf
for: Charge D' Affaires, a.i.
Embassy of the Federal Republic of Nigeria, Brazil

Your letter dated 4th March, 2011 refers. I am directed to acknowledge the receipt of a complimentary copy of the Zenith Economic Quarterly Publication of January, 2011 edition.

I must thank you for your gesture, even as we are studying the publication for possible future contribution. We continue to commend you for your consistency and steadfastness in maintaining the quality of the magazine.

Please accept my esteemed regard and best wishes.
Mrs. Angela K. O. Obo, MCSR
for: Auditor-General
Government of Cross Rive State

I am directed to acknowledge with thanks the receipt of the above named Magazine forwarded through your letter of 4th March, 2011. As always, the magazine is enriching and informative.

Please accept, the assurances of the Charge d' Affaires' warmest regards.
(M. S. Ogundero (Mrs.)
for: Charge d' Affaires a.i.
Embassy of the Federal Republic of Nigeria, Hungary

Periscope

Economy: Output Growth Remains Resilient

* By Marcel Okeke

Despite the build-up to the April 2011general elections in Nigeria which was expected to pose some threat to the health of the economy, the first quarter recorded continuing good output performance (from 2010), modest rise in external reserves, improvement in stock market indicators and moderation in inflation rate. Also, crude oil prices remained high, generally stable naira exchange rate prevailed, while the various planks of reforms in key sectors of the economy continued. Specifically, provisional data from the National Bureau of Statistics (NBS) show that output growth measured in real Gross Domestic Product (GDP) terms was projected to grow by 7.43 per cent in the first quarter 2011, compared with the 7.36 per cent recorded in the corresponding period in 2010. Significantly, this GDP growth trend is being sustained by the non-oil sector—with major contributions from services, wholesale and retail trade as well as agriculture. The trend is consistently above the 7.0 per cent target GDP growth rate of the Federal Government for 2011.

The ding-dong affair between the Federal Legislature and the Executive over the 2011 Appropriation Act continued all through the period under review. Thus, although the National Assembly passed the Bill and raised the size of the Budget to N4.92 Trillion from a level of N4.42 Trillion proposed, negotiations between the two arms of Government for an amendment of the Act continued far beyond the first quarter 2011. Similarly, maneuverings and longstanding debates on the Petroleum Industry Bill (PIB), the Sovereign Wealth Fund (SWF), Freedom of Information (FoI), National Minimum Wage and other pieces of legislation raged all through the quarter. The view of the International Monetary Fund (IMF) through its revised Article IV consultation with Nigeria also impacted the economy during the review period. While the Bretton Woods institution endorsed the country's growth forecast at seven per cent, it observed that Nigeria was yet to take advantage of the subsisting high oil prices to return to fiscal surplus and build its external reserves. In deed, the IMF report highlighted Nigeria's fiscal regime as being 'pro-cyclical' and lacking the discipline to adhere to an oil price-based rule. The Fund also called for a more flexible exchange rate regime in Nigeria—that is, one that will give more room for market forces to determine the exchange rates. Overall, the IMF said "economic outlook remains positive and risks are generally balanced" for Nigeria.

Apparently in line with this projection, inflation rate moderated within the 11 to 12 per cent band during the first four months this year. From 11.80 per cent as at end-December 2010, it rose to 12.10 per cent in January 2011; dropped to 11.10 in February and rose somewhat sharply to 12.80 in March. It however declined to below December 2010-level, standing at 11.60 per cent in April 2011, according to the NBS figures. These levels are however viewed as yet high, given the single digit inflation rate target of the monetary authorities. The subsisting trend is attributable to public sector high spending, increases in wages during the period, liquidity injection into the economy due to the operations of the Asset Management Corporation of Nigeria (AMCON) and the anticipated removal of subsidy on petroleum products in the near future.

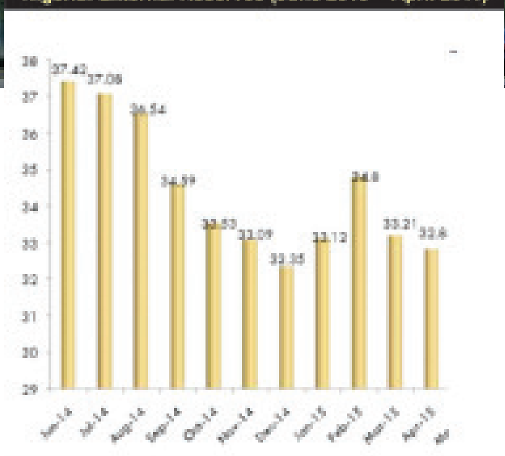
All these, in turn, stand as reasons for the continued tight monetary policy stance of the Central Bank of Nigeria. In deed, the Monetary Policy Committee (MPC) of the apex bank at its March 22, 2011 meeting "expressed serious concern over the heightened risk of inflation following from the proposed high expenditure outlay of the Federal Government as contained in the 2011 Appropriation Bill recently passed by the National Assembly, especially in the wake of rising global food and energy prices." The MPC further noted that "the current fiscal stance is inconsistent with the objective of maintaining stability in exchange rates, prices and interest rates," insisting that "unless this fiscal stand is reversed the economy would have to bear a high cost in terms of pressure on foreign reserves, high interest rates and/or higher level of inflation."

Following from this concern, the CBN raised its Monetary Policy Rate (MPR), the benchmark interest rate by 100 basis points, from 6.50 per cent in January to 7.50 per cent in March—retaining the symmetric corridor of +/- 200 basis points. The apex bank retained the Cash Reserve Ratio (CRR) of 2.0 per cent and liquidity ratio of 30.0 per cent. It also extended its guarantee on interbank transactions and guarantee of foreign credit lines by three months from June 30, 2011 to September 30, 2011.

Also, in line with the fears of the apex bank, the Naira exchange rate recorded a consistent but gradual decline all through the first quarter. This trend was accentuated by the supply side of money supply due to import bill pressure. As a result of all these, the monthly average exchange rate which stood at N148.57/US$1 in December, 2010, dropped to N149.52/US$1 in January, 2011. It declined to N149.92/US$1 in February 2011 and depreciated further to N150.49/US$1 in March 2011. On the other hand however, the external reserves recorded marginal accretion during the quarter under review: from US$32.4 billion as at end-December 2010, the reserves shot up to US$33.9 billion in January 2011; came to US$33.3 billion in February and dropped slightly further to close the first quarter 2011

http://upload.wikimedia.org/wikipedia/commons/5/53/1900_Pennsylvania_Avenue.JPG at US$33.2 billion. Ironically, this trend in reserves is in spite of consistently high oil prices and improved crude oil production during the period. Thus, the almost static level of the stock of external reserves can be attributable to the foreign exchange management policy of the CBN, which tends to defend the value of the Naira. This policy stance is reflected in the increased supply/sale of forex at the Wholesale Dutch Auctions

Nigeria: External Reserves (June 2010 - April 2011)



Source: CBN

In deed, the IMF report highlighted Nigeria's fiscal regime as being 'pro-cyclical' and lacking the discipline to adhere to an oil price-based rule. The Fund also called for a more flexible exchange rate regime in Nigeria—that is, one that will give more room for market forces to determine the exchange rates.

(WDAS) all through the period as the apex bank made efforts to meet forex demand.

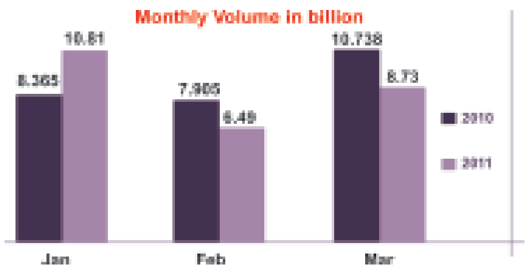
While the nation's stock of external reserves was depleting, the quantum of its domestic and external debt was ironically increasing. Thus, during the first quarter 2011, Nigeria's external debt rose from US$4.58 billion as at end-December 2010 to US$5.23 billion in March, according to the Debt Management Office (DMO) figures. In the same vein, total domestic debt increased, by about 8.30 per cent, from its position of N4.55 trillion as at year-end 2010 to N4.86 trillion at the end of March 2011. According to the DMO, the jump in domestic debt was as a result of some increase in the issuance of public debt instruments, including domestic bonds, treasury bills and treasury bonds—with maturity dates ranging from three to 20 years. The DMO figures show that the FGN bonds accounted for N3.06 trillion or 62.78 per cent of the total domestic debt stock; Nigerian Treasury Bills accounted for N1.44 trillion or 29.57 per cent, while Treasury Bonds made up the remaining N372.90 billion or 7.7 per cent.

On the other hand, the DMO attributed the increase in external debt within the first quarter 2011 mostly to activities surrounding the country's issuance of the US$500 million Eurobond in the first month of the year. A breakdown of the total external debt of US$4.58 billion as at year-end 2010 shows that the 36 states and Abuja (FCT) owed US$2.0 billion while the balance of US$2.5 billion was owed by the Federal Government—mostly to multilateral creditors. The DMO records also show that Lagos State with an external debt of about US$400 million; Kaduna with a debt of US$157 million and Cross River with US$111 million top the list of the indebted states in Nigeria as at December 31, 2010.

THE CAPITAL MARKET

During the first quarter 2011, share prices and market capitalization recorded significant decline due to both domestic and international developments. Although the quarter started with an impressive outlook in January which was characterized by positive volume turnover and record new highs by most blue-chip stocks, virtually all the indices cascaded in the rest of

THE NSE TRADED VOLUME: Q1, 2010/Q1, 2011



the period. Specifically, profit-taking, growing activity towards treasury bills and bonds and attractive interest rate in the money market following the tight monetary measures by the CBN encouraged continued sell-off in the market. The recapitalization of market operators as ordered by the Securities and Exchange Commission (SEC) also partly sustained the bearish trend in the market. Many brokers/operators sold off to raise capital for their N70 million minimum share capital, which led to the suspension of about 58 stock broking companies by the regulator.

The speculative and bearish sentiment that prevailed in most of the quarter was also attributable to the delay in bank earnings report and the subsisting monetary policy regime. The banking sector had been expected to start year-2010 reporting season early in March 2011—but this did not happen. Concerns over the impact of a one per cent Nigerian Accounting Standards Board (NASB)-ordered general provision on banks' risk assets and its likely effect on net earnings caused the delay (in part) and generated some debate as to the applicability of the rule on 2010 financials. It took a lot of time for the issue to be resolved.

Flight-to-safety sentiment by foreign investors during the period due to political uncertainties in the build-up to the general elections in the country as well as seemingly unsettled economic atmosphere also sustained sell activities in the market. The upshot of all these was that the market capitalization of the Nigerian Stock Exchange (NSE) which rose from N7.91 trillion at year-end 2010 to N8.58 trillion at end-January 2011, dropped to N8.32 trillion at end-February and ended the quarter at yet a lower level of N7.87 trillion. Thus, from its level above 26,000 points in January, the All-share Index (ASI) recorded a loss of about 2.65 per cent to stand at 25,871.22 points at the close of February; it further dipped by about 4.84 per cent to close the first quarter at 24,752.21 points. Over all, the market this first quarter recorded a total volume of 26.03 billion units valued at N214.36 billion exchanged in 399,753 deals compared with 26.95billion units valued at N191.82billion exchanged in 599,411 deals in quarter one in 2010.

Other features of the capital market during the first quarter 2011 include the delisting of about 12 companies due to non-compliance with regulatory requirements; absence of new public issues or notable private placement; build-up to the assumption of office by the new chief executive officer of the NSE in early April. On its part, the SEC issued a new Code of Corporate Governance, which became effective April 1, 2011; the new code is prepared to make Nigerian companies operate in line with global best practices and standards.

BANKING AND FINANCE

Many policy initiatives in the banking and finance sector came into effect during the first quarter 2011, including two-times upward review of the Monetary Policy Rate (MPR) by the CBN: first, from 6.25 per cent to 6.50 per cent in January and further to 7.50 per cent in March. It also altered other monetary policy indices such as the Cash Reserve Ratio (CRR) and Liquidity Ratio. The apex bank in its drive to check speculative demand (for forex) and keep the nation's currency stable also approved four foreign exchange instruments for futures trading. These include FX Options, Forwards (Outright and Non-Deliverable), FX Swaps and Cross-Currency Interest Rate Swaps. In its guidelines for the 'forwards transactions' with authorized dealers, the CBN provided for twice auctions a week, with tenors of one, two and three months. The minimum allowable bid by authorized dealers for each tenor stands at US$500,000 only while a maximum spread of 50 kobo is al-

http://www.knight.icfj.org/i/farming.jpg lowed on the sale of 'forwards' with less than three months' tenor and 75 kobo for tenors above three months. The apex bank however insists that forex purchased from its regular Wholesale Dutch Auctions (WDAS) cannot be sold 'forwards' to customers, as it must be utilized within five days after settlement in line with the WDAS rules.

For direct intervention in economic development during the first quarter, the CBN in concert with the Bankers' Committee pursued with vigour, fresh initiatives with foci on agricultural and infrastructural development. Specifically, in addition to the existing Agricultural Credit Guarantee Scheme (ACGS), the apex bank introduced the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL). This innovative financing mechanism is intended to ease access to bank financing for agriculture, especially through the adoption of risk-sharing approaches in agric business. Under this arrangement, eight priority commodities have been identified with their financial value chain analysis concluded. The apex bank has also secured the collaboration of such international agencies as the United Nations Industrial Development Organization (UNIDO), the Alliance for Green Revolution in Africa (AGRA), among others.

Under the other plank of the initiative, namely the Power and Transport infrastructure development, the CBN and the banks have commenced capacity building efforts to effectively drive the Public-Private Partnership in this regard. The *Euromoney* has already been contracted and commenced training for about 250 Nigerian bankers to become more knowledgeable in funding structures, sources of funds, risks and critical concerns in project financing. They are also to learn how credit crisis has impacted on sources of finance and what alternative sources of funding are available; and gain better understanding of the core provisions in the commercial and financial contract framework to support successful financing for power and transport infrastructure.

Furthermore, legislative initiatives are also being taken. In deed, a Bill has been forwarded to the National Assembly to constitute a 'Grievances Arbitration Committee' that will handle grievances on issues creating bottlenecks in infrastructure development. Also being considered is the establishment of a Transport Infrastructure Fund with requisite guarantees from both the Federal Government and the CBN, among others.

The CBN also continued with its effort at enthroning mobile banking in the country; it extended the pilot phase of the roll-out of mobile money services by two months—after the expiration of its earlier deadline on March 31, 2011. The 16 entities to whom it had issued temporary licenses (or Approval-in-Principle) were given up to end-March to demonstrate their competences, and be given full licenses. The temporary licensees or consortiums are in two categories: bank-led and non-bank firms. The following companies make up the two groups: UBA/Afripay, First Bank of Nigeria, GTBank, MobileMoney, Stanbic IBTC and Ecobank. Others are FFortis MFB, Pagatech, Paycom, Chams, E-Tranzact, Funds Electronic Transfer (FET), Monitiz, Parkway, Corporeti Services, Eartholeum, and M-Kudi. The CBN had earlier issued the regulatory framework and guidelines for mobile banking in Nigeria that will conform to international best practices and standards.

A number of Deposit Money Banks (DMBs) during the quarter under review continued their recapitalization drive; many signed MoUs to go into some form of business combinations (mainly mergers and acquisitions). Afribank Plc and Vine Capital Limited signed a Memorandum of Understanding (MoU). Others that also signed include Union Bank Plc and African Capital Alliance, Intercontinental Bank Plc and Access Bank Plc, Bank PHB and Habib Bank Pakistan, among others. However, almost all the

...the CBN in concert with the Bankers' Committee pursued with vigour, fresh initiatives with foci on agricultural and infrastructural development.

MoUs are affected by some litigation or the other, either by shareholder associations, legacy managers or other interested parties. Even the planned merger between First Bank of Nigeria Plc and Oceanic Bank Plc had been stalled as a result of the inability of the two banks to reach favourable agreements so far.

The common year-end policy for the DMBs gained momentum during the quarter, with all the banks tidying their 2010 accounts and annual reports for scrutiny and approval by the regulatory authorities. Almost all the banks also commenced the introduction of the International Financial Reporting Standard (IFRS) into their reporting frameworks. Also in line with the newly introduced banking model, most banks during the period under review began the process of transforming into a holding company and/or liquidating their investments in non-core banking subsidiaries.

OIL, GAS & POWER

As the turmoil in some of the Middle East and North African (MENA) states (especially Libya) lingers, oil prices continue to hang comfortably above the US$100 per barrel mark. In its March 2011 Monthly Oil Market Report (MOMR), the Organization of Petroleum Exporting Countries (OPEC) noted that events in the MENA region and the associated risk premium have pushed oil prices to their highest level since September 2008. Specifically, OPEC basket averaged close to US$110 per barrel in March, up US$9.55 per barrel from the previous month. The OPEC Reference Basket, moved above US$100 per barrel on 21 February and continued its upward trend in March to average US$109.84 per barrel, the highest monthly level since the US$112.41 per barrel at the onset of the financial crisis in 2008.

The increase of US$9.55 in March was the sixth in a row and the largest since the US$11.38 of June 2009. With this increase, the OPEC Reference Basket averaged US$101.27 per barrel in the first quarter, 2011—up US$17.39 from the last quarter in 2010 and US$25.78 from a year earlier. The strong increase in the OPEC Reference Basket over the previous three months, particularly in March, was attributed to the bullish sentiment in the futures market as prices jumped amid worries about supply shortages following the persisting crisis in Libya and unrest in some countries in the Middle East and North Africa (MENA) region.

http://www.floatingplantservices.com/_files/picture_1/12.jpg

This turn of events, for Nigeria, has implied improved foreign exchange inflow; increased demand for the Nigerian crude and rise in production and export volume. Oil prices have comfortably remained above the 2011 Federal Government benchmark of US$65 per barrel while production has been consistently above two million barrels per day. These translate into substantial inflow into the Excess Crude Account (or now approved Sovereign Wealth Fund, SWF). OPEC in its March Monthly Oil Market Report, estimated Nigeria's crude oil output at 2.089 million barrels per day in February, a slight drop from the 2.181 million barrels per day in January, and 2.192 million barrels per day in December 2010. However, this did not translate into abundance of petroleum products; in fact, prices of products like diesel, kerosene and petrol (to some extent) have been on the increase.

Fuel importation subsists while the local refineries have continued to operate far below capacity, and remain largely in a state of disrepair. Yet, the estimated daily demand for petroleum products in Nigeria today is 30 million litres of petrol (PMS), 10 million litres

of kerosene (DPK), 18 million litres of diesel (AGO), and 780 metric tons (1.4 million litres) of cooking gas (LPG), and the estimated amount of crude oil required daily for domestic refining, that would satisfy the demand for petroleum products in Nigeria adequately, should be about 530,000 barrels per day (bbl/d). This is some 85,000 bbl/d more than the combined refining capacities of all the state-owned refineries located in Warri, Port Harcourt, and Kaduna. The four refineries have combined installed capacity of 445,000 barrels per day, but have never reached full production at any point in time. Nigeria spent about N1.15 trillion to import an estimated 8.1 million metric tons (MT) of petroleum products in 2010 alone and has spent about N388.11billion to import petrol in the first quarter of this year.

However, information from the Nigerian National Petroleum Corporation (NNPC) shows that plans are underway for an additional 750,000 bpd to be added to the existing refining capacity of 445,000 bpd. In fact, China State Construction Engineering Corporation Ltd intends to build three new refineries in Kogi, Bayelsa, and Lagos states. Already, the Memorandum of Understanding, MoU, has been signed and the Chinese have inspected the proposed sites, as a sign of their commitment to the project. The deal is said to be worth $23 billion. Also while unveiling his 'gas revolution agenda' in March, President Goodluck Jonathan announced plan to "ensure greater availability of gas for power generation and also reposition the country as the undisputed regional hub for gas-based industries." This plan, according to the President would also lead to the building of a world-scale petrochemical plant, two fertilizer plants, five fertilizer blending plants, a methanol plant and a liquefied petroleum gas (LPG) distribution plant. In fact, under the plan, Nigeria Agip Oil Company (NAOC) and Oando Nigeria Plc are to jointly build a US$3 billion Central Gas Processing Facility (CPF) in Obiaruku, Delta State, and billed for completion in 2012.

In the power sector, the sale of the successor-companies created out of the unbundling of the Power Holding Company of Nigeria (PHCN) dominated the sector during the period under review. The Bureau of Public Enterprises (BPE) which continued the conduct of its bidding process for the sale of eighteen power firms, received an overwhelming expression of interest in the scheme. About 332 entities showed interest by the close of the extended deadline on March 4, 2011. The core-investor sales will cover the eleven electricity distribution companies as well as the privatization of four thermal and two hydro power stations. According the BPE, 157 applications were received from prospective investors interested in acquiring the distribution companies, while 174 applications came from those interested in acquiring the power stations.

The Nigerian Electricity Regulatory Commission (NERC) on its part was engrossed with the development of a new electricity tariff structure that would be good incentive to attract and retain investors in the sector as well as make for affordability for consumers. In this regard, NERC has been consulting with relevant government agencies –the BPE, PHCN, Ministry of Power as well as other stakeholders to determine the level of tariffs that would attract the desired investments into the sector. Meanwhile, most of the entities granted licenses as Independent Power Producers (IPPs) are yet to commence serious work, several years after getting the licenses. In fact, while many are yet to secure sites for the power projects, a few others

In a related development, the NCC has also commenced the selection of a mobile number portability (MNP) operator in the country. This is to enable mobile phone users retain their unique numbers when changing from one mobile network operator to another.

have only been able to carry out Environmental Impact Assessment (EIA) on the sites.

TELECOMMUNICATION

A key development within the telecoms sector within the period under review was the commencement of SIM card registration by the Nigerian Communications Commission (NCC). In this regard the telecoms regulatory agency signed a contract agreement with seven ICT firms to drive the registration process in different parts of the country. These partnering firms whose activities will be coordinated by KPMG, an international professional services company, are: SW Global, Private Networks Nigeria (PNN), Chams, Joint Komputer Kompany (JKK), DataGroupit, EAGLE/CBC and E-Kenneth/SageMetrics. On its part, the NCC will be responsible for gathering and validating the subscriber information while the National Identity Management Commission (NIMC) will be the repository of Nigeria's mobile phone subscriber database.

In a related development, the NCC has also commenced the selection of a mobile number portability (MNP) operator in the country. This is to enable mobile phone users retain their unique numbers when changing from one mobile network operator to another. This initiative is expected to serve as one of the mechanisms to drive competition and stimulate improvement in quality of service and expand coverage in the Nigerian telecoms market.

Meanwhile the total number of active subscribers in Nigeria's telecoms market has passed the 90 million mark, according to statistics from the NCC. As at end-February 2011, total number of active lines was 90,583,306 lines out of the 122,589,647 connected lines in the country. Market segmentation of the active lines showed that the Global System for Mobile Communications (GSM) still dominates the market with 83,453,999 lines, accounting for 92 per cent. Code Division Multiple Access (CDMA) has 6,111,669 active lines representing seven per cent; while the fixed wireless lines stood at 1,014,691, accounting for only one per cent of the market share.

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

Continued from last Edition

c. Microfinance Banks (MFBs)
In a bid to ensure that the nascent microfinance banks achieve the policy objectives for which they were established and avoid the pitfalls which characterized the community banking era, the CBN will intensify its surveillance on the banks. The Bank shall also ensure the full implementation of a Microfinance Certification Programme in Nigeria with the objective of enhancing knowledge, impacting microfinance skills/competencies and methodology for service delivery among operators in the sub-sector on a sustainable basis. In the 2010/2011 period, the Bank shall continue to license new microfinance banks and the capital requirements of N20million and N1 billion for unit and state microfinance banks shall be maintained.

d. Development Finance Institutions (DFIs)
The CBN shall in 2010 and 2011 continue to monitor the operations of DFIs and intensify efforts aimed at re-capitalizing the institutions, institutionalizing strong corporate governance and a risk management system to enable the institutions effectively deliver on their core mandates. The Uniform Prudential and Assessment Standards prescribed for DFIs in Africa, under the aegis of the Association of African Development Finance Institutions (AADFI) for benchmarking the DFIs will continue.

e. Bureaux De Change (BDCs)
The two categories of BDCs (A and B) currently existing will remain until further notice. They will continue to render monthly returns on their Assets and Liabilities, as well as daily returns on utilization of foreign exchange to the CBN through the e-FASS.

xiv. Compliance with Statutory Regulations/ Rendition of Returns

All OFIs are required to strictly comply with the prudential requirements (Appendix I) specified in the existing guidelines/circulars, directives and provisions of BOFIA 2004 while appropriate sanctions shall be imposed on any erring OFI.

xv. Penalties for Default

The CBN shall in 2010/2011 continue to enforce all the stipulated penalties for non-compliance with regulatory guidelines as well as the provisions of the CBN Act, 2007 and Banks and Other Financial Institutions Act, 2004 as amended. Any financial institution which fails to comply with the existing and revised guidelines as well as other directives that may be issued by the CBN shall be sanctioned accordingly.

xvi. Policy on Transparency in Financial Transactions

In line with the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices, all financial institutions are required to continue to observe the following standards to promote transparency in financial transactions:

a) Customer Identification

Banks and other financial institutions are enjoined to intensify efforts to determine the true identities of all customers requiring their services. In particular, financial institutions should not, as a matter of policy, conduct business transactions with customers who fail to provide evidence of their identity. The principle of "Know Your Customer (KYC)" as specified in the CBN AML/CFT Manual, 2009 should be strictly adhered to.

b) Compliance with the Law

Banks and other financial institutions shall observe high ethical standards as well as comply with the laws and regulations governing their operations. In particular, banks shall ensure full compliance with the Guidance Note, AML/ CFT Manual 2009 and other relevant circulars on money laundering surveillance, issued by the Bank, in order to ensure the enforcement of the provisions of the Money Laundering Act, Cap M18, laws of the Federation of Nigeria, 2004.

c) Co-operation with Law Enforcement Authorities

Banks and other financial institutions are required to co-operate fully with the law enforcement authorities within the limits of the rules governing confidentiality. In particular, where financial institutions are aware of facts which lead to a reasonable presumption that the funds lodged in an account or transactions being entered into, derive from criminal activity or intention, they should observe the stipulated procedures for disclosure of the suspicious transactions in reporting to the law enforcement authorities. Any contravention of the above-stated guidelines by any financial institution shall attract penalties as stipulated in the Banks and Other Financial Institutions Act, 2004, or the Money Laundering Act, 2004 as appropriate.

xvii. Risk-Based Supervision

The Bank recently migrated from the compliance based supervisory approach to risk-based supervision (RBS) approach in the supervision of institutions under its purview. The approach is designed to enable supervisors to focus attention on the risks that threaten the achievement of supervisory objectives and accordingly devise appropriate risk mitigation programs. In addition to addressing emerging challenges facing our banks, RBS would assist in Nigeria's drive to fully comply with the Basel Core Principles on Supervision and also prepare an enabling environment for the eventual implementation of the Basel II Capital Accord. In the 2010/2011 period the Bank shall continue with Risk based supervision.

xviii. Consolidated/ Cross Border Supervision

In recent years Nigerian banks have established off shore branches and subsidiaries, in an attempt to increase shareholder's wealth. This has exposed them substantially to cross border risks. Furthermore, the expansion of Nigerian banks into different sectors coupled with the recent turmoil in the world financial system has necessitated consolidated supervision of banks. In a nutshell, consolidated supervision is a comprehensive approach to banking supervision which seeks to evaluate the strength of an entire group, taking into account all the risks which may affect a bank, regardless of whether these risks are carried in the books of the bank or related entities. In view of the above, the Bank shall continue with consolidated, cross-border supervision in 2010/2011.

xix. Macro-prudential Regulation and Stress Testing

The current global banking crisis has underscored the importance of complementing the current micro-prudential approach to regulation and supervision with the macro-prudential perspective. The latter, which assesses the strength and weaknesses of the financial system in terms of its overall soundness, will help regulators have a holistic view of the banking system. A key component of the macro-prudential analysis is stress testing which gauges the potential impact of adverse shocks on banks if macro conditions are weak. As an important risk management tool, stress testing helps to identify adverse unexpected outcomes related to a variety of risks and provides an indication of how such risks might be handled by facilitating the development of risk mitigating or contingency plans across a range of stress conditions. Accordingly, the Bank shall ensure the use of macro-prudential regulation and stress testing in assessing the health of banks in 2010/ 2011.

xx. Strengthening Risk Management and Corporate Governance in Nigerian Banks

Effective risk management and corporate governance play a key role in the maintenance of strong financial institutions and by extension sound financial systems. Against this background, the CBN issued guidelines for the development of risk management framework for individual banks in July 2007. Having regard to the dynamic nature of risks, the guidelines shall be constantly reviewed and updated in line with global best practice and the recommendation of the Basel II Capital Accord. The Guidelines were designed to enable banks develop their respective strategy for managing each risk element as part of the overall strategy for evolving efficient risk management systems. Likewise, the CBN issued a new Code of Corporate Governance in April 2006 to assist banks in installing corporate governance structures that meet international best practices. The guidelines on risk management and code of corporate governance shall remain in force in 2010/2011.

xxi. Additional Disclosures by Banks

Banks are required to publish disclosure statements so as to strengthen the incentives for banks to maintain sound banking practices and assist depositors and other investors to make well informed decisions on where to invest their money. The current disclosures are inadequate to address the contemporary challenges of a complex and dynamic banking industry. Thus, in order to enhance transparency in the Nigerian banking system and in light of contemporary experiences in the global and Nigerian financial systems, the following additional disclosures shall form part of banks' regulatory and financial reporting:

- Risk Management
- Capital Structure/Adequacy
- Executive Compensation
- Regulatory Sanctions and Penalties
- Disclosure of related companies/persons engaged as service providers/suppliers to a bank
- Disclosure on Insider Related Credits
- Disclosure on Board of Directors' Performance
- Disclosure on concentration of assets, liabilities and off-balance sheet engagements by sector, geography, and product
- Disclosure on Loan Quality
- Disclosure on lending/borrowing to/from subsidiaries and associates
- Disclosure on credit collaterals
- Disclosure on Fraud and Forgeries
- Disclosure on Banks' Contingency Planning Framework
- Disclosure on Loans and Advances/funding or credit lines from institutions outside Nigeria
- Balance Sheet and Profit and Loss Account of Banks' Subsidiaries/Affiliates.

