Zenith Economic Quarterly
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Creating the Job Creators

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Import Substitution:
Strategy For Reviving Nigeria's Manufacturing Sector?

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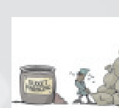

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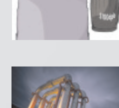

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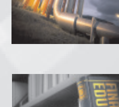

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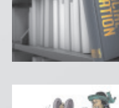

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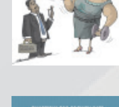
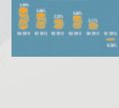




From the
EDITORIAL SUITE

Job Creators As Solution

The International Labor Organization (ILO) has warned that unemployment will continue to rise in the coming years as the global economy enters a new period characterized by slower growth, widening inequalities and turbulence. ILO's annual "World Employment and Social Outlook – Trends 2016", published in January 2016, shows that more than 197 million people around the world were unemployed at the end of last year – 27 million more than the pre-crisis level of 2007. It forecasts that 2.3 million more people would be out of work by the end of 2016, with an additional 1.1 million jobless in 2017, to reach 200.5 million unemployed by that year, the highest figure in history. 60-70 percent of these would be from the youth population, and mostly from developing, emerging and low income markets.

Obviously, Nigeria, the largest economy in Africa, accounts for a huge chunk of these figures, especially in the area of youth unemployment—a monstrous challenge that keeps getting compounded by the minute. According to official statistics (National Bureau of Statistics), in the past six quarters up to Q1, 2016, the unemployment rate (that is the number of unemployed persons divided by the number of people in the labor force) has maintained a consistent rise: from 6.4 per cent in Q4, 2014 to 10.4 per cent in Q4, 2015, and further to 12.1 per cent in Q1, 2016. In absolute terms, the number of unemployed persons in the country per time is really humongous. By definition, unemployment occurs when a person who is actively searching for employment is unable to find work. Unemployment is often used as a measure of the health of an economy.

And so, in the face of this 'octopus' of a challenge in the Nigerian, nay, global economy, we decided to explore solutions rather than rehashing lamentations about the lingering problem. Our cover topic "YOUTH UNEMPLOYMENT CRISIS: CREATING THE JOB CREATORS" takes a solution-seeking approach to analyze the crisis of youth unemployment, proffering panaceas for geographical regions and economic jurisdictions. The author sums up that protracted high level of youth unemployment portends serious risk to any socio-economy and is a breeding ground for intergenerational poverty, crimes, social instability and anarchy. Furthermore, in order to actualize the goal of building job creators, every socioeconomic agent should be a key stakeholder, while government must provide the enabling policy and regulatory environment; educational institutions, businesses, nongovernmental organizations (NGOs), institutional investors, multilaterals, and major international agencies, all have roles to play. Indeed, the job of tackling unemployment is a job for all!

In a related topic, the nagging problem of the mounting debt profile of Nigeria in the face of fast dwindling foreign exchange earnings and reserves is also examined. The author vividly analyzes

Obviously, Nigeria, the largest economy in Africa, accounts for a huge chunk of these figures, especially in the area of youth unemployment—a monstrous challenge that keeps getting compounded by the minute.

the implications of the worrisome phenomenon, its import for future generations and strategies for reversing the irksome trend. Similarly, a review of the performance of Nigeria's manufacturing sector vis-à-vis the import substitution strategy of the Federal Government is examined. Consequent upon this, the author warns that the strategy would not yield much unless manufacturing is made to take the front burner in the efforts at diversifying the economy.

Also, as Nigeria grapples with perhaps its most problematic commodities' price crises ever, we turned our focus to the solid minerals sector, portraying the depth and expanse of opportunities therein. Under the topic "Solid Minerals: A Viable Alternative Source to Oil Revenue", the author looks around the world to identify other emerging economies that have leveraged their solid minerals to jumpstart economic growth and advises the Nigerian authorities to borrow a leaf from them.

A two-pronged treatise on the Nigerian financial system is also carried out. One, a review of the Nigerian financial services sector with focus on current trends, regulatory responses and interventions. The other dwells on financial literacy and people's economic empowerment, including the ongoing efforts of the Government to leverage financial inclusion in pursuit of economic development. Efforts at empowering female entrepreneurs through SMEs for overall economic development is also critically analyzed.

There are also other very topical issues under 'Foreign Insights', 'Facts and Figures', 'Periscope', 'Policy', etc., to complete this wholesome package for your delight and intellectual enrichment.

Enjoy yourself!

Marcel Okeke

from our mailbox

I write as Dean of the Faculty of Management Sciences to appreciate the ZEQ editorial team. I have always found the publications very enlightening. It will be appreciated if you could send copies to our faculty to give access to my students in the faculty of management sciences. Thank you.
Prof Rosemary N. Okoh
Dean, Faculty of Management Sciences
Delta State University
Asaba Campus, Asaba, Delta State

I am directed to acknowledge with delight, a receipt of copy of October, 2015 edition of the Zenith Economic Quarterly (ZEQ) journal. The theme on focus which is on "Sustainable Development Goals (SDG's) and Extreme Poverty: From Alleviation to Eradication?" is quite apt and could not have come at a better time than now that all countries are facing serious economic recession. Without mincing words, this edition contains all the necessary tools required with respect to critical information on the Nigerian and global economy for strategic policy decisions and we are happy to have it. Furthermore, we are looking forward to receiving more of such journals from you in future as a guide to achieving your valuable goals. Accept our highest regards.
Ekpe S. N.
Director of Industry
For: Honourable Commissioner
Ministry of Commerce & Industry.
Government of Ebonyi State of Nigeria

On behalf of the President/Chairman of Council, Chartered Insurance Institute of Nigeria, we acknowledge the receipt of the copy of Zenith Economic Quarterly Journal sent to us. We appreciate the gesture and this would be added to the collections of Journals in our library. We look forward to receiving more of these quarterly Journals from you.
Folu Ayoola
For: Director-General
Chartered Insurance Institute of Nigeria
Ebute-Metta, Lagos

I write to acknowledge our receipt of a copy of your quarterly publication, the Zenith Economic Quarterly (ZEQ) of January 2016. We appreciate your sending us this timely publication. It will undoubtedly enrich our learning, teaching, and research work in the area of sound economic indices.
Okechukwu Nonyelum
The Librarian
Lagos Business School
Pan-Atlantic University
Lekki, Lagos

I am directed to acknowledge with thanks the receipt of a copy of your January, 2016 edition of the Zenith Economic Quarterly vide letter dated 21st March, 2016. I am to add that the publication will be of immense contribution in developing strategic action plans for the Waste Management Sector. Grateful.
E.O Dada
For: Executive Chairman
Lagos Waste Management Authority (LAWMA)
Ijora Olopa, Lagos

We acknowledge, with thanks, receipt of a copy of your April, 2015 edition of the Zenith Economic quarterly (ZEQ) donated to the University. We appreciate your kind gesture in furnishing the University library with this resourceful material. On behalf of the Vice-Chancellor, Prof. Vincent Tenebe, please accept our best assurances and regards.
Ainodion Wosilatu (Mrs.)
Principal Assistant Registrar
For: University Librarian
National Open University of Nigeria (NOUN)
Victoria Island, Lagos

I write on behalf of the Director to acknowledge the receipt of your Journals of 20th July, 19th October, 7th December, 2015 and 21st March, 2016 editions of the Zenith Economic Quarterly (ZEQ), respectively. They will go a long way to widen our horizon on critical issues and will provide information and awareness to all who will read the Journals and will assist us in strategic policy decisions. Please accept our Director's highest regards.
Mrs M. Agidani
Admin. Secretary
Centre for Energy Research and Training
Ahmadu Bello University
Zaria, Kaduna State

I humbly wish to acknowledge the receipt of copies of April, October, 2015 and January 2016 edition of the Zenith Economic Quarterly (ZEQ). We look forward to seeing more of your interesting and educative journals in future. Thank you.
Abubakar Sufiyanu
For: Executive Director
Institute for Agricultural Research, Samaru
Ahmadu Bello University
Zaria, Kaduna State

I write on behalf of the Vice-Chancellor to acknowledge with appreciation the receipt of your letter dated December, 2015 forwarding a copy of the October, 2015 edition of the Zenith Economic Quarterly (ZEQ) Journal to the Vice-Chancellor. No doubt, the Journal will provide the University with useful information on *"SDGs and Extreme Poverty: From Alleviation to Eradication"*, and also serve as a veritable reference material in the University Library. While commending the Management of Zenith Bank Plc for the publication, please be assured of our warm regards and best wishes.
Bayo Orukotan
Principal Assistant Registrar
Vice-Chancellor's Office
Bells University of Technology
Ota, Ogun State.

I am directed by the Honourable Attorney-General of the Federation and Minister of Justice to acknowledge the receipt of your letter forwarding the attached copy of the July 2015 edition of the Zenith Economic Quarterly (ZEQ) to his office. Accept the assurances of the best wishes of the Honourable Attorney-General of the Federation and Minister of Justice.
Mrs C. M. Ogunniyi (FCSR)
For: Honourable Attorney-General of the Federation and Minister of Justice
Federal Ministry of Justice
Maitama, Abuja

PERISCOPE

Economy: Waiting For A Rebound After A Dip

By Marcel Okeke

The Nigerian economy which, measured by some key indicators, hit its seemingly lowest ebb in two decades by the close of 2015, was further dragged down during the first quarter 2016 by the same persisting conditions in the past year. These include uncertainty around economic policies, adverse external environment (especially crash of oil prices), security challenges in some parts of the country affecting production and distribution of agricultural produce, low electricity supply, fuel shortages, and the foreign exchange crisis, among others. By the close of the first quarter Q1, the 2016 Federal Government's Appropriation Bill remained in the vortex of parliamentary debates; militancy in the Niger Delta was gradually gaining momentum; insurgency in the North-East persisted; fuel scarcity was widespread and lingering; as well as salaries of civil servants in most of the 36 states of the Federation also remained unpaid for a number of months.

The upshot of all these was the abysmal state of the economic indicators at the close of Q1, 2016. Indeed, for the first time since the return of democracy in the country in 1999, the measure of the rate of growth/value of the economy—the Gross Domestic Product (GDP)—turned negative in Q1, 2016, standing at -0.36 per cent. The last time Nigeria recorded a negative GDP growth was in 1995, when the economy contracted by -0.3 per cent, according to the World Bank records. Thus, the deterioration of the GDP to -0.36 per cent in Q1, 2016, from 2.11 per cent level in the last quarter 2015 and the persistence of poor macroeconomic environment could be a pointer to the imminence of a recession as earlier indicated by the Central Bank of Nigeria. In its Monetary Policy Committee (MPC) communique 107, the apex bank had said: "the Committee acknowledged the severely weakened macroeconomic environment, as reflected particularly in increased inflationary pressure, contraction in real output and rising unemployment," recalling that "in July 2015, it had hinted on the possibility of the economy falling into recession unless appropriate complementary measures were taken by the monetary and fiscal authorities." The MPC further stated that "unfortunately the delayed passage of the 2016 budget constrained the much desired fiscal stimulus, thus edging the economy towards contractionary output."

Further breakdown of the GDP by the National Bureau

of Statistics (NBS) shows that the Q1, 2016 figure of -0.36 per cent represents a drop of 2.47 percentage points in output from the 2.11 per cent reported in the last quarter of 2015, and 4.32 percentage points lower than the 3.96 per cent recorded in the corresponding period of 2015. Aggregate output contracted in almost all sectors of the economy, according to the NBS, with the non-oil sector declining by about 0.18 per cent in Q1, 2016, compared with 3.14 per cent expansion in the preceding quarter. Only agriculture and trade grew by 0.68 per cent and 0.40 per cent, respectively, while Industry, Construction and Services recorded negative growth of -0.93, -0.26 and -0.08 percentage point, respectively.

Similar to this worrisome decline in the GDP, general price level or inflation, shot up significantly into the double-digit region all through Q1, 2016. Of this trend, the CBN said: "the rising inflationary pressure continued to be traced to legacy factors including energy crisis reflected in incessant scarcity of refined petroleum products, exchange rate pass through from imported goods, high cost of electricity, high transport cost, reduction in food output, high cost of inputs and low industrial output." The apex bank further noted that the current inflation trend, being largely a product of structural rigidities and inadequate foreign exchange earnings would continue to be closely monitored, and in coordination with fiscal policy, with a view to addressing the underlying drivers of the upward price movements. Thus, for the first three months in 2016, headline inflation rate (year-on-year) rose from 9.6 per cent in January to 11.4 per cent in February and closed the quarter at 12.8 per cent. Core inflation (All items less Farm Produce) also rose sharply to 12.17 per cent in March, 11.00 per cent in February and 8.80 per cent in January, having stayed at 8.70 per cent for three consecutive months through December, 2015. Food inflation also rose to 12.74 per cent in March, 11.35 per cent in February, 10.64 per cent in January and 10.59 per cent in December, 2015.

Still in keeping with the negative trend, the total value of capital imported into Nigeria in Q1, 2016 stood at US$10.97 million, the lowest level since 2007, according to the NBS data. This also represents a decline of 54.34 per cent since the last quarter 2015, and a year-on-year decline of 73.79 per cent.

Another feature of the period under review was marked drop in capital importation into the country.

Capital importation is made up of three investment types:

Foreign Direct Investment (FDI), Portfolio Investment, and Other investments—each comprising various subsectors. Worthy of note however is that while 'Portfolio Investment' and 'Other Investments' experienced declines during the quarter under review, FDI recorded some increase in Q1, 2016: from US$123.16 million to US$174.46 million. As a result of this, its share of total capital importation increased from 7.91 per cent to 24.54 per cent, although it remained the smallest part of imported capital. Over all, the NBS attributed the huge decline in capital importation during Q1, 2016, to what it described as "symptomatic of the challenging period that the Nigeria economy is going through following the fall in crude oil prices."

As capital imported into the country was declining during Q1, 2016, the nation's external reserves followed same trend; decreasing to US$27.870 billion in March 2016 from US$29.07 billion as at December 2015. On a month-on-month basis, stock of foreign reserves stood at USD28.16 billion as at end-January, 2016 but slipped to US$27.82billion at the end of February, 2016. However, it inched up to US$27.82billion as at end-March 2016, just enough to provide less than six months of imports cover.

The depletion of the foreign reserves during the quarter under review is attributable to, among other things, CBN's consistency in 'defending' the value of the national currency (Naira) against the dollar in the foreign exchange market. Thus, the average naira exchange rate remained stable in the interbank segment of the foreign exchange market all through Q1 2016, but was under pressure at the Bureau De Change (BDC) segment of the market. The official exchange rate averaged N197/US$ in the period under review while it averaged N313/US$ in the BDC segment. On month-on-month basis, the exchange rate opened the quarter in January at N289.78/US$ but fell to N329.83/US$ in February, before appreciating to closed in March at N320.93/US$. In the face of this trend, the apex bank employed various policy measures to keep supporting the naira as well as conserve the nation's stock of foreign reserves; for example, it stopped the sale of foreign exchange to BDCs, allowing operators in that segment of the market to source their foreign exchange from autonomous sources.

THE CAPITAL MARKET

The equity market which declined 17. 4 per cent in 2015, depressed further in the first quarter 2016. Specifically, the Nigerian Stock Exchange (NSE) All-Share Index (ASI) fell by 10.9 per cent in Q1, falling from 28,335.01 points to 25,306.22 points. Similarly, the market capitalization shed N1.1 trillion, falling from N9.8 trillion to N8.7 trillion during the same period. Earlier in the year, the Chief Executive Officer of the NSE, Mr. Oscar Onyema, had anticipated the return of investors who had remained on the sidelines throughout 2015. He said "this return is predicated upon return of investor confidence as a result of effective implementation and communication of the government's economic blueprint; credibility in monetary policy stance; relative stability in the macro economy (oil price stability above benchmark targets, increase in tax collection to gross domestic product among others) and improved security." However, none of these attenuating conditions materialized during the first quarter 2016. Rather, the market remained under pressure of weak demand for stocks from both domestic and foreign investors and poor corporate earnings for 2015 financial year.