A circular detailing the content of each heading and the frequency of publication/disclosure will be issued soon.

xxii Contingency Planning Framework for Banking Systemic Distress and Crises

In order to ensure public confidence in the banking system, the Bank shall develop a set of policies, actions and processes necessary for the prevention, management and containment of banking systemic distress and crises. A guideline to aid banks in developing their contingency plans, establish thresholds for supervisory intervention incorporating appropriate action plans and defines the compositions and functions of a crisis management unit would be issued soon.

SECTION FOUR

4.0 FOREIGN TRADE & EXCHANGE POLICY MEASURES

4.1 **New Policy Measures for 2010/2011**

4.1.1 **Foreign Exchange Market**

(i) Retirement benefits of foreign nationals who contributed to the pension scheme are eligible for remittance subject to the following documentation requirements: - Duly completed Form 'A' - Resident Permit and/or expatriate quota - Retirement Savings Account statement - National Pension Commission's (Pencom) approval

(ii) Premium remittances on oil and gas and special risks which are handled by foreign broker/insurer can now be undertaken in the foreign exchange market. The documentation requirements are: - Duly completed Form 'A' - Demand Note/Debit Note from foreign broker/insurer - Letter of attestation from the National Insurance Commission (NAICOM)

(iii) Authorised Dealers are allowed to sell autonomous funds to Bureaux de Change operators subject to compliance with the Anti-Money Laundering Act 2004 and disclosure of the sources of such funds to the CBN. In addition, daily returns shall be rendered to the CBN by both the Authorised Dealers and the BDC.

(iv) Authorised Dealers that engage in importation of foreign exchange (cash) will henceforth render monthly returns of such transactions to the CBN.

(v) For disposal of export proceeds, the instruction of the account holder shall be sufficient for own use of the funds. However, where the fund is to be transferred to third parties, the purpose for transfer should be provided by the account holder.

(vi) Travelers entering and/or leaving Nigeria are required to declare any amount above N20,000.00 (twenty thousand naira only) in their possession at the time of arrival or departure from the country.

(vii) In accordance with the provisions of Public Procurement Act 2007 and subject to the provision of a performance bond and or bank guarantee by the suppliers' bank overseas, down payments in respect of imports into Nigeria shall not exceed 15 per cent of the free on board (fob) value of the transaction.

4.1.2 Form 'M' Procedure

(ix) Shipping documents predating Form 'M' and Letter of Credit (LC) approval date is liable to sanction in line with the provisions of BOFIA, as well as other appropriate sanctions by the CBN.

4.2 Existing Policy Measures Amended/Retained in 2010/2011

4.2.1 Foreign Exchange Market

(i) In order to ensure stability of the exchange rate and confidence in the market, the Foreign Exchange Market (FEM) shall operate freely, subject to the provisions of relevant laws and guidelines.

(ii) Authorised Dealers shall continue to deal freely in autonomous funds in their own right subject to compliance with advised Net Open Position (NOP) limits. Banks are, however, not allowed to purchase funds, including interbank, on behalf of a customer without a valid underlying transaction and supporting documentation.

(iii) The direct foreign exchange cash sales by BDCs shall continue with the maximum limit of US$5000.00 per approved transaction.

(iv) Holders of all categories of domiciliary accounts shall continue to have unfettered access to their funds.

(v) To ensure transparency and accountability in foreign exchange dealings, pooling of funds purchased from CBN with those acquired from other sources is allowed provided their sources are duly segregated and reported. Consequently, banks shall continue to render appropriate returns on sources of funds and utilization to the CBN.

(vi) Payment in foreign exchange for products and services provided in Nigeria by Nigerians either as an individual or a company shall not be allowed in the foreign exchange market. However, where the payer accepts to pay in foreign exchange, the funds shall be from his ordinary domiciliary account and/or offshore sources.

(vii) All oil and oil services companies shall continue to sell their foreign exchange brought into the country to meet their local expenses to any bank of their choice including the CBN. Monthly returns via e-FASS by both the oil companies and the banks on such sales and purchases shall be rendered to the CBN, using the approved format.

(viii) All applications for foreign exchange (valid or not-valid), shall continue to be approved by banks subject to stipulated documentation requirements before remittance of funds.

(ix) Payment of interest in respect of bills for collection shall continue to be on the tenor of the bill but not exceeding 180 days at a maximum of 1 per cent above the prime lending rate prevailing in the country of the beneficiary based on London Interbank Offered Rate (LIBOR).

(x) Transactions executed at private sector initiative shall continue to have no government guarantee or obligations.

(xi) Business Travel Allowance (BTA) and Personal Travel Allowance (PTA) shall be subject to the maximum of US$5,000.00 and US$4,000.00 per quarter respectively.

(xii) WDAS funds shall neither be tradable in the interbank foreign exchange market nor sold to BDCs.

(xiii) Only hotels registered as Authorised Buyers shall receive from foreign visitors payment of hotel bills in foreign currency. However, payment of such bills in foreign currency shall be optional and at the discretion of the foreign visitor making the payment.

4.2.2 Form 'M' Procedure

(i) Post-landing charges shall continue to be treated as an integral part of the total cost of projects and that of the Form 'M'. No direct or separate remittances on Form 'A' in respect of such charges shall be allowed.

(ii) The initial validity period of an approved Form 'M' for general merchandise shall be 180 days. The validity period of the approved Form 'M' and the related Letter of Credit may be extended for another 90 days by the Authorized Dealer. For capital goods the initial validity of an approved Form 'M' shall be 365 days and the validity of the form M and related Letter of Credit may be extended by another 180 days by the Authorised Dealer. However, any subsequent request for revalidation of form 'M' shall be forwarded to the Director, Trade and Exchange Department, CBN for consideration.

4.2.3 Destination Inspection of Imports

(i) All goods consigned for imports to Nigeria (except those exempted) shall be subject to Destination Inspection Scheme (DIS).

(ii) All imports to the country, whether or not exempted from DIS shall require the completion of Form 'M'.

4.2.4 Import Duty Payment Procedures

(i) Import duty payable on items registered under Form 'M' transactions, whether or not valid for foreign exchange, shall be calculated on the basis of CBN prevailing rate on the day the Form 'M' was approved.

(ii) Payments of import duty and other charges shall be made through the processing bank provided that it is a designated bank. However, where the processing bank is not a designated one, the duty should be paid in another designated bank of the importer's choice and the processing bank advised accordingly.

4.2.5 Export and Trade Promotion

(i) Repatriation of export proceeds (oil and non-oil) and other inflows shall be held in Domiciliary Accounts. Holders of such domiciliary accounts shall continue to have unfettered access to their funds subject to existing guidelines.

(ii) Payments for exports from Nigeria shall continue to be by means of Letters of Credit or any other approved international mode of payment.

In addition, such exports shall be executed on free-on-board (fob) or cost and freight (c&f) basis, depending on the contract between the Nigerian exporter and the overseas buyer.

4.2.6 Invisible Trade Transactions

(i) Remittances for licences (Trademarks, Patents, Know-how, etc.) or Other Industrial Property Rights shall range between 0.5 to 5.0 per cent of net sales value or profit before tax where net sales is not available. Trademarks fee shall not be allowed in respect of any agreement where the trademarks owner has over 75 per cent of the equity in the local company. Companies with several product lines should separate the net sales of each product line in their audited accounts so as to pay royalty for specific product(s) covered by the industrial property rights and not on the entire/total sales of the company.

(ii) Technical Services fees shall no longer be tied to net sales. Services such as training, installation and maintenance, etc., shall henceforth be settled on per diem rate or man-hour, man-day or man-month basis while fees for Research & Development and improvement shall attract up to 1 per cent of net sales.

(iii) Management Services fees shall range from 2.0 to 5.0 per cent of the company's profit before tax. Management fees in respect of products where no profit is anticipated during the early years shall range from 1 to 2.0 per cent of net sales during the first three to five years only.

(iv) Annual Technical Support (ATS) fees payable to Information Technology (IT) licensor shall be between 15.0 per cent and 23.0 per cent of the license fee (the local component of which must be paid in Naira) and shall not last for more than 3 years. In addition, indigenous local vendors must be involved in all ATS for Software Agreements and the local vendors' fee shall not be less than 40.0 per cent of the ATS fees.

(v) In case of Hotel Services, a basic fee or lump sum not exceeding 3.0 per cent of the net sales plus incentive fees not exceeding 8.0 per cent of Gross Operating Profit (GOP) shall be applicable. Other payments which are internationally acceptable within the applicable hotel chains may be allowed.

(vi) Remittable consultancy fees shall be a maximum of 5.0 per cent of project cost and limited to projects of very high technology content for which indigenous expertise is not available. Service Agreement for high technology joint ventures shall continue to include a schedule for training of Nigerian personnel for eventual take-over. In addition, Nigerian professionals shall be involved in the project implementation from inception.

4.2.7 Miscellaneous Policy Measures

(i) The declaration on Forms TM & TE of foreign currency imports and exports, respectively, of US$5,000.00 (five thousand US dollars) and above or its equivalent is required for statistical purpose only.

(ii) Appropriate sanctions shall continue to be imposed on Authorised Dealers who remit funds on the basis of forged documents, engage in fraudulent transactions, fail to transfer customs revenue to the CBN in accordance with the laid down procedures, etc. The banks should, therefore, exhibit professionalism and transparency in handling transactions.

(iii) Appropriate sanctions shall also be imposed on bank customers who breach any of the foreign exchange operational guidelines.

(iv) All Authorised Dealers are required to refer issues in respect of the policy which they are in doubt, to the Director, Trade & Exchange Department of the Central Bank of Nigeria for clarification.

Global Economy in 2011: the oil price factor

* By Eunice Sampson

First quarter 2011 has come and gone, leaving indelible marks on the sand of global history. The natural disasters in Japan and unrests in North Africa and Middle East are two developments within the quarter that the world will not forget in a hurry. For national economies and other stakeholders in the global crude oil market, these events become even more unforgettable as they have influenced crude oil price movements more than any other development since the recent recession. Little would the world have imagined that the act of a simple vegetable seller in a small Tunisian town would not only set him but the entire Arab region ablaze. But it did, and the global economy is now grappling for a way out.

The quarter saw nature wreaking colossal havoc on human lives and infrastructure. In the first week of January, almost 100 persons were declared dead or missing following a devastating flood in Queensland, Australia, a development that cost the economy an estimated A$30 billion reduction in GDP. Then the Christchurch earthquake measuring 6.3 magnitude that struck in New Zealand on February 21 killing nearly 200 persons. January 11 and 12 saw heavy floods and mudslides near Rio de Janeiro in Brazil killing over 600 persons and washing away homes, businesses and public infrastructure worth billions of dollars, in what has been described as the worst flood in the county's history.

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On March 11, a caustic 9.0 magnitude earthquake and a 33-foot tsunami hit Japan almost simultaneously followed by series of aftershocks. This was the worst natural mishap in Japan's history and measured by experts as among the five most catastrophic in modern times, with an estimated 18,000 lives lost; about 3,000 injured and over 17,000 people still missing as at the

http://www.middletownpress.com/content/articles/2011/01/13/business/doc4d2e3706cf434180586588.jpg

end of first quarter. Roads, railways, bridges, dams, schools and other critical infrastructure were destroyed, while a major accident occurred in three nuclear plants. The World Bank calculates the damage to the Japanese economy and infrastructure at between $122 billion and $235 billion. Japanese authorities put the estimate at over $300 billion. For the massive economic size of Japan and its status in the global economy, the March 2011 earthquake and tsunami in that country is perhaps the most costly natural disaster in human history.

Thanks to the growing sophistication in modern day seismic technology and years of consciousness about the country's geological vulnerabilities, the Japanese authorities may have spent the better part of the last decade preparing for a possible earthquake and tsunami. But the same cannot be said about the turmoil in the Arab region which took the world completely by surprise. Perhaps there have been several analyses in the past comparing the socio-political and economic structure in the Arab world to a ticking time-bomb. But not many had expected such level of explosion so soon, nor the relatively very mundane manner it was detonated.

Arab World Crises: the Genesis

Despite his university degree, Mohamed Bouazizi resorted to selling fruits and vegetables after all efforts to secure a more befitting employment failed. On December 17, 2010, local Tunisian authorities seized his wares, a vegetable cart, on claims that it was unlicensed. After trying in vain to retrieve his confiscated cart, in protest the frustrated 26 year old university graduate set himself ablaze outside the police provincial headquarters. On January 4 Bouazizi died of complications from his burns.

Mohamed Bouazizi was the bread winner in a family of eight. He lost his father at the age of three and was saddled with the responsibility of catering for his widow mum and seven siblings. The initial hopes that a university education will afford him a good job and a better life was dashed after searching in vain for employment. He was compelled to settle for cart pushing, a menial job he was to give up his life for.

According to reports from Reuters, Bouazizi's grieving mother, Mannoubia had one prayer for the 'killers' of her son: "I ask God that Ben Ali's people, and the Trabelsi family, who were ruling Tunisia, go completely." True to her prayers, on January 14, exactly 10 days after her son died, Ben Ali and his ruling family fled Tunisia to take refuge in Saudi Arabia following an unprecedented uprising as angry demonstrators demanding justice for the blood of Bouazizi and protesting the circumstances that led to his death hit the streets of Sidi Bouzid. By January 14, the protesters had gained the upper hand as they succeeded in bringing to an abrupt end the 23-year reign of President Zine al-Abidine Ben Ali.

Before his tragic end, Bouazizi Mohamed was a resident of Sidi Bouzid, a small, struggling town in the suburb of Tunisia 250 km (155 miles) southwest of Tunis. Sidi Bouzid was a typical small, remote town in a low-income economy characterized by massive infrastructure decay and high rate of poverty and unemployment. But this town was to gain global prominence following Bouazizi's self-immolation. It in fact became the starting point of a socio-economic, political and constitutional revolution, first by extending to other cities in Tunisia and, by the end of the quarter, spreading to several countries in the Arab world.

In neighboring Egypt, Algeria and Mauritania, several nationals, frustrated with the leadership and living condition resorted to the Bouazizi-style of protest by setting themselves ablaze, heightening the growing profile of Bouazizi as the hero of change in the region. The triumph of the voices of the Tunisian people inspired similar protests in other Arab countries, including Egypt, Morocco, Syria, Yemen and Libya.

After Ben Ali, Egypt's Hosni Mubarak was next to go. Egyptian demonstrators took to the streets on January 25, protesting against the high costs of food, official corruption, authoritarianism and unemployment; and calling for an end to President Mubarak's 30-year rule. For over two weeks, Egyptians besieged the Cairo's central Tahrir Square daily, defying intimidations and arrests and voicing their frustration with Mubarak's strong grip on power. On February 11, Mubarak yielded to mounting pressure at home and abroad to step down as Egyptian president.

In near by Morocco, the "movement for dignity" on February 20, rallied protesters, demanding that King Mohammed VI review the country's constitution, give up some of his powers and increase food price subsidy. But the protests in Morocco were mostly peaceful and short-lived, perhaps because some of these demands received immediate government attention; or perhaps because despite being under 350 year-old monarchical rule (the Alawite dynasty), Morocco remains one of the most progressive nations in the Arab world with a relatively robust economy, an elected parliament and a monarchy that is open to reforms and tolerates periodic public protests.

Since the night of February 16 when disgruntled Libyans filed out against the reign of Muammar Al Gaddafi of Libya, the protests have been anything but peaceful. At the end of the quarter, the struggle between protesters and pro-government forces had degenerated into a civil war with hundreds of civilian casualties. This has prompted a UN resolution for the intervention of allied forces to effect a no-fly zone in efforts to protect civilians.

First quarter 2011 ended with no end in sight for the violence as President Gaddafi clung to his 41-year rule in Libya and with a vow to repress every act of rebellion against his regime. Colonel Gaddafi has been in power since a coup d'état he staged in 1969.

While the clock is ticking away for the Libyan leader, the revolution has since spread to Syria. The Syrian protests which begun in earnest on March 15, have also become bloody with President Bashar Al-Assad, like his Libyan counterpart refusing to yield to calls from his people to quit power. After the bloody clash of March 25 that resulted in several loss of lives, the first quarter ended in a stalemate. In other Arab countries, including Jordan, Bahrain and Yemen, there have been sporadic anti-government protests which sometimes turn violent. As the curtains closed on the first quarter there were growing fears around the world that the crises could spread to crude oil powerhouses in the Middle East, including Iran and Saudi Arabia.

The Syrian protests which begun in earnest on March 15, have also become bloody with President Bashar Al-Assad, like his Libyan counterpart refusing to yield to calls from his people to quit power.

Dramatic Crude oil Price Movement: First Quarter 2011

Source: "This is Money" Market Data (http://investing.thisismoney.co.uk)

Impact on Oil Prices?

The uprising in the Middle East and North Africa has resulted in a sharp rise in oil prices as apprehensions grow about stability in the global oil market. On January 31, for example, following the upheaval in Egypt, the price of Brent crude oil on the London-based ICE Futures Exchange passed the $100 per barrel mark for the first time since the financial meltdown of September 2008.

Proven Reserve of Middle East & African countries (as % of world's total)

	At end 1989 Thousand million barrels	At end 1999 Thousand million barrels	At end 2008 Thousand million barrels	At end 2009 Thousand million tonnes	At end 2009 Thousand million barrels	At end 2009 Share of total	At end 2009 R/P ratio
Iran	92.9	93.1	137.6	18.9	137.6	10.3%	89.4
Iraq	100.0	112.5	115.0	15.5	115.0	8.6%	*
Kuwait	97.1	96.5	101.5	14.0	101.5	7.6%	*
Oman	4.3	5.7	5.6	0.8	5.6	0.4%	18.9
Qatar	4.5	13.1	26.8	2.8	26.8	2.0%	54.7
Saudi Arabia	260.1	262.8	264.1	36.3	264.6	19.8%	74.6
Syria	2.0	2.3	2.5	0.3	2.5	0.2%	18.2
United Arab Emirates	98.1	97.8	97.8	13.0	97.8	7.3%	*
Yemen	2.0	1.9	2.7	0.3	2.7	0.2%	24.5
Other Middle East	0.1	0.2	0.1	†	0.1	*	9.4
Total Middle East	661.0	685.8	753.7	102.0	754.2	56.6%	84.8
Algeria	9.2	11.3	12.2	1.5	12.2	0.9%	18.5
Angola	2.1	5.1	13.5	1.8	13.5	1.0%	20.7
Chad	–	–	0.9	0.1	0.9	0.1%	20.9
Republic of Congo (Brazzaville)	0.7	1.7	1.9	0.3	1.9	0.1%	19.4
Egypt	4.3	3.8	4.2	0.6	4.4	0.3%	16.2
Equatorial Guinea	–	0.6	1.7	0.2	1.7	0.1%	15.2
Gabon	1.0	2.6	3.7	0.5	3.7	0.3%	44.1
Libya	22.8	29.5	44.3	5.8	44.3	3.3%	73.4
Nigeria	16.0	29.0	37.2	5.0	37.2	2.8%	49.5
Sudan	0.3	0.3	6.7	0.9	6.7	0.5%	37.5
Tunisia	1.8	0.3	0.6	0.1	0.6	*	18.4
Other Africa	0.9	0.7	0.6	0.1	0.6	*	11.0
Total Africa	59.1	84.7	127.5	16.9	127.7	9.6%	36.0
Total World	1006.4	1085.6	1332.4	181.7	1333.1	100.0%	45.7

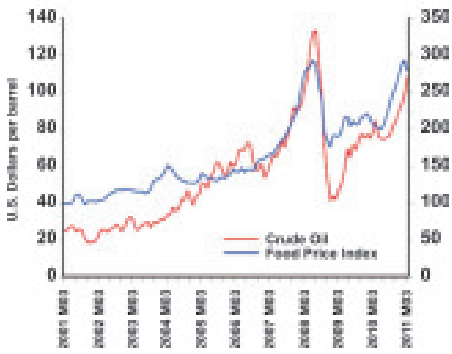
Source: BP

Major market concerns were the possibility of the Egyptian revolution spreading to other oil-exporting Arab countries and a possible obstruction to the passage of oil-bearing tankers through Egypt's Suez Canal. The Canal remains a strategic link between millions of barrels of crude oil per day and the global market.

Assurances from market analysts that United States' huge oil stockpiles and Saudi authorities' massive spare capacity will check possible supply disruptions did little to douse market tension. Oil prices remained at elevated levels all through the quarter, worsening further after the uprising spread to Libya.

On the last day of the quarter, Thursday March 31, crude oil prices rose to a 30-month high as the battle for rebel-held areas intensified in Eastern Libya. Light crude for April delivery gained $2.45 (or 2.35%) to close at $106.72 per barrel. Brent crude for May delivery also gained $2.23 (or 1.94%) to close at $117.36.

Figure 4: Food and Fuel Price Trends



Source: World Bank's Food Price Watch; April 2011

So far, the revolution in North Africa has had the most significant influence on oil price movement in 2011. Despite being a net importer of crude oil, Egypt's control of the Suez Canal and the strategic position it occupies in the oil- rich Arab world, caused massive price volatility during the civil rebellion there. As for Libya, its position as Africa's third-largest oil producer with about 1.6 million barrels of crude a day, coupled with its status as the country with the largest proven oil reserves in Africa, make the current civil war in that country a factor in oil price movements. This is further compounded by the fact that Libya exports most of its oil to the developed economies of Europe, including Italy, Germany, Spain and France.

With proven reserves of 754 million barrels and 127 million barrels between them, the Middle East and Africa control a total of 66% of global crude oil reserve (at 56.6 and 9.6%, respectively), according to recent reports published by the British Petroleum, BP. In a world dominated by an insatiable craving for oil, the two regions hold the future of the global energy market in their hands. And should the current uprising spread to the major oil exporting countries in the region, there's no saying what the outlook for the global crude oil price and supply might be in the short to medium term.

Impact on Food Prices?

No thanks to the ongoing crises in North Africa and the Middle East, crude oil prices increased by 10.3% in the month of March alone and by 21% in the first quarter of 2011.

World Bank's 'Global Food Security Update' published this April reveals that sharp increases in energy price affect the price of food in three main ways:

•They encourage greater use of food products in the production of biofuels;

•They feed into the cost of food production through higher fertilizer prices, the cost of irrigation, and other farm inputs;

•They increase the costs of crop transportation to markets

According to the report, a 10% increase in crude oil price is associated with a 2.7% increase in the World Bank Food Price Index which is now back to its 2008 peak owing mostly to current oil price upswing. Multilateral organizations have raised alarm over the worsening global poverty level as the extreme poor spend higher percentage of their meager income on food (up to 70% in some instances). Since June 2010, the World Bank estimates that an additional 44 million people fell below the $1.25 poverty line as a result of higher food prices, part of which is due to higher energy prices.

World Bank reports also show that global maize price (an important food staple in Middle East and Africa) are 17% higher in the first quarter of 2011 compared to the last quarter of 2010, due to increasing demand for industrial uses and dwindling stocks. Several countries in Sub-Saharan Africa are presently faced with double-digit increase in maize prices. Year-on-year, the report identifies key staples that remain significantly higher than their price level in 2010 to include maize (74%), wheat (69%), soybeans (36%) and sugar (21%). So, while high food price was one of the key factors that triggered the recent uprisings in the first instance, the impact of the crises has itself led to a further hike in the prices of food and other commodities. Several countries in the crisis-ridden region, including Iran, Syria and Egypt and also countries

TABLE: GROWTH, INFLATION & OIL PRICING IN 2011: GLOBAL ASSUMPTIONS		2009	2010e	2011f	2012f	2013f	2014f	2015f
Real GDP growth (%)								
	US	-2.6	2.9	2.9	2.9	2.8	2.5	2.4
	Eurozone	-4.1	1.7	1.6	1.8	2.0	1.9	1.8
	Japan	-6.3	3.9	0.7	1.8	1.3	1.2	1.2
	China	9.2	10.1	8.9	8.1	7.6	7.0	7.0
	Middle East & North Africa		4.1	4.1	4.0	4.0		
	Sub Saharan Africa		5.1	4.8	5.9	5.9		
	World	-1.7	4.3	3.5	3.7	3.8	3.8	3.7
Consumer inflation (ave)								
	US	-0.4	1.6	2.3	2.0	2.0	2.0	2.2
	Eurozone	0.3	1.6	2.2	1.9	1.9	1.9	1.8
	Japan	-1.3	-0.7	0.0	0.4	0.8	1.3	1.8
	China	-0.7	3.3	4.3	3.2	3.0	3.0	2.9
	World	1.9	3.0	3.6	3.6	3.5	3.5	3.4
Oil prices (ave)								
	OPEC Basket (US$/bbl)	60.10	77.38	90.00	95.00	90.00	90.00	90.00
	Brent crude (US$/bbl)	67.00	79.47	94.00	99.00	93.00	93.00	92.63

Source: BMI

in Sub Saharan Africa now struggle with double-digit food price inflation.

At the outset of the tragic events in Japan on March 11, reports show that fears of lower import demand had driven down the futures' prices of corn, soybeans and wheat. But prices of these food commodities have since rebounded as market fundamentals could not sustain the sentiments that brought about their drop.

An increasingly disturbing aspect of the brewing food and energy price crises is the growing use of food commodities for bio-fuel productions in both developed and emerging economies. In its "Food Price Watch" of April 2011, the World Bank quoting data released by the U.S. Department of Agriculture (USDA) reports that the use of corn for biofuels in the US has increased from 31% of total corn output in 2008/2009 to a projected 40% in the 2010/2011 season. The effort to circumvent the rising price of crude oil is increasing the diversion of food for bio-fuel purposes, further shortening supplies and increasing prices. If the trend persists, the world could be heading back to the crisis period it is only just emerging from.

Oil price and growth prospects?

Experts generally agree that first quarter developments could have massive impact on global growth outlook for 2011. For the regions directly affected by the recent uprisings, downside risks in growth prospects remain. Also, for Japan which suffered twin natural disasters during the quarter, prospect for economic expansion for 2011 looks very dim.

The crises-ridden Arab states, especially the net-importers of crude oil, will likely experience a sharp slowdown in 2011. However, growth in the entire Middle East and North Africa region is still achievable, driven by the oil-exporting economies as they leverage on record high price of crude oil to achieve strong economic advancement.

The Business Monitor International forecasts a 4.1% growth for the region in 2011, same as in 2010. Similarly, the IMF has revised its economic growth projection for the Middle East and North Africa region to 4.1% this year, down from a forecast of 4.6% made in January.

Growth in Saudi Arabia – the region's largest economy is expected to remain strong for several reasons. It has so far been insulated from the socio-political turmoil going on in the region; while it also remains a major beneficiary in the current high price of crude oil which is helping to boost economic spending and activities. The IMF recently revised up Saudi's 2011 growth forecast sharply, from an earlier 4.5% to 7.5%. For the oil-importing Arab economies, the IMF in a new Regional Economic Outlook report foresees possible fiscal deficits, deterioration in investors' confidence and capital flight, all resulting from the current uprising.

The Fund sees Egypt as one of the region's economies that would be worst hit by the crisis, especially due to its vulnerabilities as a net- importer, and also because of the sharp slowdown expected from tourism, the country's economic mainstay. Egypt's growth prospect has been lowered from the 2010 level of 5.1% to just 0.1% this year. In the long term, however, the positive changes expected from ongoing political, economic, social and constitutional reforms could mark the beginning of a more rapid economic expansion and competitiveness in the region.

For Sub Saharan Africa, the IMF in its April 2011 Regional Economic Outlook foresees macroeconomic challenges for the region arising from current 'rapid movements in key prices'. Though the region is expected to improve on its 2010 growth performance this year, from about 4.9% to a robust 5.5% in 2011 and 6.0% in 2012, the report observes that the rising price of commodities would lead to a significant imbalance in growth, from country to country. The big losers will be the net oil importing economies while the big winners will be the oil exporting economies (Nigeria, Angola, Gabon, etc) which incidentally will be the propeller of the improved growth projection for Sub Saharan Africa.

For the developed economies of Europe and America, growth outlook may dim slightly despite the recent recovery from the financial crisis. The expected positive impact of the US payroll tax cut policy on the economy in 2011 notwithstanding, a recent report on the economy published by Morgan Stanley (Global Economic Forum) has downgraded the country's growth forecast, from an earlier 3.6% to 3.3%. A major growth factor observed in the report is the direction of the global energy market this year. As it is, gasoline price which started off the year at $3/gallon now stands at about $4/gallon. According to the report, each $1/gallon change in gasoline price subtracts about $120 billion from discretionary spending power, a critical growth indicator for the US economy. The economic gains from the payroll tax reduction have therefore been offset by the recent upward trend in US gasoline price, an offshoot of the hike in oil price in the global market.

Apart from few instances including Greece, Ireland, Spain and perhaps a handful of others, most economies in the European Union have since rebounded following the financial meltdown of 2008. But the upswing in energy prices is taking its toll on regional economic outlook. In the UK, the Bank of England has downgraded its earlier growth forecast for the country citing ‘a great deal of uncertainty” arising from price volatility in the global commodities market. From an earlier projection of 2.0% growth, a new estimate put the country’s growth this year at 1.7%; and 2.2% in 2012, down from an earlier forecast of almost 3%. The report published by The Guardian (UK), also expressed concerns about the inflationary pressure emanating from higher commodity and import prices, and the increase in the standard rate of VAT; developments that will likely push the country’s inflation level far above the set target of 2%, to about 5% in the coming months.

Germany, Europe’s biggest economy has so far showed resilience despite the rising energy costs. The country at the end of the first quarter reviewed upward its growth projections, from an earlier 2.3% to 2.6% in 2011 buoyed by a rise in consumer confidence and spending, households’ disposable income and industrial output and demand. Expected steady growth in Germany will help European regional economic outlook this year.

In neighboring France, the growth prospect does not look so bright, as consumer spending plunged by 0.7% in March in response to growing unemployment and energy costs. Inflation has also been revised upward from an earlier 1.5% estimate for the year to 1.8%. Crude oil price hike and the rising costs of raw materials are the factors driving France’s inflation. However, if the estimate by the OECD is anything to go by, the French economy could still manage a near comfortable 2.0% growth this year, after 1.5% advancement in 2010.

On the global front, the BMI recently revised slightly downward its earlier growth forecast, from 3.6% to 3.5%; while the 2012 projection also slipped slightly to 3.7% from 3.8%, citing ‘risks from rising oil prices, unrest in the Middle East and North Africa and reverberations from the global supply chain emanating from Japan’s earthquake and tsunami’.

These factors, compounded further by the rising global inflation and the expected monetary policy tightening in several economies are obvious threats to global growth prospects in 2011 and could cut short some of the progress made by a number of countries in the path to economic recovery.

Disaster in Japan: the Economic Aftershocks?

The earthquake and tsunami in Japan is expected to have negative impact on the country’s industrial output, exports, consumer confidence and spending, and further dampen growth prospects in an economy that has been struggling to shake off over a decade of near stagnant growth. But it is not only the Japanese economy that will be hurt by the recent developments. Developing and low-income economies that benefit from Japan’s substantial economic aid will also feel some of the pains. Japan is one of the world’s largest donor countries with an average of nearly $10 billion in aids and humanitarian donations every year. But the economic setback arising from the natural disasters would no doubt affect its ability to support other countries. Also, the country’s foreign direct investments could plummet significantly in the short to medium term as it tries to rally funds for the massive reconstruction and rebuilding that lie ahead.

In the short to medium term, the disaster in Japan could have negative impact on global manufacturing output, given the country’s position as one of the biggest manufacturer of high tech products and a net exporter of globally recognized brands, especially auto and industrial machines and equipment.

What is now apparent though is that despite its position as the world’s second largest economy and third biggest crude oil consumer after the United States and China, the natural disasters in Japan cannot sustain any major drop in the price of crude oil. Initially, it was thought that a plunge in the country’s demand for oil in line with expected significant slow down in economic activities would help curtail ballooning oil price.

The economic gains from the payroll tax reduction have therefore been offset by the recent upward trend in US gasoline price, an offshoot of the hike in oil price in the global market.

http://www.investors.com/image/ISa0629_ph090626.jpg.cms

However, initial news of the quake and tsunami did result in significant drop in oil prices. Reuters reports that Brent crude futures for April delivery fell $1.39 to $114.04 a barrel at 12:51 p.m. EST (1751 GMT), having earlier fallen as low as $112.25 when news of the disasters broke. Also, US crude futures for April delivery fell $1.71 to $100.99 a barrel, having fallen earlier to $99.01. Altogether, oil price shed about $6 per barrel immediately following the disasters in Japan. But prices have since rebounded. To start with, Japan's consumption and demand as a percentage of the global total (less than 2.0%) is not sufficient to sustain a downward impact on the prices of oil. The growing intensity of the Libyan uprising has also not helped matters.

http://science.nationalgeographic.com/staticfiles/NGS/Shared/StaticFiles/Science/Images/Content/earthquake-next-one-photo-rtre2o5-lw.jpg

Also, earlier concerns about a possible massive drop in Japan's oil demand; (especially after six of its refineries were shut down following the disasters) now seem over blown. According to Reuters, the six refineries that were shut down have a total capacity of 1.40 million barrels per day (bpd). Besides, Japan's total oil refining capacity for its 29 refining facilities is about 5 million barrels per day, a demand gap that may not be able to sway market sentiments for too long. The current state of disrepair in a number of Japan's nuclear plants could actually result in increased demand for oil as alternative to the country's troubled nuclear energy. Power outages following the disaster had thrown millions of families and businesses into darkness. Besides, for Japan and other nuclear-aspiring economies of the world, the failures in nuclear energy technology that have been exposed by the recent earthquake and tsunami just might jumpstart a new race for crude oil as a safer alternative to nuclear energy; a race that could actually keep oil prices elevated longer than the world anticipates.

Weeks of struggle to curtail the nuclear accident in the Fukushima plants and prevent the radiation leakages from degenerating into a major nuclear disaster kept observers all over the world on the edge of their seats up till the end of the quarter; a development that could mark the beginning of a new phobia for nuclear technology.

Moreover, Japan, just recovering from a deep recession before the earthquake and tsunami would want to rise up to the challenge with expedited though very expensive efforts to rebuild the economy as quickly as possible. With a near zero percent growth projection for first quarter 2011, Japanese authorities will be desperate for a quick fix where possible and therefore increase investments in order to enhance output. Increased investments in reconstruction would in fact result in massive spending on and demand for crude oil.

So the possibility of any significant drop in crude oil demand in disaster-ridden Japan balancing out the supply gaps resulting from the crisis in oil exporting North Africa and Middle East may never happen.

But while the earthquake and tsunami in Japan may not have had any sustainable impact on the global price of crude oil; it will be one of the factors that would reduce global growth prospect this year. The second largest economy in the world will, no thanks to the first quarter natural disasters, experience a possible negative growth in 2011, a big minus for the global growth outlook.

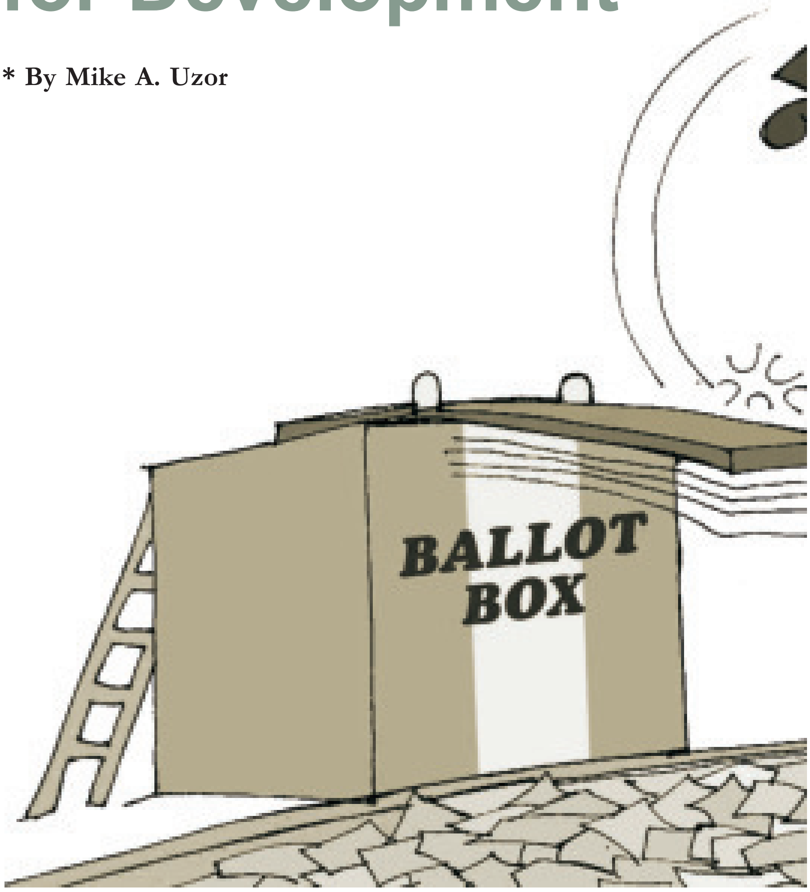
One could wrap this up by saying that the two highly unanticipated developments in the first quarter (the natural disasters in Japan and the uprising in the Arab world) have sent economic analysts and policymakers back to the drawing board on the direction of the global economy in 2011, and possibly beyond. As crude oil and food prices near record high levels, governments around the world are nervous about the possible way forward considering the outcome of similar trends in the recent past. Several countries only just out of the recent recession are apprehensive about a possible relapse. Even China and India, with their decade-long boisterous growth records are not immune.

No doubt, stakeholders around the world have a lot to ponder: Is the world heading back to the dark woods it entered into after crude oil price hit $150 per barrel in 2008? Is the current global economic recovery sustainable with oil price levels this high? Policymakers around the world are likely to spend the last three quarters of the year answering these questions.

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

Nigeria's Post-Election Economy: Yet Another Chance for Development

* By Mike A. Uzor



In the next four years to 2015, the federal government is likely to report about N22 trillion in aggregate expenditure. State and local governments may spend another N26.5 trillion on the aggregate. A reasonable projection indicates total federally collectible revenue in the region of N45.8 trillion over the same period. The opportunity to reflect the running oil wealth in economic development is still open to the nation.

If the present spending structure is maintained, about 70% of the aggregate expenditure of the three tiers of government will constitute recurrent expenditure. Another 20% of the spending is likely to get lost in the process of project implementation and only about 10% may be actually engaged in new economic capacity building. The choice to follow the past wasteful spending is equally open to the nation.

The revenue capacity of government is assessed to remain strong and to improve in the years ahead. In five years to 2009, Nigeria earned a total of N25,644.1 billion in federally collectible revenue. This is about twice the total revenue earned in the preceding five years of 2000 to 2004. This indicates that despite the crash in 2008, the oil market bull is yet running.

At the beginning of the oil market rally in

Federation Account Composition Nb

	2005	2006	2007	2008	2009
Oil	4,762.4	5,287.6	4,462.9	6,530.6	3,191.9
Non-oil	857.0	773.4	1,252.5	1,336.0	1,652.7

1999, oil price hovered at about $16 per barrel. In 2003 when the oil price benchmark of $20 per barrel was used in planning the budget, oil price hovered at about $28 per barrel. Despite the financial crisis-induced oil price collapse in 2008, oil prices averaged $101.2 per barrel in that year against $75 per barrel in 2007, according to the Central Bank. Over the past three years, average crude oil prices stand at more than four times the $16 per barrel at which oil price traded at the beginning of 1999.

While the oil sector suffered production setbacks in the previous years due to community hostility in the Niger Delta, the patchy peace now secured in the area gives the present government the combined advantages of rising crude oil output and prices. This has not happened any time in the preceding 12 years. The increased oil output and sales are estimated to add not less than $1.0 billion annually to export earnings.

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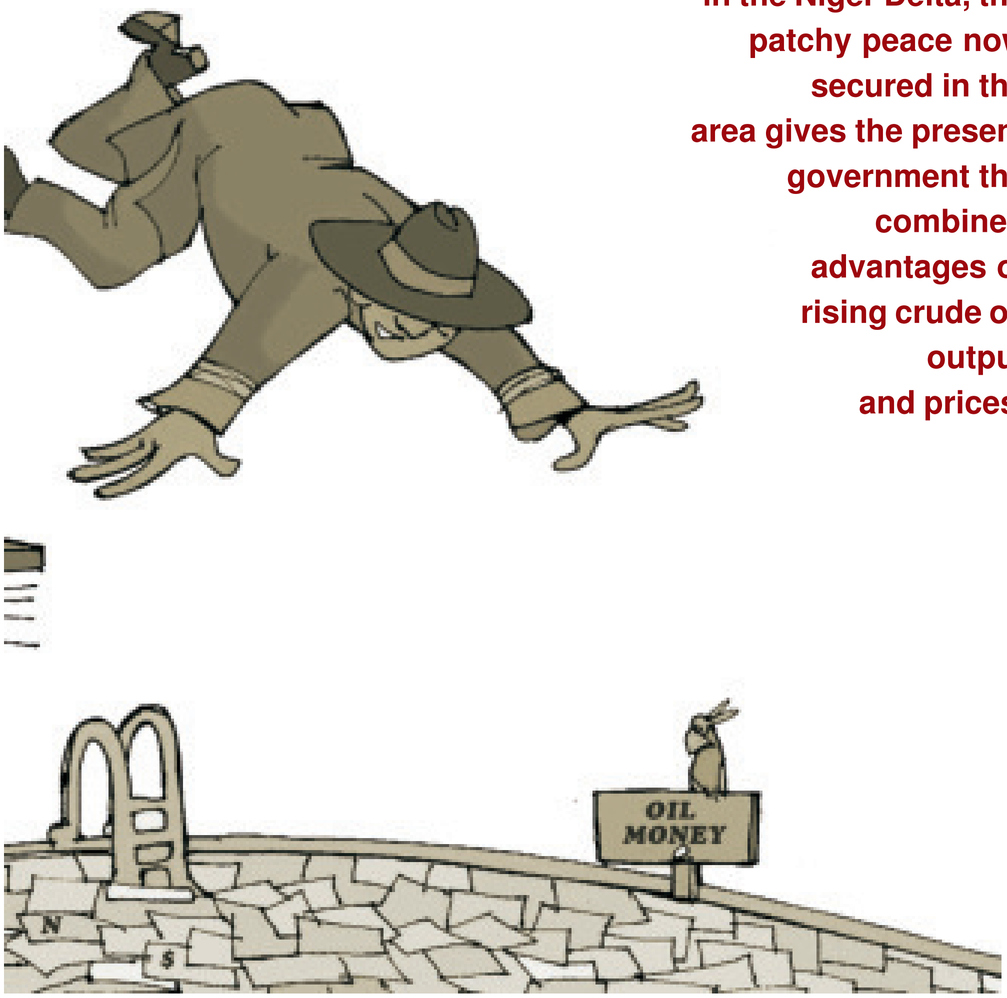


The implication of this is that if Nigeria had opportunities for economic development before but wasted it; it has even a better opportunity presently than any time in its history. If the wealth that came during the oil boom of the 1970s and the windfall of the 1990s were wasted, the nation has right in its hands now much bigger oil wealth than it has ever earned before.

In dollar terms, all the oil revenue earned since the 1970s to the end of the 8-year straight rally to 2008 may be exceeded in just four years to 2015. Consequently, if money is the principal factor in economic development, there will be no excuse for Nigeria to miss yet another opportunity for development.

During the 8-year oil market rally to 2008, oil exporting nations behaved differently. Russia utilised oil wealth to create domestic economic prosperity. Countries like Iran and Venezuela reflected the prosperity in newly aggressive foreign policies, pressing for increased power and influence in the corridors of global power.

Nigeria reshaped consumption around the influx of huge oil wealth to the detriment of economic capacity building. Fiscal deficits were sustained as revenues grew and much of the funds went into recurrent hand to mouth spending. The recurrent expenditure of N449.7 billion that serviced federal government machinery in 1999 represents just 21.6% of the 2010 recurrent budget. If this pattern is maintained over the next four years, the new opportunity for development will again be lost.

Economic development challenges facing the nation have increased in the post financial crisis environment. In view of the broken operating capacity of the private sector, government now has a big task in its hands to jerk up aggregate expenditure, get industrial engines streaming once again and return men to duty posts.

This is precisely the situation that governments and central banks around the world tried to avoid by casting vast safety nets around their financial markets during the global crisis. The interventions worked to defend the operating capacity of the private sector. In Nigeria, modest fiscal stimulus did not lead to the much needed credit flow to the private sector.

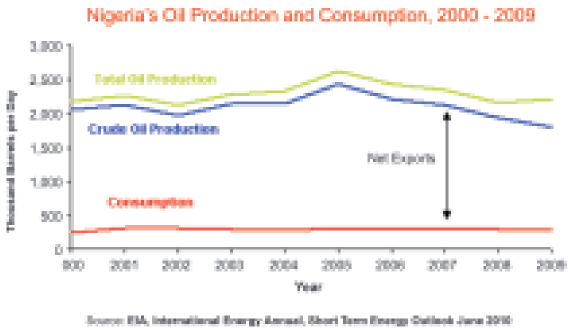
Instead, an aggressive debt recovery exercise by banks happened here at the same time that most countries were implementing counter cyclical credit policy measures. The big lesson of the global financial crisis is that government now faces greater challenges for rebuilding the economy than the fiscal stimulus needed to have kept aggregate expenditure from falling.

Learning from the past

The strength to move an economic or political system forward is built not by the quantum of electoral promises that turn out to be mere declarations of intents and wishes but by studying the errors and mistakes of the past and making changes that avoid their repetition. In this way, progressive societies and institutions build systems and processes that minimise caprices of those in power and preserve the interest and objectives of the wider society through the thick and thin of governance.

Many countries and institutions around the world have conducted numerous studies on the causes of the recent global economic meltdown and are presently developing economic and financial policy vaccines that would provide the necessary system immunity next time such crisis happens in the world. Such crisis provides a good opportunity for regulators to learn something about how their systems work and where to make amends. The Financial Services Authority of the United Kingdom overhauled its own staffing and systems after an internal report discovered supervisory lapses in respect of a troubled bank - Northern Rock.

Such studies provide a useful guide in fixing operating and regulatory lapses and building in proactive policies. Hence innovative regulatory responses



http://www.heatingoil.com/wp-content/uploads/2010/03/oceanguardian14_optjpeg.jpg are institutionalised such that while presidents and central bank governors come and go, the system does not feel the change.

Ben Bernanke, chairman of the United States' Federal Reserve System [Fed] was guided by his acclaimed research works on Great Depression, the role of credit markets in the business cycle and the transmission of monetary policy to provide the central technique for navigating the global economy out of an unusual crisis. Governments and central banks around the world moved decisively in the direction of Fed's decision to cut interest rates in early 2008 and pump billions of dollars to unfreeze credit markets.

As it is in monetary governance, so it is in political leadership. Leaders make their inputs in improving the system and structures of delivering service to the people. That is why American political leadership does change from Republicans to Democrats and vice versa and yet there is no policy somersault.

All that the people need is to elect a pragmatic president able to take the right decisions. The system delivers value down and across the lines. The difference is that they built systems and processes that promote the common good of the people. Nigeria seems to have borrowed the image of the American presidential system of administration but not its spirit.

Why the system and process matter

Wherever there are reliable systems and processes, it is difficult for the leadership to divert the resources of the nation without igniting the security alarm system. Where there are no effective systems and processes, it will be impossible for a saint not to steal state funds and for the best intended president, governor or head of a regulatory body to implement a flawless development plan.

An electoral promise to develop the economy is at best a genuine intension of a man at Enugu desiring to be in Kaduna. Despite being well intended, if he has no vehicle to convey him, his heart desire is of no consequence. Is there an economic development vehicle – the system and process for economic development in Nigeria? The answer is no! Leaders just come and go and get things done the way they deem fit. Their successors spend more time criticising them than improving on what has been accomplished eventually.

People cry for change, by which they mean to change the people in leadership while indeed what is needed is to build a system and process that work. Politicians focus on *what* they will accomplish when elected into office while indeed what is needed is the *how* to accomplish even the simplest promise – the vehicle through which even the least talented leader can operate like an auto pilot and deliver quality services to the nation.

If people are changed without building in the system for performance, it is only a matter of time before calls for another change will be heard. The more we change the people, the more we create instability and discontinuity because our system is built around personalities. Policies therefore change as people are changed. The ideas of the ruling class easily become

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Those who ran the affairs of government during the oil boom of the 1970s were not the same people in charge of the Gulf War windfall of the 1990s and the oil market bull of the 2000s. A different set of people are now in charge of the affairs of government in the midst of yet a running oil wealth.

policies for the nation.

Missing factor in development

Nigeria has the money and the able people required to achieve economic development. It has people desirous to accomplish great things for the society. What it lacks is the vehicle – the systems and processes that effectively utilise the men and the materials to achieve desired development objective. This is indeed a major handicap – something that takes years to build, test and perfect.

If a nation doesn't have money it can borrow. If it doesn't have the right people, it can hire expatriates; but if it has no system, it can't accomplish much. As long as the system remains deficient, it will continue to waste the money and the human materials. Hire experts with proven competence around the world, it will frustrate them. No matter how much has been wasted before, even more will be wasted in future.

Nigeria's development problem isn't quite a peoples' problem because while leadership has been changing since the 1960s, the challenges have remained and even exacerbated. Those who ran the affairs of government during the oil boom of the 1970s were not the same people in charge of the Gulf War windfall of the 1990s and the oil market bull of the 2000s. A different set of people are now in charge of the affairs of government in the midst of yet a running oil wealth.

A World Bank study in 1994 confirmed that Nigeria lacks the vehicle to transmit growth into development. The study showed that GDP per capita and per capita consumption declined while GDP and export volume grew in the 1983-1993 decade. The same pattern of growing GDP and exports against disappointing per capita indices is reported for the 1994-2003 decade and is again expected for the fourth decade running. According to the bank, Sub-Saharan Africa [excluding South Africa] is the one region in the world where the number of the poor is expected to rise rapidly not just in absolute terms but also as a percentage of the population.

Nigerians are not seen to be innately corrupt, rather the system it runs tempts people to steal. Great leaders in the world are neither saints nor super humans; they only met a fair system of governance and improved it a little.

Way back in 1998, Pat Utomi considered what could make good budget intensions a reality and found that "…the reality is that the public service capacity for implementation of policy is probably at its lowest ebb since 1960". Francis Okafor focused on the human element in policy implementation and contended that most economic policies are rendered ineffective in the process of implementation. Mansur Sodangi took a look at national economic planning in 1992 and saw that the implementation problem crystalises in distortions at micro and macro levels. J.O. Irukwu referred to this problem as delinquency in the civil service inimical to productivity and progress.

If you borrow when you don't have a system that delivers value, the loans will be fully drawn down while the projects will not be implemented. Anthony Ani, former finance minister, hinted the nation in 1997 of 18 such

Food market. Stellenbosch, South Africa.

projects in respect of which total external loans of $836 million were fully drawn down but never executed. Ayo Ogunlade, former minister of national planning concurs that the system is deficient in terms of coordination and monitoring of plans/projects.

Building the system

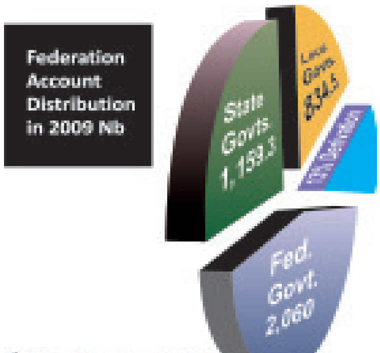
The starting point of sustainable economic development in Nigeria is to build the system and process through which men and materials are put to work and all, not a fraction of the resources, get to intended destinations. A critical starting point of building the system is conducting a series of studies of past failures to understand the loopholes and the mistakes that have so far hindered the economic progress of the nation.

The intension isn't going to be the same as that of a typical probe - which hunts for culprits. Studies are meant to identify policy lapses, inadequacy of in-built responses, human errors and omissions that hinder the realisation of set objectives. They provide a reliable guide to effecting corrective changes that reinforce system efficiency.

While culprits may be identified and punished in the process, the key objective is to rid the system of the kinks hindering the realisation of national economic objectives. Where the intension is to deal with culprits, the real improvement needed in the system is often ignored. That permits the operators to devise new ways of subverting the system and getting away with it. Consequently, the losses to the system will be bigger the next time.

The place of state and local governments in development

Whatever system or process that captures revenue in the accounts of state and local governments needs to be improved, strengthened and made transparent. Those two arms of government were created in order to take economic development closer to the people. So much resources have been put to their use for so many years and yet there is not much to show by way of the intended grassroots development.



Source:
CBN Annual Report & Accounts, 2009

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If a state governor can take huge amount of resources out of state funds and yet there are no changes made in the system of funds allocation and accountability so far, we give the impression that these tiers of government are not important in realising economic development objectives. One or two instances of this are sufficient to bring about an overhaul of the state government system of administration that leaves the fate of a whole state at the mercy of its governor. Such a high level of concentration of economic and financial power on one individual, who is not accountable, is in itself a major barrier to economic development.

The fact that huge funds can be withdrawn from state government accounts and converted into private use means there is in reality no reasonable system of accountability in place. No reasonable development can be expected under such a situation.

If the targeted grassroots development through state and local government isn't being realised, the administrative structure calls for a change. The change process needs to be sustained until an acceptable system that delivers the objectives is established. Where the objectives are not being attained and a faulty system is left intact, we cannot reasonably expect a different result.

Charles C. Soludo, former governor of the Central Bank, studied the poverty status of the nation in 2007 and found that poverty status is highly correlated with the level of intervention by state and local governments to empower the people. The incidence of poverty was higher in states with low levels of intervention.

There have been complaints and petitions by some local government chairmen on lack of transparency in releasing statutory allocations. This warrants a review of the revenue allocation process to local governments to reflect greater efficiency and transparency. Where no action is taken in the face of a faulty administrative system, it is clear that local governments have been created but not sufficiently empowered to fulfill their developmental role.

The local government system needs to be restructured to build in the capacity to receive their statutory allocations without interference and the process to put same to productive use. Until this is done, the grassroots development objectives for creating the third-tier of government will remain unattainable.

Rebuilding system capacity

What must government do to achieve economic development for the nation over the next four years? The answer is simple. Create an efficient system and process of input-output in the public service – which is the missing leg of the public service delivery tripod. The fulfillment of every single promise made by government to Nigerians depends on this basic accomplishment. Of all the desirable changes in the nation, it is the most important because if the process is faulty, what can a leader with a golden heart do?

What steps should government take to rebuild system capacity? It should focus less on fighting corruption but declare a total war on poverty that begets the corruption. Two major policies of government had spread poverty to the point of Nigeria being counted among the poorest nations in the world. The first is exchange rate devaluation in an import consuming nation. From just N3.18 to the dollar at which the naira exchange rate closed in 1986, the value of the currency has fallen far below anyone's imagination.

Contrary to the promise, the devaluation did not lead to the development of cheaper domestic products as alternatives to high cost imports. That could not have happened in the first place because local productive activity again depends heavily on imported materials and equipment, which rose in prices as the value of the naira kept on falling.

Consequently, prices of basic needs soared with the sustained naira depreciation and real incomes crashed in the face of galloping inflation. Basic survival instincts compelled even the 'saints' to begin to cut corners to make both ends meet. Little by little, occasional disappearances of small cash balances in the tills dovetailed into a terrible black hole into which billions of dollars of the nation's wealth have disappeared.

While the problem of poverty was clearly identified and the need to address it duly recognised, policies and programmes designed to deal with it were equally frustrated by the same problem of poverty-borne corruption that they were meant to address. Yet, while there was no headway in reducing poverty, government policies that reinforced it were sustained.

The second major policy that made creeping poverty to get up and run was the sustained increase in the prices of petroleum products in a system that depended virtually on road transportation for movement of people and goods. The net effect of the hike in pump prices is that transportation cost became the biggest component in the pricing of all products locally produced or imported. For instance, the cost of sand delivered to a construction site from our seashore constitutes more of transportation than any other input.

Poverty is considered a more dangerous phenomenon than corruption because it attacks human dignity, perverts integrity and changes the value system. Hence the pursuit of things of honour, integrity and collective good gives way for unimaginable selfish acts. If you lift a man from poverty, you raise his value system once again. Until you do this, you cannot successfully use him to accomplish noble objectives for society. In sum, while government seems to be saying it is ready to drive economic development in Nigeria, the system and process to accomplish this aren't ready.

This is the same reason why promises to fix the nation's electricity problem could not be fulfilled for about 12 years now in spite of the huge funds sunk in various power projects. For the same reason, government cannot hope

Christopher Murray, Jens Stoltenberg, Bill Gates, Gordon Brown, Olusegun Obasanjo, Fareed Zakaria, Giulio Tremonti, at the World Economic Forum Annual Meeting in Davos, 2006

to win the battle against corruption, which has also been on over the past 12 years. The very security system for fighting corruption is subject to a lot of compromises.

A system that creates poverty cannot be cured of corruption. In an interview published in the Sunday Times of August 16, 1987, Eme Awa, then chairman of the National Electoral Commission, told the nation that "they [politicians] employed all sorts of devices to corrupt the system…" He said politician were able to do this because "...many electors were not self-reliant and so they accepted the bribes or allowed themselves to be bribed."

As it is in the electoral system, so it is in the MDAs. When a good operating system is created, it takes people to maintain and enforce its checks and balances. The most efficient adminis-

Source: CBN Annual Report & Account, 2009

http://upload.wikimedia.org/wikipedia/commons/5/53

trative system in the world will break down any time the people to enforce it are impoverished. A new strategy is needed to achieve value for money spending at all levels of government. This is needed to channel funds into the nation's large growth reserves, 50% of fallow agricultural land, abundant natural reserves and youthful population.

In the post election period, the President will try to put money in the system in order to fulfill electoral promises. Let it not be a surprise if at the end of the four-year mandate he complains of a system that has frustrated the effort. Former President Olusegun Obasanjo experienced the same frustration when he said that Nigeria's problem is like an overflowing native gown [sokoto]; adjust the left hand side, the right hand side will scatter.

Obasanjo tried to deal with the system problem by introducing due process. This resulted in a surge in recurrent expenditure where due process did not apply and a disappointing slow down in capital spending. At the end what due process tried to save was more than lost in unspent capital votes that were never accounted for. Any effort that does not begin by rebuilding the service capacity of the public sector isn't going to get far in achieving economic success.

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How to make the people self-reliant

Where do we go from here? Simply target the basic human necessities and make them affordable to the general public. Put in place a network of modern rail transportation system across the nation and the cost of food products and housing will drop by up to one-half. If it becomes possible to live in Benin and work in Port Harcourt or live in Ondo and work in Lagos, the proportion of household incomes spent on rent would drop significantly. Rents will crash in the presently congested cities, as people spread out into cheaper houses in newly linked up areas.

The next are health, clothing and education, which should be available to all without a struggle. Such measures to enhance the relative value of disposable income are more meaningful than wage increases. New policies are needed to support the above measures aimed at enhancing real value of disposable incomes through cost cutting. Caution is needed to avoid policies that could neutralise the desired effects of such policies.

Two areas to watch are further exchange rate depreciation and deregulation of petroleum products prices. The high level of import dependence of the nation does not qualify it for the level of exchange rate flexibility and open borders in use. In order to achieve economic development, there is a price to pay by both Nigerians and the international community in terms of restricting imported consumer goods to permit the building of domestic capacity to produce cheaper alternatives.

The infrastructure development strategy needs to focus on establishing key competitive advantages that enable local producers feed the market with significantly cheaper alternatives to imported consumer goods. This competitive advantage needs to be built, maintained and improved on a continuing basis before exchange rate depreciation could become a positive tool for macro economic management.

The same applies to deregulation of petroleum products prices. The main transportation system that moves people and goods needs to be first shielded from the direct impact of the policy for it to impact positively on the economy. In sum, for inflation-prone measures such as exchange rate devaluation and raising of pump prices to be effectively applied, the creation of cheaper alternatives is a prerequisite.

Need for integrated development strategy

Government needs to conduct extensive studies and secure expert recommendations before embarking upon major policies and programmes. If the nation needs new universities and airports, the studies will indicate so while also specifying other aspects on an integrated development strategy that should complement the policy option recommended.

The nation needs to return to the systematic process of policymaking. Before and well after independence major policy decisions were preceded by committees of inquiry, special reports and consultations of experts. This permits economic operators to see major changes coming and gradually adjust. In the present times major policies are cooked overnight and served hot at down, jolting operators and shocking the system. Pat Utomi blames high regulatory risk for inadequate private sector responses to government policies.