Notably, the foreign exchange restrictions by the CBN and persisting exchange rate volatility affected the participation of foreign investors in the market, Q1 2016. Thus, equities transactions figures released by the NSE for the month of January, February and March 2016 showed that total transactions at the nation's bourse decreased by 17.87 per cent from N117.27 billion recorded in February 2016 to N96.31 (about $0.49 billion) in March 2016. In comparison to the same period in 2015, total transactions decreased by 47.66 per cent from the N184.02 recorded in March 2015. Domestic investors outperformed foreign investors by 28.48 per cent as total Foreign Portfolio Investment (FPI) transactions decreased from 36.48 per cent to 35.76 per cent over the same period. Monthly foreign outflows outpaced inflows which was consistent with the same period in 2015. Foreign outflows decreased by 40.20 per cent from N31.84 billion in February 2016 to N19.04 billion in March while foreign inflows increased by 40.77 per cent from N10.94 billion in February 2016 to N15.40 billion in March 2016.

Further highlights of the domestic

composition of transactions on The Exchange between January and March 2016 show that total domestic transaction decreased by 16.94 per cent from February to March 2016. The institutional composition of the domestic market increased by 0.71 per cent from N38.25billion in February to N38.52billion in March whilst the retail composition decreased by 35.57 per cent from N36.24billion in February to N23.35billion in March 2016. This indicates that institutional investors slightly outperformed their retail counterparts in the period under review.

The Q1, 2016 performance of the equity market was also largely affected by negative sentiments brought by profit warnings by some companies, including some banks. Indeed, five banks including FCMB Group, FBN Holdings Plc, Diamond Bank Plc, Ecobank Transnational Incorporated and Skye Bank Plc sent profit warnings. Also Courtville Business Solutions Plc, Computer Warehouse Group Plc, among others sent out not-so-impressive results. Incidentally, investors' reactions to the profit warnings by banks led to the sector recording the highest decline in Q1. The NSE 'Banking Index' went down by 19.25 per cent in the quarter in March 2016 and recorded highest sectoral decline of 19.25 per cent in Q1, 2016.

In its efforts to deal with some of the investors' concerns and worries in the market, the Securities and Exchange Commission (SEC) introduced the electronic dividend platform to ensure prompt dividend payments. Although the e-dividend was launched late last year, SEC embarked on public awareness campaign in the first quarter, 2016, taking the programme to Abuja, Kano and Lagos. According to the Director General of SEC, Mounir Gwarzo, e-dividend platform will enable investors have direct access to their dividends. "Once the e-dividend is in place, the issues sur-

rounding stale dividend warrants will be a thing of the past; similarly, the challenges of travelling from one place to another to deposit dividend warrants would be completely eliminated. This process would eliminate all challenges associated with payments of dividends in our markets," Gwarzo said. The effort, according to him, would also help in reducing the quantum of unclaimed dividend in the market, adding that "this is because unclaimed dividends are an offshoot from dividends of small stakeholders who have been unable to claim them."

OIL PRODUCTION & PRICES

In tune with the general decline in the economy in Q1, 2016, both oil production and prices of the commodity dropped significantly during the period. Indeed, Nigeria lost its Africa's top oil producer status to Angola, as the country's crude oil production fell by 67,000 barrels per day in March, according to data from the Organization of Petroleum Exporting Countries (OPEC). OPEC, in its Monthly Oil Market Report (MOMR) for April, 2016, put crude oil production from Nigeria at 1.677 million bpd in March based on direct communication, down from 1.744 million bpd in February. Nigeria recorded the biggest drop in output in the month among its peers in OPEC, followed by Venezuela, based on direct communication.

Exports and production of Nigeria's popular crude grade 'Forcados' continued to be shut in for most part of the quarter under review due to a sabotage-related spill on the subsea Forcados pipeline. Nigeria in recent times has been hit by a rise in militant attacks in the Niger Delta; a development that has been threatening oil production. OPEC in its April MONR said "Crude oil output increased mostly from Iran, Iraq and Angola, while production decreased in UAE, Libya and Nigeria." Angola saw its oil output rise to 1.782 million bpd in March from 1.767 million bpd in February, based on direct communication, according to the OPEC report.

According to data form Cardinal Stone Partners, an investment firm, a total of 959 vandalized points were recorded between January and March 2016 on Nigeria's oil infrastructure – a 25 percent increase from the 768 vandalized points recorded in the corresponding period of 2015. Nigeria's 2016 budget is hinged on estimated daily oil output of 2.2 million barrels per day and a US$35 per barrel benchmark. Unless the price of crude appreciates significantly to make up for the shortfall in production, the government may be under pressure in meeting its budget obligations. Crude oil prices made some upwards climb by the close of the first quarter, standing at above US$45 per barrel to a combination of Nigerian, Venezuelan and other supply outages, as well as declining U.S. production.

Exports and production of Nigeria's popular crude grade 'Forcados' continued to be shut in for most part of the quarter under review due to a sabotage-related spill on the subsea Forcados pipeline.

Telecommunications

The telecommunications sector of the Nigerian economy sustained its good performance streak during the first quarter 2016, even when other sectors were experiencing some decline. Thus, total connected phone lines continued to rise all through the period; moving from 214.5 million in January to 215.76 million at the close of Q1. However, the number of active lines dropped during the same period: from 151.4 million in January to 148.75 million in March 2016. Teledensity (the number of phone lines per 100 persons) also declined, from 108.11 in January to 105.41 in March.

Of the 148.74 million active line in Q1, MTN accounted for the largest share of 57.04 million (38 per cent), followed by Glo with 34.60 million subscribers (or 23.20 per cent) and Airtel with 33.86 million (or 22.70 per cent). Further breakdown of the active phone lines in Q1 shows that Lagos State accounted for the largest share with 19.04 million (or 12.80 per cent), followed by Ogun State with 8.53 million subscribers (or 5.7 per cent); Kano State with 7.81 million (or 5.25 per cent); Oyo State with 7.53 million subscribers (or 5.06 per cent); Fed-

eral Capital Territory, FCT, with 6.03 million (or 4.05 per cent); Rivers State with 5.84 million (or 3.93 per cent). On the other hand, Bayelsa State (1.11 million), Yobe State (1.40 million), Ekiti State (1.42 million) and Ebonyi (1.43 million) had the smallest number of active subscribers as of Q1, 2016.

Further analysis of the telecoms market shows that Lagos State was the dominant market for all the active voice telecom companies during the first quarter 2016. It accounted for 10.05 per cent of MTN total voice subscribers, followed by Ogun, Kaduna and Rivers in that order. The State accounted for 10.03 per cent of Glo (followed by Oyo, Niger, Ogun and FCT in that order); 16.0 per cent for Airtel (followed by Ogun,

Kano and Oyo States); and 19.1 per cent of Etisalat voice subscribers (followed by Ogun, Kaduna and Rivers, in that order).

In a similar vein, the total number of active Internet subscriptions in the country stood at 92.4 million at the end of Q1, 2016, with MTN accounting for the largest share of 33.35 million (or 36.09 per cent), followed by Glo with 26.53 million subscribers (or 28.70 per cent) and Airtel with 17.15 million (18.56 per cent). Also, Lagos State accounted for the largest share of active Internet subscribers with 12.62 million or 13.65 per cent of the total, followed by Ogun state with 5.62 million subscribers or 6.09 per cent, and then Oyo, Kaduna and Kano in that order. Lagos was also the dominant market for all of the active Internet telecom companies, accounting for 11.34 per cent of MTN total internet subscribers, 10.36 per cent of Glo, 16.95 per cent of Airtel and 20.27 per cent of Etisalat voice subscribers.

(Marcel Okeke is the Editor, Zenith Economic Quarterly)

Policy

GUIDELINES ON THE MANAGEMENT OF DORMANT ACCOUNTS AND OTHER UNCLAIMED FUNDS BY BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA

1. INTRODUCTION

The absence of clear guidelines for the management of dormant accounts in Nigeria resulted in different treatments of dormant account balances by deposit taking financial institutions, thus raising concerns among bank account holders, regulators and other stakeholders. Representations received by the CBN from stakeholders on the subject highlighted the need for the Bank to develop a regulatory framework on the management of dormant and inactive accounts as well as other unclaimed funds in Nigeria for the benefit of the banking system.

The essence of the Guidelines is to curb possible abuses in the operation of dormant and inactive accounts, set operational standards for banks and OFIs in line with best practices and to reinforce the rights of depositors and/or customers.

2. OBJECTIVES

The objectives of the Guidelines, among others, are to:

- Standardize the management of dormant accounts in Nigeria;
- Conform to international best practice;
- Eliminate the possibility of banks converting dormant accounts' balances to income; and
- Strengthen risk management and internal control processes.

3. DEFINITION

The Guidelines adopts the following definitions:

a. Inactive Account: An account shall become inactive if there has been no customer or depositor-initiated transaction for a period of **six months** after the last customer or depositor initiated transaction. During the inactive period, the bank shall elevate controls on the account in line with its

precautionary policies, which may include surveillance procedures and second level authorization. Also, the customer shall not be required to provide any documentation to activate the account. Simple deposit or withdrawal shall suffice to activate the account.

b. Dormant Account: A bank account shall be classified as dormant if there has been no customer or depositor initiated transaction in it for **a period of one (1) year** after the last customer or depositor-initiated transaction. When the account becomes dormant, the bank shall institute controls consistent with its precautionary policies, including surveillance procedures and second level authorization. To make such account active, the customer is to provide satisfactory evidence of account ownership means of identification and present place of residence.

c. **Unclaimed funds** shall be categorized as:

i. Proceeds of stale local and/or foreign currency drafts not yet presented for payment by beneficiaries.

ii. Funds received from a correspondent bank without sufficient details as to the rightful beneficiary and/or a recall of funds made to the remitting bank to which the Nigerian bank's account had not been debited; and

iii. A judgment debt for which the judgment creditor has not claimed the amount of judgment award.

Customer or depositor-initiated transactions include cash deposits, withdrawals and transfers to or from the account.

4. TREATMENT OF DORMANT ACCOUNT BALANCES

In the light of the above, the following standards/ guidelines shall apply to the operation of dormant accounts in Nigeria.

a. Interest-bearing accounts shall retain their interest earning status during the period of dormancy.

b. Deposit taking financial institutions shall continue to monitor accounts that show tendencies of inactivity andinitiate actions for their reactivation or protection from wrong usage. Such actions shall include, though not limited to any of the following: SMS, e-mail, visitation, and or phone calls. In all cases, the cost of monitoring the accounts and contacting the customers shall be borne by the bank.

Once accounts become dormant, they shall be reported quarterly to Banking Supervision or Other Financial Institutions Supervision Department of the CBN, as the case may be, along with efforts made by the obligor bank to locate the owners or their personal representatives.

c. Once accounts become dormant, they shall be reported quarterly to Banking Supervision or Other Financial Institutions Supervision Department of the CBN, as the case may be, along with efforts made by the obligor bank to locate the owners or their personal representatives. Such returns shall be rendered in the format of the Dormant Accounts Reporting Template attached hereto.

d. In line with the requirements o; the Uniform Account Opening Forms policy, every customer shall provide a next of kin when opening an account.

e. Three months to dormancy, the bank shall notify the account holder of the status of the account. For individual accounts that the bank cannot reach the account holder during the three (3) months period, it shall contact the next-of-kin to assist in locating the account holder(s). This will be done within one month after the account has been declared dormant. (For corporate accounts the bank shall contact the directors of the entity or seek information from the Corporate Affairs Commission on the Directors).

f. Henceforth, revalidation of inactive/dormant accounts shall not attract any cost to the account holder (as the banks would have made ample use of the idle funds).

g. Dormant account balances shall continue to be reflected in the books of banks as deposit liabilities until they are eventually withdrawn by the account holders or disposed of, on their instructions.

h. Dormant accounts balances shall be covered by Deposit Insurance Scheme.

I. Banks that have, in the last five (5) years from the date of these Guidelines, appropriated credit balances in dormant accounts to income are to reclassify such accounts to deposits not later than six (6) months from the effective date of the Guidelines.

j. Notwithstanding the provisions of section (i) above, banks shall retain the records of all dormant accounts irrespective of the number of years of dormancy of the accounts, and shall reactivate such accounts upon request by the bona fide account holder or his/her legitimate representatives.

5. **TREATMENT OF UNCLAIMED FUNDS**

a. Where any unclaimed funds remain outstanding in the books of the bank beyond six (6) months, the bank shall pool all such funds into a suspense account. The bank shall warehouse the funds until the beneficiary shows

up or the corresponding bank debits its account; and

b. Any other legally payable fund shall with the prior approval of the CBN be considered "unclaimed" if it has been in the possession of the bank for a period of six months after becoming due and no claim has been made by the owner of the fund. Such fund shall similarly be moved into a suspense account.

6. **LIMITATIONS/SCOPE OF THE GUIDELINES**

The following categories of accounts are excluded from the Guidelines:

a. Savings accounts: Provided that such accounts are not 'hybrid accounts', which have features of both current and savings accounts. Banks are, however, expected to institute controls consistent with their internal policies when a savings account becomes inactive to prevent such accounts from being used for fraudulent purposes.

b. Government-owned accounts.

c. All individual accounts that are subject of litigation and/or fraud.

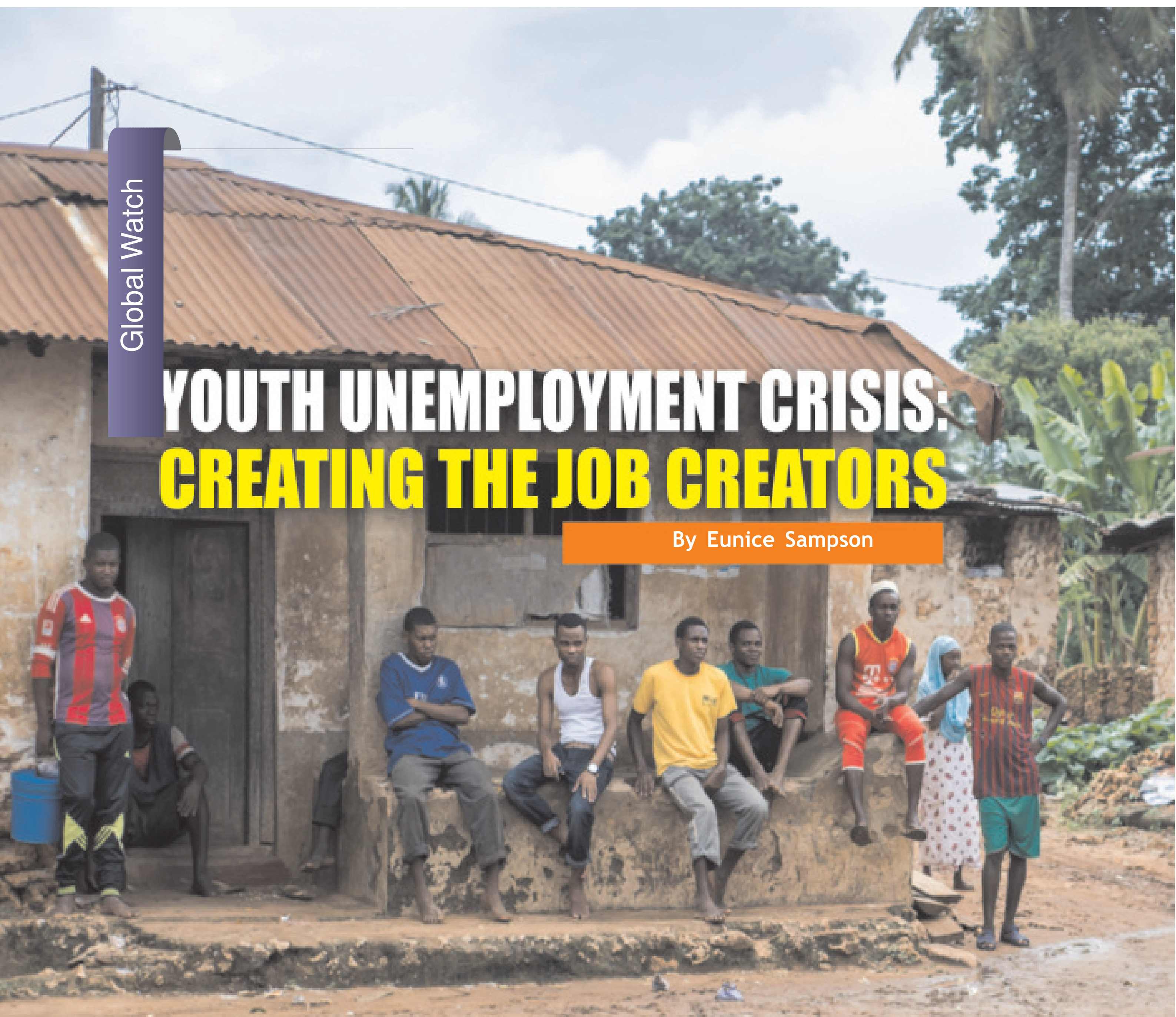
Individual accounts include sole trader, partnership, trust account, solicitor client account, etc.