The introduction of special silver currency in West Africa during the colonial administration was preceded by at least two major commissions of inquiry over a period of 12 years. These were the Barbour Committee of 1899 and the Emmot Committee in 1911. The enactment of the 1952 Banking Ordinance followed the recommendation of G.D. Paton, an official of the Bank of England, who was appointed three years earlier in 1948 to investigate the causes of bank failures and recommend policy control and operational guidelines for preventing further deterioration of the banking condition.

The establishment of the Central Bank of Nigeria was preceded by not less than seven different studies and expert consultations, including extensive debate in the House of Representatives. The decision to set up the Lagos Stock Exchange in 1961 followed the report of R.H. Barback Committee in 1959 on "the ways and means of fostering a share market in Nigeria".

Alarmed by the upsurge of price inflation in the post civil war economy, the military government then set up an anti-inflation Task Force to recommend measures to contain the upward pressure on the price level. Most of the measures recommended were adopted and by the end of 1979 the rate of inflation had been lowered to about one-half of the 1975 peak.

The anti-inflation study made a critical revelation that has since been ignored in the effort to contain inflation. It found that declining farm production in the face of rising population was the main factor in the upward pressure on basic food prices. In the absence of an appropriate policy response, an initial effort to supplement domestic supply with food imports has given way for a virtual total dependence on imported foods.

The upward review and payment of huge arrears to public servants [Udoji's Award] in 1973 followed the recommendations of the Wages and Salaries Review Commission appointed in 1970. Even the then military government subjected the recommendations for the salary awards to the expert advice by the governor of the Central Bank and the minister of finance. The banking and financial sector policy that government issued in 1977 followed a comprehensive review of the financial system by the Okigbo Financial System Review Committee of 1976.

Since the 1980s the process of macro economic policy formulation has been politicised and policymaking seems to have become by the rule of the thumb. The reports of even the few investigative committees set up can neither be found nor implemented.

Before the implementation of the banking consolidation policy issued in 2004, the Senate Committee on Banking, Insurance and Financial Institutions invited the Chartered Institute of Bankers of Nigeria [CIBN] to make an input on the proposed banking reform. Rejecting the proposal, the CIBN recommended among others that "whenever major policy changes are being contemplated, enough consultations and dialogue should be held to cross-fertilize ideas to enrich the policy and build mutual confidence, cooperation and support. Announcement effects of every policy directed towards the industry should be weighed before announcements are made, otherwise, the banking public may react in a manner that may seriously jeopardise the industry and the economy."

The eventual outcome clearly indicates that this input had no influence on the policy implemented. The American congress in 1913 considered the options for a central monetary system against overriding objective of the narrow interest of those who may govern it and the caprice of government officials that will appoint them. It settled for a unique system of private ownership of its central monetary authority. It rejected the central banking system

http://beta.irri.org/news/bulletin/2008.44/bullimg/FarmersFieldDay.jpg for what is termed "the Congressional fear of concentration of power" and adopted the Federal Reserve System. The system is not a single central bank but a conglomeration of largely autonomous, regional central banks.

A u-turn to agriculture

The nation needs to make a u-turn to return to agriculture with a great sense of urgency over the next four years. Being the 8th most populous nation in the world and 39th on the world birth rate table, concerns for food security should rank high on government priority list. Agriculture needs a major capacity building no less than has been experienced in the financial sector of late. This is easier agreed than implemented and the implementation required isn't a matter of throwing money after isolated gargantuan projects.

A look at current statistics in the sector will provide a guide to introducing policies and programmes that will empower the largest number of the population. About 70% of Nigerians work in the agricultural sector mostly as subsistence farmers. They accounts for up to 80% of annual output and

Facts of Nigeria Agriculture
Accounts for 40% of GDP
70% of population engaged in agriculture
80% of production come from subsistent farmers
Crops account for 85% of farming activity
Food production declining while population is rising
Rapidly rising food import bill
Nigeria is Africa's biggest importers of wheat
Agricultural exports account for 0.2% of total export volume
Wide swings in output due to variable rainfall
Insufficient financing, limited infrastructures
71.2m ha of land arable
About 34.2m ha presently farmed
Less than 1% of arable land irrigated
Poor administration of existing government incentives

crops cultivation represents about 85% of their activity.

Farm yields are low in comparison to Latin America and Asia and storage facilities are inadequate. Farm technology is crude; there is paucity of research solutions, lack of access to finance and low availability of improved seeds. More than 72% of the 98.3 million ha of land is suitable for cultivation but only about one-half of that is presently being farmed.

The population engaged in agriculture is such a critical number that any government effort designed to empower the people should revolve around it. Because this group accounts for the bulk of agricultural production, efforts to raise output in the sector should be focused on it. Perhaps the biggest handicap of the subsistent farmers is dependence on the simple hoe and cutlass, implements that the rest of the world has since left behind.

Government needs to put to their use simple hand driven machines of the size of lawn mower enabling them to clear, till and weed mechanically. The land tenure system here and the socio-cultural environments of the farming community demand that new technology be adapted to suit the local conditions. A country like China cannot wait to roll out such locally adapted machines for Nigerian farmers. Where the technology isn't adapted to the local farmers, they will rut away right in their cases, as has been the experience here.

Any such government intervention needs an integrated approach to ensure that seeds are not in short supply when farmers are empowered to cultivate more lands and that increased output is not lost due to poor storage facilities. Market intervention will also be ensured to prevent wide fluctuations in product prices while the capacity to produce for export is gradually built.

The agricultural sector provides the nation a golden opportunity to reduce the high level of unemployment, check the rising dependence on food imports and restore the capacity for non-oil exports. An unfailing strategy to attract the youth to agriculture is to put new technology and infrastructures in the farms.

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Quality & Internal Control In Banks: Corporate Governance Issues

* By Chuks Nwaze

Having demonstrated the practical challenges that confront bankers and their customers on a daily basis in the last three editions, we are now set to identify new sets of challenges that constitute clogs in the wheel of smooth operation of our financial system which, hitherto, have not received the desired attention.

But before we do that, we need to recap where we are coming from as this is the only way to develop the impetus for where we are going. It is necessary to do this because many of the issues we have been trying to address since consolidation are still with us, even though some of the key players have been forced to step aside courtesy of CBN intervention of 2009 and thereafter.

DISPLACEMENT OF BANK OWNERS

It is still these issues that necessitated the CBN intervention that we are going to discuss in this particular edition. About 50% of the consolidated banks have dropped their foundation Chief Executives and promoters on the heels of CBN intervention and the attendant

http://static.panoramio.com/photos/original/13228495.jpg policy framework on tenure management.

Hopefully, never again shall we pass through this route; we did because we had no choice. What were the seeds of discord that forced us to pass through this route? Essentially, these are the corporate governance issues. Please read on.

We are going to dwell on the specific issues that arise as a result of both the declared and undeclared agenda of the bank owners. In other words, we are going to look at the enabling environment from the perspective of the style adopted by the bank owners to run their banks as well as how their actions or in-actions have contributed towards the escalation of fraud.

As usual, it is only fair and proper for us to emphasize the fact that the scenario we are about to present is not applicable to all the banks in Nigeria. In fact, the vast majority of banks that displayed the characteristics we are about to present are no longer standing as corporate entities within the industry, having been either consolidated with others or liquidated.

The following are the organizational factors that provide the enabling environment for fraud to germinate and flourish in our banking system in the immediate past dispensation:

OPERATIONAL FEATURES

There is an obvious link between the operational modalities of some banks and the tendency to commit fraud especially on the part of staff. Let us ponder over the following specific features of many banks in Nigeria, especially in the previous dispensation:

They hire and fire and are not under any obligation to explain to anybody their reasons for firing. Hence, although getting to be employed is very difficult, courtesy of stringent criteria in respect of qualifications, age bracket, and experience, being asked to go is the easiest thing under the sun.

• There is no effective board of directors; hence, the prime mover combines the functions of chairman, chief executive officer, chief operating officer and even chief security officer. Inevitably, therefore, daily operations are driven by the whims and caprices of this man who may not be a trained banker. In fact, his only qualification for being in that position might just be the size of his purse, coupled with high level contacts within the corridors of power.

• Promotions and career progress are not governed by any laid down criteria. If you are not directly or indirectly related to the 'big man' or his wife you are automatically disqualified from holding certain positions no matter how good you may be. Your subordinate can become your boss overnight with no apologies.

• There are no benefits, whether on disengagement, resignation or retirement; no pension and no gratuity. Hence, although the remunerations are often good while it lasts, the level of anxiety and insecurity is very high.

With the above scenario, the extent of systemic assault on the psyche and personality of workers in some of these banks is better imagined. It is for this reason that they are increasingly being tempted to vent their grievances on the corporate organization which guarantees neither their present nor future security. They do this by committing fraud, if the opportunity exists, often without considering the possibility of being caught.

Another dimension to the issue is the fact that many fraudsters are actually young and energetic ex-staff of the same category of banks who were prematurely disengaged or terminated.

RECRUITMENT 'POLICY'

It is flattering to call the mode of employing people in many of the banks 'policy' as no such thing actually exists. On paper, the impression is given that for new intakes at entry point, only graduates of not more than 25 years of age with first class or second class (upper division) are eligible to be invited for an aptitude test after which the successful ones will be invited for interview.

In practice however, since there is no formal advertisement for recruitment, these criteria are not subjected to any compliance check, hence the most important qualification becomes how closely linked you are to powerful people either within or outside the bank in question. This criterion manifests itself more at the interview stage where the final outcome could be anything but transparent.

Another intriguing aspect has to do with the recruitment of junior staff for cash counting where only holders of National Diploma (ND) are required. But with the full knowledge of these banks, most of the candidates actually possess Higher National Diploma (HND) but they are made to sign an undertaking that whatever higher qualifications they possess would never be disclosed. In other words, higher skills are recruited at a lower cost. Of course, these desperate individuals soon become frustrated and willing tools for 'other' agenda.

The recruitment of experienced bankers, especially into the marketing function, is no less controversial as the fundamental determinant is usually "how much deposit can you mobilize within three months?" (very kind ones will give you six months) or simply "who do you know and how much can he give us"? In a situation where credible references, track record and integrity are pushed to the back seat, all manner of characters and masquerades get employed on the strength of false promises which they do not intend to fulfill abinitio.

Those of them that actually have the contacts in high places use them as a bait to move from one bank to another without developing capacity to address even the most basic issues such as applications for loans. Hence, several loans go bad for improper appraisal.

INADEQUATE TRAINING

If the manner of recruitment in many of the banks is controversial, then the issue of training or lack of it, is patently scandalous. Although you hear of the hundreds of millions of Naira spent on training by some of these banks, the question is: Who verified these figures and what manner of training was received? We can even extend the question further: What category of staff received the training? If a general manager or executive director who has contacts in high places threatens to leave the bank and he is sent to go and cool off in Wharton or Harvard Business School to dissuade him, is this the kind of training being referred to?

The truth of the matter is that due to the persistent pressure on the treasury position of these banks and the exigency of survival, young school leavers are employed and immediately sent to the field to do battle without equipping them with the relevant tools by way of training. In particular, young girls are engaged (note that outward appearance is very important in the selection process) and sent to go and source for deposits with unattainable targets, when they do not understand what happens inside the banking hall, neither do they understand the needs of the customers they are going to meet and interact with.

Occasionally, they are dispatched to the training school for one or two days where lectures are dictated and handouts given (which are never referred to after that). These time-offs would have been appreciated by these helpless youngsters, but with the deposit targets always starring them in the face, they do not look forward to it. In the circumstances, it is doubtful if any meaningful impact is made whether on their performance or confidence level by these purely academic training.

As is the case in the well established and properly managed banks, the normal practice is that a new employee is passed through a structured table –to-table training under the strict supervision of existing staff for a period of one year (minimum of nine months) in a big branch. During this period, he acquires necessary knowledge and confidence in all aspects of banking but without being assigned any specific responsibility until he is certified ready.

This is the kind of initial training that enables the new employee to interact with customers without being susceptible to unintended or unauthorized machinations. Even if the emergency bank owners are aware of this, there is no time for it as immediate results are required at minimum cost.

LACK OF STANDARDIZATION

On some occasions, this category of banks in question also do not have the time or the patience to articulate a proper and enduring Manual to guide their operations, not only for reference purposes in respect of existing staff but also as a training material for new entrants. Even when one exists, it is constantly being adjusted or amended to accommodate newly developed survival strategies.

The implication of this is the excessive use of discretion, even by junior officers who have not been adequately prepared to appreciate the wider implications of their actions. Some of the discretions when wrongly applied may result into fraud if capitalized upon by unscrupulous customers who might just be waiting in the wings for the opportunity. Staff members themselves may also decide to cash in on the situation and enrich themselves at the expense of the bank.

Who verified these figures and what manner of training was received?

IMPROPER SEGREGATION AND ALLOCATION OF DUTIES

Inadequate segregation and allocation of duties is a direct fall out of the paucity of staff in most of the banks. For instance, if one person is made to perform the functions of three persons, there can be no room for segregation or allocation of duties which in itself defeats the cardinal principle of internal control. In such circumstances, fraud is only a matter of "when" not "if".

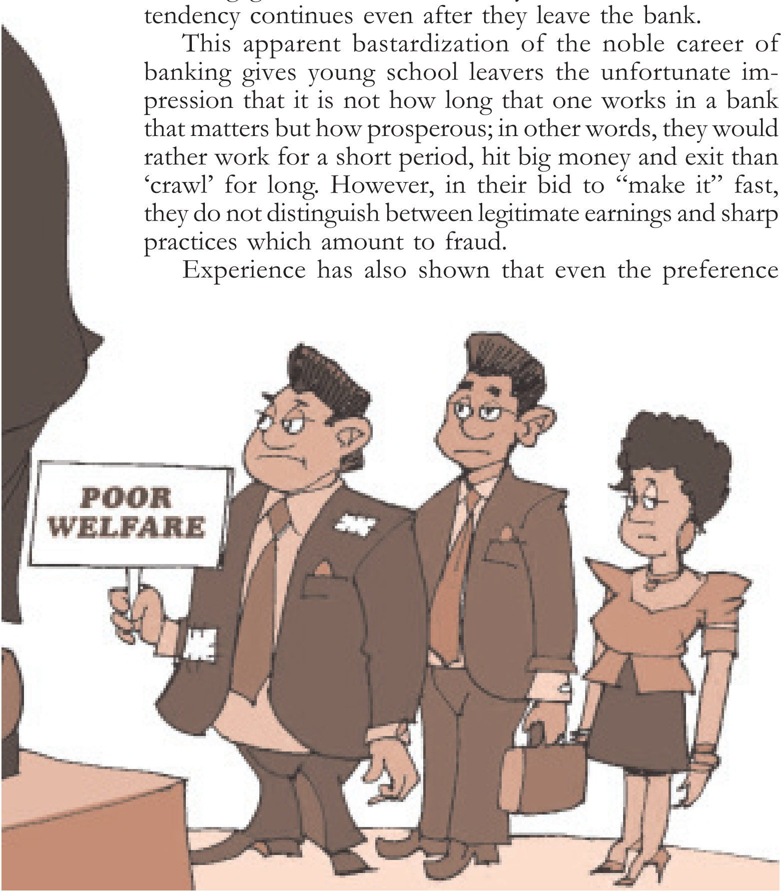
OUTRAGEOUS REMUNERATION

In their desperate bid to attract reluctant staff from other banks, some of these banks offer mouth-watering and patently outrageous remuneration packages to employees who are willing to jump ship. Perhaps, until recently, it may not be generally obvious that this is a double-edged sword, more of a Greek gift. Which way to go: high remuneration for high risk job or lower remuneration for a stable career. Unfortunately, several young and ambitious professionals have burnt their fingers by choosing the former.

Sadly, however, it is a direct consequence of the artificial life-style that goes with jumbo remunerations (which must be maintained at all cost) that some banks turned breeding grounds for fraudulently-minded staff and this tendency continues even after they leave the bank.

This apparent bastardization of the noble career of banking gives young school leavers the unfortunate impression that it is not how long that one works in a bank that matters but how prosperous; in other words, they would rather work for a short period, hit big money and exit than 'crawl' for long. However, in their bid to "make it" fast, they do not distinguish between legitimate earnings and sharp practices which amount to fraud.

Experience has also shown that even the preference for short tenure and massive wealth is often a mirage as the proceeds of high earnings and sharp practices are not always invested wisely. The bulk of it is frittered away through the maintenance of flamboyant and exorbitant lifestyles while a good chunk is lost to conmen, hangers-on, 419 and other operatives who are fully aware of the gullibility of the salary-based millionaires who wear designer suits and silk ties inside the air-conditioned confines of the banking halls.



Now, the bubble has burst and many of the surviving banks have been forced to cut down on overheads, especially remuneration.

PERPETUAL SERVITUDE

It is apparent that certain habits, policies or practices of many bank owners and their management are designed to keep the generality of bankers under perpetual servitude and in the process extract loyalty and unwavering commitment while the job lasts or for as long as their services are required.

This manifests in various ways but common examples include the following:

- While short-tenured facilities such as consumer loan, furniture loan, personal loan, compassionate loan, car loan, etc. are all available for the asking, mortgage loan (a long-tenured development facility) is almost a taboo.
- For the senior members of staff, they are provided with chauffer-driven official cars, maintained at the bank's expense. In many instances however, the car becomes your own after five years provided you are still in the employment of the bank. If you decide to resign before then, you are debited with an amount which you may not be able to pay, which means you will drop the car. Meanwhile, this category of staff are not entitled to vehicle loans which means that they may not have good personal cars.
- If a loan goes bad, instead of pursuing the customer for repayment, the outstanding amount is converted to a short-term loan account for the branch manager and others involved in the relationship not withstanding that the facility may have been approved in head office; collusion with the customer is immediately assumed. The loan repayment is deducted from their salaries at source.
- You are expected to dress very well at all times, in the special colours prescribed which must align with the corporate culture and core values of the bank. Of course, this is very expensive, especially with the element of competition involved. Although there is often no time for lunch, it stands to reason that these people can only eat in choice places.
- In order not to disturb the expensive banking hours during the week days, most other activities such as courses, workshops, seminars, meetings, symposia etc. are carried to week-ends. In other words, there is virtually nothing else that you can do for yourself apart from bank work. Even social activities are a luxury and this explains the fact that the largest concentration of spinsters are found in the banking halls of this category of banks.

CASUALIZATION OF STAFF

Another explosive and vexatious practice of many of the banks is the casualization of a certain category of staff, usually those on the lower rungs such as cleaners, drivers, office assistants, secretaries and cash counters (i.e. bulk tellers).

Although the issue at stake centers around cost, it is not generally evident that what is being gained in one pocket is lost through the other. This category of people who have no future within the bank will stop at nothing to get back at the organization that has condemned them to perpetual servitude, penury and psychological torture.

It is clear enough that the vast majority of frauds in these banks that have to do with insider information and operational details are traceable to this category of temporary or expendable workers. The Nigerian Labour Congress has been engaged in a bitter war with some of the banks on this issue of casualization.

SKEWED REWARD SYSTEM

The reward system in some of the banks which is heavily skewed in favour of the front office personnel (i.e. marketing group) compared to the back office staff (i.e. operations and control group) is also a veritable source of acrimony and bad blood. The sing-song which does not hold water, is that the marketers in the bank who bring the money are synonymous with the strikers in a football team who score the goals, hence they deserve higher reward, faster career progress and higher profit sharing. This argument is only a measure of the instability within the sector. Of course, you will not hear things like these in the strong and well-managed banks with laid-down criteria for performance measurement and where every staff is appraised in relation to his specific job function.

Unfortunately, the people in the operations unit who are discriminated against are those who hold customer mandates, process and authorize all transactions and are in custody of cash and other control and security instruments. Hence, no fraud can succeed without their knowledge, cooperation or connivance. You can imagine the level of risk these banks are exposed to on a daily basis, many of which are actualized.

RENDITION OF INCORRECT RETURNS

It is an open secret that the returns submitted to the regulatory authorities by these category of banks are smartly 'doctored', carefully dressed and presented to meet the requirements at any point in time. Although there is never a written instruction to this effect, the truth is that this practice is a survival strategy discreetly engineered, approved or authorized by management since the actual situation on ground is never palatable.

An interesting issue which will not be explored now is whether or not the regulatory authorities are aware of this practice, as well as the rhetoric question of what kind of professionals are used or allow themselves to be used for such unedifying conducts.

For now, what concerns us is the fact that the generality of staff in those banks are fully aware that the ownership is surviving through fraud and deception; hence they too can develop their own survival strategies using the opportunities inherent in their job functions.

'WINDOW-DRESSING' OF ACCOUNTS

If the practice highlighted above is excusable on the ground that the 'returns' have limited circulation as they are forwarded only to the regulatory agencies, the deceptive habit of declaring and publishing non-existent figures in respect of earnings, profits, deposits, loans and advances to the whole world through the print and electronic media called "window-dressing" is surely a frightening, dangerous and unacceptable dimension to the policy of growth and liberalization of the banking sector.

As these accounts are usually audited and approved by the CBN prior to publication, we shall also examine at a later stage, how these functions are

http://www.lorensiegellaw.com/images/BoardroomWeb.jpg performed and whether or not things could have been done differently in our own peculiar environment.

Again, we have to examine the motivation for this fraud which is obviously the 'mother' of all the survival strategies adopted by bank owners to hoodwink the general public and postpone the day of reckoning. The simple reason is that banking business is based on confidence and positive perception by the general public. Hence, irrespective of your internal failures, problems or difficulties as a bank, you can remain alive if you maintain a good public image. This also explains the undue emphasis on both internal and external aesthetics.

But it is the human beings that are working in these banks who are being used to achieve this grand cover-up and they are aware of the truth within; they are also aware that falsehood does not last forever, they see the banks that are being liquidated when the truth is finally out. They soon start getting ideas of how to settle themselves while the music is on. Of course, the way to go is to search for avenues to commit fraud.

BANK OWNERS AND THEIR LIFESTYLES

Without prejudice to the conservative and virtually spartan lifestyles of a few successful entrepreneurs in the banking system, it is also true that the vast majority of bank-owners have stirred up considerable outrage, discontent, controversy and even public opprobrium through their sheer opulence and highly ostentatious lifestyles which could be anything but examples to the generality of staff who are toiling to produce results for them under difficult circumstances.

Examples of this include the following:

Acquisition of expensive fleet of exotic cars and SUVs which are not usually included in the fixed asset records of the bank, just as the mode of purchase would beat the most sophisticated audit trial. It would be revealing to beam a searchlight on how these state of the art 'machines' are purchased as well as the source of funds.

Several bank-owners and chief executives do not use cheque books for most internal transactions conducted in their personal capacity such as cash withdrawals, lodgments, transfers etc. I recall the personal secretary to the CEO of a bank who complained privately that for the four years she worked with her boss, she never cashed a single cheque for him, even though the 'bigman' made huge expenses in cash, including regular gifts to her. The irresistible question is how does the CEO obtain large volumes of cash without drawing cheques on his legitimate emoluments from the bank?

In some instances, the buildings housing some branches were purchased by the bank in the name of the executive chairman/CEO to whom rent is also being paid by the bank. The same goes for his personal residence which was bought with the bank's money while the bank incurs rental expenses in its books and remits same over to him.

Some bank-owners move about in a long convoy of cars and SUVs escorted by a retinue of body guards, security agents and personal assistants all of which are paid for by the bank. At parties, they 'spray' either with dollars or the highest denomination of naira, notwithstanding the fact that the bank itself may be in difficulty.

How does the Chief Executive of a bank own a private jet with which he cruises around the world? With which money? Those who were wondering why the CBN should intervene in the affairs of private banks were obviously not looking in the right direction. Is it not private individuals that commit armed robbery against innocent citizens? Why is the government concerned?

OTHER PRACTICES

There are several other offences that are masterminded, encouraged or supervised by some bank-owners to ensure the survival of their banks but which are obviously against the letter and spirit of the government's macroeconomic policies. These include but not limited to the following:

Round-tripping: This refers to the practice of buying foreign exchange at official rate and selling it at 'black-market' rate, thus making a windfall profit that has nothing to do with the normal functions of financial intermediation for which the banking license was issued.

Contravention of sectoral allocation of credit: Many banks do not comply with the ratio of their risk assets that should be devoted to specific sectors of the economy as enunciated by the policies on sectoral credit.

Contravention of interest and lending rates: Because of the sheer size of overheads inherent in their operations especially in the area of staff emoluments, rent, vehicles, etc. many of the banks have to cut corners to survive which include charging the borrowers more even as they do not pay enough on deposits which they need to remain in operation.

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The Nigerian Aviation Industry: *Can the Elephant fly?*

* Sunday Enebeli-Uzor

The unabating scarcity of aviation fuel and debt overhang plaguing airlines has become a serious drag on the Nigerian aviation industry. These amongst several other challenges pose threats to the health of the industry as airlines now limit flight schedules or out rightly cancel and/or delay flights to be able to cope with operational demands. The pathetic scenario has culminated in a somewhat predatory price regime for aviation services thereby earning the country the unenviable status of having one of the highest airfare rates in the world.

This is further exacerbated by low and declining passenger traffic into the various airports in the country as seven airports recorded negative growth in passenger traffic for the period January to December 2009, according to available industry statistics. The scenario is even gloomier as eleven airports recorded negative growth in aircraft movement for the same period according to statistics from the Federal Airports Authority of Nigeria (FAAN). Some airlines are presently on 'life support' from government in a bid to avert the collapse of the aviation industry.

The excruciating operational environment has led to the demise of several airlines despite the enormous potential of the Nigerian aviation industry. At some point, the story of the industry was synonymous with air mishap and airline failures. While there has been significant improvement on the former, the same cannot be said about the latter. The country has thus somewhat become a graveyard for airlines as the aviation industry history is replete with instances of many operators that could not celebrate their 10th anniversary. Except for the defunct Nigeria Airways and a negligible few, the industry is yet to celebrate an airline that operated continuously for two decades. The unsightly carcasses of grounded aircraft of failed airlines now occupy precious space in the nation's airports. This ugly scenario has pitched the FAAN against the owners of these unserviceable aircraft with the former threatening to get rid of the planes.

FEDERAL AIRPORTS AUTHORITY OF NIGERIA
OPERATIONS HEADQUARTERS
AIRCRAFT MOVEMENT
JANUARY - DECEMBER 2009

AIRPORT	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	G.TOTAL	TOTAL 08	%GROWTH
MMA DOM	3,880	3,755	4,513	4,380	5,612	5,414	5,772	5,480	5,254	5,626	5,651	4,539	59,876	55,785	7
MMA INT'L	2,043	1,689	1,928	1,958	2,133	2,112	2,029	2,037	2,048	2,183	2,234	2,158	24,712	21,689	14
ABV DOM	3,734	3,582	3,958	3,874	3,776	4,118	4,382	4,128	3,992	4,204	4,208	4,556	48,586	38,266	27
ABV INT'L	356	332	398	366	350	388	326	382	418	518	492	518	4,480	3,318	33
PHC DOM	1,782	1,618	1,680	1,567	1,671	1,643	1,812	1,878	1,826	1,878	1,808	1,963	21,161	16,567	28
PHC INT'L	51	60	70	78	95	88	97	98	99	104	111	76	1,025	348	195
KANO DOM	279	270	347	309	338	347	371	376	382	418	349	468	4,135	3,641	14
KANO INT'L	134	112	128	133	139	147	134	143	137	162	182	128	1,971	1,845	7
ENUGU	460	445	466	476	518	490	576	535	535	571	579	621	6,286	4,447	41
OSUBI	1,088	1,082	1,160	1,160	1,256	1,230	1,094	486	1,114	1,185	1,098	1,176	12,939	12,478	4
KAD DOM	355		422	409	379	377	0	0	353	185	485	486	3,431	3,576	(4)
KAD INT'L	11		34	0	0	0	0	0	0	0	0	0	25	109	(77)
CBQ DOM	778	620	633	596	608	640	652	581	604	618	560	678	7,622	9,003	(15)
CBQ INT'L	4	2	5	0	6	2	4	0	2	4	2	4	35	380	(91)
SOK DOM	184	88		102	91	107	100	107	93	116	84	127	1,189	1,270	(13)
SOK INT'L	37	0		0	2	0	0	1	7	44	30	56	177	285	(15)
BENIN	636	552	716	658	563	630	680	598	589	601	511	646	7,330	7,036	4
MAID DOM	186	176	128	134	159	133	129	190	127	124	115	155	1,766	1,486	21
MAID INT'L	6	8	8	2	7	2	6	13	18	3	32	26	130	275	(53)
JOS	74	64	88	84	92	74	93	88	74	92	138	192	1,124	936	20
OWERRI	344	310	354	348	340	330	486	388	364	372	342	474	4,382	3,438	27
YOLA DOM	174	125	248	102	136	144	122	124	126	135	119	137	1,866	2,265	(15)
YOLA INT'L	16	0	0	0	0	0	0	0	4	28	8	30	86	70	23
ILORIN DOM	158	196	218	242	212	168	182	280	232	206	168	254	2,576	1,763	69
ILORIN INT'L	10	32	0	0	0	0	0	0	0	0	0	0	35	55	(71)
IBADAN	94	102		118	94	102	106	101	102	112	118	208	1,258	872	44
MINNA	74	73	32	41	50	50	6	0	22		60	164	574	469	23
MIN INT'L	0	0	0	0	0	0	0	0	0	0	0	0	0	24	(100)
AKURE	54	76	120	156	68	84	70	74	76	64	84	68	974	596	75
KAT	132	18	54	6	88	34	64	30	40	58	78	64	692	486	42
KAT INT'L	0	0	0	0	0	0	0	0	0	0	6	28	34	42	(20)
MKD	72	52	76	62	56	60	64	52	6	22	118	0	640	252	162
TOTAL	17,086	15,553	17,702	17,218	18,717	18,284	18,589	18,126	18,721	19,615	19,782	20,168	221,273	193,828	15

Source: Federal Airports Authority of Nigeria (FAAN)

Competition and Pricing in the aviation industry

The Nigerian aviation industry like most liberalised industries has evolved to be competitive and attractive to investors due to its enormous potential. New airlines are opening shops in Nigeria inspite of operational constraints and the lull in the global aviation industry especially after the 9/11 terror attack in the U.S. The policy in the aviation industry as it relates to domestic airlines is based on free enterprise and airlines are at liberty to operate any routes they consider viable in the country. Foreign airlines which operate in the country are however limited to the airport of entry specified in the relevant air traffic licence and are not allowed to operate domestic routes. Airfare rates are not regulated and as such airlines charge fares as they deem appropriate for their services. However, to prevent predatory pricing, the Nigerian Civil Aviation Authority (NCAA) under the general power to regulate, conducts economic audits on airlines offering low prices for air services as appear inadequate to cover their costs and may impose relevant sanctions or issue directives where such audit discloses predatory pricing. How well the NCCA has fared in this regulatory responsibility leaves much to be desired as the travelling public pay exorbitant airfares all the time.