7. **Sanctions**

Sanctions for contravention of the provisions of the Guidelines shall be imposed on quarterly basis under Section 60 of the BOFIA as amended.

The Guidelines shall take effect from October 7, 2015.

FINANCIAL POLICY & REGULATION DEPARTMENT
CENTRAL BANK OF NIGERIA
ABUJA, OCTOBER 7, 2015



YOUTH UNEMPLOYMENT CRISIS: CREATING THE JOB CREATORS

By Eunice Sampson

All around the world, workers are losing their jobs in droves with no hope of getting new ones. Meanwhile, fresh job seekers continue to flood the labor market. "Every year, 40 million new young people join the labor market. We are not growing quickly enough to absorb them", Guy Ryder, the Director-General, International Labour Organisation (ILO) recently complained, echoing the general frustration as global youth unemployment figures continue to mount.

The spiraling rate of youth unemployment has become a major global menace, made worse in recent years by persistent economic recessions that have marked the last decade, and of course, the recent demand and price slump in the global commodities market.

While the classification differs by countries and regions, youth unemployment generally refers to joblessness of young people between the ages of 16-35 who are willing to work and actively searching for jobs. Global unemployment rate currently averages 6 percent. But regional and country disparities remain unacceptably wide. Equally wide is the disparity between general and youth unemployment. Though

there has been relative improvement in job numbers in some of the most advanced economies, at 13.2 percent, global youth unemployment rate is still more than twice that of the general unemployment figure.

As a consequence of the recent great recession, some major economies in Europe such as Spain, Greece, Croatia and Italy still carry the burden of perhaps the worst youth unemployment situation in the world, at a staggering 40 to 50 percent. In the UK where significant job gains have been recorded in the last few years, a report published by the House of Commons Library in May 2016 shows that the youths are still nearly three times more likely to be jobless than the rest of the population. In March 2016, 13.7 percent of young people between the ages of 15-24 were unemployed, compared to 5.1 percent for the entire population.

In the United States, the story is similar. Overall unemployment figure for April 2016 was constant month-on-month at 5.0 percent. But youth unemployment rose within the same period from 10.4 to 10.8 percent, tainting the general unemployment statistics in that country. The current global youth unemployment crisis has left governments frustrated and policy makers seemingly clueless.

The over a decade of frequent economic recessions, poor educational curriculum in several countries, lack of prerequisite technical and entrepreneurial skills, and dearth of funds and startup capital are some of the factors that have fuelled the youth unemployment crisis. And for the overly commodities-dependent developing and low income markets, complexities resulting from the recent record slump in commodities pricing have aggravated the situation.

As a consequence of the recent great recession, some major economies in Europe such as Spain, Greece, Croatia and Italy still carry the burden of perhaps the worst youth unemployment situation in the world, at a staggering 40 to 50 percent.

With 74 million youths currently unemployed globally, the worst hit countries are especially at risk of breeding abject poverty, social exclusion, increased crime rate, saboteurs, armed conflicts and social unrests.

The worst Hit Regions

Africa and Asia are the two continents with the largest youth population. With over 200 million people between the ages of 15 and 24, the African continent has the youngest population in the world. Its largest economy by population and GDP size, Nigeria, is estimated to have about 100 million people below the age of 30 (approximately 70 percent of the population). Egypt has an estimated 60 percent youth population. And in South Africa, over 60 percent of the total population are also below the age of 35.

Disturbingly, more than half of Africa's youth are currently unemployed. In South Africa, youth unemployment rate as at end March 2016 was over 50 percent compared to 26.7 percent for the entire population. Data just published by Nigeria's National Bureau of Statistics for first quarter 2016 shows that youth unemployment increased to 21.5 percent from 19 percent; underemployment increased to 19.1 percent from 18.7 percent. In Kenya, unemployment hovers around 40 percent; and about 70 percent of these are youths from ages 15-35 years. An estimated 800,000 Kenyans join the labor market every year with less than 7 percent of them getting professional jobs. From 12.88 percent in 2015, Egypt's unemployment rate is expected to rise to 13 percent in 2016, while youth unemployment is double at 26.3 percent. Egypt, by the calculation of the International Monetary Fund (IMF, World Economic Outlook April 2016), has officially become Africa's second largest economy, overtaking South Africa. But this impressive growth is yet to reflect on job creation and economic empowerment for the

youth population.

In Asia, the story is the same among the major developing economies. India's latest census (2011) data released in January 2016 shows that around 41 percent of the country's 1.3 billion population is below the age of 20 years, a massive 500 million young people. India's youth unemployment rate for the age group 15 to 24 years is 18.1 percent, with the illiterates faring better than the graduates at 3.7 percent unemployment rate. Recent surveys by India's Labour Bureau found that one out of every three graduates between the ages of 15 to 29 is unemployed. Unemployment among Indian graduates is at about 26.5 per cent in urban areas and 36.6 per cent in rural areas.

Even with a fast aging population, China is not spared the same dilemma. In the summer of 2015, about 7.5 million college graduates entered the Chinese labor market. Youth unemployment is at 10.2 percent, the highest rate in 26 years, fuelled by a slowing economy and a widening gap between skills obtained in colleges and the practical skills in high demand at the labor market.

Not surprisingly, much of the jobs that have been lost since 2014 have been mostly in the developing, emerging and low income markets. Labour markets in these economies have been stretched to breaking points as they suffer the rude shock of a collapsed global commodities market and dwindling economic fortunes.

The International Labor Organization (ILO) has warned that unemployment will continue to rise in the coming years as the global economy enters a new period characterized by slower growth, widening inequalities and turbulence. ILO's annual "World Employment and Social Outlook – Trends 2016", published in January 2016, shows that more than 197 million people around the world were unemployed at the end of last year – 27 million more than the pre-crisis level of 2007. It forecasts that 2.3 million more people would be out of work by the end of 2016, with an additional 1.1 million jobless in 2017, to reach 200.5 million unemployed by that year, the highest figure in history. 60-70 percent of these would be from the youth population, and mostly from developing, emerging and low income markets.

Not surprisingly, much of the jobs that have been lost since 2014 have been mostly in the developing, emerging and low income markets.

Equally disturbing is the growing figures of the self-employed and those in the informal sector whose jobs are at risk. By ILO statistics, vulnerable employment accounts for 1.5 billion people, or over 46 per cent of total employment. 74 percent of workers in Southern Asia and 70 percent in sub-Saharan Africa are in vulnerable employments characterized by low productivity, low pay and lack of social safety nets. On the other hand, an estimated 358 million young people around the world are currently excluded from the labor market because they lack the needed education, skills or training that could get them employed.

Salvaging the Situation

To reverse the growing unemployment menace, the world must intensify efforts at building entrepreneurship and developing future employers of labor. Even those without the basic education and skills set needed to earn a living can still be salvaged through adequate training, capacity building, mentoring and access to funding. Going forward, focus must

be on consistently building new entrepreneurs that could create more jobs, in the short to long term.

Entrepreneurship thrives in environments where there are low entry barriers for startups; adequate infrastructure and social amenities such as electricity and transportation; and where there is access to seed funds and a ready market for products and services. While emphasis on job creation is good; focusing more on developing entrepreneurship would be a much more sustainable way of creating jobs for current and future generations. A thriving entrepreneurial environment not only reduces the number of people in the labor market but also creates a multiplier effect that guarantees more jobs, more wealth and more opportunities for the younger generation.

More than ever before, youths are getting increasingly excited about the prospect of starting their own business. Maria Pinelli in an article recently published by the World Economic Forum, discussed the outcome of a 2015 survey where 65 percent of the 2,800 young people studied around the world expressed their dream of running their own business at some point in their careers. About 27 percent want to do so immediately and 38 percent would prefer to learn from someone else first. Leading this enthusiasm were two developing economies, Mexico (91 percent) and China (89 percent).

Youth entrepreneurship remains one effective way of curbing current alarmingly high global unemployment level. This is more so since young entrepreneurs will naturally demonstrate preference for recruiting from the youth population. Also, entrepreneurs, especially in small and medium scale businesses tend to generate more new jobs opportunities than large corporations. The same 2015 survey shows that 47 percent of entrepreneurs (and 77 percent of world-leading entrepreneurs) plan to increase the size of their workforce; compared to 29 percent of large corporations. Deliberate policies at driving entrepreneurship will create more jobs and effectively reduce the problem of youth unemployment.

Building and nurturing the next generation of wealth and job creators would require the collaboration of stakeholders in the public and private sector. Governments must play their role in ensuring a conducive macroeconomic and fiscal environment for entrepreneurship to thrive; and revamping the educational curriculum towards one that encourages and develops entrepreneurship mindset, skills, capacity and innovation.

Also key is the need for access to adequate and affordable funding of business plans and projects, without which

several entrepreneurs will not survive past the first few years. It is also important that a favorable tax regime be administered for startups as a way of encouraging youngsters and new school leavers to venture into their own business.

For too long, emphasis has been on helping the young job seekers secure jobs – and without any meaningful success. In the new dispensation characterized by increasing complexity in achieving robust jobs growth, emphasis must shift towards creating a conducive socioeconomic and regulatory environment where young businesses could thrive – and this would entail stimulating innovation, nurturing entrepreneurship, and building skills and requisite capacity among the youth population. And in developing effective entrepreneurial-friendly policies, attention must be focused also on the most vulnerable and disadvantaged young population, including women, the physically challenged and the socially excluded. This would help close growing inequality, socio-economic exclusion and falling standard of living.

Activating the rural economies

Curbing youth unemployment and breaking the current *rural-phobia* gene will remain a mirage if rural economies are not stimulated to become conducive and rewarding, especially for the young population. In economies where youths in small towns are economically empowered, rural-urban migration is significantly reduced and so is youth unemployment. The rural youths must be presented with diversified economic sectors to leverage for their career growth and livelihood.

In traditional rural areas especially in emerging and low income economies, the only thriving sector is agriculture - and even this is mostly subsistent farming that can barely serve any economic purpose beyond putting basic food on the table. For youths to find rural economies attractive and be willing to live there, the rural economies must be developed and diversified. Basic infrastructure including efficient transportation system, electricity and other social amenities will have to be put in place. When rural households are able to earn good wages and enjoy modern infrastructure, their general standard of living is enhanced and the ever increasing rural-urban migration is reasonably curtailed.

With the massive potential that the agricultural sector holds for young entrepreneurs, a major challenge in several emerging and low income countries is how to make this sector attractive for the youth population. Still mostly written off by the young and even some aged as a "*brown-collar job*", this industry actually holds the key to solving the

massive unemployment problem in Afro-Asian countries.

Making the sector attractive for young entrepreneurs would entail massive reorientation, training and capacity building, establishing internship programs in industrialized and large scale farms for young university and polytechnic students, so they begin to see the huge career opportunities and massive economic gains that await them in commercial agriculture.

Farming should be developed to become a thriving, well-paying career for young rural dwellers; not an undesirable casual job that tough socio-economic circumstances forces on them. Achieving this would necessitate setting up large scale, commercialized, innovation and technology driven agricultural ventures. It would also entail scaling up traditional agricultural approach to encompass the entire food value chain, from production and storage through, processing, distribution, export, marketing, among others. This would broaden the scope of the sector, encourage specialization in the different areas, and create massive job opportunities.

Rural youths should be trained to see the connection between a thriving agriculture and other critical sectors of the economy, including medicine, energy, housing and construction, clothing, among others; and be nurtured and mentored to identify and leverage the diverse business opportunities the sector holds.

Apart from farming, other rural industries will have to be galvanized and nurtured. Governments in partnership with the private sector should drive the activation of rural economies by deliberately bringing development closer to rural dwellers – access to tertiary schools, ultra-modern health facilities, contemporary means of transportation, information and communication technology, among others. Importantly, young dwellers in small towns would require access to credit facilities and the requisite financial management skills to enable them drive their businesses.

Even with the recent gains in telecommunications penetration worldwide, several rural areas in emerging and low income markets still do not have access to up-to-date communication tools. Youths in several small towns are still excluded from seamless access to the internet and the social media where vast opportunities exist for them to explore, including market information that could stimulate new ideas, products and services.

Also, a large percentage of the financially excluded population reside in small towns. Developing products and services that would attract this group and increase their knowledge about, and participation in the financial system would be a critical step towards overall economic empowerment. Adequate financial literacy also empowers rural micro and small entrepreneurs to effectively manage their businesses for enhanced returns and success.

When governments prioritize rural economic development, the traditional perception of these communities as breeding ground for poverty, mediocrity, illiteracy and socio-economic retrogression would be erased, and the young population would be encouraged to live and work there. Because in several countries, the rural areas harbor the majority of those living below the poverty line, developing the rural economies would help close the gap between the rich and the poor while also keeping the youths positively and gainfully engaged.

Several commodities-dependent emerging and low income economies are currently exploring fresh ideas and policies on how to diversify their economies and create new jobs. The rural economies, with their massively untapped potential, provide a good platform to achieve these.

Tackling the problem of youth unemployment and underdevelopment in rural areas would be a positive step towards addressing general global economic challenges.

Leveraging 'Green Earth' Opportunities

Discerning economic leaders are now taking advantage of the opportunities that the growing emphasis on "green earth" presents. Governments in youth unemployment-prone markets could initiate policies that would trigger entrepreneurship opportunities as part of their environmental sustainability strategies.

In February 2012, the US government released a presidential memorandum titled "Driving Innovation and Creating Jobs in Rural America through Biobased and Sustainable Product Procurement". It instructed all heads of government departments and agencies to increase Federal procurement of biobased products to promote rural economic development, job creation and job makers, and expand the penetration of environmentally-friendly and sustain-

able products. The executive action also mandated government agencies to patronize "green businesses and products" especially in the rural areas of the country, as a way of driving innovation and creating new jobs and businesses in rural communities while also achieving energy security and independence.

Some of the economic activities that evolved from this policy include construction, renovation, repair; building operations and maintenance, landscaping services, pest management; electronic equipment; cafeteria operations; meeting and conference services, building interiors/furniture; and janitorial services. With this initiative, the US government provided farmers in rural America with a ready market for their bio-based products (corn, soybean, jute, among others), which are needed by diverse industries for renewable energy and other environmental and human-consumption friendly purposes.

The US initiative is a classic example of how governments could introduce policies that deliberately prioritize rural and entrepreneurial development while also prompting the creation of 'green' job opportunities.

The prospects in today's evolving 'green' economy are enormous. For example, the present quests by environmentalists and chemists to derive all plastic materials from biological sources has been estimated to hold great entrepreneurial and jobs creation opportunities. Because much of the plastic in use around the world today are non-biodegradable and therefore very harmful to the physical environment, new innovations and businesses have evolved in the effort to tackle this challenge. The goal is to develop plastics from biodegradable materials, such as corn starch and vegetable fats and oils, which can easily decompose and be recycled. A 2011 report shows that achieving merely 20 percent of this target would lead to the creation of about 104,000 jobs in the U.S alone. And according to the report of the US Senate Agriculture Committee, by July 2014, more than 3,000 companies in the U.S. have evolved, either manufacturing or distributing bio-based products.

Similarly, a report published by the European Commission (European Bioplastics, 2012) estimates that the Bio-economy related sectors now account for 22 million jobs, which is approximately 9 percent of the EU workforce.

The 'green' sectors are only just evolving in most emerging and low income markets of Asia and Africa. Governments in these regions would do well to take a cue from these examples and create a conducive macroeconomic and regulatory environment that would jumpstart these new sectors and turn them it into the job spinning machines that they have become in advanced markets.

Opportunities in Technology and Social Media

With the advent of the social media, thousands of young billionaires and multimillionaires have emerged around the world, leveraging innovation and entrepreneurship in this sector.

In August 2015, Forbes published its first ever list of 100 top tech billionaires with a total net worth of $842.9 billion. Interestingly, several of the social media and technology billionaires on the list made their fortunes way before they hit 30 years. Bill Gates (co-founded Microsoft Inc. in 1975 at the age of 20); Larry Page and Sergey Brin (co-founded Google Inc. in 1998 at the age of 25); Mark Zuckerberg (founded Facebook in 2004 at the age of 20); Elon Musk (became a multimillionaire in his late 20s following successes in diverse technology business ventures, including, SpaceX, Tesla Motors, SolarCity, PayPal and Hyperloop) are some popular examples.

Today's ICT and social media space holds huge prospects for young, innovative entrepreneurs. And in the last three decades, this sector has been dominated by youths. Every day, new opportunities for entrepreneurship and job creation continues to spring up.

Aside from being an industry that is dominated solely by the young, another big attraction in the social media industry is that it thrives on great, innovative, problem-solving ideas, and not on availability of huge startup capital. The most successful social media entrepreneurs started off their today's multibillion dollar businesses with zero balance, but plenty of innovative ideas that addressed the world's everyday socioeconomic problems.

Perhaps no innovation in the history of mankind presents as endless and immeasurable opportunities for wealth creation as the social media. But millions of this type of innovations are still waiting to be discovered. In fact, just as is the case with today's *social media*, there are hundreds of sectors and industries that are yet to be discovered or named. The creative energy of the youths must be stimulated and guided towards unveiling these life-changing discoveries.

Addressing a defective educational System

China has undoubtedly achieved remarkable economic progress in the last few decades. But the country still struggles with massive level of unemployment among its university graduates. The outcome of a study carried out by Perking University in 2014 showed a growing skills gap in the Chinese labor market.

To reverse this gap, China is currently revamping and refocusing its schools' curriculum around vocational and commercial education, in line with its status as the world's unrivalled commercial hub.

While the country's university graduates aspire to work in law and biology, the top five in-demand positions in the labor market were identified to include salesmen, technicians, agents, customer service staff and waiters. This has increased the number of jobless young school leavers in the country. To reverse this gap, China is currently revamping and refocusing its schools' curriculum around vocational and commercial education, in line with its status as the world's unrivalled commercial hub. To further drive its increasing focus on entrepreneurship, China in 2015 set up a venture capital fund of 40billion yuan ($6.5billion) to spend on emerging start-ups across the country.

The educational system remains the most effective platform for kickstarting the process of building the requisite skills for future job seekers and job creators. But we saw in the experience of China , in several emerging economies, the curriculum of schools at all levels needs to be revamped, updated and upgraded. This is to enable schools inculcate in children the skillsets required towards becoming future entrepreneurs and value adding employees. The labor market is today awash with hundreds of millions of job seekers. But a huge percentage of these is not employable, not having garnered the necessary skills that would make them productive and indispensable to employers of labor.

Several countries still run educational curriculum that are at best archaic, obsolete and completely out of tune with modern economic and business realities. The education system has to be reassessed for their role in ensuring that the youths are better prepared for the now highly globalized and stiffly competitive labor market.

Obtaining a formal certificate is no longer enough. Developing hands-

on skills, the can-do spirit, and a creative and problem solving mindset, should be the new educational focus.

In this vein, defective educational systems must be restructured to instill the skills needed to thrive in today's business world. In several emerging and low income countries, internship, be it at student or graduate level, is virtually an unknown practice. Students go through school without acquiring skills needed to survive in the real world, saddling employers of labor with the time consuming and difficult burden of training them to fit into the business environment. Early exposures to business practices and employers' needs go a long way in helping the young ones fit seamlessly into the business world after school, while also inspiring them to become job creators rather than employment seekers.

Even for those that plan to take up paid employments, imbibing entrepreneurial skills becomes an added edge that would make them more competitive and relevant in today's highly competitive and digitized job market.

Experts around the world agree that while innovation and creativity can be inborn, converting them to viable businesses – entrepreneurship – can actually be learned. From mid-school age, students could be taught, formally and informally, skills such as financial management, goal setting, time management, project planning, managing feedback, teamwork, effective communication skills, brainstorming, creative thinking, failure management, information management, prioritizing and time management, identifying innovative ideas, networking, basic risks management, among others. These skills learnt early in life would build self-confidence, entrepreneurial mindset and the productive drive that youngsters would find useful later in life.

Educational programs that support the development of these skills would help create a new brand of school leavers that are better prepared not only to create economic opportunities for themselves but for others.

Final Thoughts ...

Entrepreneurship thrives in an environment where there is adequate capacity and skills development. And this deliberate nurturing should begin from households and through schools at diverse levels. For developing economies to groom more job creators, schools' curriculum must be upgraded to include transfer of skills that propel and nurture innovation, creativity and entrepreneurship. There is also the need to imbibe the culture of internship during school years, as a way of triggering the entrepreneurship spirit. Institutions and ecosystems that inculcate hands-on skills in business innovation and management are needed, and students should be made to go through them as part of the fulfillment of their degree requirements.

But in managing the development of these skillsets, one cap cannot fit all. Every economy is unique, and with unique economic inclinations, characteristics and business prospects. Economies must be able to access their areas of relative advantage and work towards developing requisite expertise towards harnessing them. As Daniel Isenberg (founder of the Babson Entrepreneurship Ecosystem Project) puts it, 'the aspiration to become the next Chile or the next Taiwan does not necessarily mean copying them directly. Each country instead must examine its own circumstances, strengths, and weaknesses and design approaches that are rooted in these local realities'.

Protracted high level of youth unemployment portends serious risk to any socio-economy and is a breeding ground for intergenerational poverty, crimes, social instability and anarchy. In actualizing the goal of building more job creators therefore, every socioeconomic agent is a key stakeholder. While government must provide the enabling policy, fiscal and regulatory environment, educational institutions, businesses, non-governmental organizations, institutional investors, multilaterals, and major international agencies, all have roles to play.

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

ISSUES

Regulatory And Contemporary Issues In The Nigerian Banking Sector (3)

By Chuks Nwaze

In this edition, we continue with a comprehensive discussion of the contemporary and regulatory issues that define the operational boundaries of the Nigerian financial system. As readers will observe, the combined effect of these issues have the tendency to impact negatively on the fortunes of the deposit money banks, and by implication on their profitability and ability to retain staff.

ALLEGED 'ROUND TRIPPING' OF PUBLIC SECTOR FUNDS

There have been allegations that some deposit money banks are reaping huge profits from lending interest-free public sector funds back to them at maximum 'spread'. Below are excerpts from an address to journalists by the former CBN governor, Lamido Sanusi, after an MPC meeting as reported in *THISDAY of July 24, 2013* (cited by Henry Boyo in *the PUNCH of July 29, 2013, p.91):*

"...first of all, you have got liquidity surplus in the banking industry...there is over N1.3 trillion or so sitting in banks and belonging to government agencies. Now, basically, they (these funds) are at zero percent interest and the banks are lending about N2 trillion to the government and are charging 13 to 14%! Now that is a very good business model, isn't it? Give me your money for free and I lend it to you at 14 percent; so why would I go and lend to anyone...?"

In his article published in *The PUNCH of September 15, 2014 p.95*, Henry Boyo has said:

"The financial PUNCH section of The PUNCH, Monday, September 8, 2014, carried a story titled, '12 banks earn N1.4tn in six months'. The report explained that published trading results showed that 12 banks made a combined after-tax profit of N223bn between January and June 2014...the declared profits is spectacularly almost 16% of gross earnings. Instructively, however, in spite of their role as the real drivers of employment and inclusive economic growth, the trading results of industrial and commercial conglomerates cannot boast this same degree of success..."

Comment: The question of whether banking is a business (driven solely by the profit motive) or a profession (guided by rules, regulations and ethical conduct) remains relevant. However, it is doubtful if the bizarre profit figures will continue in view of the sliding economic indices, oil price slump, tight regulatory framework and implementation of the Treasury Single Account (TSA), all of which will shrink margins and diminish opportunities for 'fast-track' revenues.

NDIC WARNS BANK EXAMINERS AGAINST UNETHICAL PRACTICES

The NDIC has beamed a searchlight on its field staff. According to the managing director, Alhaji Umaru Ibrahim, as reported in *The PUNCH of Thursday, July 3, 2014*, the organization has warned its bank examiners that the corporation would not condone any form of unethical conduct in the course of their duties. Although the NDIC boss was not spe-

cific on the nature of unethical practices being referred to, he, nonetheless, said that the corporation would welcome *feedback* from banks on the conduct of its field examiners. He added that the NDIC placed premium on consumer protection and that it had taken steps to promote this, including a dedicated 24-hour toll-free help desk.

Comment: This is a step in the right direction and we commend the management of the NDIC for this warning.

MICROFINANCE BANKS (MFBS): ENDANGERED BY BAD LOANS?

The following are excerpts from the report released by the NDIC in *September, 2014:*

"...Non-Performing Loans (NPLs) held by the MFBs in 2013 was 45.7 per cent of the total loan portfolio (a decline from the 61.9 per cent NPLs position of the MFBs as at December, 2012 following the pressure on them by the apex bank to tighten their credit processes). This figure emerged from the on-site examination of 797 of the 821 registered MFBs in the country conducted by the CBN and highlighted in its Financial Stability Report. Besides, only 526 or 66 per cent of the MFBs examined by the CBN, met the statutory capital adequacy ratio (the ratio of capital to credit) of 10 per cent. And just 568, or 71.2 per cent, satisfied the minimum liquidity ratio (the ratio of deposits to credit) requirement of 20 per cent...That some 271 MFBs have issues with capital adequacy ratios and with only 229 meeting regulatory liquidity requirements call for some concern..."

Comment: There is need for the regulators to strengthen their supervisory capacity by reducing Non-Performing Loans (NPLs) and keeping distress at bay. Erring operators in the financial system should be appropriately sanctioned.

INSURED DEPOSIT LIMIT RAISED

In a report to the House of Representatives, the NDIC stated that it currently provides deposit insurance coverage to the twenty three (23) deposit money banks (DMBs), 882 Microfinance Banks (MFBs) and 101 Primary Mortgage Institutions (PMIs) existing as at 2014. With effect from November 2010, the limit was raised to N500,000 per depositor of DMBs and N200,000 per depositor for MFBs and PMIs. According to the NDIC, the current N500,000 coverage level for DMBs fully covers about 90% of depositors and about 30% of the volume of deposits in the regular banks. Similarly, the N200,000 coverage level for the MFBs and PMIs takes care of 99% of the depositors and about 51% of the total volume of deposits in that bracket.

Comment: The insurance coverage limit is per depositor, irrespective of the number or volume of deposits you have in a particular bank! For instance, if you maintain five accounts in one bank with a combined deposit of N10million, what you will get on liquidation is N500,000. Hence, although the vast majority of legitimate depositors have been brought under the umbrella, only a fraction of the actual volume of deposits is covered by the insurance.

NDIC REDUCES INSURANCE PREMIUM TO SUPPORT BANKS

The Nigeria Deposit Insurance Corporation (NDIC) has thrown additional lifeline to the banks by reducing the basis of assessment of the deposit insurance premium for a second time in four years; the new rate took effect from 2015. According to the NDIC, as reported in *The PUNCH of Friday, September26, 2014, p. 29:*

"In support of the Financial Stability Fund in 2010, we reduced the premium-

based rate from 0.5 per cent to 0.4 per cent and that took effect 2011 up to this year, and that is for four years, and for this four-year period, we have had a reduction of N53bn as a result of reduction in the base rate from 0.5 to 0.4. Now, from next year, there is going to be an additional reduction in the base rate from this 0.4 to 0.35per cent...we want to make sure that we reduce the premium burden for banks and also to make sure that the deposit insurance is fairly priced. We want to support the banks to make sure they succeed".

Comment: Although this gesture is commendable, banking industry operators are divided on whether the NDIC is genuinely assisting the banks or they are correcting some distortions inherent in the previous assessment modalities. Meanwhile, since this translates to

a reduction in the cost of fund for the banks, are borrowers not expected to benefit in terms of lower lending rate?

STAKEHOLDERS SHOULD REPORT ABUSES BY BANKS

The NDIC has called on the various stakeholders in the financial sector to promptly report financial abuses by banks for appropriate action. The managing director, Alhaji Umar Ibrahim, made the call at the 2014 Lagos international trade fair. The *Vanguard of November 20, 2014, p.24* has the following:

"The Corporation is not unaware of the perennial problems between the customers and their banks, ranging from arbitrary bank interest charges, account balances manipulation to outright frauds and forgeries...the corporation has also created Complaint Units in the Bank Examination Department (BED) and Special Insured Institutions Department (SIID) to carter for the needs of DMBs, FMBs and PMBs who wish to lodge complaints. That is not all. The Corporation's website has been redesigned and equipped with major social media platforms like Facebook, Youtube, Twitter and Instagram to enhance communication..."

Comment: The implicit assumption in this request by the NDIC is that stakeholders have not been reporting corporate governance abuses in the past hence they should do so henceforth. Well, the crux of the matter is whether the regulatory authorities possess the wherewithal to enforce compliance with best practices. Meanwhile, 'Whistle-blowers' should be actively encouraged.

BANK FRAUD AND NON-PERFORMING LOANS GROW

In a related development, the NDIC has raised alarm over the surge in cases of bank fraud and non-performing facilities. According to the NDIC Annual Report for 2014, as reported in *THE SUN of July 8, 2015*, cases of bank fraud rose from 3,786 in 2013 to 10,612 as at December, 2014 (183% increase). In monetary terms, the amount increased from N21.8bn to N25.61bn (17.5% increase). In the same vein, non-performing loans moved up from N321.7bn in 2013 to N354.8bn in 2014 (increase of 10.3%). The former managing director of Asset Management Corporation of Nigeria (AMCON), Mr. Mustafa Chike-Obi also warned, as published in *The PUNCH of January, 2015 p. 54*:

"We can see that there is an economic headwind coming to Nigeria this year; and when the economic headwind comes, it will certainly impact on the Non- Performing Loans levels. So we expect an increase in the NPL levels this year".

Comment: For bank fraud, it is not difficult to predict the fact that this trend is likely to continue as more and more bank employees are being thrown into the burgeoning unemployment market and those remaining are looking for avenues to 'settle' themselves. In the case of bad loans, the worsening economic climate, coupled with instances of insider abuse, could combine to heighten loan defaults.