Competition among airlines in the industry has not been effective in achieving fair pricing for aviation services. In the real sense therefore, there is little or no competition in the aviation industry. Nigeria currently has about six functional airlines operating regular scheduled domestic flights to cater for a population of over 150 million. The country has become reputed to have one of the highest airfare rates in the world. High and predatory airfares are features of both domestic and international carriers. For the international carriers, the excessive charges do not comply with international airfare pricing standard. Airline operators however blame the prevalent high airfare on multiple taxes, levies and high cost of aviation fuel that are passed on to the travelling public in the form of higher costs of tickets.

The high cost of air travel in Nigeria becomes more obvious when a comparison is made between airfare rate in Nigeria and other climes for similar distances. In the United States for instance, JetBlue Airways and many other airlines charge about $75 to $79 (N11,500 to N12,200) for one-way trips of over an hour, thirty minutes. In Nigeria however, one-way trips of less than one hour cost an average

of N20,000. This has been further complicated by a 25 percent increase in airfare across all domestic routes announced in May 2011. Discount carriers and no-frills airlines charge even far lower airfares in Europe. For instance, easyJet, Ryanair and Vueling charge less than €20 for one-way trips of over an hour, thirty minutes. Although these discount carriers and no-frills airlines have a number of conditions for their services, their business model can easily be replicated in Nigeria because all domestic routes in the country are short distances of usually below two hours.

FEDERAL AIRPORTS AUTHORITY OF NIGERIA
OPERATIONS HEADQUARTERS
PASSENGER TRAFFFIC
JANUARY - DECEMBER 2009

AIRPORT	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	G.TOTAL	TOTAL 08	%GROWTH
MMA DOM	221,482	218,976	220,181	283,973	274,459	275,348	308,054	306,502	242,736	368,816	309,497	297,148	3,328,100	2,794,928	19.8
MMA INT'L	180,202	157,208	178,633	190,271	195,275	175,437	228,809	221,805	218,419	205,173	187,158	222,908	2,324,468	1,941,038	19.7
ABJ DOM	188,842	189,446	204,423	208,243	217,791	226,647	246,955	258,749	245,641	257,158	263,464	274,305	2,800,444	2,328,298	20.5
ABJ INT'L	30,855	27,602	21,944	28,030	22,474	26,530	24,889	34,519	35,681	38,089	39,105	49,912	395,974	322,992	22.6
PHC DOM	71,176	78,016	73,884	85,672	90,293	82,128	98,616	99,818	89,769	90,317	96,932	108,015	1,034,506	855,249	21.0
PHC INT'L	2,679	3,480	4,404	3,816	2,981	3,034	2,233	3,616	3,490	2,970	5,076	6,472	47,081	14,209	235.4
KANO DOM	15,389	12,059	15,937	15,745	15,680	14,251	16,279	17,340	16,851	17,858	17,106	19,508	188,772	179,428	5.2
KANO INT'L	8,835	6,585	6,798	7,571	7,885	8,998	7,581	11,406	25,486	10,806	14,778	28,975	134,768	167,255	[19.4]
ENUGU	25,548	22,592	23,677	29,752	27,849	27,450	30,812	32,526	32,526	35,486	37,798	40,626	366,592	276,035	32.8
OSUBI	31,341	30,669	34,308	36,422	33,672	36,442	37,596	18,840	37,635	47,917	37,535	34,957	417,040	345,059	20.9
KAD DOM	10,955	11,050	11,031	14,043	12,882	14,354	0	0	12,124	8,524	24,379	26,934	146,028	126,739	15.2
KAD INT'L	1,097	0	0	0	0	0	0	0	318	68	9,488	10,450	21,488	9,787	120.0
CAL DOM	22,639	21,450	22,377	27,236	25,594	23,997	26,056	28,733	26,460	32,046	31,006	28,516	316,060	283,453	11.5
CAL INT'L	77	75	10	0	98	0	100	0	52	102	83	58	675	362	86.5
SOK DOM	5,249	3,022	3,036	4,192	4,311	3,559	3,986	4,248	5,354	4,269	4,153	3,665	48,984	39,986	11.6
SOK INT'L	6,692	0	0	0	0	0	0	0	1,576	10,962	7,583	14,585	41,358	47,128	[12.2]
BENIN	22,311	21,054	21,189	26,362	23,859	25,068	26,146	32,279	26,868	28,700	29,024	31,666	308,790	233,382	32.3
MAID DOM	5,581	5,726	5,947	7,287	6,919	6,382	6,130	8,407	5,657	8,300	7,158	8,113	81,517	57,823	41.0
MAID INT'L	30	18	17	2	50	0	44	995	2,595	15	6,549	6,086	15,777	17,688	[10.7]
JOS	3,808	3,298	3,831	3,854	3,572	3,186	3,548	3,585	5,265	4,269	6,967	7,496	58,560	49,062	3.1
OWERRI	23,258	17,436	19,024	23,373	20,251	19,731	22,948	25,530	22,858	24,299	24,804	29,217	276,926	280,397	39.2
YOLA DOM	6,314	5,208	7,124	5,479	8,981	7,677	7,344	8,447	6,232	7,752	7,303	8,537	91,038	58,881	54.8
YOLA INT'L	775	0	0	0	0	0	0	0	0	2,967	3,105	12,794	17,638	14,695	20.6
ILORIN DOM	962	1,498	1,531	2,087	1,412	2,195	2,248	1,686	1,588	2,244	3,408	3,678	24,512	15,285	60.8
ILORIN INT'L	718	0	0	0	0	0	0	0	720	0	0	0	1,440	8,698	[83.4]
IBADAN	307	477	285	593	441	644	791	713	713	1,051	854	1,348	8,217	3,926	109.3
MINNA	1,645	302	139	140	432	188	15	0	67	2,659	3,927	4,797	12,311	5,083	142.2
MIN INT'L	0	0	0	0	0	0	0	0	0	0	0	0	0	8,375	(100.0)
AKURE	606	808	950	984	862	813	1,058	916	808	1,079	1,303	1,118	11,307	4,809	131.2
KAT	1,861	127	530	44	897	667	1,012	641	707	1,116	936	958	9,196	4,795	93.5
KAT INT'L	0	0	0	0	0	0	0	0	0	4,985	487	8,614	13,086	24,073	[34.2]
MKD	388	393	494	1,265	480	407	678	315	37	215	172	0	4,708	1,098	331.8
TOTAL	907,738	838,383	881,104	1,000,886	970,461	982,416	1,059,294	1,112,408	1,061,347	1,233,864	1,178,374	1,287,706	12,128,464	10,828,372	15.7

Source: Federal Airports Authority of Nigeria (FAAN)

Challenges of the Nigerian aviation industry

The industry is currently contending with a myriad of challenges principal amongst which is funding. Aviation is one of the most capital intensive industries and return on investment is low. Funding constraints have snowballed into heavy debt obligation by airlines as it is estimated that airlines presently owe banks and the government as much as N300billion. Airlines are heavily indebted to the Nigerian Civil Aviation Authority (NCAA) due to failure to remit the five percent ticket charges built into the fares being collected by the airlines from passengers on behalf of the government. The accumulated debt has become a serious impediment to the operations of airlines in the country. The Central Bank of Nigeria (CBN) recently instructed both local and international airlines to pay the five percent ticket charges to the Nigerian Civil Aviation Authority (NCAA), into a special account which has been opened with the apex bank. Airline operators also complain of foreign exchange and custom policies that lead to delays in importation of spare parts for aircraft maintenance, which results in the grounding of aircraft for a long period of time with attendant losses to the airlines.

Infrastructure in most of the airports in the country is in a state of disrepair and in dire need of modernisation and expansion. For instance, the international terminal of the Murtala Muhammed Airport, Lagos was designed to cater for one million passengers per annum. The airport currently caters for over that number but there are no additional facilities to take care of the growing number of passengers that have far outstripped the projection of the

MMA2, Lagos

http://www.detomosabroad.com/wp-content/uploads/2008/08/200-lagos-domestic-airport.jpg planners. The same scenario applies in most other airports in the country. There have also been embarrassing incidences of straying animals on airport runways that have caused near mishaps in some airports due to lack of fences to ward off intruding animals in airport vicinities. The deplorable state of infrastructure at the airports has given rise to a call for total and immediate overhaul of infrastructure in the aviation industry. Almost all the airports in the country are in dire need of remodeling, refurbishing or outright rebuilding to conform to modern requirements.

Another major challenge airlines are contending with is the unsavoury rising price and scarcity of aviation fuel in Nigeria. In a recent release, one of the major airlines in the country operating about 150 flights daily disclosed that it purchases about 500,000 litres of aviation fuel daily and at the price of N180 per litre, the airline spends about N90million daily on aviation fuel. The skyrocketing cost of aviation fuel has impeded the growth of airlines as most of them are now heavily indebted to aviation fuel marketers. The ugly scenario has escalated into serious operational constraints as some aviation fuel marketers now insist on cash payment before dispensing aviation fuel to airlines. This has culminated in flight delays and in some instances outright cancellation of flights. Some airlines now resort to refuelling their aircraft offshore in neighbouring countries like Ghana and Togo where the product is said to be much cheaper. Marketers of aviation fuel have attributed the high cost of the commodity to cost of its importation since the product is not refined in the country. Airlines are also groaning under incidence of multiple taxation and sundry levies by various regulatory and supervisory agencies in the industry.

A major challenge that deserves urgent attention is inadequate skilled workforce required to keep the industry running. The Nigerian College of Aviation Technology (NCAT) has not been able to turn out sufficient pilots and ground operations personnel to meet the manpower needs of the industry.

A major challenge that deserves urgent attention is inadequate skilled workforce required to keep the industry running. The Nigerian College of Aviation Technology (NCAT) has not been able to turn out sufficient pilots and ground operations personnel to meet the manpower needs of the industry. This situation is threatening the health of the industry with attendant capital leakage to the economy as most airlines maintain expatriate staff members who are remunerated in foreign currencies and end up repatriating a major part of their earnings. The available workforce in the industry is also ageing and the human capital shortage challenge is being further exacerbated by brain drain due to poaching by emerging economies in the Gulf and the Far East. Poor service delivery has become a norm in the industry. Incessant complaints of poor customer service delivery, late departures and outright flight cancellations without cogent explanations

Some Defunct and Inactive Airlines in Nigeria

Airline	Operating Dates
ADC Airlines	1984- 2007
Afrijet Airlines	1999- 2009
Air Nigeria	2002- 2003
Air Midwest	2010- 2010
Albarka Air Services	2000- 2007
Al-Dawood Air	2002- 2005
Alheri Airlines	1987- 1987
Amako Airlines	2002- 2004
Amed Air (AmedAir)	1996- 1996
Arab Wings Nigeria	1981- 1981
Bako Air	2004- 2006
Bakoji Airlines Services	1999- 2000
Bellview Airlines	1992- 2009
Capital Airlines	2003- 2010
Chrome Air Services	1990- 2007
Concord Airlines	N/A
Dala Air Services	2000- 2001
Dasab Airways	2002- 2007
EAS Airlines	N/A
Easy Link	2002- 2006
Earth Link Aviation	N/A
Falcon Airlines	N/A
Fassey Aviation	1996- 1997
Fayban Express Cargo	1996- 1996
Fezel Air	1993- 1995
Flash Airlines	1985- 1996
Foremost Aviation	1992- 1994
Freedom Air Services	2001- 2007
Fresh Air Cargo	2001- 2007
GAS Air	1973- 2000
Hamzair	1983- 1983
Harka Air Services (Harco Air Services)	1994- 2001
Hold-Trade Air Services	1991- 2000
IAT Cargo	1997- 1998
Intercontinental Airlines	1983- 1990
International Air Tours	1996- 1996
Interstate Airlines	N/A
Kati Air (Kano Transport International)	1983- 1997
Kolkol Airlines	1994- 2000
Merchant Express Aviation Services	1994- 2001
Nexus Aviation	N/A
Nigeria Air Services	1946- 1947
Nigerian Eagle Airlines	2009- 2010
Nigeria Airways	1958- 2003
Nicon Airways	2006- 2007
Northern Air Service	1982- 1982
Okada Air	1983- 2003
Oriental Airlines	N/A
Premium Air Shuttle	N/A
RiteTime	N/A
Savanah Airlines	N/A
Selcon Airlines	N/A
Sky Executive Airlines	N/A
Skypower Express Airways	1985- 2007
Skyline	1999- 2003
Slok Air	N/A
SMA Airlines	1999- 2000
Sosoliso Airlines	2000- 2007
Space World International Airlines	2004- 2007
TAS (Thames Air Services & Charter)	1993- 1994
Triax Airlines (Triax Air Services)	1992- 2000
United Air Express	N/A
United Air Services (UAS Cargo)	N/A
Virgin Nigeria Airways	1975- 1975
West African Venturers	1992- 1997
Yvic Air	N/A

Source: **International Airline Industry Directories, Wikipedia and airlinehistory.co.uk** and adequate compensations are daily occurrences that the travelling public has become accustomed with. The prevalence of owner-manager scenario is one of the banes of the aviation industry. Most airlines have a 'key-man' management structure that in some instances are inept and without the requisite technical pedigree to run a business as complex as an airline. The complexity of the airline business is such that demands zero error in decision making in all facets of its operation as poor judgment and decisions are always fatal.

JetBlue Terminal 5 at JFK International Airport

http://blog.svconline.com/briefingroom/wp-content/uploads/2009/03/jetbluering1.jpg

Government intervention

Although the Nigerian aviation industry is groaning under high indebtedness, the scenario is not peculiar to Nigeria. In other climes, the industry faces tough times since the 9/11 attach and the recent global economic recession. The rising price of crude oil is also taking its toll on airlines around the world. The growing incidences of cabin crew strike action, especially among European airlines are indications that the industry is currently struggling. In a bid to avert the collapse of the industry, the government through the Central Bank of Nigeria (CBN) established a N300billion Power and Aviation Intervention Fund in August 2010. Although the Fund was initially earmarked to stimulate credit to the energy and manufacturing sectors, it was extended to the aviation industry as a number of airlines have become heavily indebted and gravitating towards a collapse. The Fund is designed to enable airlines to refinance and amortise their loan obligations over a period of ten to fifteen years. Specifically, it would be used for the refinancing of existing loans and leases and as working capital for players in the sector. The long term segment of the fund is exclusively applicable to new power projects only. This intervention fund has helped avert the feared financial crisis and restored confidence in the aviation industry.

Safety and Compliance Issues

The aviation industry is one industry where safety issues are taken very seriously. Perhaps this explains why there is an avalanche of regulatory and supervisory agencies in the industry. Incidences of mishap are always fatal and this negatively impacts the industry as confidence wanes each time something goes wrong. The industry in Nigeria has had its share of downturn due to air mishaps in the past which adversely affected industry growth and resulted in loss of confidence and risk aversion among the travelling public.

However, the various regulatory and supervisory agencies have risen to the challenge to address safety issues in the industry. Consequently, after several years of improving safety standards and painstakingly following rules laid down by the United States Federal Aviation Administration (US-FAA), Nigeria in August 2010 received the coveted Category One Certification. The certification gave a clean bill of health to the nation's aviation operations and Nigerian airlines can now fly their own planes to the United States. Hitherto, Nigerian carriers 'wet lease' aircraft and crew from other airlines with Category One status for U.S. -bound flights, a practice that is prohibitively expensive. Cape Verde, Egypt, Ethiopia, Morocco and South Africa are other African nations with Category One Certification.

Nigeria has also passed an International Civil Aviation Organization (ICAO) audit after acquiring full-body scanners, explosive-detecting equipment and creating separate bays at international airports for screening of U.S.-bound passengers. The Nigerian Civil Aviation Authority (NCAA) is currently preparing the Murtala Muhammed International Airport Lagos, and Nnamdi Azikwe Airport, Abuja for certification by International Civil Aviation Organization (ICAO). If and when the airports scale through ICAO audit and are certified, the reputation of the country's aviation industry will receive further boost. With these certifications, the industry will attract higher rating and lower insurance premium for aircraft insurance. These certifications and improvements in safety standards in the Nigerian aviation industry coming at a time when several African carriers are being blacklisted by the European Union (EU) for significant safety deficiencies requiring decisive action are indeed commendable.

The aviation industry and the economy

In Nigeria like all other countries, the aviation industry serves as a vital means of transportation and major pivot for other sectors of the economy. The industry stimulates Foreign Direct Investment (FDI) inflow into the country and increases the potential for international trade. International trade in turn through its multiplier effects opens up markets and enhances the competitiveness of domestic firms. The industry facilitates commerce through the movement of products and services quickly over long distances thereby enabling economic and social participation by individuals and communities locally and internationally. On the social scene, the aviation industry engenders social cohesion through a global transport network that connects people, countries and cultures. Its strategic backward and forward linkages to other sectors of the economy arouse keen interest for both the government and the citizenry. For the government, the health and safety of the industry is a determinant of how smoothly it serves as a medium of transportation and how efficiently it facilitates economic activities. And for the citizenry, the safety, convenience and reliability of air services determine the confidence they repose on the industry and their patronage of air transport services. Affordability of airline services is also paramount for the travelling public and especially in Nigeria where airfare rates are prohibitively high.

Over the years, the Nigerian government has embarked on several policy measures to ensure that the aviation industry plays its catalytic role in stimulating economic growth and social cohesion. In recent times however, there has been renewed interest in the industry as concerted efforts are made to reposition it to conform to global best practices, including making the industry not just accident-free but investment friendly. The government also intends to develop the industry maximally to become the aviation hub of West and Central Africa. To achieve these, the final draft of the National Technical Working Group (NTWG) on Transport of the Vision 20:2020 made a plethora of recommendations to harness the potential of the aviation industry in a bid to leapfrog its development. Although some parts of the recommendations may be ambitious, they are nonetheless feasible if the requisite political will is mustered. For instance, the strategic visions for the industry include increasing the number of airports in the country from 21 to 37 to reach all state capitals and the Federal Capital Territory (FCT).

With a population of over 150 million people, Nigeria is the most populous country on the African continent and has the largest concentration of the black race in the world. The country's huge youthful and mobile population portends enormous market potential for the aviation industry. On the international scene, a viable aviation industry will not only be a useful tool for regional development but will also reinforce Nigeria's leadership role in the continent. The industry is also a major employer of labour covering areas such as airline and airport operations in scheduled and charter flights for passengers and freight, general aviation, aircraft maintenance, air traffic control and regulation, and activities directly serving air passengers, such as check-in, baggage-handling, and on-site retail and catering facilities. It also has direct link with the hospitality industry. A thriving aviation industry will give a boost to the hospitality industry.

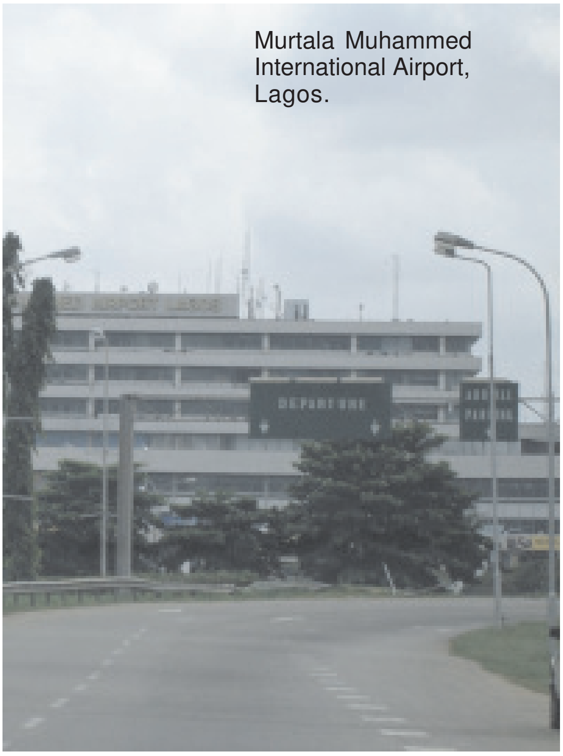
Government's Strategic Plan for the Aviation Industry

To achieve the goal of making Nigeria the hub of aviation especially in the West African sub-region, the National Technical Working Group (NTWG) on Transport of the Vision 20:2020 among other things recommended transit visa waiver for ECOWAS countries bound passengers. The sole purpose of this policy is to redirect such passengers to make Nigeria their 'transit country' as has been successfully implemented by the Netherlands to attain its status as the second aviation hub in Europe after Heathrow. There is also the proposal to build a 500 Capacity Transit Passenger Dwell Lounge to provide efficiently for the surge in passenger that will arise from the proposed new visa waiver policy. The industry has the potential to meet the aviation needs of its neighbours in the provi-

sion of trans-border aviation infrastructure. The plan also includes the upgrading of Akanu Ibiam Airport Enugu to a Full Fledged International Airport to serve one of the six air travel passenger centres in the country. The government also intends to have flag carrier airlines as symbols of nationhood, distinct from national carriers which are usually owned 100 percent by governments. There is also the plan to expanding all International Airports in the country to A380 capability to ensure that the country can cope with the envisaged 20 million passengers by 2020.

Evolution of the Aviation Industry in Nigeria

The origin of civil aviation in Nigeria dates back to the colonial era. The industry is a product of a mere happenstance of history that dates back to 1925 in Kano when the city was gripped by a tense stand-off between the residents and the colonial government officials. During the feud, a British Royal Air Force (RAF) fighter landed on a Polo ground in Kano to undertake a surveillance of the riotous situation. Without air routes, maps, and radio communications, the flight was regarded as a particularly hazardous operation. At the end of the uprising, the Royal Air Force continued flights to Nigeria with an aircraft chartered from the British Overseas Airways Corporation (BOAC) carrying passengers and mail. The flight destinations later expanded to include Lagos, Port Harcourt, Enugu and Jos routes. The joint effort of RAF and BOAC was not limited to Nigeria as it was extended to other English speaking West Africa Counties namely Ghana, Gambia and Sierra Leone. The growing activities of BOAC in the Anglophone West African Countries led to the establishment of a regional commercial airline – the West African Airways Corporation (WAAC) in 1947.



Murtala Muhammed International Airport, Lagos.

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From Monopoly to Liberalisation

The Nigerian domestic aviation industry started as a monopoly. Upon independence in March 1951, Ghana opted out of the West African Airways Corporation (WAAC) having decided to float Ghana Airways Limited, which became operational in 1958. The assets of WAAC were shared and Nigeria inherited some aircrafts and landed properties. The federal government sustained its interest in the continuity of the airline's services. The British Overseas Airways Corporation (BOAC) and the Elder Dempster Shipping Lines were invited to participate in the ownership of WAAC in an agreed equity proportion; Federal Government of Nigeria – 51 percent, BOAC – 33 percent, and Elder Dempsey Shipping Line – 16 percent. The new company was incorporated by the Federal Government in partnership with BOAC and Elder Dempster Limited in 1958. In 1961, the West African Airways Corporation (WAAC) was re-registered and rechristened Nigeria Airways Limited, following federal government's acquisition of the combined interest of BOAC and Elder Dempster Lines. This development followed the need to have a national flag carrier after Nigeria attained political independence in 1960.

Nigeria Airways exclusively provided aviation services until some private enterprises obtained licenses to provide charter services in the country. Like most state owned enterprises of the era, Nigeria Airways operated sub-optimally. Scheduled passenger services were undertaken irrespective of route viability and profitability. The gross underperformance of Nigeria Airways necessitated the breaking of its monopoly by the federal government in the early 1980s and the issuance of Air Transport Licences (ATL) to private operators to provide domestic scheduled and non-scheduled passenger services. The first three beneficiaries of the aviation industry liberalisation are Okada Air, Kabo Air, and Gas Air. The liberalisation and entrance of private sector operators in the aviation industry engendered competition, innovation, and improved customer service delivery. The somewhat boom in the industry after the shift from monopoly encouraged the entrance of more operators. With time, the aviation market became overcrowded with attendant overcapacity, high aircraft operating and maintenance costs and low return on investment aggravated by several taxes and levies which culminated in diminution of fleets in the industry.

Regulation of the Aviation Industry

The aviation industry is one of the most regulated industries all over the world perhaps due to stringent safety considerations. International air transport regulation commenced with the 1944 Chicago Convention. The convention followed studies initiated by the United States and subsequent consultations between the Major Allies. Fifty-four countries attended the conference and at the end, a Convention on International Civil Aviation was signed by fifty-two countries, setting up the permanent International Civil Aviation Organization (ICAO). The International Civil Aviation Organization based in Montreal, Canada sets standards and recommended practices for the safe and orderly development of international civil aviation. Its mission is to foster a global civil aviation system that consistently and uniformly operates at peak efficiency and provides optimum safety, security, and sustainability. Also, the International Air Transport Association (IATA) is the global trade organisation for the aviation industry. The IATA develops the commercial

Osubi Airstrip,
Warri,
Delta State.

standards for the global aviation industry.

On the domestic scene, the Federal Ministry of Aviation formulates and coordinates aviation policies in the country. There are however several government agencies that oversee various aspects of the industry. The Nigerian Civil Aviation Authority (NCAA) is the regulatory body for aviation in Nigeria. The Civil Aviation Act of 2006 established and empowers NCAA to regulate aviation safety without political interference, and also to carry out oversight functions of airports, airspace, meteorological services, as well as economic regulations of the aviation industry. The Federal Airports Authority of Nigeria (FAAN) is the service organisation statutorily charged to manage all commercial airports in Nigeria and provide service to both passenger and airlines. The agency is charged with the responsibility of creating the enabling environment for the development of air transport in the most economic and efficient manner and the services connected with aviation. The Nigerian Airspace Management Agency (NAMA) is another agency in the aviation industry that is responsible for the development of the Nigerian airspace to a level consistent with the requirements of the ICAO Standards and Recommended Practices (SARPSs). The Agency is saddled with the provision of air navigation services to ensure safe, efficient, expeditious and economic flight operations.

Some recent developments in the Nigerian aviation industry

A recent novel development in the Nigerian aviation industry is the commissioning of the Total Radar Coverage of Nigerian Airspace (TRACON) Air Traffic Control System provided by Thales S.A of France. TRACON was designed to provide total radar coverage for the Nigerian airspace to enhance civil and military surveillance of aircraft operating into the Nigerian airspace. The EUROCAT air traffic management system provides the latest technology to ensure safe and efficient operations for en-route, approach and airport movements.

Contracts for the airside terminal building and rehabilitation works at the Nnamdi Azikiwe Internation Airport, Abuja and contract for the construction of the new terminal building at Mallam Aminu Kano International Airport, Kano have been recently awarded by the federal government. Also, rehabilitation and expansion work has been completed at the Akanu Ibiam Airport Enugu and the airport has been reopened for flight operations.

These airport rehabilitation projects will no doubt give the airports the much desired facelift required to meet international standards. The recent airport enhancement projects would cost the federal government about 22.3billion.

Another novel development in the industry is the recent entrant of a new domestic operator, First Nation Airways, despite the operational challenges faced by existing airlines. The development has rekindled optimism in the industry and it is believed that the new carrier would help engender healthy competition that will stimulate quality service delivery and customer satisfaction.

Going Forward: Still enormous potential

With over 150 million youthful population and about six functional airlines, the Nigerian aviation industry still has vast room for growth. However, the cliché of the more the merrier may not necessarily apply in the industry as three or four viable airlines having a fleet of 50 aircraft each could serve the nation's domestic aviation industry better than so many airlines operating uneconomically with heavy debt overhang. With improved infrastructure and the right business model, the Nigerian aviation industry has all it takes to be a major contributor to the nation's GDP. The federal government's strategic plan of making the country the hub of aviation in the West African sub-region as enunciated in the Vision 20:2020 has reinvigorated government's interest in the industry.

Although the Nigerian aviation industry has a number of challenges presently, it has all it takes to rank amongst the most viable in Africa. Despite the liberalisation induced growth, the industry has not grown to its optimum potential. A greater proportion of the population still patronise land transportation for long distance travels. Current passenger movement figures from airports in Nigeria indicate that only about 8 percent of the population travel by air. This is due in part to the high cost of airfare in the country and high aversion to air travel. With stringent safety measures being enforced in the industry and international safety compliance and certifications, confidence is building and a good number of the population will begin to embrace air travel. This is expected to herald another phase of growth in the industry, especially if the right policy mix is put in place to significantly reduce airfare rates to affordable levels. The new phase of growth should be carefully managed by government policies to encourage airlines to merge in a bid to achieve economy of scale and maximize the gains.

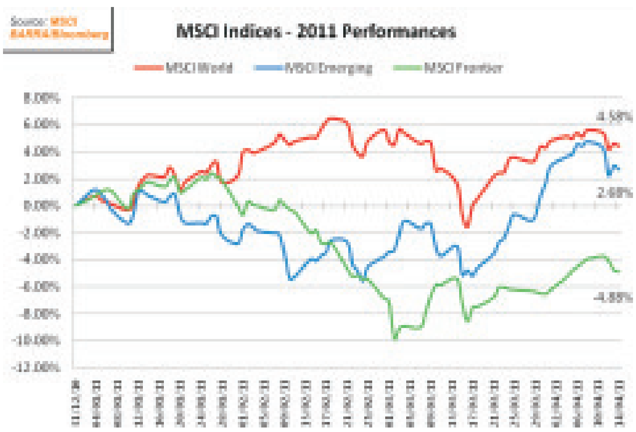
(* Sunday Enebeli-Uzor is an Analyst, Zenith Economic Quarterly)

Volatile first quarter : no respite in sight

* By **Neil Hitchens**

The first quarter of 2011 has been dominated by one continuous and seemingly never ending background theme - volatility. The almost constant geo-political turmoil continues to selectively and negatively impact equity and bond markets, which have also had further downside shocks after the stunning natural disasters experienced around the Pacific Basin. Overall market sentiment is, at best, slightly positive but sporadically, marginally negative. But this hides a disparate range of performances from around the globe for the year to date.

As can be seen from the graph below the returns from all markets, while starting the year in a positive fashion firstly saw performances decouple as first the Tunisian and then Egyptian and other Middle Eastern upheavals kicked, before the more serious contagion from the Libyan uprising was then trumped by first the New Zealand earthquake followed by its more powerful cousin in Japan. However as various difficulties seemed to be resolved, especially the better than predicted melt-down from the Japanese earthquake/ tsunami, from there on, what we saw was a classic Black Swan theory reaction (outlined below).



So while the MSCI (Morgan Stanley Capital International) World Index of Developed Markets peaked on March 19th at a rise for the year of 6.45%, the Emerging Markets Index by then having firstly fallen away on the news from Egypt recovered to then peak on April 8th at +4.52% . The Frontier Markets Index peaked on January 26th at +2.41% only to sink like a stone and collapse to -9.83% on March 2nd before rallying to only be -4.88% as we write this.

Developed Markets – Historic Japanese parallels and “Black Swan Theory”.

The Japanese earthquake induced tsunami of March 11th produced somewhat expected but nevertheless extreme short-term volatility globally. The Japanese market sell-off was mirrored globally as the bad news seeped into equities. However the bad news was then deemed to be not as cataclysmic as first thought and markets then reversed the initial sharp sell-off and in most cases saw the decline eliminated after a couple of weeks.

What we have seen here is a classic example of the much talked about ‘Black Swan Theory’ which seasoned investors have witnessed firsthand many times previously, despite the definition being coined only in 2007.

Black Swan Theory is a philosophical and mathematical theory founded by Nassim Nicholas Taleb. It describes randomness and uncertainty. The theory was described in Taleb’s book *The Black Swan: The Impact of the Highly Improbable*. Its name originates in the assumption in Medieval Europe that black swans could not exist, when in fact, they are rare, but do exist.

According to the Black Swan Theory, unpredictable events are much more common than people think and are the norm and not the exception. Taleb believes that the more educated people are, the more likely it is that they incorrectly believe these unpredictable events are uncommon. Taleb says that because of an information overflow in today’s society, we often don’t interpret data accurately and create correlations that are not always relevant, when randomness more often is the rule. Taleb does not believe in the expertise of bankers or financial analysts and says that society incorrectly believes that they can predict the future.

However the bad news was then deemed to be not as cataclysmic as first thought and markets then reversed the initial sharp sell-off and in most cases saw the decline eliminated after a couple of weeks.

Black Swan Events have three steps:
1 - The event is a surprise
2 - The event has a major impact
3 - After its first recording, the event is rationalised by hindsight.

As we saw from the market’s reaction there was a collective flight to uncertainty, reversed almost as quickly as the fear of the event was put into rational proportion.

While the earthquake shook on the afternoon of March 11th, Japanese markets were open and ended the day weaker by only -180 points/-1.7%; the FTSE 100 closed off -16 points/-0.3% but the Dow was up +60 points/+0.5%.

However, after serious problems were revealed with the Fukushima Daiichi nuclear reactor, Japanese indices opened with steep losses on Monday the 14th, at one stage down -7%, followed by even greater falls the next

After the Japan quake: *Queuing just for the escalator down to the food floor*

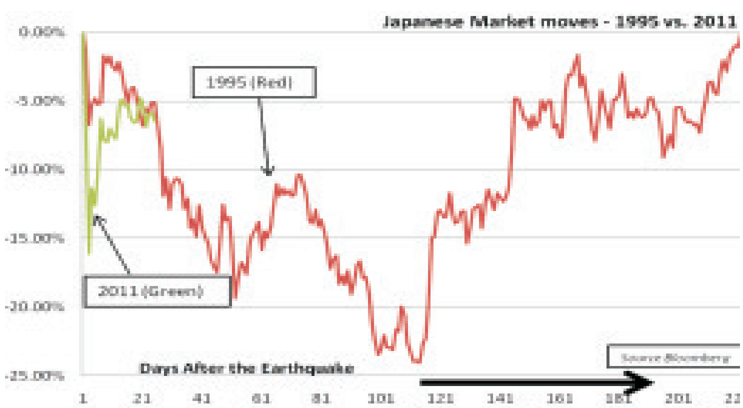
http://www.japanangle.com/wp/wp-content/gallery/panic-buying/dsc00895.jpg day, March 15th, ending at a two year low of 8,605, down 1,015 points / -10.6% (via an intraday low of 8,227 / -14.5%).

The Bank of Japan stepped in with market calming measures but this was not sufficient to calm global markets which fell into a sharp tailspin as irrational fears over the extent of possible nuclear contamination spilled over into full blown global equity contagion and the MSCI World Index (in US$) hit a low for 2011 on March 16th of 1,260, to give a performance for the first half of the month of -7%, off -2% for the year.

But short term fears were re-examined in the classic Black Swan mould and market sentiment turned around 180° on March 17th as the nuclear problems were re-evaluated. So we ended the month with The Dow at 12,319, some +6% up from the low closing point of March 16th, the FTSE at 5,908, +5.5% from the lows and even the Nikkei at 9,755 is +13.4% from that low close of 8,605. The reacted almost identically in the very short term as to what shares are deemed a market Buy and a market Sell. Shares in companies such as Fudo Tetra (Code 1813 JP) which makes earthquake resistant foundations have rocketed; in 1995 they rose from ¥2,550 to ¥7,000 a rise of +175%, in 2011 the rise was from ¥113 to ¥238, +110% but in both cases the shares slid back after this initial euphoria. In 1995 the shares had halved in value from the peak within 4 months and this is likely to happen again.

The biggest loser in 2011 has been Tokyo Electric Power (Code 9501 JP) -78% since the earthquake. 'TEPCO' was, unfortunately, responsible for the nuclear programme and its weakness will continue to be mirrored in the heavy industry sector.

Longer term though the sectors that were the best



New York Stock Exchange trading floor

MSCI World Index recovered to end March +5.9% from the lows but still ended down -1.24% for the month as the Japanese weighting was down -11.4%; other developed markets ended the month overall roughly flat.

Is this then a case of déjà-vu? What parallels can be drawn between the 2011 earthquake and the Kobe disaster of January 1995? What should investors be doing now?

Japanese investors have certainly performers for 1995 could probably have similar moves in 2011: Construction, Housing and Infrastructure Services were winners in 1995; Heavy Industry, Manufacturing and Iron and Steel Producers fared worst.

The Nikkei Index, fell for a few days in both cases after the earthquake only to rally for a few days. However in 1995 the index then continued to fall over the next couple of months to lose a further 10-15% from the first quake induced sell-off levels.

In 2011 it is inevitable that the Japanese economy will contract sharply for the next few quarters, and as such the Nikkei and Topix indices are likely to see some softness, maybe as much as -25% from the pre-disaster levels again - which indicates a potential bottom to the Nikkei of around 8,700 and the Topix of around 750. But at or around this level we would rate the index as a long term buy.

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Developed Markets – The US may, finally, be back as the engine for growth

Developed markets marched in step with Japan to the downside with average declines of around 6% from March 11th until the close on March 16th. But there was an almost complete reversal to the end of March which continued into the beginning of April when further fears about geopolitical contagion reared their heads again as the Libyan crisis seemed to have no possible short-term solution.

Yet, despite a softer MSCI World Index since the Japanese tsunami all major US indices have performed well so far in 2011. The Dow Jones Index of the 30 largest capitalised US stocks is +6.11% as we write. The S&P (Standard & Poor's) 500, which gives a wider spread of stocks, is +4.52% and even the smaller but equally broad-based capitalisation-weighted index of the NASDAQ (**N**ational **A**ssociation of **S**ecurities **D**ealers **A**utomated **Q**uotations) Composite is +4.05%. As the U.S. is the largest component of the MSCI (Morgan Stanley Capital International) World Index, it has helped to bolster overall returns for 2011 while concurrently glossing over some of the weaker performing indices contributions.

This US cloak of respectability covers disparate performances. The US has been partly helped by safety based inflows to the US Dollar as political tensions grew, but this positive performance comes amongst ever increasing signs that the US economy is finally firing on all cylinders. The recent economic releases continue to hint that the US economy's growth has now spread beyond just manufacturing – all of which led to a broad based rally into the end of March and beginning of April.

The best performing Developed Markets this year are somewhat surprising, given the underlying economic and political problems unfolding in all of them. Italy leads the pack +16.45% for 2011, closely followed by Spain, +15.56%, Greece, +13.07% and Ireland, +12.74%. Apart from Italy, the other three countries are currently performing a death-defying juggling act with their debt. Once in a while equity participation and investment defies logic and this is one of these moments. Spain, Greece, Portugal and Ireland are at the brink of a debt precipice. Step back and look at the one year performances of these markets and you will see that this recent rally is more of a herd-instinct compounded by the illogical fear of missing a rally, which once started feeds upon itself. The last 12 months make for very sorry reading for most of these markets. While the World Index has risen nearly 8%, Italy is flat / 0.0%, Ireland remains marooned at -11.7% and Greece is -26.97%. Spain just adds to the pain with a 12 month return of -4.39%. We would avoid Ireland, Greece, Spain and Portugal in the short term until the debt question is answered.

All this Southern European misery is in sharp delineated contrast to Northern Europe where Germany continues to be the regional stimulant. Whereas other countries have rising unemployment, Germany's is shrinking. The German economy grew by +4.0% year on year, its highest rate since reunification two decades ago – a performance in sharp contrast to Greece's not entirely unexpected -6.6% contraction. As a result, better and more sustainable performances in Europe this year have been reported from France, +11,96%, Germany +10.15%, Denmark, +9.13% which look even more impressive over 12 months - the German markets have risen +16.93%, Denmark +23.62% and Sweden +24.08%. We rate Germany and its near neighbours as a buy as the virtuous economic cycle continues to power ahead.

Euro zone faces fresh crisis amid fears that Greece Cannot repay Debt

Despite the somewhat odd "love-in" for equity markets in Greece, Ireland and Portugal, the real disaster - the 20 ton elephant in the room - is in the Euro zone debt markets. The somewhat unexpected remarks by the German Finance Minster, Wolfgang Schauble, on April 14th should not have been unexpected at all for those of us who have been following this slowly unfolding car-crash of a story on a blow by blow basis.

Greece was the first country in the Euro zone to receive a bail-out last year but there are continuing mounting concerns about its economy. The country remains deep in recession and austerity measures demanded by international creditors are smothering any nascent recovery, if there was one there in the first place.

Readers will have noted my previous comments about how to avoid being caught in this inevitable default. The International Debt markets have been trying to tell the global community for months what is happening - all the lights are flashing and the alarm bells ringing. Tax revenues in Greece simply do not now cover future interest payments and while it can go to the well of the International Monetary Fund yet again for a further rescue package, to be honest what is the point, apart from just delaying the inevitable? Although Greece will not default officially, just yet, holders of its debt may 'agree' or be 'persuaded' to not only have their coupon (interest payments) reduced but also have the maturity dates of their paper extended. Quite how this could not be described as a default is down to whatever Euro Dictionary of excuses will be wheeled out at the time.

Looking at the current Bloomberg yield curve, 2 year Greek debt yields 17.9%, or the 3 year yields 19.2% and with 4 year yields of 17.5% it merely shows the writing is on the wall and the game is up for the Hellenes especially when you compare their rates to equivalent German debt yielding 1.85% (2 years), 2.14% (3 Years) and 2.45% (4 years).

We now have an estimate from the markets of when the default is currently estimated to occur. At the ultra short (under 9 months to maturity) end of the Greek yield curve the market is factoring in a default sometime between 20th August 2011 - when the Hellenic 3.9% bond matures and currently yields 'only' 5.6% - and the 19th December when the Hellenic 4.4% bond matures and is currently yielding 15.4%.

This pattern is repeated but to a lesser extent with Ireland, where 3 year rates peak at just under 10% and Portugal, 10.5%. A measure of the lunacy of such sky-high rates is that debt issued by Iraq, maturing in 2028, even after factoring in all possible

http://www.indianagrain.com/media/images/blog_entries/1089.jpg

short-term scenarios, today yields "only" 6.25%. The domino effect of a Greek default will drag in Ireland and Portugal and despite the European Stability Mechanism there is also a serious question mark over the ability of Spain not to get sucked into the vortex as well, despite their having been able to extricate themselves, for the moment.

Greek debt should be avoided while only investment at the ultra short end of the yield curve is suggested for Ireland and Portugal. For those who are looking at Spanish debt - we advise **extreme** caution, short dated only.

Emerging Markets – stronger performances now from just about every region

Emerging Markets while never entirely insulated from any global correction, showed their resilience after almost two months of near daily gloom, to snap back to winning ways from the middle of March.

Foreign investors again focussed on the longer term investment and growth picture after panicking at the possible domino effect of actual, or possible, regime changes across North Africa and the Middle East. For the first time in many months we now see the majority of the MSCI Emerging Markets Index components putting in some very good numbers and the index as a whole has now risen nearly 8% from the

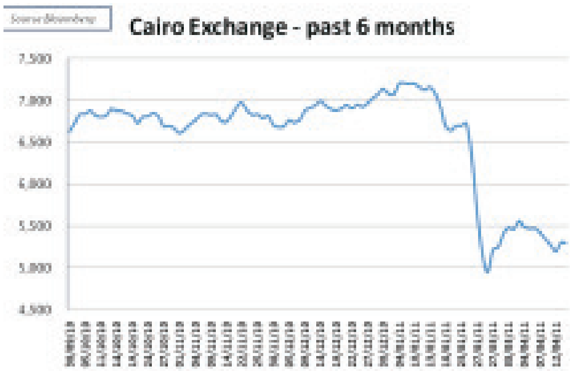
Frankfurt Stock Exchange

recent lows. An overall return of 13% for the MSCI Emerging Markets Index for the past 12 months is noteworthy on many levels. The short term performance would have been far stronger had Latin America not been as relatively weak, thanks to Peru, currently down -22.57% for the year. The Peruvian market is still spooked by the possibility of presidential candidate Humala, an ally of Venezuela's Hugo Chavez, winning the elections, but the possible alliance of the remaining candidates is still mere talk with little positive action.

The best performances for the year to date have come from Hungary, +27.18%, the Czech Republic, +18.16% and Russia, +14.98%. Hungary and the Czech markets can almost be classified as fully developed but their performances have been boosted both by the strength of their near neighbour, Germany, but also from the fact that neither country has signed up to the Euro and from the reaction of the locals it is likely we will still be using the Forint and the Koruna for many years to come. Sometimes it is best to have the courage of your convictions and not force your country into an inappropriate and highly unpopular external monetary regime. We rate both these markets a medium term buy, with the proviso that any weakness in Germany will be mirrored here quite soon afterwards.

Russia, though poses a bit of a conundrum. While no one can deny that the strength of the underlying Russian economy is not one to be sniffed at, almost out of nowhere there appears the distinct possibility of a genuinely contested Presidential election between Putin and Medvedev which would change the political landscape radically. As such the equity picture over the summer could become a little clouded; so it is perhaps time to take profits and reduce weightings here: +15% is, after all, +15%.

However we should also note the returns recently from India, +10.75% in the past 3 months and Korea, which both had a strong run into month end and beyond on the back of an overall positive picture for Asia-ex Japan equities, as Japanese component production looks as if it has to be relocated out of Japan, despite the fact that some Japanese factories have resumed production after the earthquake. An additional boost is evidence the economic recovery in the US will boost US imports. Some of the risk appetite of Indian investors seems to have returned and all components of the Sensex index rose over the past month. Korea and India can be seen as a shorter term buy.



Egypt - the Cairo Bourse makes a belated return to business as usual

A little later than expected, Cairo reopened for business on March 23rd. The whole Egyptian experience can be seen as a typical Black Swan event.

As we had predicted, the first couple of days trading, to eliminate the stock sell 'overhang', saw not entirely unexpected falls of -9% and -4%. However as we expected (and have seen many times over the years in markets) the external investor then returned with an eye to some bargain hunting. Trading volumes initially matched and then exceeded previous levels as investors piled back into the market.

From the low of 4,950 seen at the close on March 24th, the bourse then climbed to end at 5,558 on April 3rd, some

+11.1% up from the lows. Market timing, as they say, is critical but if you hold your nerve and have previous experience of market corrections (as opposed to full blown market crashes - a totally different proposition) very short term profits can and will be made. The art is in knowing when to take the money and run!

It is exactly here that you should not outstay your welcome as the second down leg, as we have seen in Japan, usually kicks in after 5 - 10 trading sessions. Were you unlucky enough to have decided to enter Egypt on April 3rd you would now be nursing losses as we write off some 5%, possibly more if you had exited on April 12th with the index off 6.4% from the high, only 7 trading sessions earlier.

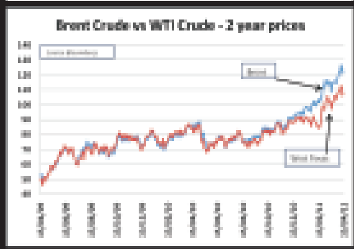
It is not only liquidity that you seek in a manager, it is also transparency and above all agility and the necessary knowledge to take advantage of these irregular sharp market moves. With age comes experience and with experience comes market awareness.

Frontier Markets – Selective caution strongly advised but some good returns

As is their very nature, Frontier Markets continue to report divergent returns for the year to date, returning an overall negative -4.88%. Despite sporadic, further outbreaks of regional specific unrest, which gives some markets extremely volatile intra-month ranges, this does not necessarily lead to falls across the index.

Two examples of short term sharp moves are seen with Bangladesh and Sri Lanka. Bangladesh, for instance, has had a good run recently to recover by over 12% from the recent lows as the last of the 2010 bubble unwound itself. But it still remains down -29.75% for the year, but +151.8% over 2 years. Sri Lanka also had a recent small dip of some 6% on muted profit taking after the recent run up in the Colombo Exchange, but then returned to its recent strength as part of its recent rise, up a whopping +92% over the past 12 months and +330% over the past 2 years. We feel that there is still more to come from Sri Lanka and have this as a buy, while Dhaka remains a watch but possible buy **on weakness.**

Other noteworthy returns in the Frontier Market arena for the year to date continue to be dominated by Emerging Europe, with Bulgaria, +36.21% Romania, +35.48%, Serbia,+ 29.45% and Bosnia +27.42%. We do, though, continue to remain extremely wary about these four markets as they have all risen very sharply over the past three months. The odds of an extreme market correction increase every day and sharply delineated stops should be in place to mitigate losses if the tsunami of positive momentum turns sour. Caution is advised and new positions are not recommended.

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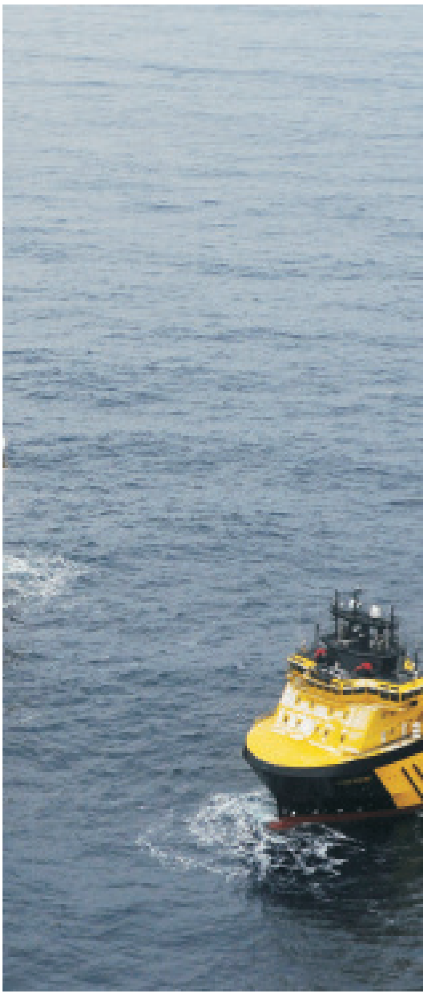
Commodities still volatile, but near term direction beginning to flail

Continued geopolitical risks as well as the imminent European debt crisis (Part 4) have yet to show any improvements. Uncertainty has maintained the previously noted levels of volatility across the board in most commodities. The Brent Crude Future is now at almost daily record highs and is at $122.30 a barrel having spent most of the month hovering nervously around this level. A few days after the Japanese disaster it fell to the low $108's on fears of a short term fall in Japanese demand, but it shot back to current levels on a rerun of the Libyan violence. Until and unless the Libyan crisis is resolved oil is likely to remain highly volatile with the possibility of a sharp retreat on any confirmed resolution of the Libyan crisis. A near term advance to $130-$135 cannot be ruled out and as such, oil remain a **cautious** Buy.

Gold also followed a similar pattern to oil and is now at a new high of $1,475, having traded lower in March at one stage, dropping to $1,385 on Japan. Investors continue to increase their gold positions to shield their wealth from both geopolitical problems but also the threat of rising inflation caused by a mixture of a shortage of components from Japanese electronics factories and continuing high raw foodstuffs prices. Gold remains a momentum Buy with a near term target of $1,600 now not looking too far away and with $1,750 a distinct possibility.



Cocoa, though, climbed a wall of worry at the beginning of March on the news from the Ivory Coast as the incumbent president clung to power and armed groups swept south of the ceasefire line drawn after the civil war. Short term fears about supply disruption combined with speculative hedging pushed the futures contract to a high of $3,733 a ton intraday on March 3rd only for it to fall back sharply well before the end of the major hostilities at the beginning of April. Shipments will now begin to increase from the Ivory Coast, but as always the speed and amount will occasionally disappoint, pushing prices up in short spikes. But downward pressure will out and with a target of $2,700. Cocoa remains a Sell on any upward volatility.

Agricultural commodity based inflation, though, just won't go away

The World Bank on February 15th said that food prices have surged to dangerous levels, pushing 44 million more people into poverty since June 2010. The 2.9 billion people in Brazil, Russia, India and China spend 19% of their income on groceries, in the US, 6%.

Agricultural commodity inflation has been rather ignored given all the recent distractions, but the price rise of basic foodstuffs and commodities over the past 12 months are ignored at your peril.

Corn has risen to 746.5 cents a bushel in the past year, or +109%, Wheat now at 736.5c, +55.54%, Soybeans, 1,325c, +37% and even your daily coffee is more expensive with Arabica beans +116% and the sugar to go into this has risen 46% in a year. Supply disruption has even impacted Cotton, +144.4% over the past 12 months.

Such prices will take some time to unwind from these levels and even longer to work their way through any inflationary measurement. Also to muddy the waters even further is increased foodstuff demand from ethanol distillers as global demand for greener fuel solutions increases.

Agricultural commodities remain a selective buy

Living in interesting times

While indeed we live in 'Interesting Times', the coming months will certainly be fraught with both many 'known unknowns' and, indeed, many "known known's" still to resolve. Many may wish for a speedy return to the 'uninteresting times' that existed only a few months ago but I am afraid this is unlikely to happen.

As we have cautioned previously, the investment outlook remains nervous with higher oil and gold prices to continue unless, and until, a clearer near-term picture emerges. The market remains a fickle mistress and a 'stop-loss' mentality must be maintained: if the situation gets worse stocks are likely to be both volatile and weak.

If this remains the case the market maxim "Sell in May and Go Away" is a sometimes self-fulfilling prophecy; but we see no reason why it cannot be selectively used this year. Best to selectively take profits and keep your powder dry for 2 or 3 months until events resolve themselves one way or another. This however does not preclude selective forays into the markets when there are over reactions both on the up or downside.

However given the European bond volatility and anguish yet to come, the watch word could well be (with my apologies to all our Hellenic friends).

'Beware Greeks bearing [High Yield] Gifts......'

*(*Neil Hitchens, is a Senior Relationship Manager, Zenith Bank (UK)).*

Reliable Power Supply: Way Forward for Nigeria (2011-2015)

* By **Steve B. Osineye**

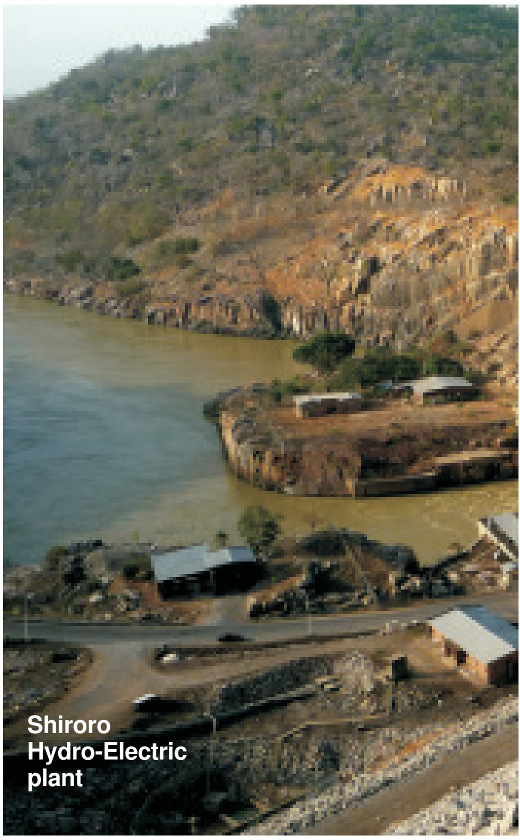
The aim of this section is to review the developments, challenges and opportunities in the Nigerian Electric Power Sector, within the context of the Roadmap recently launched by the Federal Government. It would look at possible scenarios in the time period specified and identify the opportunities and critical success factors for a far-reaching development of the power sector. The relevant question to consider at this point is 'would the country be out of the woods' or 'out of the dark tunnel' if you will, by 2015, which coincides with the end of the first term of the Jonathan Goodluck's Administration and which is also the timeframe set for the implementation of the Roadmap? Prior to the unveiling of the Roadmap, there had been 'air of pervasive pessimism' about the persisting poor state of the electric power sector.

This piece would be showing that in spite of this, there is a cause to see the 'silver streak ringing the dark cloud', as it were, and that with the political will, policy consistency, transparency and efficient project management practices, Nigeria, might soon, within the period 2011-2015 be taking a breather. It is a critical timeframe whithin which most of the projects planned and on-going in the sector, both by private IPPs and the public sector, would come on stream. It is an opportunity Nigeria must not miss; especially since President Goodluck Jonathan had as part of his campaign promised to increase generation to more than 15GW by 2013.

Present Status: "It can only get better"

Nigeria's electric power sector has been dominated by a State-controlled monopoly regarded by many as incompetent, and as not meeting expectations. Power generation, transmission and distribution infrastructure, are still inadequate, worsening the problems of the real sector of the economy. Now, all this looks set to change; especially since the introduction of the Electric Power Sector Reform Act of 2005. The policy environment has been enhanced to put the sector on a path of sustainable development.

So far, strides in the sector include the enactment of the Power Sector Reform Act 2005 and the creation of critical institutions that would drive developments in the sector, the increasing number of IPPs in various States and the on-going Rehabilitate Operate and Transfer (ROT) programmes and other gas pipeline systems development projects which are indicative of Government's efforts to liberalize the sector. At present, there are more than 11 gas-fired power plants, 102 transmission lines/sub-stations, 16 gas pipelines and 290 distribution

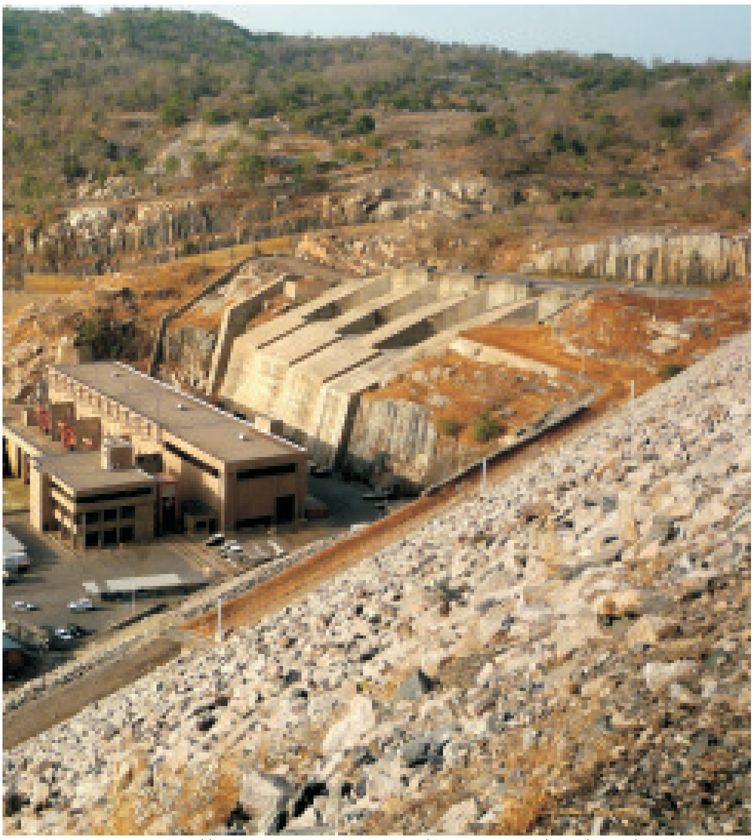

Shiroro Hydro-Electric plant

projects currently being built in Nigeria, with a total of more than 700 distribution projects being planned both under the PHCN and NIPP programmes for the short- and the medium-terms. A look through the various Federal Government Power Budget breakdowns from 2009 through 2011 would indicate an increasing number of 'green-field' projects and the upgrade and expansion of existing power infrastructure.

There is a re-invigorated move towards privatizing the public utility company, PHCN. According to the implementation timeline set by the Roadmap, the privatization of PHCN should be completed by June 2011, by which time, the Nigerian Bulk Electricity Trading Company Plc, already constituted, would be in charge of buying power in bulk and 'wheeling' electric power through the Transmission Company of Nigeria (TCN) to the distribution companies. In fact a new structure for the power supply industry is fast emerging (see chart on the stakeholders in the electric power Industry below). The erstwhile monolithic structure is giving way to a multi-layered structure with components such as the Nigerian Bulk Electricity Trading Company (NBETCo Plc) which replaces the Power Holding Company of Nigeria (PHCN); a Transmission Company-Transmission Company of Nigeria (TCN) - to be established by June 2012 under a Management Contract; and 11 Distribution Companies (DISCOs). The existing hydro plants are to be concessioned, while the PHCN thermal plants and those IPPs built under the National Integrated Power Projects (NIPPs) would be privatized through the sale of a minimum of 51% stake. In pursuit of this, there is an intensive effort to rehabilitate existing transmission and distribution infrastructure in readiness for strategic core investors.

Local firms, in technical partnerships with established foreign firms, are active in the emerging sector, executing various contracts under the transmission and distribution upgrade and expansion programmes being implemented in the sector, and in state-sponsored IPP projects. Efforts are also on to connect rural and off-grid communities through an aggressive rural electrification drive. An increasing number of State Governments are executing/planning independent power projects. Some State Governments have indicated their readiness to buy into distribution companies, that were unbundled from PHCN's previous monolithic or vertically-integrated structure.