BEWARE OF 'WONDER BANKS': FSRCC WARNS NIGERIANS

The Financial Services Regulation Coordinating Committee (FRSCC), a committee comprising of 10 regulatory agencies in the Nigerian financial sector (CBN, Corporate Affairs Commission, Federal Ministry of Finance, National Insurance Commission, NDIC, SEC, Nigeria Commodity Exchange, FIRS, National Pension Commission, Nigerian Stock Exchange) has warned depositors to beware of fraudsters who go by the name of fund managers. According to its statement in *DAILYSUN of February 20, 2015 p.32:*

"...These fraudsters often camouflage as fund managers and agents of other purported money spinning schemes commonly referred to as 'wonder banks'. These illegal operators offering financial products and services under various guises normally entice their unsuspecting victims by promising them very high returns or interest, only for them to default and most times abandon their principal place of business in the long run. The FRSCC is therefore compelled to issue this advice to the general public to be wary of the kind of persons or institutions they entrust their money in their care to avoid unpleasant consequences...while the member agencies of the FRSCC have put in place mechanism for addressing complaints from customers of agencies licensed by them and would continue

to address those complaints, henceforth complaints from persons who patronized illegal fund managers/'wonder banks' will not be entertained…"

Comment: The 'Ponzi Booby Trap', otherwise called 'Wonder Bank' in this environment, refers to the situation where con men use a new deposit to settle the unrealistic promises made to an earlier customer until funds dry up and they vanish from the business premises. It is the gullibility of the average Nigerian, propelled by the get-rich-quick syndrome that has necessitated this advice by the FRSCC. A typical 'fortune seeker' is not even deterred by the fact that his friend, neighbor, father, mother, brother or sister has lost money in the same manner; he believes that his own will be different and that he will 'make it'.

OIL PRICE SLUMP: FINANCIAL DISTRESS IMMINENT?

The years ahead will constitute an acid test for the Nigerian banking sector, not only on account of the collapse in oil prices but also in view of the array of regulatory intervention designed to stabilize the economy. The managing director of Afrinvest West Africa Limited, Mr. Ike Chioke, alluded to this scenario in his opinion as published by *The PUNCH of January, 2015*:

"It is going to be very challenging for the banking sector this year. You remember a gradual progression of the CBN trying to reduce the fee element that the banks do enjoy. The Commission on Turnover for example has been reduced from 5 to 3 and one per mille. By 2016, it will be reduced to zero. The CBN has also come up with a lot of measures to control the foreign exchange. All of these are taking away the fee incomes that the banks would ordinarily have enjoyed. So I see that some banks will be in a place where their cost structure may be too difficult for the income generated to carry. So they will have to find new ways to generate additional income. But trying to find new ways to generate additional income in an environment where there is declining revenue overall for the federal, state and local governments is going to be very difficult…"

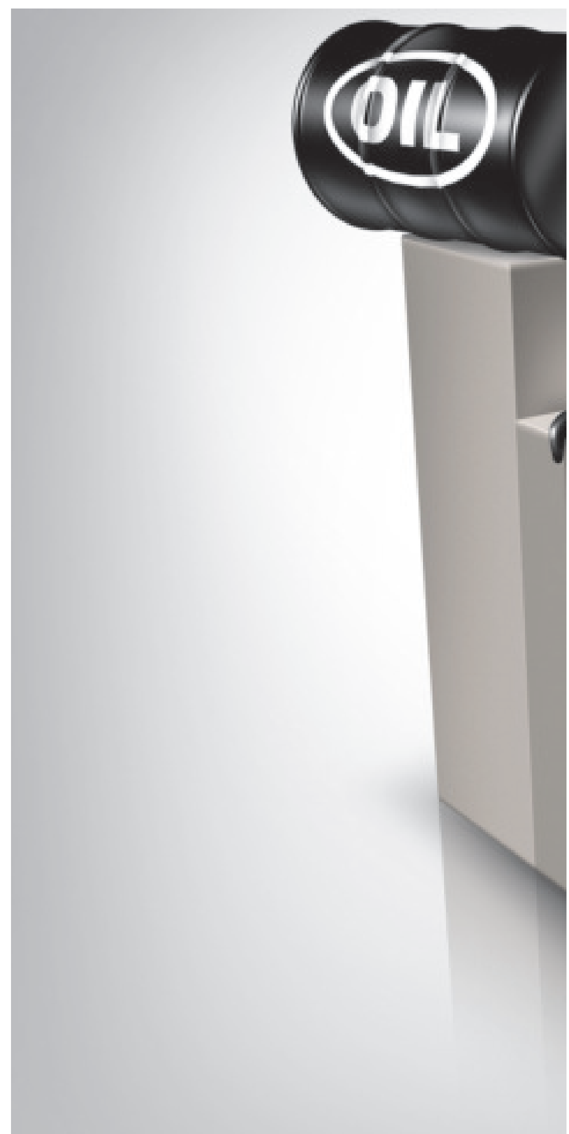
Comment: It has been predicted even by non-experts and casual observers of the Nigerian financial system that the 'boom' era just might be over for Nigerian banks. What is not clear is whether the operators themselves are prepared for this, judging from their apparent preference for deposit mobilization instead of capitalization. We need to understand why a bank that wants to survive must grow its capital base (not deposit base). The reason is because the statutory ratio between loans and shareholders' funds (known as capital adequacy ratio) must be maintained at all times, with the current international standard being a minimum of 10%. In other words, unrestrained increase in loans (the major source of earnings) without a corresponding growth in capital base (i.e. shareholders' funds) is detrimental to the 'health' of the financial institution. Only poorly-managed banks focus on deposit mobilization at the expense of capital.

HOW BANKS LOST OVER N203BN TO ELECTRONIC FRAUD IN FIFTEEN YEARS

One fundamental issue in the banking industry is the paucity of accurate statistics. However, even the official figures will provide enough cause for worry, especially with respect to electronic-related fraud, which is the new focus of criminals. According to the Nigerian Inter-Bank Settlement System (NIBBS), quoting the data from the research conducted by the Financial Institutions Training Centre (FITC), the breakdown of electronic-related fraud perpetrated in Nigeria between 2000 and October 2014 is as follows (see table):

While the upsurge in 2008 could be traced to the stock market crash, 2013 is particularly memorable as few banks were said to have lost a total of N40bn in a syndicated electronic fraud which took place during the last quarter of that year.

Comment: According to this report, the cases involved include: 'Card-not-present', card skimming, physical attacks on ATM machines, card trapping and several others. It was also observed that the above scenario was mostly due to inappropriate management of cus-



tomer data by banks. Since banks cannot be insulated from the socio-economic situation in Nigeria, it should not be difficult for anyone to appreciate why the corruption and general increase in crime rate has manifested in the increasing cases of bank fraud.

FRAUDSTERS ARE ONE-STEP AHEAD AS e-BANKING FRAUD TAKES THE LEAD

The Special Fraud Unit, Ikoyi, Lagos, has raised alarm that despite all the elaborate arrangements put in place by the regulatory authorities to ensure the security and operational integrity of electronic banking platforms in Nigeria, fraudsters have managed to device potent means to thwart these efforts and remain in business. In fact, e-banking frauds now occupy the first position in the list of reported fraud cases. The most common is said to be the Money Transfer (Wire) Instruction Schemes where either the bank customers' account passwords are stolen or hacked into or where the security pass codes of bank officials are compromised through the bank's electronic platform. These scenarios are explained below:

Electronic-related fraud in Nigeria (2000 - 2014)

Year	Amount (N'000)
2000	1,650,000
2001	3,120,000
2002	8,200,000
2003	5,130,000
2004	9,720,000
2005	6,760,000
2006	2,740,000
2007	8,510,000
2008	34,500,000
2009	21,720,000
2010	14,960,000
2011	24,430,000
2012	10,060,000
2013	47,500,000
2014 (Up to 3rd Quarter)	4,000,000
Total	203,000,000

Source: Nigerian Inter-bank Settlement System

- In the first scenario, fraudulent wire transfer instructions are scanned supposedly from the customers' account profile to the relationship managers and either through active connivance or sheer negligence on the part of the bank, such platform instructions are honoured by the bank as money running into hundreds of millions of Naira is paid into fraudsters-nominated bank accounts.
- In the second scenario, the bank's e-platform is completely hijacked by fraudsters and swift transfer of large chunks of fund running to several millions of Naira are effected into accounts of nominees, proxies, associates or allies of fraudsters.
- There is also a third scenario whereby unscrupulous bank officials fake customers' Transfer Instruction Letters and forge mandate signatures to defraud hundreds of millions of Naira from customers' account.

Comment: Growth is a multi-faceted phenomenon. It should, therefore, not be surprising that criminals and fraudsters are also keeping pace with the growth in other sectors of the economy, including banking. The source of worry here is the fact that preventive, investigative and deterrent machinery seem to be lagging behind. Surely, electronic banking frauds constitute a formidable challenge to the cashless policy.

INSIDER ABUSE BY BANK STAFF BLAMED FOR ELECTRONIC FRAUDS

Executive Director Operations, First City Monument Bank (FCMB), Mr. Nath Ude, in a keynote address presented at the Nigeria electronic Fraud Forum (NeFF) general meeting for 2015 which was held in Lagos in June 2015, dwelt on the increasing instances of insider abuse as driver of electronic fraud. *The Guardian of June 13th 2015* has excerpts of his address which centred on 'e-fraud and insider abuse':

"...Banking is built on trust. Customers' data is an asset to banks and to retain the customers' trust, banks need to protect these assets. Fraudsters are succeeding because banks have not paid enough attention to strategies that could minimise these incidents...most electronic fraud is from insiders even from unexpected sources including dedicated employees...banks will be able to combat electronic fraud by filtering out predatory employees, reviewing upwards, the required reliability status for all staff who need privileged roles to

work as well as deploying appropriate prevention and detection technologies like CCTV monitoring and access cards with authorizations…"

Comment: Surely, this banker knows what he is talking about. The crux of the matter is the fact that in their hot pursuit for 'mega deals' some banks place greater premium on staff members who are 'connected' to the 'high and mighty' in the society at the expense of individuals with character and integrity. In other words, the marketing function takes precedence over operations and controls. Sadly, at the end of the day, what they gain with one hand is lost through the other!

BANKS ON LENDING SPREE TO PUBLIC SECTOR

The Debt Management Office (DMO) has raised alarm over banks' increasing lending to the public sector without obtaining the due regulatory approval. According to the DMO advertorial in *Sunday SUN of June15, 2014*:

"As operators in the financial system, all banks are expected to be conversant with all laws and regulations related to their business. Accordingly, all banks are expected to be conversant with the provisions of Section 24 of the Debt Management Office (Establishment, Etc.) Act 2003, which states that: All banks and financial institutions requiring to lend money to the Federal, State and Local Governments or any of their agencies shall obtain the **prior** approval of the Minister (of Finance). The DMO, having observed that some banks were contravening this law took the extra step in June 2013 to advertise in major newspapers to remind banks of this legal requirement. In spite of this extra effort by the DMO, we observed that some banks are still not complying with the law as it relates to lending to all tiers of Government and their agencies. This public notice serves as the last reminder and warning to all banks that any further contravention will be responded to with **full** sanctions applicable by the Federal Ministry of Finance. The DMO shall also advise the relevant regulatory authorities, including, but not limited to, the Central Bank of Nigeria and Fiscal Responsibility Commission, to apply the necessary sanctions, in accordance with the relevant laws…"

Similarly, the CBN in its circular BSD/DIR/GEN/LAB/02/032, dated October 3, 2014, warned banks to follow due process in their loans to the public sector:

"We refer to a letter dated June 4, 2014 forwarded to all banks by the Debt Management Office (DMO), which specified the guidelines on the above subject. The Central Bank of Nigeria has noted with serious concern that some banks have failed to adhere to the guidelines specified by the DMO in relation to lending to any tiers of government. It is in this regard that we write to direct banks to be guided by the guidelines and all extant laws and regulations on this matter and henceforth, desist from inundating the DMO with requests for ISPOs. Banks are warned to be guided accordingly as the CBN will not hesitate to impose SEVERE penalties on erring banks".

Comment: These disclosures by the DMO and the CBN circular that followed are steps in the right direction to ensure that banks' loans to the public sector are not abused at the detriment of the financial system and the overall economy

NEXT EDITION

We invite you to keep a date with ZEQ in the next edition as we continue with this dialogue on the fascinating interactions between banks, their customers and the regulators.

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

Nigeria's Debt Debacle: A Threat to Sustainable Growth and Development?

By Sunday Enebeli-Uzor

The consequences arising from the continual accumulation of public debts in other countries ought to admonish us to be careful to prevent their growth in our own. - John Adams, First Address to United States' Congress, Nov. 23, 1797

Nigeria appears to be at the cusp of another sovereign-debt debacle following the pace at which the country's debt profile is rising, and the obvious intention to continue in that trajectory. According to data from the Debt Management Office (DMO), Nigeria's total public debt stock (external and domestic) was ₦12.6trillion as at end 2015, up ₦1.4trillion or 12.5 percent year-on-year from ₦11.2trillion in 2014. In 2016, federal government's budget deficit is a staggering ₦2.2trillion – 36.51 percent of total government spending plan for the year. And this could rise to ₦3trillion. Anxiety over Nigeria's fast rising public debt is further aggravated by trepidation of continuous borrowing following persistent low oil prices, dwindling crude oil production and the resultant decline in government revenue.

Although the Debt Management Office (DMO) has persistently assuaged fears about Nigeria's debt profile, debt sustainability, and the likelihood of a sovereign debt crisis, public aversion to the rising debt is pervasive especially since it is barely a decade that the country exited a sovereign-debt conundrum. The DMO has insisted that Nigeria's debt to GDP ratio is 13 percent and will not exceed the 20 percent self-imposed threshold until 2017, and as such Nigeria is under-borrowed and still within a safe debt threshold. The DMO's argument has however been challenged by the humongous debt servicing obligation. According to IMF's recent heat map assessment, although Nigeria's debt-to-GDP profile is well below warning thresholds, public debt service will reach a concerning level amounting to more than 50 percent of general government revenue. In 2015, Nigeria expended 28.1 percent of its revenue on debt servicing and this is expected to

rise to 35.32 percent in 2016, according to the DMO, an indication that a substantial proportion of the nation's revenue is allocated to debt servicing.

A major concern about Nigeria's debt has been the fear that some part of it is being used to augment recurrent expenditure instead of funding long-term capital projects. This fear has been confirmed by recent reports that the federal government is borrowing to augment payment of wages and salaries. Resorting to borrowing heavily to fund recurrent expenditure such as wages and salaries raises serious issues of intergenerational equity of debt burden – that is, if the present generation is accumulating long term debt, the resulting higher debt impose risks and costs on future generations. Supposing that the debt accrued from investments in long-term infrastructural development, it may be excusable since future generations will benefit from such infrastructure. But borrowing to pay wages and salaries in essence is mortgaging the future for present consumption and this raises pertinent questions on the country's long-term fiscal sustainability.

The fate of the other two tiers of government (states and local governments) is far worse as the monthly gross federally collected revenue shared among the three tiers of government has continued to plummet. Unable to meet their statutory obligations of wages and salaries, several states received financial assistance from the Central Bank of Nigeria (CBN) and the DMO in 2015. The CBN special intervention fund in the form of soft loan to states ranged between ₦250billion and ₦300billion. The DMO debt relief programme helped states to restructure their commercial loans into long term domestic bond, extending the life span of such loans while reducing their debt-servicing obligations. However, there was palpable consternation recently of likely default by states that had issued debt instruments. The federal government had to allay fears of debt default by promising that it would be bearing the repayment burden of states that had issued the debt instruments. These unfolding realities are already stirring up regretful memories of the past, and has again brought Nigeria's debt sustainability and the likelihood of another debt debacle to the fore.

Crowding Out Effect of Government Debt

One of the major strands of arguments against unrestrained accumulation of sovereign debt, especial domestic debt, is its crowding out effect on the economy. This argument has raised germane questions as government appears to be outcompeting the private sector for much needed funds for investment to spur economic growth and generate employment. The active participation of government in the money market may also be diverting domestic savings away from the capital market to the money market. This is especially so because of the risk averseness of most investors who now prefer to invest in gov-

DEBT MANAGEMENT OFFICE
Nigeria's Public Debt Stock as at December 31, 2015
In Millions

	Debt Category	Amount Outstanding in USD	Amount Outstanding in NGN
A.	External Debt Stock (FGN + States)	10,718.43	2,111,530.71
	Domestic Debt Stock (FGN Only)	44,857.85	8,836,995.86
	Sub-Total	**55,576.28**	**10,948,526.57**
B.	Domestic Debt of States*	9,852.25	1,655,178.71
C.	Grand-Total (A+B)	**65,428.53**	**12,603,705.28**

**Actual Domestic Debt Stock for 36 States & the FCT was as at end-December, 2014*

CBN Official Exchange rate of 1 USD to 197 NGN as at December 31, 2015 and 168 NGN as at December, 2014 were used IRO FGN and States Domestic debt, respectively

Source: Debt Management Office (DMO)

ernment bonds in a period of uncertainty. The high interest rates of government bonds have made them one of the most attractive investment outlets.

Government borrowing from deposit money banks is also rising. According to the Fourth Quarter 2015 Statistical Bulletin of the Central Bank of Nigeria (CBN), the Federal Government borrowed ₦2.89trillion from the banking sector in Q4 2015, an increase of 3.8 percent over the amount borrowed in Q3 2015. According to the CBN, net credit to government rose by 151.56 percent in both year-to-date and year-on-year, representing 115.51 percentage point increase above the provisional programmed target of 36.05 percent for the 2015 fiscal period. The CBN attributed the increase in banks' lending to the federal government to 18.7 percent rise in deposit money banks' holding of government securities within the period. Federal Government's fiscal deficit for Q4 2015 was ₦289.1billion, up from ₦130.7bn in Q3 2015.

Nigeria's Debt Sustainability Analysis (DSA)

In the recent Debt Sustainability Analysis (DSA) of Nigeria at the conclusion of its 2016 Article IV Consultation, the International Monetary Fund (IMF) says that although at low levels, Nigeria's debt profile reveals weaknesses. According to the Fund, Nigeria's public debt is set to rise, but remains at a comfortable level. Mostly domestic and maturing in the medium term, the public debt-to-GDP ratio is forecast to increase by one half from 14.4 percent in 2015 to 25 percent in 2021. The growing debt ratio is largely driven by larger-than-historical deficits stemming primarily from the reduction in oil revenue due to the recent drop in prices. The contribution of growth to debt reduction will not be large enough to offset adverse dynamics from real interest rates.

Over the medium term, the current policy course will lead to higher financing needs. Consequently, gross financing needs will remain significantly higher than the historical average and debt service is projected to represent a higher share of fiscal revenue. Public debt service (interest payments and amortization) will continue to represent a considerable share of general government revenue, remaining above 50 percent over the medium term. The Fund's DSA report surmised that Nigeria's debt dynamic is vulnerable to macroeconomic shocks, especially to primary balance and interest rate shocks.

According to the IMF, the level of Nigeria's external debt is low, at about 10 percent of GDP in 2015, but has risen moderately in recent years owing to rising public external borrowing. Nigeria's increasing financial integration has led to higher private sector external debt, public sector external debt from commercial sources, and non-resident holdings of public sector domestic securities. The increased prevalence of commercial financing sources and private borrowers has been reflected in a rising interest rate on external debt. Furthermore, other key ratios have deteriorated as lower oil prices have reduced oil exports. The ratio of external debt to exports has increased from 24 percent in 2011 to 98 percent in 2015. Gross external financing needs were negative through 2013; nevertheless external debt increased as errors and omissions outflows largely offset the current account surplus. For 2015, the estimated gross external financing need amounted to $27.9 billion, over 5 percent of GDP; about $5 billion was financed through drawing down gross reserves. According to the Fund, given Nigeria's relatively short history of accessing commercial financing and the lending capacity of multilateral and bilateral creditors to the public sector, the sustainability of this debt path will hinge critically on the ability to maintain market access.

Stress Tests

According to IMF's DSA, stress tests indicate that Nigeria's debt and financing profile needs are particularly sensitive to interest rate and primary balance shocks. Primary balance shock constitutes the main risk to Nigeria debt sustainability. This scenario assumes a deterioration of the primary balance from the baseline by 2.3 percentage points in 2017 and 2018. In such case, the debt-to-GDP ratio will increase significantly above the baseline, reaching almost 31.8 percent in 2021. Financing requirements as percent of GDP will peak at 11.1 percent in 2018 and will decline thereafter at a higher level than the outcome in the baseline. Similarly, higher interest rates are a key risk to Nigeria's debt sustainability because debt service already represents a large share of revenue. In this scenario, nominal interest rate increases to reflect the real interest rate observed over the past 10 years. For Nigeria, it is assumed that the spreads increase by about 500 bps from 2017 onward. The debt-to-GDP ratio reaches 30.6 percent at the end of the projection horizon, with gross financing needs projected at around 9.4 percent of GDP.

Current Composition of Nigeria's Public Debt

According to data from the Debt Management Office (DMO), Nigeria's total public debt stands at ₦12.60trillion ($65.43billion) as at end December 2015. The country's external debt (Federal Government and States) is ₦2.11trillion ($10.72billion) – representing 16.75 percent of total debt. Domestic debt stock of the Federal Government stands at ₦8.84trillion ($44.86billion) – representing 70.11 percent of total debt, while States' domestic debt stock is ₦1.66trillion ($9.85billion) – accounts for 13.13 percent of total debt stock. Details of the external debt stock showed that multilateral institutions accounted for 70.54 percent of the country's external debt. The International Development Association (IDA), a member of the World Bank Group, accounts for $6,290.19million, while another member of the World Bank Group, International Bank for Reconstruction and Development (IBRD), is owed $3.57million.

The nation's external debt stock also consists of $400million owed the African Development Bank (AfDB), while the African Development Fund (ADF) is owed $672.44million. The country also owes the European Development Fund (EDF) $75.47million, while $20.33million is owed the Islamic Development Bank (IDB). Nigeria owes the Arab Bank for Economic Development in Africa (BAEDA) $5.02million, while the International Fund for Agricultural Development (IFAD) is owed $96.42million. The country's bilateral debt represents 15.85 percent of the external debt stock, comprising loans of $1,444.73million owed Exim Bank of China; $157.95million owed French Development Agency (AFD); $43.88million owed the *Japan International Cooperation Agency (JICA); and $11.44million owed the KWF of Germany.* Nigeria's commercial loan still

DEBT MANAGEMENT OFFICE, ABUJA

FGN DOMESTIC DEBT STOCK BY INSTRUMENTS AS AT 31ST DECEMBER , 2015

(AMOUNTS IN NAIRA)

INSTRUMENTS	AMOUNT	PERCENTAGE
FEDERAL GOVERNMENT BONDS	5,808,140,821,000.00	65.73
NIGERIAN TREASURY BILLS	2,772,867,038,000.00	31.38
TREASURY BONDS	255,988,000,000.00	2.90
TOTAL	8,836,995,859,000.00	100.00

Source: Debt Management Office (DMO)

DEBT MANAGEMENT OFFICE
Nigeria's External Debt Stock
as at 31st December, 2015
in millions of USD

Category	Principal Balance	Principal Arrears	Interest Arrears	Total	Percentage of Total
MULTILATERAL					
World Bank Group					
IDA	6,290.19	0.00	0.00	6,290.19	
IBRD	3.57	0.00	0.00	3.57	
African Development Bank Group					
ADB	400.00	0.00	0.00	400.00	
ADF	672.44	0.00	0.00	672.44	
BADEA	5.02	0.00	0.00	5.02	
EDF	72.47	0.00	0.00	72.47	
IDB	20.33	0.00	0.00	20.33	
IFAD	96.42	0.00	0.00	96.4189	
SUB-TOTAL	**7,560.43**	-	-	**7,560.43**	**70.54%**
BILATERAL					
China (Exim Bank of China)	1,444.73	0.00	0.00	1,444.73	
France (AFD)	157.95	0.00	0.00	157.95	
Japan (JICA)	43.88	0.00	0.00	43.88	
India (Exim Bank of India)	-	0.00	0.00	0.00	
Germany (KFW)	11.44	0.00	0.00	11.44	
SUB-TOTAL	**1,658.00**	-	-	**1,658.00**	**15.47%**
COMMERCIAL					
EUROBONDS	1,500.00	0.00	0.00	1,500.00	13.99%
GRAND TOTAL	10,718.43	-	-	10,718.43	100.00%

Source: Debt Management Office (DMO)

stands at $1.5million, being Eurobonds from the International Capital Market and accounts for 13.99 percent of the external debt stock.

According to the DMO statistics, Federal Government of Nigeria (FGN) Bonds stood at ₦5.81trillion (65.73 percent of domestic debt) as at end December 2015. Nigerian Treasury Bills valued at ₦2.77trillion represents 31.38 percent of domestic debt, while Nigerian Treasury Bonds is ₦255.99billion, accounting for 2.90 percent of domestic debt.

Current Debt Profile of States

The combined external debt profile of the 36 States and the Federal Capital Territory (FCT) as at end December 2015 stands at $3.37billion. Lagos State leads the chart as the most indebted state (external debt) with $1.21billion representing 35.84 percent of the 36 states' and FCT total external debt stock. Kaduna State and Edo State rank second and third with $226.37million (6.72percent) and $168.19million (4.99 percent), respectively. Cross River State and Ogun State complete the list of top five most indebted states (external debt) with $136.40million and $103.33million, respectively. Taraba State remains the least indebted state (external debt) in the country with $22.93million, representing 0.68 percent of the combined external debt profile of the 36 States and the Federal Capital Territory (FCT). Borno State and Yobe State are the second and third least indebted states (external debt) with $23.19million (0.69 percent) and $30.46million (0.90 percent), respectively.

More Borrowing Underway?

The country's fast rising debt profile nonetheless, there are obvious indications that more borrowing is in the offing. The clearest intent to amass more debt is the expansionary 2016 federal budget tripling capital spending, and with a deficit of ₦2.2trillion. Already, China has reportedly offered Nigeria a loan of $2billion to fund infrastructure projects, according to Reuters report. There are also indications that the government intends to raise as much as $1billion from international capital markets to finance the budget deficit. Nigeria may opt for Chinese Panda bonds as the renminbi market may be cheaper than the Eurobond market. Should Nigeria follow through to issue Chinese Panda bonds, the country will become only the second country after South Korea to sell yuan-denominated debt instruments in China's domestic market.

Political expediency appears to be increasing Nigeria's debt appetite as the new government (at both federal and states) are already under pressure to deliver on their electoral promises. In the face of persistent low revenue from oil, the debt market has become the second-best alternative to raise money to finance massive infrastructure projects, and programmes. There are plethora of alluring political considerations and economic arguments for more borrowing – especially the much flaunted low debt-to-GDP ratio. However, the already excruciating debt servicing obligation calls for serious caution to avert a debt debacle. In fact, the prevailing situation should rekindle the somewhat forgotten Fiscal Responsibility Act (FRA), and set a debt ceiling to forestall a reentry into excessive debt. The long term strategy for fiscal sustainability is to diversify the sources of government revenue, build a robust fiscal buffer during periods of revenue boom to mitigate unexpected shock to the nation's income stream.

(Sunny Enebeli-Uzor is a Research Economist, Zenith Economic Quarterly)

Debt Management Office

States and Federal Governments' External Debt Stock as at 31st December, 2015 (Provisional)

(in US Dollars)

S/No	States and FGN	Multilateral ($)	Bilateral (AFD) ($)	Bilateral(CHINA EXIM BANK), JICA, INDIA, KFW & Eurobonds ($)	Total ($)
1	Abia	41,502,309.09	-	-	41,502,309.09
2	Adamawa	42,556,440.81	6,500,000.00	-	49,056,440.81
3	Akwa Ibom	52,717,441.23	-	-	52,717,441.23
4	Anambra	60,781,525.58	-	-	60,781,525.58
5	Bauchi	85,335,689.10	-	-	85,335,689.10
6	Bayelsa	37,602,856.36	-	-	37,602,856.36
7	Benue	35,700,600.77	-	-	35,700,600.77
8	Borno	23,189,858.24	-	-	23,189,858.24
9	Cross River	116,403,069.67	20,000,000.00	-	136,403,069.67
10	Delta	38,792,421.97	-	-	38,792,421.97
11	Ebonyi	47,166,600.06	-	-	47,166,600.06
12	Edo	168,186,197.48	-	-	168,186,197.48
13	Ekiti	54,982,558.30	-	-	54,982,558.30
14	Enugu	65,328,840.62	6,500,000.00	-	71,828,840.62
15	Gombe	39,822,769.29	-	-	39,822,769.29
16	Imo	59,163,843.12	-	-	59,163,843.12
17	Jigawa	34,085,704.85	-	-	34,085,704.85
18	Kaduna	226,368,167.93	-	-	226,368,167.93
19	Kano	57,612,298.94	-	-	57,612,298.94
20	Katsina	72,153,818.01	-	-	72,153,818.01
21	Kebbi	45,275,904.28	-	-	45,275,904.28
22	Kogi	33,632,106.66	-	-	33,632,106.66
23	Kwara	51,032,662.69	-	-	51,032,662.69
24	Lagos	1,101,400,597.65	106,500,000.00	-	1,207,900,597.65
25	Nassarawa	53,066,146.92	-	-	53,066,146.92
26	Niger	38,280,717.63	6,500,000.00	-	44,780,717.63
27	Ogun	103,331,349.94	-	-	103,331,349.94
28	Ondo	52,089,561.21	-	-	52,089,561.21
29	Osun	69,946,131.15	6,950,000.00	-	76,896,131.15
30	Oyo	66,754,604.54	-	-	66,754,604.54
31	Plateau	30,474,421.99	-	-	30,474,421.99
32	Rivers	46,922,403.74	-	-	46,922,403.74
33	Sokoto	41,946,527.11	-	-	41,946,527.11
34	Taraba	22,934,478.17	-	-	22,934,478.17
35	Yobe	30,456,120.37	-	-	30,456,120.37
36	Zamfara	34,919,653.15	-	-	34,919,653.15
37	FCT	35,044,755.92	-	-	35,044,755.92
	Sub-Total	**3,216,961,154.54**	**152,950,000.00**	-	**3,369,911,154.54**
38	FGN	4,343,471,023.88	5,000,000.00	3,000,049,316.38	7,348,520,340.26
	Total	**7,560,432,178.42**	**157,950,000.00**	**3,000,049,316.38**	**10,718,431,494.80**

Source: Debt Management Office (DMO)

ISSUES

IMPORT SUBSTITUTION: Strategy for reviving Nigeria's Manufacturing Sector?

- By Chinemerem David Okoro

Manufacturing and exporting are activities that are increasingly essential for participation in an ever more closely integrated world economy - United Nations Conference on Trade and Development (UNCTAD), 2005

There is an overwhelming consensus that reviving Nigeria's moribund manufacturing sector remains the most potent strategy for diversifying the country's import-dependent and mono-product economy. What is, perhaps, a major point of divergence is the most effective strategy (ies) to adopt in achieving this much-desired objective. Indeed, Nigeria's manufacturing sector is presently in a precarious state with many manufacturing firms having to either close down or operate far below full capacity. According to the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), at least 800 companies closed shop in Nigeria within the last decade, owing to harsh and unfavourable operating environment. Also, the Manufacturing Purchasing Managers' Index (PMI) report for March, 2016; a gauge of the "health" of the sector, reveal a declining manufacturing economy at less than 50 per cent.

The weak state of the manufacturing sector is felt, most acutely, in the country's high dependence on imported manufactured goods and the sector's contribution to national output. According to the fourth quarter 2015 foreign trade statistics report, the value of Nigeria's imports at the end of 2015 stood at N6.7trillion (about US$34billion), dominated by the imports of "Machinery and transport equipment", "Mineral Fuel", and "Food and Live Animals" and other finished goods that could be manufactured locally. Similarly, the contribution of manufacturing as a share of total economic output in Nigeria has remained less than significant. According to the National Bureau of Statistics, the sector's contribution to Gross Domestic Product (GDP) has remained below 10 per cent annually. Even in terms of employment

generation, the manufacturing sector currently employs fewer than two million people and created a paltry 19,647 new jobs in first quarter 2015.