Early March 2011, the Federal Government announced the reassignment of key staff of the Power Holding Company (PHCN) - the public power provider and its supervisory Ministry of Power in a bold and strategic move to wind down its operation and make way for the successor company-the Nigerian Bulk Electricity Trading Company Plc. The new company is expected to buy power and distribute to distribution companies, 11 of them, through the Transmission Company of Nigeria (TCN). The move is seen as operationalizing the key provision of the Electric Power Sector Reform Act 2005 and moving the electric power sector reform programme significantly forward. The move is also consistent with the Action Steps highlighted in Goodluck Jonathan's "Roadmap for Electric Power Sector Reform". The Roadmap, released in the last quarter of 2010, highlights Government's critical intervention activities in the upgrade and expansion, in the areas of generation, Transmission, Distribution, Gas to Power projects, gas transmission projects and the role of the private sector in all of these.



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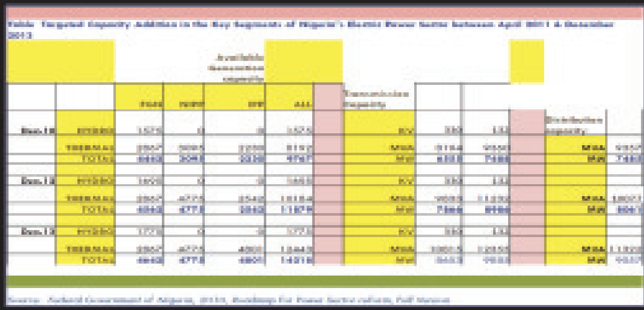
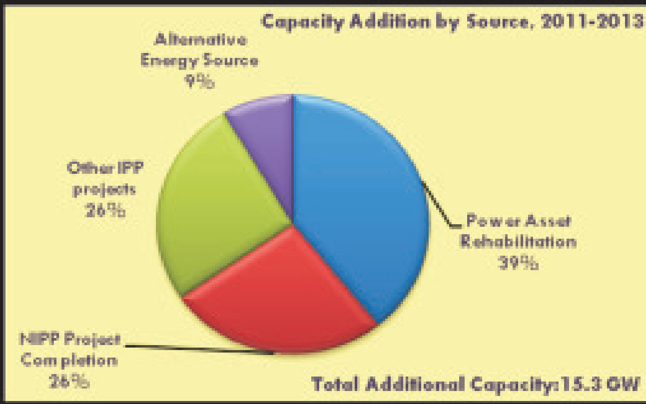
The "Dash for Gas":

Nigeria seeks policies that promote least-cost of generation while ensuring a viable mix of fuel sources, all within the framework of a comprehensive energy policy that needs to be constantly reviewed and refocused in the overall interest of energy adequacy, affordability, reliability and security. Gas will play a major role in the new generation strategy, especially as Nigeria seeks an end to gas flaring (and the monetization of its vast gas resources) in the context of the National Gas Master Plan. The downstream elements, the transmission and distribution systems, will need to be developed accordingly to deliver gas to the appropriate end-user and, as envisaged, the three Central Processing Facilities. Gas demand is estimated to have increased from 660mmcfd to 1,700mmcfd as at 2010. Given the close linkage between gas and electricity and the fact that gas is now the primary fuel of choice for electricity generation (especially for large industrial consumers in industrial clusters), Nigeria is recognizing the importance of ensuring consistent plans and regulatory regimes to govern natural gas utilization. This vision has been encapsulated in the National Gas Master Plan. Indeed, the gas revolution has started, with increasing commitment and involvement of IOCs and other foreign development partners.

The development objectives of the Nigerian Electricity and Gas Improvement Project is to: (i) improve the availability and reliability of gas supply to increase power generation in existing public sector power plants; and (ii) improve the power network's capacity and efficiency to transmit and distribute quality electricity to the consumers. There are three components to the project. The first component being risk mitigation through a series of Partial Risk Guarantee (PRGs) in support of gas supplies to increase power generation from existing public sector power plants. The second component is the enhancement of transmission and distribution infrastructure. This component will reinforce distribution networks to increase electricity supply in selected cities including Kano, Kaduna, Eko, Ikeja, Ibadan, Abuja, Benin, Port Harcourt, Yola, Jos and Enugu. Finally, the third component is the technical advisory services. Provision of logistic support and technical advisory services required to sustain ongoing reforms undertaken by government in efforts to improve the performance of the power sector including: a) design of gas infrastructure and transmission and distribution systems needed to handle expected increases in power supply; and b) formulation and execution of community outreach activities including a communication program to foster and to sustain open and continuous dialogue amongst all relevant stakeholders about the project.





	Capacity Addition by Type of Activity, 20011-2013			
	Additional Target Capacity	16GW		
		Share %	Add. Cap. in GW	Target date: 2013
a	Power Asset Rehabilitation	39.22	6	2012
b	NIPP Project Completion	26.14	4	2012
c	Other IPP projects	26.14	14	2013
d	Alternative Energy Source	8.50	1.3	2013
	Total	100	15.3	

It has been a long tortuous road, though!

Recall that previously, President Yar Adua constituted an 11-member Committee for the Accelerated Expansion of Nigeria's Power Infrastructure in February 19, 2008, to underscore the fact that Nigeria was serious about resolving the chronic electricity supply crisis it currently faces. He charged the Committee to deliver 6,000MW of additional power by December 2009. Earlier he had promised to declare a State of Emergency in the power sector. The probe by the House Committee on Power sought to establish reasons for delayed implementation of the National Integrated power Project (NIPP) under the Obasanjo Administration. The present Administration set up two special Committees-the Presidential Action Committee on Power (PACP) and the Presidential Task Force on Power (PTFP), regarded as the 'engine room that drives the vision of the PACP," in the 2010 Roadmap for the Power Sector Reform.

The Roadmap for Power Sector Reform?

The Roadmap is a comprehensive Action Plan, the first of its kind to activate fundamental changes and focus on a consistent reform path for the Nigerian power sector. It addresses wide reaching reforms in the sector, which includes encouraging captive generators, JV IPPs, and strengthening national transmission capacity to enhance power generation through the building of a new 700kV capacity transmission.

The current effort at revitalizing the power sector recognizes that it is not only in capacity addition that attention must be focused, but also the need for the overhaul and extension of transmission infrastructure. Much of the network is open to vandalization and is inadequate to meet the upsurge in planned capacity. To meet the needs of rural electrification, the transmission network is being upgraded. The same is true for the expansion of distribution facilities. It is the general opinion that adding to generation capacity might be simpler; but the bane of the sector has been inadequate and neglected distribution facilities to guarantee reliability and accessibility of power supply to the consumers.

The Road map is a bold and significant move by the current administration to improve supply of electricity in Nigeria. For the first time ever, it represents specific action steps needed to move the country from present installed capacity of less than 10GW to more than 15GW by 2013, through the completion of existing IPP projects, new capacity additions and upgrade and expansion in transmission and distribution infrastructure.

The Government has recognised that increased power generation must be accompanied by a strengthened power grid. The existing transmission infrastructure is inadequate to meet expected improvement in generation, in the mid to long term. To address the critical issue of the adequacy of transmission capacity, the Roadmap has clearly stated the intention of the Government of Nigeria:

"The Federal Government plans to embark on significant increase in transmission that will immediately begin to fundamentally address the anticipated capacity problems. We are planning to build a proper transmission network at devoted level of 700kv that will go from Afam, Rivers State, through Makurdi, to Jos, Kaduna, Shiroro, and Jebba, then down to Lagos, to Oshogbo before going through Benin to Onitsha and before finally going back to Afam. The procurement and design of this network will hopefully commence next year. The line will also run from the 700KV line in Kaduna to Kano and from Jos to Gombe."

A Renewed Hope

The current electric power supply crisis is not insurmountable. With careful planning and the design of an effective structure of incentives for the private sector players, timely, strategic and transparent execution of public sector power projects and the continuing focus on the pivotal role that adequate and reliable energy supply plays in industrial production, and hence, economic growth and development, set power sector targets can be met. Huge opportunities also abound, waiting to be explored by forward-looking States and power engineering companies. At the level of States (Sub-National Governments) there is an increasing commitment to provide rural electrification and the adoption and implementation of alternative energy initiatives & solutions - Solar, bio-gas, wind, etc., to meet the energy demand of their off-grid rural communities.

The entry of independent power producers (IPPs) and others in captive/distributed generation category has underscored the commitment of the private sector to tackle the issue of adequacy, security and reliability of power supply in order to enhance industrial production, especially in industrial clusters.

More Oil producing and marketing companies are interested in building power generation infrastructure, some in order to explore opportunities in the energy industry value chain, (and position themselves strategically as integrated energy solutions providers) and others, to explore opportunities in pro-active States that want to leverage on current strides in power sector reforms. Presently, on-going/planned projects by Joint Venture Oil producers are expected to add 2,998MW to installed generation capacity.

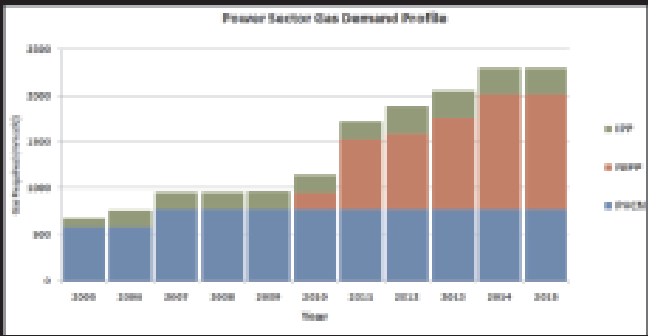
Increasing opportunities in Nigeria's electric power supply industry have continued to boost the sales and marketing of power equipments, especially distribution equipments-transformers, switchgears, etc. No doubt, an increasing number of companies are positioning to play significant, strategic role in Nigeria's emerging power market. There is growing optimism therefore that the present crisis would be overcome once gas-fired thermal IPP generation is enhanced by a robust and competitive gas production/gathering, transportation/distribution and pricing regime.

Government's policy statement indicating its intention to sell 51% stake in PHCN to strategic core investors was further streamlined in the recent Roadmap with timeframes set and standards for

Joint venture IPPs Between IOCs and NNPC

	Project	Promoters	Capacity (MW)	Fuel	Status
a	Kwale, Delta State	NNPC (60%), Agip (20%), Phillips (20%)	450	Gas	300 MW *
b	Bonny, Rivers State	NNPC, ExxonMobil	388	Gas	In progress
c	Afam	NNPC, Shell	930	Gas	In progress
d	Obite	NNPC, Total	450	Gas	In progress
e	Ijede	NNPC, ChevronTexaco	780	Gas	In progress
		Total	**2,998**	***Already commissioned**	

1.	Transition Stage	This stage is characterised by private power generation through Independent Power Producers (IPPs) and Emergency Power Producers (EPPs), corporate restructuring, unbundling and privatisation of PHCN through sale or license of all thermal plants to private operators or concessionaires and transfer of management, ownership and control of selected distribution companies (discos). The recently announced Roadmap on Nigeria's Electric Power Sector Reform' by the Goodluck Jonathan Administration is expected to drive the implementation of this first phase. (Timeline: 2011-2019)
2.	Medium Term	Post-Unbundling & Privatisation characterized by competition among generating companies; energy trading between generation and distribution companies primarily on the basis of bilateral contracts through contract exchanges and sales; payment of full price by generators for natural gas and other fuels; and, sale of energy by companies generating power in excess of their needs to distribution companies. (Timeline: 2020-2025)
3.	Long-run Competitive Structure	Phase 3: Power generation, transmission and distribution companies operate optimally; economic pricing of electricity to cover the full costs of supply, including expectation of a reasonable, risk-adjusted rate of return on capital; large industrial users can choose their suppliers; a well-developed wholesale market with formal membership rules, procedures, etc; and, full retail sales competition. (Timeline: 2025-2030)



NIGERIA: INVESTMENT REQUIREMENT FOR POWER SECTOR TARGETS

Subsectors	Investment in US $ Billion
Power Generation	439
Natural Gas	16
Natural Gas transportation (Pipelines)	5
Coal Exploration & Extraction)	6
Coal Transport (Railways)	10
Transmission & Distribution	35
Total	511

Source: *Energy Commission of Nigeria & Nigerian Electricity Regulatory Commission, June 2008*

measuring milestones and progress clearly communicated. However, a critical success factor would be the political will to go through the activity steps in the Roadmap, within the implementation timeline.

Some observers are of the opinion that if the protracted privatization of the Nigerian Telecommunications Company (NITEL) is anything to go by, the privatisation plan for for PHCN could drag on longer than desirable. Recall that the privatization of NITEL is still on hold despite having been sold earlier to Pentascope and later to Transcorp. The transactions were revoked in each case, on grounds that the buyers were not fulfilling their own part of the 'privatization bargain' by injecting fresh funds in the company within a reasonable timeframe.

Labour issues in the sector are being carefully managed to make the distribution companies (Discos) and other power assets attractive to potential investors; since over time the issue of unfunded pension liabilities have always surfaced in the consideration of due diligence and eventual sales of public companies, and PHCN is no exception (please see section 6.d below).

The increasing number of upgrades and expansion projects in the distribution segment, financed through banks interventions, like the on-going Nigeria Electricity & Gas Improvement Project, would enhance the appeal of public distribution assets that have been put up for sale.

Ahead of the planned privatization, some financial institutions and State Governments are already positioned to play, active strategic roles in the process. Some State Governments are reported to be interested in stakes in the distribution companies. Some of the institutions on the other hand that have signaled interest include the African Finance Corporation (AFC), and some local banks. Traditional supporters of Nigeria's power sector including the IFC and IDA, (both of the World Bank Group) and the African Development Bank (AfDB) continue to support the privatization process.

Challenges

The Gas Challenge

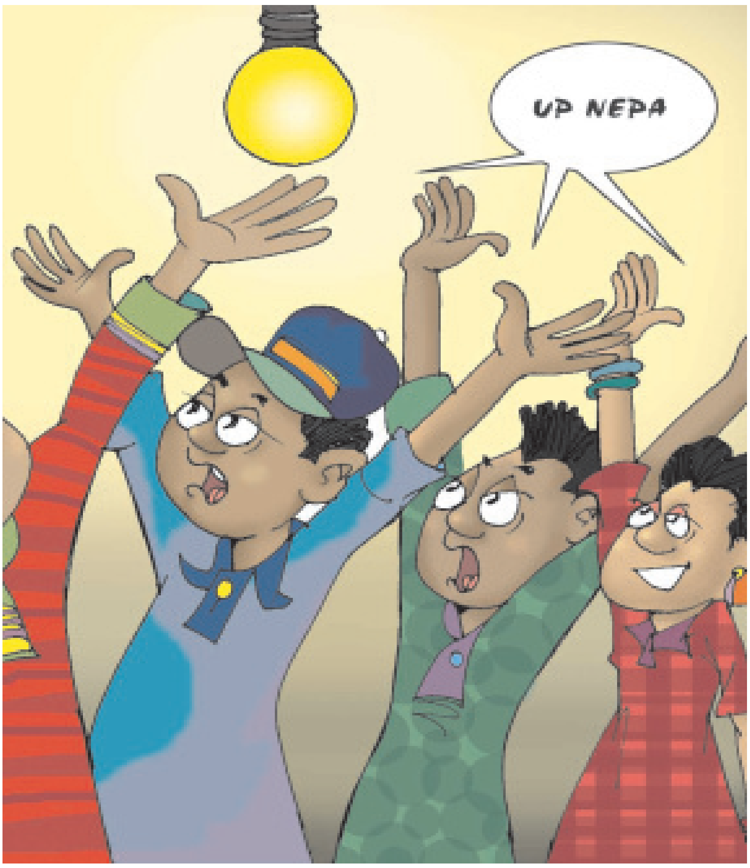
The issue of availability of adequate gas supply to power stations has been a critical one at every point in time. In fact, some thermal stations were built without consideration of the need for a corresponding construction of gas supply pipelines to link these stations. In addition, the total estimated gas need for existing IPPs were around 600mmcfd, with only about half of this available due to the inadequacy of the gas transmission network. However, this situation is set to change, especially within the context of gas transmission projects planned within the frame-

work of the Roadmap. Already, this has started with the Domestic Gas Supply Obligations launched by the federal Government, which makes it mandatory for domestic gas companies /IOCs like Shell, ExxonMobil, Chevron, and Total, to deliver gas to the domestic market before exports. The DGSO incorporates bilateral commercially enforceable contracts between these IOCs and all-end-users including power companies. Institutional framework for managing the commercial relationship and the implementation and monitoring of the DGSO is through the Strategic Gas Aggregator (SGA), to be established by the Ministry of Petroleum Resources. The yearly gas demand profile for power generation is captured in the table on page 66: (Please see "Power Sector Investors Gas to Power Initiatives and Opportunities", Mrs. Diezani Alison-Madueke Honourable Minister for Petroleum Resources, Federal Republic of Nigeria, State House, Abuja, 14th October 2010).

Transmission Capacity Challenge

According to the Government, although the "total nominal transformation capacity is projected to increase to 8,653 MW equivalent by December 2013, the gap between generation capacity and transmission capacity will have grown still further

...the total estimated gas need for existing IPPs were around 600mmcfd, with only about half of this available due to the inadequacy of the gas transmission network.



during the intervening two years. This is because the gains of the urgently needed new investments in transmission networks may take longer to manifest.

Existing Structure can only wheel 4GW of generation. The solution has been highlighted in the comprehensive Roadmap. Apart from the attention to on-going upgrade and expansion projects for the transmission segment, the Government is monitoring transmission projects particularly since they are a critical segment. There are over 103 on-going transmission expansion projects under implementation both from PHCN and the National Integrated Power Projects (NIPP). The challenge noticed by the Presidential Task Force on Power (PTFP) is the delay in the execution of most of these projects, with a 4-5 year delay being highlighted for most of them. The proposed super grid: the 700kV transmission line, yet to be put up for a competent transmission consultancy, is expected to resolve key issue of adequate transmission capacity. The super grid would also help to evacuate power from the proposed Mambilla hydro power plant.

Apart from the on-going transmission upgrade and expansion efforts and the proposed Super Grid, Government expects that the management contractor for the Transmission Company of Nigeria (TCN) would be actively involved in making significant investments in ensuring the reliability and stability of the network infrastructure, through the provision of grid integrity and reliability systems; and power quality and stability systems. TCN's capital involvement would essentially leverage revenues generated by the electricity market from the Transmission Use of System Charges (TUSC) paid to the Transmission Company of Nigeria (TCN). In the long-run, a case for Regional Transmission Organizations (RTO) may become feasible, especially along the six-geopolitical zones, and for an efficient transmission segmentation.

There are other challenges like ensuring good governance structure for public projects, capacity building for regulatory agencies in the public power sector, the challenge of competitive bidding and procurement for power projects, etc., and the critical challenge of setting clear targets for the power sector post-2015, when policy continuity and consistency could become an issue.

Managing the Funding Requirement of the Power Sector

The Roadmap has indicated that the funding requirement for the upgrade and expansion of power generation assets amounts to an estimated US$3.5 billion per year, for the next ten (10) years. This investment is necessary if the country is to meet the Vision 20:2020 target of 40GW, about the current installed generation capacity in South Africa.

This significant requirement cannot be met by the Federal Government alone. Add to this, other required critical investment requirements along the entire power supply chain, including investment in building fuel-to power infrastructure, gas pipelines, central processing facilities, power transmission and distribution networks, etc., the total estimated amount is US$100 billion over the next 9 years to 2020. (Note unit cost per MW would indicate USD2.9million/MW or N435m/MW, which is not significantly different from the N420/MW indicated by NERC in 2007 (see "**Nigeria: Electric Power Sector Report 2011",** pg. 94, from OliviaPhillip International Consulting Ltd, Nigeria).

The World Bank Group involvement in Nigeria's power sector has spanned over two decades, on various projects including the Transmission Development Project, concluded in 2008, the Nigerian Electricity and Gas Improvement Project (NEGIP), a Specific Investment Loan/Partial Risk Guarantee framework in support of Gas Supply and Aggregation Agreements (GSAAs) of some IOC JV Operators with the PHCN. On the part of the federal Government, it is estimated that from 1999, a total of US$5.1billion had been spent on various power sector projects, especially on the Nigerian Independent Power Projects (NIPP), with a further commitment of US$5.3billion to complete the outstanding NIPP, expected to add about 2,700MW to the national grid. Even with the direct or special Government intervention in providing a N500 billion Fund (to be shared with the Aviation sector), and yearly budgetary provisioning, the funding requirement over the next 10 years may not be met.

A critical step towards meeting the funding requirement is to explore domestic sources, especially the capital market. Most analysts would agree that there is really no shortage in domestic savings in Nigeria, rather, a significantly large pool of savings waiting to be tapped by the right financial instruments through Nigeria's financial markets. With a strong and effective capital market, the domestic savings can be channeled into productive power sector investment. Nigeria may not afford to finance her power sector requirements based on external financing alone- too much reliance on that may cause balance of payment problem. With appropriate institutional reforms in the capital market, private energy project developers may be encouraged to 'trade their project debt and equity in the domestic capital market in order to minimize risks, especially at project completion stages and at the commencement of new operations.

In the coming years, new IPPs devoted to serving large industrial clusters may be more willing to tap into Nigeria's capital market to meet their financing requirement. We have so far seen one or two private placements, en route to full capital market debt/bond issues or equity. With the increasing number of IPPs, there exists opportunities for joint ventures and collaboration among parties in the financing of BOT schemes. Nigerian banks that are highly capitalized and with wide experience in project financing are offered significant opportunities to participate in this emerging sector.

Renewable Energy Projects under the 2009 Public Power Budget	Naira (Actual)
10 MW Wind Mill in Katsina	3,000,000,000.00
Cross River State Solar Electrification	25,000,000.00
Ogun State Solar Electrification	30,500,000.00
Bauchi State Solar Electrification	9,300,000.00
Renewable Energy Consultancy	20,000,000.00
Feasibility Study for Small Hydro in Obudu	30,000,000.00
Katsina Solar Electrification	9,300,000.00
Japanese Counterpart Funding for Solar Farm in Akwa Ibom	150,000,000.00
FG Commitment to the West African Center for Renewable Energy International Liaison	1,233,051,768.00
Energy Commission of Nigeria	**1,375,490,694.00**
Capital Projects (On-going)	**1,375,490,694.00**
Sustainable Energy development:	
a) manpower development, b) Energy Modelling, c) Energy Efficiency, d) Pilot Projects	95,274,852.00
National Energy master Plan & small-Scale Solar Module Production:	
a) Development & Implementation of the Master Plan	
b) National Energy Manpower Plan Development Component	
c) Construction of small-Scale Solar Module	
d) Acquisition of Solar Module production Equipment	**194,236,041.00**
Solar PV Power Supply System and Promotion of Wind Electricity for 3S of electricity to Rural Area, establishment of 36 Solar PV projects at N30m each	780,763,959.00
Energy Databank: a) Devt of web-driven energy bank & b) acquisition of databank hardware	35,315,842.00
Energy Efficiency Projects	100,000,000.00
ECN/NYSC Renewable Energy Project Training of 180 NYSC Corp members in RE technologies	20,000,000.00
National Center for Energy Efficiency & Conservation: University of Lagos	50,000,000.00
National Center for Hydropower Research & Development: University of Ilorin	50,000,000.00
National Center for Petroleum Research & Development: ATB Univ. Bauchi	50,000,000.00

Source: Federal Government of Nigeria, 2009. Power Budget Breakdown (Budget Office) for Energy Commission of Nigeria

Before the advent of IPPs, major Nigerian Banks (then 'Big Three' inclusive) had exposure/syndicated lending to the Nigerian Electric Power Authority (NEPA, now PHCN). But past lendings to NEPA by domestic banks have not been without their difficulties; concerns about risks have been accentuated by delayed interest payment, necessitating in some instances, the capitalization of past interest due, extension of repayment period and even the restructuring of facility. In view of this and to manage risks, lending banks have raised the issue of creating dedicated accounts for debt service, irrevocable standing payment order, time-limits for repayments of principal and interest and first-line charge for debt service in case of the privatization/sale of the generation asset.

As the electric power sector is thrown open to private sector participation, domestic banks and development finance institutions are expected to increase their involvement in power sector financing. The scale of current schemes for the energy sector generally, like the Nigeria Energy Development Fund, is expected to expand, especially coming after the recent recapitalization/consolidation in the Nigerian banking sector. An example of a developing economy where local financial institutions are increasingly active in power sector financing is India. Lending by Indian banks and institutions is at the heart of so-called mega-power projects. Banks also extend resources through the Power Finance Corporation (PFC), in what is referred to as "intermediary lending". PFC is a public sector financial entity focusing strictly on power sector financing.

In collaboration with other development finance institutions like the National HydroPower Corporation (NHPC), financial institutions have gained a more influential role in India's power sector development. In Nigeria, there are significant opportunities for raising power sector finance; for example, through the Urban Development Bank (which is moribund at the moment), and through the capital market (with a Nigeria Power Fund or generally an adequately capitalized, open-ended Infrastructure Finance Fund). Potential institutional investors could include the Nigerian Gas Company (NGC), and reserves by IPP operators themselves and other non-bank financial institutions like the Life Insurance companies and Pension Funds Custodians.

Development, upgrade and expansion of power infrastructure indeed is capital intensive, requiring support of local and international financial institutions, in a mutually rewarding partnership. The domestic capital market must brace up to play a more active role in raising the financial requirement for the development of enhanced infrastructure for the power sector.

South Africa: Installed Generation by Fuel Type, 2011

Fuel Type	Total Eskom Inst. Cap. MW	Non-Eskom System, MW
Coal Fired	35,895	903
Nuclear	1,800	-
Hydro	600	*65
Pumped Storage Hydro	1,400	180
Gas Turbines	2,414	**245
Total ESKOM	42,109	1,148
Total (South Africa)	43,257	

* Mini-Hydro; ** Total Others. Source: World Bank 2010: PAD on Proposed Loan to Eskom Holdings Ltd of US$3.75billion. Note: Coal represents about 85% of Generation

Roadmap: Critical Success Factors

The Roadmap has clearly demonstrated the policy focus in the Power sector, at least for the period 2011-2015. However, apart from demonstrating the political will of the present Administration to 'follow-through' the comprehensive power sector reform path, there are critical issues of project management capacity and transparency that must be addressed in the whole process of reform. Governance structure must be strengthened. Procurement process needs to be streamlined; Project delays need to be minimized. Also, there is a critical need to infuse a high-level capacity building initiative, through Technical Assistance (TA) arrangements with developed economies and multilaterals or through the institution of a 'twining' arrangement between electric power supply-side institutions in Nigeria and other relevant public sector regulatory agencies in developed power markets. Examples of direct 'twinning arrangement'/technical assistance relationship might be between the Federal Electricity regulatory Commission (FERC, US) and Nigeria Electricity Regulatory Commission (NERC) or between the American Transmission Company (ATC) with Transmission Company of Nigeria (TCN), instead of the current over reliance on Technical assistance programmes embedded in World Bank programmes.

Effective coordination of the various key areas of the power sector reform programme is also essential. For instance, the development of the gas sector is critical to the successful achievement of set targets in the power sector. Various other issues must be properly coordinated, ranging from privatization of existing assets, to capacity additions, to the building of the Super-grid. High level project management capacity building is also a critical success factor in efforts to deliver on the action plans in the

http://upload.wikimedia.org/wikipedia/commons/c/cc/Bouri_NC_41_DP4_platform.jpg

Roadmap, effectively and efficiently.

Broad Policy Framework:

Broadly there is a compelling need for a Systems Approach to Yearly Capacity Addition. The 'Roadmap' has adequately signaled, and highlighted the commitment of the President Goodluck Jonathan Administration to 'getting things right' in this direction. The upgrade and expansion of projects in gas transmission infrastructure, should be treated as an essential plank of the national Gas Master Plan, and a prerequisite for effective power sector reform. No doubt, uncoordinated capacity addition plans 'out of sync' with gas transmission infrastructure or gas transportation agreements may not guarantee reliability and timely delivery of these Greenfield power projects.

In addition to this, there are advantages of economies of scale that accrue from incremental, large capacity additions instead of scattered mini-projects. In a way too, there are constraints to having mega power projects, one of which is meeting the huge funding requirement. But this is not insurmountable once the (enabling) regulatory environment is provided, and issues relating to Power Purchase Agreement (PPAs) and power tariffs are standardized and mutually agreed. Once real economic growth resumes and Nigeria's Sovereign ratings significantly improve, the country may be able to take advantage of foreign direct investment to finance large scale power projects, like the Nigeria Liquefied Natural Gas (NLNG) project.

Other options for financing such large scale projects may be from Contract Finance, especially from Original (power) Equipment Manufacturers (OEMs) like GE (USA) that are involved in the entire value chain in the global power industry. We recall that in May 26, 2009, General Electric Company and the Government of Nigeria announced the signing of a landmark "company-to-country" agreement aimed at promoting collaboration between GE and Nigerian public and private sector organizations that are driving the development of critical infrastructure projects across the country. Presently, there are more than 200 GE employees in Nigeria based in offices in Lagos; a GE Oil & Gas Service Center (incorporating a gas turbine service center, the first of its kind) in Port Harcourt; and a facility in Onne Port. Based on Nigeria's current critical need to close the significant power demand gap, a carefully crafted 'Oil for Power' policy (or Oil for Infrastructure) mechanism may be more relevant in this direction; and one that the Goodluck Jonathan Administration would carefully consider, to fast track the delivery of the Roadmap.

Outlook on the Sector & Opportunities: 2011-2015:

In conformity with the policy intentions in the Roadmap, which have underscored Nigeria's determination to resolve the lingering electric power crisis, and the various on-going upgrades and expansion projects in all the segments of electricity power generation, it is certain that the present Administration would deliver on its promise to achieve a structural reform of the electric power sector. Also, one can anticipate an increasing role for IPPs in

Nigeria: Projected Power Generation by Fuel Source, 2005-2030

Year	MW	Coal	Natural Gas	Oil	Hydro	Nuclear
2005	3750	0	68	0.36	31.01	0
2010	11606	0	80.27	2.24	17.49	0
2015	**15158**	**5.28**	**63.78**	**1.72**	**23.29**	**5.94**
2020	19008	7.37	62.17	2.42	18.57	9.47
2025	24458	8.18	64.67	3.52	16.27	7.36
2030	32208	6.83	56.1	12.61	12.36	12.11

Source: Energy Commission of Nigeria, 2007

1.	Distributed generation/Microgrids	8.	Higher transmission operating voltages
2.	Underground distribution lines	9.	Voltage optimization through reactive power compensation
3.	Intelligent grid design (smart grids via automation)	10.	Asset replacement schedule optimization
4.	Reduction of overall T&D transformer MVA	11.	Distribution loss reduction via distribution automation
5.	Energy storage devices	12.	Power factor improvement
6.	Three phase design for distribution	13.	Load management (e.g., smart metering or price -sensitive load control)
7.	Ground wire loss reduction techniques	14.	Power electronic transformers

the emerging power sector as the option of private power generation to serve an increasing number of industrial clusters in major cities across the country become more popular.

Current attention focuses on industrial clusters in cities like Aba, Ewekoro, Ikorodu, Agbara; and wherever energy-intensive industries operate or are proposed. Others are Lekki Free Trade Zone, Lagos State Energy City, Badagry, a city designed to serve the needs of Oil & Gas Industry proposed for that axis, up to the border with Ghana where Oil E&P is expected to intensify in the next 10 years. Even at present, energy intensive industries usually provide their own captive generation: Cement, Steel, Oil Refining, Aluminum smelting, LNG production, etc.,

Key local players serving the captive power generation segment include independent Power producers like the Energy Company of Nigeria (ENCON), a subsidiary of the NEGRIS Group, Schneider Electric Nigeria Ltd, Shoreline Power Ltd, Geometric Power Ltd and other captive generators licensed by the Nigerian Electricity Regulatory Commission (NERC). Conglomerate Oil & Gas marketing companies like the Oando Group are also positioning to be 'new players' in the emerging captive power generation segment, through its subsidiary, Oando Gas & Power Ltd.

We see the privatization of the public power assets proceeding as planned within the context of the Roadmap. Already, the Bureau of Public Enterprises (BPE) has reportedly received expression of interest (EIOs) from about 331 firms seeking to buy into the successor companies of PHCN, disaggregated into 174 applications from prospective investors/concessionaires interested in four thermal plants and two hydro plants, while 157 are interested in the 11 distribution companies. The bids closed on March 4, 2011.

More State IPPs Emerging:

There has been a growing interest by State Governments wishing to implement gas-fired power projects. The very first independent power project is that of the Nigerian Electricity Supply Company (NESCO), a mini-hydro project, started around 1958 in the early days of the Electricity Company of Nigeria (ECN) and supplying the Jos region, the precursor of the Nigerian Electric Power Authority (NEPA) which transformed to Power Holding Company of Nigeria (PHCN). Some States have reached advanced stages in their quest to generate independent power and this trend is expected to continue. More States would partner with Oil companies willing to explore or develop IPP projects as a strategic move in efforts to play in the whole energy value chain. One of the companies to watch is Oando Gas & Power, in addition to other private sector companies like ENCON, a subsidiary of the NEGRIS group, Shoreline Power Limited, Geometric Power Ltd, Rockson Engineering Company, etc. Already there are advanced plans to implement IPPs in the Lagos Free Trade Zone and the Lagos Energy City project based in Badagry. Other States like Delta State is seriously considering IPP projects within the framework of its Gas City project.

Increasing States' interest in owning Distribution Assets:

Apart from interest in developing Greenfield power projects, some State Governments are positioning to acquire stakes in public power assets once these are offered for sale in the proposed privatization planned under the power reform Roadmap. This trend is intensifying in states that have demonstrated and articulated the need to develop the energy potentials of their domain.

More rural electrification projects:

There is need for enhanced coordination between the Rural Electrification agency (REA) and State Governments to reduce project delays in this regard. State Electricity Board needs to be invigorated to appropriately connect with REA and other national institutions.

Also, more cases of Oil Infrastructure deals between countries such as China, South Africa, France, etc. are expected in the coming years. This may also be a source of capacity building in Nigeria's power sector. In the recent past (for instance, in the 2005 licensing rounds), some select bidders in the Oil Block licensing rounds made commitments to invest in independent power projects (IPPs) in Nigeria.

Presently, there are more than 200 GE employees in Nigeria based in offices in Lagos, a GE Oil & Gas Service Center (incorporating a gas turbine service center, the first of its kind) in Port Harcourt and a facility in Onne Port.

The Need to Diversify Energy Mix:

It makes a world of sense to develop cost-effective alternative energy sources to guarantee universal access to non-grid areas. It does not make sense to continue to rely solely on hydro resources shared by contiguous countries; especially since these hydro sources pose their own environmental threats. Hence, diversification of energy sources is a sine qua non towards achieving energy security and reliability. It is also cost-competitive especially when gas resources are currently being flared or wasted.

Diversifying the energy mix, through a dash for gas- Gas to Power – is also environmentally sound and therefore an urgent step to take and relentlessly pursue. Monetizing the gas resources through gas to power mechanism can also reduce environmental stress which has been the main plank of environmental activism (and ethnic militancy) in the Niger Delta.

There is a clear need to diversify Nigeria's energy mix; this is the trend in other countries still implementing reforms in their electric power sector. Reportedly, Daewoo Engineering & Construction has secured a contract worth N828bn ($733m) to construct a coal-fired power plant in Odu and Abocho in Kogi State, Nigeria, and will use coal from nearby Okaba and Ogbogbo coal mines where the firm has concessions. Each power plant will have a capacity of 500MW and cost between $750m and $800m. Some of the earlier licences granted by NERC would also be using coal to generate electricity.

In the Republic of South Africa, for instance, the long term goal is to shift focus from high coal-dependence. An increasing number of renewable energy projects are being executed in Nigeria (see table below) ranging from wind farms, solar energy demonstration projects, etc. To make significant progress in this direction, more IOCs with expertise in Renewable energy would have to show interest and commitment; this also applies to the World Bank Group. Nigeria may also need to be more proactive in tapping into the Global Environmental Facility (GEF).

We have clearly stated elsewhere that significant opportunities exist for actualizing the dreams of renewable energy, especially in off-grid rural locations. Some States have risen to these challenges and have domesticated the National Renewable Energy Policy through their MDAs, though much more needs to be done. Lagos State has the highest concentration of renewable energy project with more than 75% of emerging firms focusing on the provision of solar energy systems and technologies for a range of horizontal applications. There are opportunities for other IFIs, notably the World Bank and existing Joint Venture IOCs like Shell., that have had, for a long time, international subsidiaries in Solar/ renewable power generation operations in developing countries. At the federal level, the Energy Commission of Nigeria (ECN) is at the forefront of promoting the use of alternative energy systems (see the table of ECN projects for 2009 below). There exists significant opportunities to explore renewable energy technologies. There is the need for more demonstration projects to showcase the importance of renewable energy in Nigeria's energy mix.

Also, to take advantage of Economies of Scale, there is the need for large scale IPP Power Projects greater than 1000MW, similar to India's Mega Power Project Policy. To achieve that, appropriate structure of incentives must be designed to encourage investors. Furthermore, the option of power generation along the Six Geopolitical Zones must be explored with respective regional transmission organizations, in a global, ring fenced manner. These zones may then be ready to transform into structures for regional power markets, say post-2020. Power infrastructure can be a platform for even economic development in all the six geo-political space, a framework to reduce negative sectional and vested interest which see the national asset as a 'Cash Cow' to be milked dry. This arrangement is congruous with the NCP letter of Development Policy which states that policy framework for reform efforts in the power sector should "Ensure that electricity supply is made more reliable, economically efficient and <u>equitable</u> so as to effectively support the socio-economic development of the country". This is also important for spatial distribution of other socio-economic infrastructure.

There is also the need to address the issue of demand-side management, i.e. energy efficiency and conservation. This is key, on account of the cost saving/resource-conserving implications of demand/ supply-side management. Key technologies and systems to minimize energy losses at the three critical stages of Generation, Transmission & Distribution are highlighted in the

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table (on page 74).

Pursue effective management of Labour Issues

About two weeks after the announcement of the Roadmap for the reform of the electric power sector, the Nigerian Labour Congress threatened to derail the process, effectively indicating that the privatization of the sector is not in the best interest of the economy, particularly the labour sector. Recall also that a day before the announcement of the Roadmap, there had been a general strike by workers in the power sector for improved condition of service. However, it is generally agreed that there is need to infuse managerial and operational efficiency in the power sector through private sector participation.

But until the issues of industrial relations and labour productivity are addressed, rent-seeking, sectional and vested interest might continue to impede reform implementation and progress. There is a need for Labour itself to identify clearly what is in the best interest of its workers and work toward convergence with the higher national interest. Labour's concern among other issues, is that ownership of privatized public power assets does not end up in the hands of politicians, but in the hands of truly competent private sector firms. Reserving a certain percentage of ownership of the public sector company to the workers, may cause a shift towards improved efficiency and worker acceptance of the fact that privatization, at the end, is in the best interest of appropriately skilled workers in the power sector.

Some countries have had to be more proactive in quickly defining or circumscribing the scope of labour power issues in matters of privatization of public assets, through enforcing de-unionization and encouraging non-unionization in the select strategic sector, as in Thatcher's Administration in the UK. On the other, hand, if Labour can be assured that pension liabilities of its workers are adequately funded, that they collectively hold a stake in the privatized company, say 10%, then they could become willing partners in effort to move the sector forward. The fact is that reform issues, or for that matter, change processes generally require effective people-issue management to carry all stakeholders along. Effective management of the reform process requires providing some form of 'soft-landing' for potential losers, who are strong enough to throw 'spanners' in the wheel of privatization. The Government has expressed preference for dialogue to resolve issues of severance pay, pension liabilities, etc.

The Need for Capacity Building

There is a clear need to build capacity in Nigeria's electric power industry, in terms of manpower training necessary to achieve efficient local Operations & Maintenance (O&M), including repair and maintenance of transformers; such repairs are reportedly currently carried out in South Africa even though the PHCN has its power transformer workshops for routine maintenance and repairs. Hitherto, the usual route to capacity building has been through leveraging foreign technical assistance programmes.

Related to this is the issue of content localization; presently over 90% of the materials required for power supply is imported and hence dependent on foreign exchange. This situation is a big constraint to operations & maintenance (O&M) and reinforcement of power supply facilities. There is urgent need, therefore, for local power engineering companies to keep building capacity, and set up joint venture assembly/manufacturing facilities for some of the key power supply equipments, especially in the Transmission & Distribution (T&D) segment.

Some items like cables, low voltage switchgear and some grades of lubricants are being produced locally. But increased scope of local manufacture of various inputs in electricity production is highly desirable. Some power companies that have been in the country for quite some time have seized the opportunity to make substantial investment in the local manufacture of switchgears. These include ABB and Siemens.

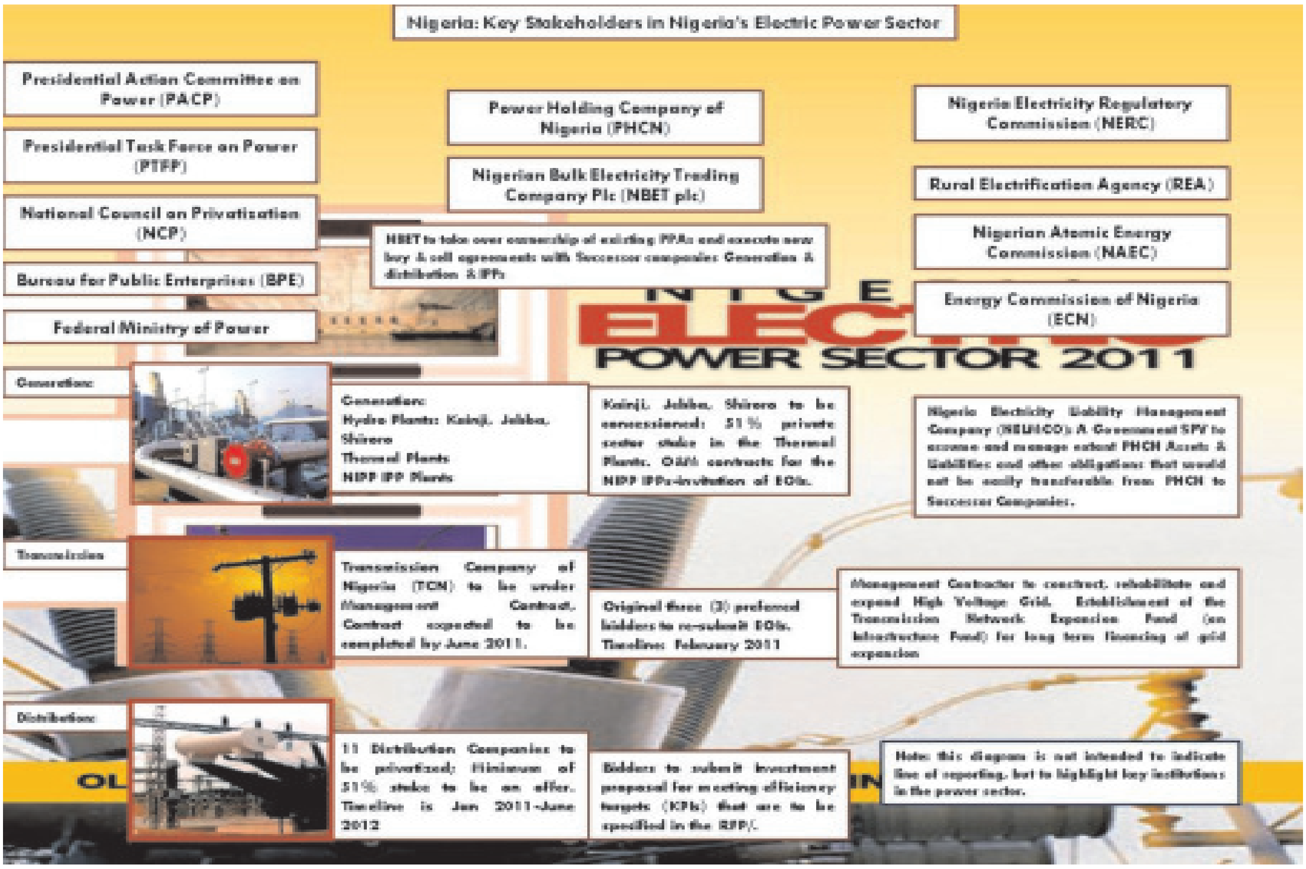
Apart from these two companies, other private initiatives continue to explore emerging opportunities. The most recent is ElSewedy Electric Ltd (Nigeria) which has set up shop in partnership with the Lagos State Government to assemble and manufacture transformers. Some other companies distribute transmission and distribution equipment-electric power apparatuses-transformers, low voltage compensators, High voltage Insulated test step-up, PVC plastic flame resistant line slots and general products for power plant design, operation and maintenance.

There is a small but striving market for used transformers, switch-gears, etc, while Siemens and ABB have continued their interest in the local assembly of switch- gears, distribution transformers, insulators, etc. The Government can envision and stipulate that 30% local manufacture of power equipments and accessories be achieved within the next 10-15 years, with appropriate structure of incentives given to power engineering companies. A National Science & Technology Plan, among other measures could see the Enugu-based Project Development Agency (PRODA) taking a more active role in technology transfer as regards the manufacture of components of electric moving parts/motors and appliances.

Conclusion

No doubt, as admitted also in the Roadmap, the availability of adequate and reliable electric power in Nigeria is one that has been a mirage in the previous decades. Yet, the power sector can be considered as the "Infrastructure of infrastructure", one that is central to industrial production, economic growth and development.

"Electricity underpins and integrates the world economy, enabling not only industrial production, but also the global real-time network for communications, finance, and trade. The hyper-connected, 24-hour world



would be paralyzed without electricity. Electricity's role in the economy will continue to increase in the new century. Nearly all modern technology and equipment require the use of electricity both in their production and in their use. Microprocessors and anything containing embedded microprocessors (televisions, computers, communications equipment, etc.) depend on reliable and high-quality electricity. E-Commerce would be paralyzed without electricity. At the same time, the overall growth in electricity demand will remain linked to the rate of economic expansion. To the extent that the 'New Economy' results in stronger electricity demand growth, the resulting need for ever-more-reliable electric infrastructure will also increase". (CERA, Authur Andersen 2000)

Availability of adequate electricity is central to the achievement of the critical goals of the Vision 20:2020; there is no short-cut or half measures about it. Hence, the need for a comprehensive package of reforms in the sector such as is encapsulated in the Roadmap. As it is, implementation of this comprehensive plan must be consistently done.

Going forward, Nigeria should make energy efficiency and conservation a priority, protect the environment, and seek diversified sources of power. It should consistently seek to improve and expand its power grids. There should be a plan to develop coal-fired power plants that are efficient and environmentally friendly while vigorously developing Small Hydro Power (SHP). Development of nuclear power, while it could help to diversify the energy mix, should be carefully planned and implemented in accordance with international best practices.

Natural gas as a source of power is expected to grow and be a source of large capacity additions in the near future. Development of new and renewable sources of energy, like wind-power and solar-power, though presently at the demonstration stage, with technical assistance programmes, is expected to gain momentum. The objective is to balance the needs for sustained economic development, all-round social progress, perpetual utilization of resources, and improvement of the environment and sound ecological cycles.

In achieving the power sector reform goals, Nigeria needs to strengthen international cooperation and exchange, especially with regards to tapping into opportunities in the West African Power Pool. It needs also to draw on international energy cooperation agreements and best practices as it relates to issues of energy efficiency, conservation, procurement and competitive bidding. In this way, Nigeria may open its power sector to the outside world at a higher level and for a wider scope of power related activities. There is no doubt that Nigeria is on its way to becoming an emerging, but vibrant power market in the West African sub-region, one that would be an attractive hub for foreign investors.

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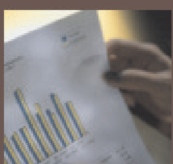
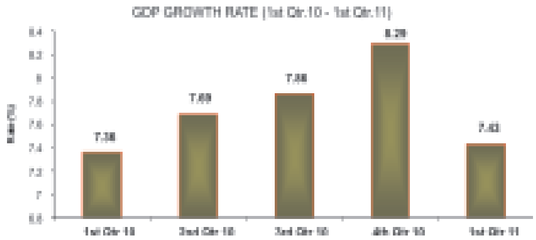


Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

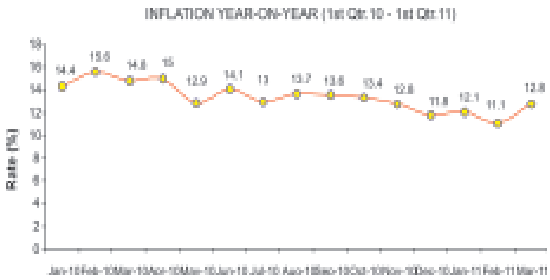
The Nigerian economy in first quarter 2011 lost some of the gains of last quarter 2010, but also recorded strong growth in several parameters. Inflation figures for instance, ended the quarter higher than the preceding quarter, generating concerns among policymakers. Gross Domestic Product (GDP) contracted slightly, but ended higher than expected. The Monetary Policy Rate (MPR) was raised to hold back inflation. The nation's currency, the naira, lost grounds against other major currencies. In the capital market, the bears maintained its grip. However, foreign exchange reserves rebounded during the quarter. In the international crude oil market, prices surged, regaining some initial losses.



Source: **National Bureau of Statistics**

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) began the first quarter with a seasonal dip at 7.43 percent, slumping from 8.29 percent recorded in the preceding quarter. Real GDP growth was mainly driven by the non-oil sector. Despite being the period of land preparation in the Northern region and cropping season in the Southern states, agriculture continued its dominance as major contributor of GDP. For the oil sector, the dividends of the Amnesty deal embraced by the Niger Delta militants continue to yield positive returns, with production jumping by 29.3 percent between February and March. Real GDP growth in 2011 is projected at 7.1 percent, slightly lower than the 7.4 percent recorded in 2010.



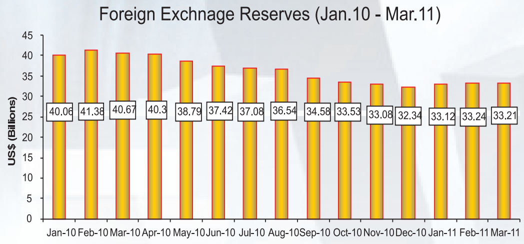
Source: **National Bureau of Statistics**

INFLATION

The Year-on-Year (y-on-y) inflation rate was at best patchy all through first quarter; up one month and down the next. The headline inflation rate went up to 12.8 percent in March, not quite the target the authorities had hoped for. Inflationary pressures moderated significantly in February against expectations, in response to CBN's tightening policy in January and weaker demand due to delayed passage of the 2011 budget. Despite the positive signs however, high prices of some staples like yam, beverages, fruits, vegetables, fish and cereals persisted all through the quarter. Inflation ballooned in March due to higher costs of imported food items, transportation, building materials, diesel and kerosene. In the months ahead, inflationary risk remains a threat due to the expansionary stance of the 2011 budget; higher global food and energy prices as well as possible deregulation of the downstream petroleum sector.

EXTERNAL RESERVES

The nation's external reserves recorded marginal improvements in first quarter 2011, owing to increase in output and rising crude oil receipts. External reserves it increased by about $4.1billion to $36.4billion on March 4, 2011 from $32.3billion registered at the end of December 2010. The build-up in reserves was however short-lived, as leakages remained. It tumbled back to $33.2billion as at end March 2011, capable of financing up to 14 months imports. The reserves, which had earlier skyrocketed to an all-time high of $64billion in August 2008, nosedived amid continuous withdrawals. Threatened by shrinking reserves, the authorities attributed the development to the enormous cost of first line charges such as refined petroleum product subsidies; Joint Venture Cash calls (JVC); as well as high import dependency. In the near to medium term, the authorities project improvements in the stock of external reserves as a result of higher crude oil prices and improvements in output.

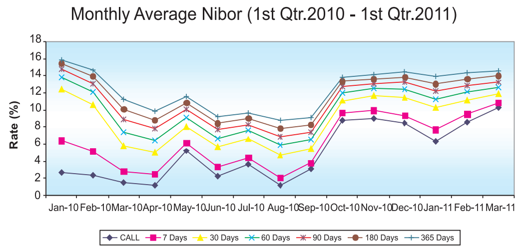


Source: **Central Bank of Nigeria**

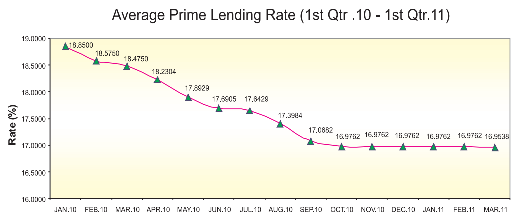
INTEREST RATE

In a widely anticipated move, the CBN stuck to its script and raised its key lending rate twice during the first quarter. The first hike came at no surprise in January when the apex bank raised the Monetary Policy Rate (MPR) by 25 basis points to 6.5 percent. However, the second increase by 100 basis points in March caught manufacturers off guard, as MPR was adjusted to 7.5 percent in a bid to hold back inflation.

The average interbank rate climbed upward within the quarter with significant rate swings. For instance, rates on the call and 7 Days tenors climbed as high as 11 and 11.5 percent, respectively. After a headlong rise, rates dipped in January as a result of inflows of N410billion Statutory Revenue Allocations to the three tiers of government and N50billion recurrent injection into parastatals. The downswing was however short-lived as rates inched up in February and March due to higher than expected activities at CBN's Dutch auction, enormous NNPC remittances and aggressive mop up operations by the apex bank. Pendulum swings on rates during the quarter made

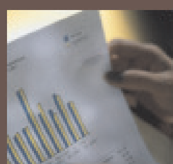


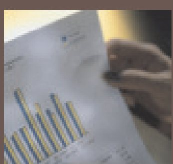
Source: **Financial Markets Dealers Association of Nigeria**

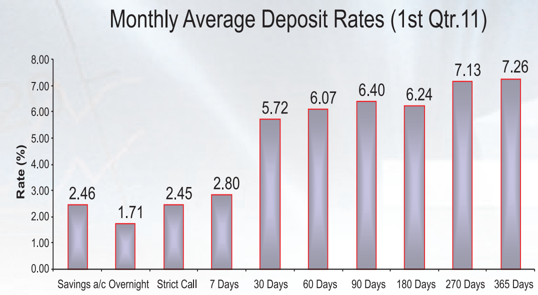


Source: **Financial Markets Dealers Association of Nigeria**

Facts & Figures





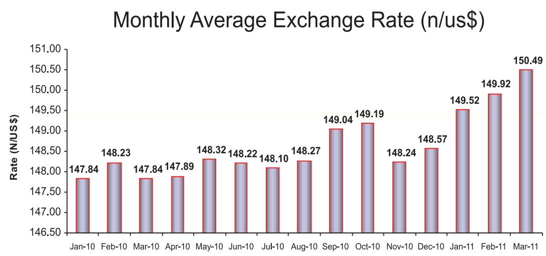


Source: **Financial Markets Dealers Association of Nigeria**

the N1.2trillion FAAC allocations to the tier threes of government and the transfer of about N190billon Cash Reserve Requirement balance to Deposit Money Banks ineffective as liquidity squeeze persisted for the remaining part of the quarter.

In terms of cost of borrowing, the average Prime Lending Rate (PLR) remained stable due to CBN's extension of guarantees on interbank transactions and foreign credit lines by three months from June 30, 2011 to September 30, 2011. Even though lending rate remained at elevated levels, hovering around 17 percent, it was nevertheless 152 basis points lower than the average closing rate as at March 2010.

Returns on the average deposit rate inched up across most investment horizons, with volatility higher on the overnight and strict call tenors.



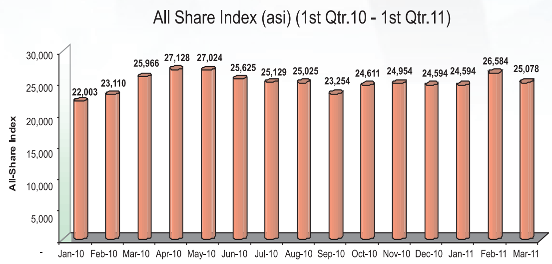
Source: **Central Bank of Nigeria**

EXCHANGE RATE

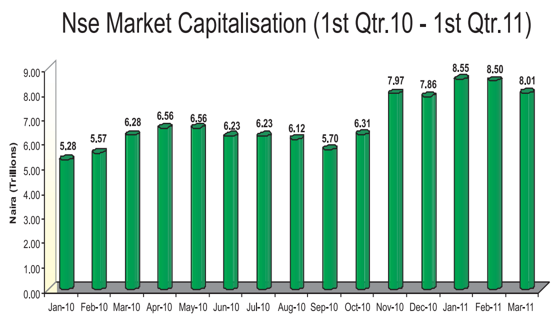
The nation's currency, the naira, got off to a shaky start in first quarter 2011, losing grounds against other major currencies but however finishing around CBN's target. It closed the period with mild depreciation at about N151/US$. The naira witnessed volatile movements against the US dollar, reaching new highs at the parallel market in March. Demand pressures resurfaced earlier in January with the nation's currency coming under fierce pressure on various fronts, from higher costs of imported refined petroleum products and food items to heightened political risk ahead of the April general elections. In its twice weekly auctions, the CBN offered about $7.4billion and sold $7.2billion, with total demand of about $8.7billion during the period. The shortfall was nevertheless filled by inflows from oil majors and telecom companies. Despite the bridge however, continued thirst for the green back remained at the interbank market, resulting in unmet demand on several occasions. The premium between the official and interbank rate widened slightly to 3 percent as at end March 2011, compared to 1.8 percent in December 2010. Pressure on the naira is expected to moderate following the successful conclusion of the April elections.

CAPITAL MARKET

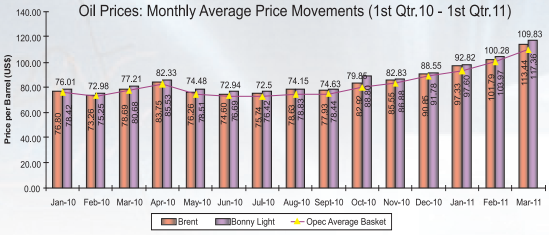
The stock market got off to a flying start in first quarter 2011 but ended the quarter with some disappointments for stock investors. The All-Share Index and market capitalization gave up earlier gains to finish disappointingly lower at 24,621.21 and N7.86trillion, respectively, from 24,765.60 and N7.91trillion in the preceding quarter. The mood in the market, especially during the last two months of the quarter could best be described as somber as the annual market return swung into negaative in March. Political risks made investors extremely nervous, as attractive rates in the money market pulled funds away from equities. Longer than expected delays in the release of year-end results among Deposit Money Banks triggered short-term profit-taking activities and speculations. On the positive side, market expectations remained high as the Asset Management Company of Nigeria (AMCON) got approval for the second phase of loan purchases despite delays from the authorities. Market operators cheered as the Exchange added two more hours to trading. Also a number of quoted companies such as Nestle, Nigeria Breweries, Julius Berger Plc, Zenith Bank and GTBank among others declared impressive dividends of N10.60 (plus 1 for 5 bonus offer); N1.25; N2.00; 85k and 75k (plus 1 for 4 bonus offer), respectively.



Source: **Nigeria Stock Exchange**



Source: **Nigeria Stock Exchange**



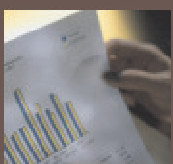
Source: **Energy Information Administration**

OIL & GAS

Crude oil prices shot up in the first quarter of 2011, recovering initial highs despite a bumpy take off in the first half of the quarter. Oil prices surged by more than 25 percent its highest levels since August 2008. It was a case of history repeating itself with Brent crude oil prices propelled to about $117 per barrel on the closing day of the first quarter, similar to the first three months of 2008. Nigeria's brand of crude oil, bonny light, recovered more than $16, its strongest quarterly gain since 2005. It traded in a band of $88-$107 per barrel. Industry analysts attribute the rebound in crude oil prices to several reasons such as supply disruptions and civil unrest in the Middle East and North Africa (MENA) region; soaring demand in emerging markets; post-quake reconstruction in Japan; elections in Nigeria; the weaker dollar and a strengthening in U.S. economic recovery, among others. In its Middle East and North Africa Energy Conference in London, OPEC reiterated that it has no interest in very high oil prices and that the market has more than enough crude oil to meet current demand.





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