Drawbacks in the sector...

The apparent poor performance of Nigeria's manufacturing sector is attributed to a number of ongoing challenges that combine to explain its current state. Many of these challenges show the vulnerability of the sector to global economic pressures, as well as the impacts that policy changes could have in reshaping the sector.

Poor Power supply: Power infrastructure has remained a major challenge facing Nigeria's manufacturing sector in particular and the economy in general. The erratic and inadequate power supply in Nigeria has often been cited as the main factor affecting output levels in the sector and forcing multinationals to relocate production lines to other countries. Currently, the power generation capacity stands at between 3,000 and 5,000 megawatts as against about 20,000 megawatt needed to drive manufacturing activities in the country. Most factories turn to self-provision of electricity, using diesel generators, to keep going. This, of course, has significant impact on the pricing competitiveness of locally manufactured goods.

Heavy dependence on imported inputs: Manufacturing companies in Nigeria depend heavily on imported inputs and raw materials. This has remained a major challenge and exposes the sector to vagaries in the global economy. Put differently, foreign exchange and other volatilities in the global economy has significant impact on output level as well as sector performance. This creates opportunity for pass-through costs that impact on the competitiveness of locally manufactured goods.

Lack of access to finance: Another major problem facing the manufacturing sector in Nigeria is inadequate access to finance for long term investment purposes. This has limited the capability of companies in the sector to make investments, on a long term basis, in modern machines, information technology and human resources development, which are critical to increasing productivity, improving competitiveness, and expanding operations. Unfortunately, funds are not readily available for manufacturers in the country for this purpose. Even when it is available through bank loans, the interest rates are so high (in double digits) because banks regard the sector as high risk area for lending. This high rate of interest is not profitable for the players in the sector.

Policy Inconsistency: The manufacturing sector has witnessed policy summersaults that have helped to hinder growth. For instance, the import-substitution policy of the early 1960, which saw Nigeria attract several foreign companies into the country, was followed by the indigenization policy, which advocated indigenous ownership of key industries. Such policy swings do not engender confidence for local or foreign investment, as investors regard these inconsistencies as a major risk for any medium to long term planning.

Many of these challenges show the vulnerability of the sector to global economic pressures, as well as the impacts that policy changes could have in reshaping the sector.

High cost of production/ Competiveness: The Nigeria manufacturing sector is characterized by high cost of production stemming from unfavourable interest rate and increased cost of energy input as mentioned above. Also, increasing cost of production is being recorded by most business organizations in the sector due largely to high foreign exchange rate, low effective demand for goods, and fallen capacity utilization rates. Inflation has contributed in no small measure to high cost of production, high products costs and lack of competitiveness in the international market. The possible implication is that Nigeria becomes a "dumping ground" for cheap goods shipped into the country from other more efficient-producing/exporting countries.

Opportunities in the sector...It is not all gloomy

Despite these seemingly overwhelming challenges, the position of the country's manufacturing sector in West Africa can hardly be challenged. A domestic consumer base of over 170 million people ensures that local demands are strong and supportive of investments in manufacturing. This is particularly so as a result of the growing middle class that is boosting consumption. According to official statistics, Nigeria consumers presently spend over US$100 billion a year and this is expected to rise exponentially as living standards and purchasing power improves. The regional Economic Community of West African States (ECOWAS) market of over 300 million people, in which Nigeria has a strong political and economic role, also presents significant opportunities to produce manufactured goods in Nigeria, targeted at those markets.

More so, Nigeria's abundant human and natural resources provide significant and critical input for manufacturing activities in the country. Nigeria has about 44 solid minerals in commercial quantity including iron ore, tin, columbite, lead, zinc, gold, coal, petroleum, and uranium. In addition industrial minerals such as clays, limestone, dolomite, barytes and glass-sand are in vast amounts within the country.

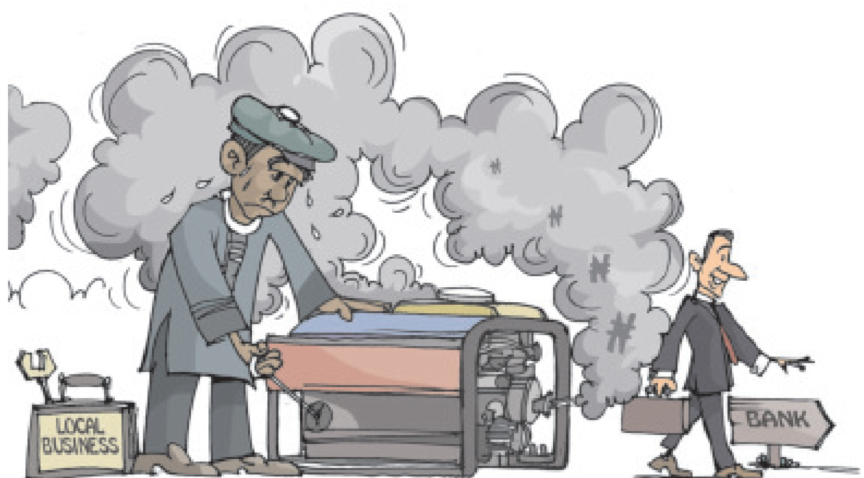
Beyond minerals, Nigeria's agricultural sector can also provide feedstock to feed a robust agro-allied industry. In terms of human resources, Nigeria has an advantageous demographics that provide the requisite labour that supports manufacturing activities.

The country is equally strategically located in the Gulf of Guinea with direct freight access to North America and Europe via the Atlantic Ocean. These developed markets (i.e. North America and Europe) have a combined GDP exceeding US$30 trillion, which is almost half the global economy. Nigeria, therefore, has a "freight advantage" to supplying the richest markets in the world. Western countries provide the largest concentration of the global consumer class (by value), and are physically easier to reach from the Gulf of Guinea, and from Nigeria. In addition to the North American and European Markets, Nigeria can also reach Latin America, ECOWAS and Central Africa via its strategic location in the Gulf of Guinea and near the middle of Africa. Thus, with all the "strategic advantages", it is reasonable that foreign investors in the region look at setting up in Nigeria and then export excess capacity to other countries in the region and beyond.

Riding the current economic tide

The current economic situation facing Nigeria – fall in crude oil price, exchange rate crisis, and depletion of foreign exchange reserves – provide a dose of nasty but indispensable opportunity for the country to make concerted efforts towards reducing its high import content by reposition the manufacturing sector. Indeed, it is inarguable that the current pressure on the stock of foreign reserve and its attendant exchange rate crisis facing Nigeria stem from the high dependence on imported goods and services. Nigeria's total import bill in 2015 stood at N6.7trillion naira (about US$34billion dollars) and comprise manufactured goods that could have been produced locally.

Spending such huge amounts on import bill has led to a sharp decline in the nation's stock of foreign exchange. Nigeria's foreign exchange reserves stood at US$27.8 billion as at March 2016, according to figures obtained from the Central Bank of Nigeria (CBN). The stock of external reserves has fallen



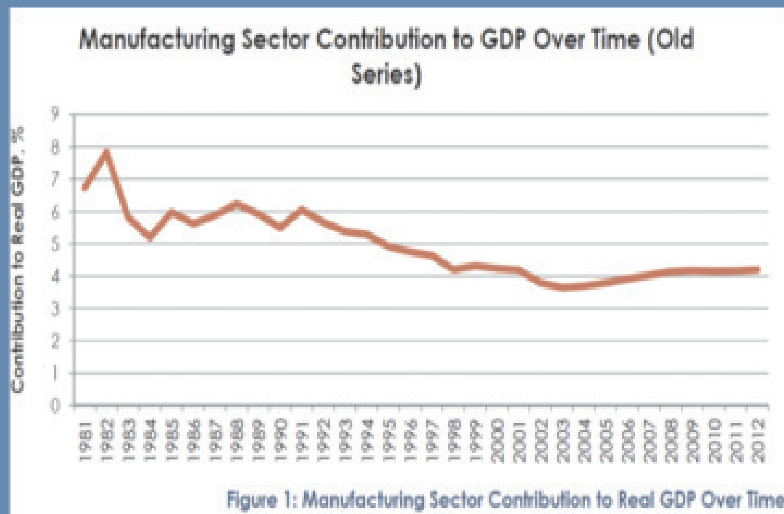


Figure 1: Manufacturing Sector Contribution to Real GDP Over Time

Source: National Bureau of Statistics

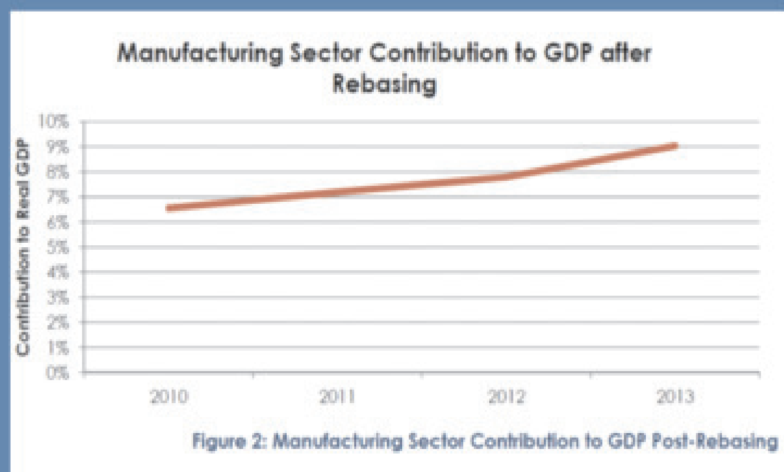


Figure 2: Manufacturing Sector Contribution to GDP Post-Rebasing

Source: National Bureau of Statistics

so low that it can barely provide an import cover for up to six months. Also, the current exchange rate crisis has further exacerbated the precarious state of the nation's foreign reserve by forcing the Central Bank to deplete the reserves in order to defend the naira from spiraling out of control. To conserve Nigeria's foreign reserves, the CBN introduced a number of policy measures including restricting access to the official foreign exchange market for the importation of specific goods and services.

Agreeably, the current economic situation do not require a quick-fix. Rather it provides an excellent opportunity for Nigeria to curtail its over reliance on imports as well as reduce the deleterious effects of excessive importation. Put differently, it provides an opportunity to articulate effective policy (ies) geared towards revamping manufacturing activities in the country. The recent renewed attention on import-substitution, which gives primes focus on patronizing locally manufactured goods (popularly called Made-in-Nigeria goods), appears to be a step in the right direction. But considering the peculiar challenges facing the manufacturing sector and the fact that Nigeria has in the past employed similar strategies, the question that readily comes to mind is: will this strategy be effective in reviving Nigeria's strategic but near comatose manufacturing sector?

Import substitution strategy: the pros and cons

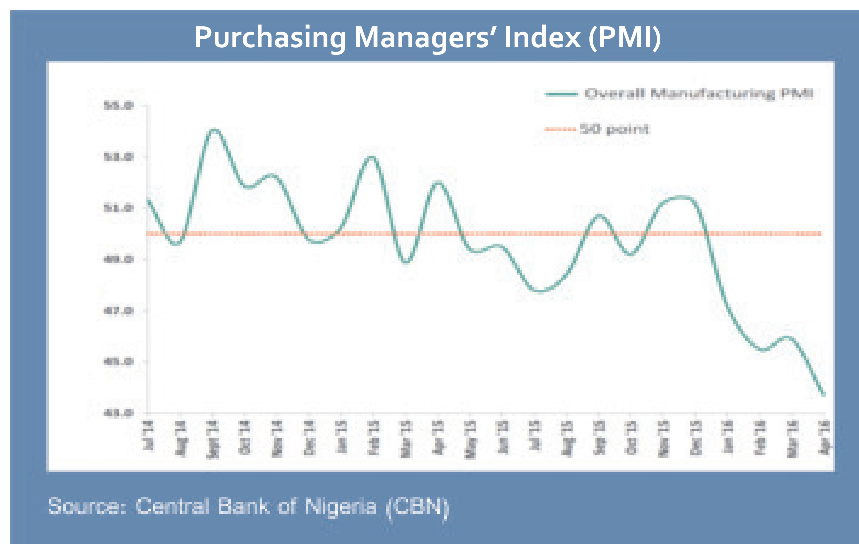
One of the policies employed by developing economies to grow their industrial base is import substitution. Essentially, import substitution involves producing locally, goods that were formerly imported. It is a trade and economic strategy to reduce a county's dependence on foreign markets through the local production of goods, especially basic necessities. Some of its attraction as an economic strategy include its ability to increase domestic employment, enhance resilience against global shocks, conserve foreign exchange and protect domestic infant industries. Thus, it is based on the premise that a country should attempt to reduce its foreign dependency through the local production of manufactured products.

Like many other developing country, Nigeria has made several attempts at building a virile industrial base through a number of policies and strategies including import substitution. This policy was the first industrial strategy embarked upon by Nigerian Government immediately after independence. The adoption of this policy was meant to reduce the burden on the exchange rate by establishing industries that produce domestic goods in place of imported ones. The policy, however, could not be sustained due to both internal and external forces like frequent change of governments in the country and the effects of globalization. Also, these efforts were thwarted by high transportation costs in landlocked states, small markets and limited skills and technology as many industries were

themselves dependent on imported inputs and vulnerable to foreign currency shortages.

In recent times, Nigeria has demonstrated renewed commitment to revamp the manufacturing sector using the import substitution strategy. At the heart of this strategy is the promotion of consumption of locally manufactured goods and the broader agenda to diversify the economy, build resilience to shocks, conserve foreign exchange and create employment opportunities. Admirably, the renewed commitment to promoting the patronization of "made in Nigeria goods" is indeed timely and noble. One major challenge local manufacturers has faced is poor domestic patronage. Consumers in the country display preference for imported items over locally manufactured ones. Although a lot of consumers have given quality as their excuse for patronizing imported goods, intelligent market surveys reveal Nigerians' appetite for foreign products. Thus, adopting import substitution policies would help is in increasing domestic production and capacity utilisation in the short term, as well as create employment opportunities in the sector.

Also, import substitution stimulates domestic investments as well as investments in appropriate local technologies. As such, it could enhance the opportunity to harness the country's abundant domestic resources for economic development. In Nigeria, for instance, after 1960, textiles rapidly became the leading import substitution sector, with protectionist policies encouraging a spate of fresh investments by Oriental investors, mainly Indians and Japanese. By 1980, the industry had some 100 major plants in its large-scale firms and provided gainful employment for thousands of workers.



Purchasing Managers' Index (PMI)

Source: Central Bank of Nigeria (CBN)

However, as noble as this strategy is, it not without its drawbacks. Beyond the technical trade "jargons" of overvalued exchange and trade deficit, the import substitution idea, by its very nature, involves protection of the economy from large number of imports. Yet, Nigeria's manufacturing sector depends heavily on imported raw materials and critical inputs. As such, embracing import substitution strategy, which advocates trade protection, is capable of being counter-productive by slowing manufacturing activities. For instance, due to the recent CBN's policy of shutting official access to forex for the importation of selected items, most manu-

facturers have been forced to shut down and move their operations to neighboring countries as they are unable to access foreign exchange for raw materials and other critical inputs, according to Lagos Chamber of Commerce and Industry (LCCI).

Again, import substitution provides no incentive for efficiency/innovation and limits economies of scale. The production inefficiencies that developed behind a "protected economy" lead not only to trade inefficiencies but even to a form of product differentiation in which lower quality goods are produced specifically for domestic consumers. Indeed, this is an existing problem in the Nigeria's manufacturing sector and the argument of consumers that patronise imported manufactured goods. The problem became more pronounced recently due to increasing globalization and all that accompany it. Also, import substitution limits access to larger markets and make the country miss out on benefits from more efficient mechanisms and from the expansion of trade flows, investment and finance, technology transfer and integration into the global market.

Beyond import substitution, the way to recovery

From the foregoing, it is easy to surmise that import substitution strategy, as a single economic strategy, might not be a "silver bullet" towards reviving Nigeria's manufacturing sector. The peculiar nature of the country's manufacturing sector requires a combination of policies that will promote exports and reduce dependence on imports, with a broader focus on the entire value chain of the sub-sectors where Nigeria has comparative and competitive advantage. Thus, it remains spot-on to say that rather than have a blanket policy towards import substitution and trade controls, the relevant authorities should articulate a more holistic policy or combination of policies that is borne out of clear economic rationalization.

Additionally, incentives and governmental support are required to successfully revive the manufacturing sector. Particularly, there is urgent need to address the critical infrastructure gap in the economy like power and transportation. Also, the creation of incentives like investment allowance, tax holidays, among others, will create a favourable environment that attracts and supports manufacturing activities. More initiatives like the Central Bank of Nigeria's (CBN) N300 billion (US$1.5billion) real sector support facility should be introduced, expanded and sustained to improve access to finance. This will encourage long term investment in technologies, production lines as well as research and development to enhance local (domestic) sourcing of critical raw materials.

These steps can be articulated into an industrial plan for easy implementation over a period of time. An example is the Nigeria Industrial Revolution Plan (NIRP) launched in 2014 to provide a national road map for industrializing the nation. The plan has the lofty goal of revamping manufacturing activities in the country, through accelerated industrial capacity expansions and reforms that could add about N5trillion (about US$25billion) to annual manufacturing revenues in the next three to five years. This will create jobs, generate wealth, diversify the economy, substitute imports, boost exports, broaden the nation's revenue base and deepen Nigeria's integration into the global economy. Such fine leap-forward industrial plan should be fine-tuned and fully implemented. In a nutshell, what is required to revamp Nigeria's manufacturing sector and indeed, catalyze the country's economic and social development is a combination of temporary selective protectionist restrictions, innovation, governmental support, human capital development and an effective export-driven master plan.

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

The recent crash in oil prices has raised serious concerns about the health and resilience of the Nigerian economy. Compelled by the dwindling oil revenue, the country is presently developing a Solid Minerals Strategy to adequately monetize its vast mineral resources. This is expected to fill the gap, as crude oil has been the economic mainstay since the last five decades.

Nigeria's solid minerals sector remains largely underdeveloped. Despite the huge potential the sector holds to contribute significantly to the country's foreign exchange earnings and GDP, its current impact on national earnings is still considerably low while it accounted

SOLID MINERALS: A Viable Alternative to Oil?

By Joy Patrick-Akpan

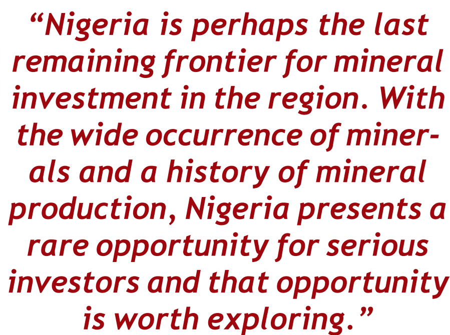
for a paltry 0.3 per cent of the GDP as at 2014.

In several countries around the world, the solid minerals sector provides jobs for a large percentage of the population and contributes significantly to Gross Domestic Product. But that has not been the case in Nigeria where the sector's contribution to GDP and Foreign Exchange earnings has been on the decline since the discovery and commercial exploitation of oil.

Solid minerals deposits abound in almost every state of the federation, and is capable of becoming the largest employment sector of the economy if its potentials are properly harnessed, according to a 2015 report of the National Bureau of Statistics (NBS). However, Nigeria's ability to unlock and exploit the growth potential in the sector will depend on government's ability to revitalize the sector by attracting foreign investment to complement the efforts of the local industry players.

Mining and quarrying of Coal, Metal Ores and Other Minerals (excluding Crude Petroleum and Natural Gas) jointly contributed about 0.09% to the national GDP in the period covering 2010-2012, according to the National Bureau of Statistics. There was a steady rise over the period. From the N51, 877.80 million recorded in 2010, output grew by N7, 691.54 million or 14.83% in 2011 to reach N59, 569.34 million that year. In 2012, it grew by N11, 920.06 million or 20.01% to N71, 489.39 million.

The total output in the mining and quarrying sector, as reported by the NBS in 2015 indicated that it grew at a high and steady rate. From N73, 009.77 million in 2010, it increased by N12, 805.30 million or 17.54% in 2011 to reach N85, 815.07 million. The growth went up even higher, with an increase of about N17, 420.90 million or 20.30%, taking output to N103, 235.97 million in 2012. Coal contributed 8.33% of total sector output; Mineral Ore, 3.96%, while other minerals constituted 87.71%.



"Nigeria is perhaps the last remaining frontier for mineral investment in the region. With the wide occurrence of minerals and a history of mineral production, Nigeria presents a rare opportunity for serious investors and that opportunity is worth exploring."

- Olayinka O. Mubarak, Group Head, Solid Minerals and Metals, Bank of Industry in Nigeria.

Interesting case studies...

Compared with its Sub-Saharan neighbours such as Botswana, DR Congo, and Namibia, among others, Nigeria is richly blessed with huge deposits of solid minerals. The 2012 report of the Nigerian Extractive Industries Transparency Initiative (NEITI) showed that over 34 different kinds of precious metals and solid minerals can be found in Nigeria. The report also revealed that the value of these minerals are estimated to run into hundreds of trillions of dollars which are all waiting to be fully exploited.

In the past few decades, there has been significant growth in the global mining industry. Demand for solid mineral resources has surged in rapidly growing economies such as India and China, while Canada is known to supply minerals with a total estimated value of over $45.3 billion annually.

India, which is less endowed with solid minerals than Nigeria, currently earns about $75 billion annually from solid minerals. Likewise, the 2015 report of the Nigerian Investment Promotion Commission (NIPC) indicates that South Africa now earns over $30 billion annually from the sector. But Nigeria with its huge solid minerals potential earned a measly $89 million from the sector in 2014.

Interestedly, South Africa, as one of the major players in the global mining industry, focused on only a handful of minerals and was able to create about half a million direct and indirect jobs in the sector. Considering its huge reserves, this emphasizes the country's massive loses in foreign exchange, owing to gross under-development of the sector. This flaw has led to a situation where the country imports minerals that could be exploited domestically, such as Barites, Salt and Iron Ore.

Global reviews also reveal that in recent times, the solid mineral sector serves as a viable source of foreign exchange earnings, and has become a close rival to the oil industry in many countries. In 2011, countries like South Africa, had its mining sector contributing about 9 percent of GDP, with an employment of over 500,000 people. The United States of America (USA), alone provides over 670,000 direct jobs in its mining sector. In Australia, about 320,000 direct jobs has been created in the mining sector. In Canada, mining accounts for 3.5 per cent of GDP and has created over 200, 000 employment opportunities.

Current trends and insights from other climes show that it is not too late to revamp the sector. Similarly, statistical indicators from the National Bureau of Statistics project an increase of at least five per cent by the year 2017 and ten per

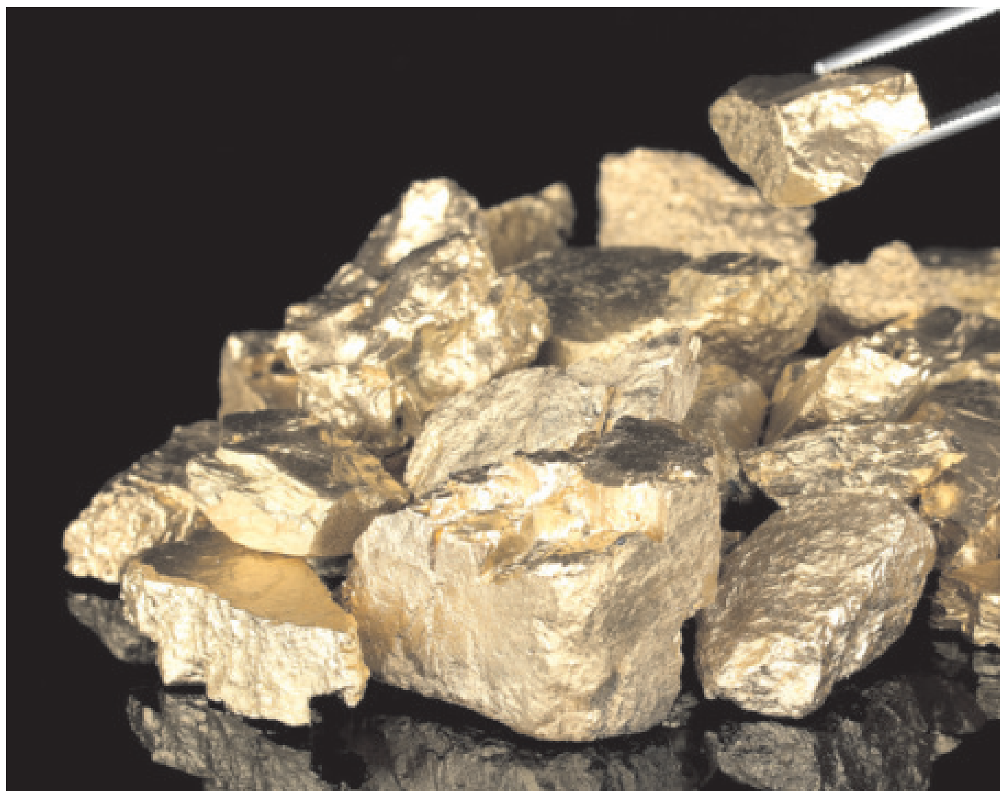
cent by 2020, and with the capacity to create three million jobs - direct and indirect - by the end of 2017.

Hope is not lost as opportunities abound...

Nigeria is endowed with commercially viable mineral resources, with associated socio-economic benefits which can contribute to national wealth and job creation. Hence, the country presents immeasurable opportunities for local and foreign mining companies.

Statistically, the level of exploitation of these mineral resources is still very low. But, if properly harnessed, these unexplored mineral reserves will encourage massive foreign investors' participation in the sector, especially since, like its crude oil, several mineral deposits found in Nigeria are top of the grade. For instance, Coal ranks high as Nigeria's foreign exchange earners primarily because the country's Coal is one of the best in the world, with low levels of sulfur and impurities. There are about 22 coalfields in the country with a proven reserve of about 639 million tons, and inferred reserves of 2,750 million tons. According to the Ministry of Mines and Steel Development, Coal export is capable of earning Nigeria up to $6 billion per annum, and would yield about 7,000MW if applied to electricity generation.

Other great investment opportunities offered by the mineral resources sector include Gold, which is also found in commercial quantities in Nigeria. Owing to the global market uncertainties, the price of gold has increased astronomically; and with the privatization of the Nigerian Mining Corporation in 2007, some domestic and multinational companies have acquired gold mining licenses to supplement the efforts of the indigenous small scale, artisanal miners.



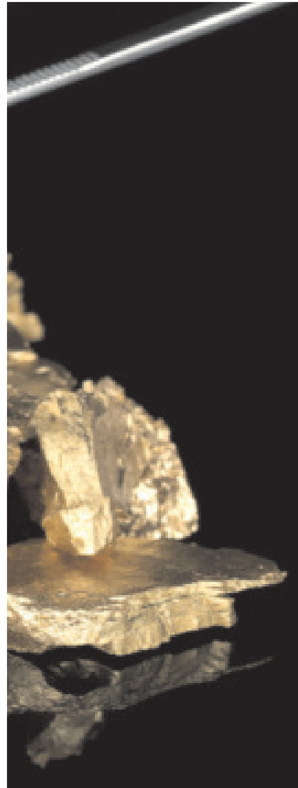
In addition to huge deposits of Lead and Zinc, Nigeria is believed to also have the second largest reserves of tantalite in the world. This occur as Tantalum-Niobium which it is a rare metal needed by high technology and aerospace industries. Large deposits of Iron Ore, reputed to be the largest in Africa have also been found in Nigeria.

Other commercially viable deposits found in Nigeria include: Limestone, Kaolin (30million tonnes) and Gypsum (16 million tonnes) that can be processed for cement; Bitumen (42 billion tonnes) and tar sands equivalent to 13 billion barrels of oil; while 40 million tonnes of talc with the potential to earn about $3 billion annually, is spread across the country.

Industry setbacks

Over the years, solid minerals exploitation has suffered neglect as a result of Nigeria's over-dependence on oil revenue. However, this stagnation cannot be attributed only to the years of oil price boom. The absence of a reliable database and geological map to indicate proven reserves of minerals; weak legislative and regulatory frameworks to guide operations in the sector; political instability; inadequate funding; the current informal mining structure; weak value chain integration with other sectors; and lack of skilled manpower all constitute hindrances to the development of the Solid Minerals sector in Nigeria.

But, the most significant challenge faced by the solid mineral sector in Nigeria is perhaps inadequate infrastructure and the environmental impact of large-scale mineral extraction. These challenges are not insurmountable and offsetting them will revitalize the industry and boost productivity. Hence the government is instituting far reaching reforms that will make the mining sector more investors' friendly.



... the most significant challenge faced by the solid mineral sector in Nigeria is perhaps inadequate infrastructure and the environmental impact of large-scale mineral extraction.

Propelling Industry Growth: Recent Initiatives

Nigeria has the capacity to become a major processing hub for solid minerals. Unfortunately, despite its huge endowments, it remains an insignificant player in the global mining community.

Various efforts have been made by past administrations to revamp the Solid Minerals sector. But somehow, these attempts have not been successful. The intense desire of the government to refocus and reshape the solid minerals industry in Nigeria has in recent times led to the initiation of reforms targeted at attracting private investors, strengthening institutional and human capacity, ensuring liberal and transparent access to mining titles, strengthening geological data generation and a reorientation of government from 'Owner-Operator' to 'Administrator-Regulator'.

The Nigeria Industrial Revolution Plan (NIRP), 2014 reported that this government strategy is a roadmap to significantly grow the sector over the next few years, and is aimed at creating adequate linkages between Industries and Solid Minerals in Nigeria. The forward linkage is expected to enhance the development of the solid minerals sector and help combat poverty through job creation.

Also, in an attempt to revamp the sector, the Nigerian government established some agencies such as: The Ministry of Mines and Steel Development (MMSD) charged with the responsibility of managing the sector; and The Nigerian Mining Cadastre Office, a department under the MMSD which processes mineral title applications, including mining licenses, exploration licenses, quarrying licenses, and small-scale mining licenses.

Other agencies created recently by the government include the Mining Environmental Compliance Department responsible for all environmental related mining issues; the Mines Inspectorate Office, responsible for the enforcement of legislation and collection of royalties; and the Artisanal and Small Scale Mining Department, responsible for the organization and encouragement of small scale miners.

In another development, MMSD constituted a committee to formulate a road map that will identify the gaps, goals, actions and timelines that will stimulate growth in the sector. The 17-man Committee, inaugurated in March 2016 will have the responsibility of identifying hindrances to the development of the mining industry of Nigeria; developing case studies of similar developing mining countries; identifying strategies to overcoming existing hindrances; prioritizing activities and providing a timeframe for all activities including the Proposed Action Plans to actualize the strategies; defining mechanisms for implementation and performance monitoring with clear indicators; developing contingency scenarios & risks analyses; developing a communication strategy for consultation and engagement with all industry stakeholders.

The Federal Government also resolved to provide $1 billion (about N200 billion) as solid minerals development fund for potential investors in the mining sector. It has also launched a roadmap for driving investment in Gold and other solid minerals. Dangote Group and six others companies were awarded licenses to mine gold and other solid minerals in different parts of Nigeria with the aim of attracting over N440 billion local and foreign direct investments.

Solid minerals occurrences in Nigeria

Sn	Mineral	Occurrences	Sn	Mineral	Occurrences	Sn	Mineral	Occurrences
1	Tantalite	Cross River, Ekiti, Kogi, Kwara, Nasarawa	12	Feldspar	Bauchi, Borno, FCT, Kaduna, Kogi	23	Silica Sand	Delta, Jigawa, Kano, Lagos, Ondo, Rivers
2	Kaolin	Akwa Ibom, Anambra, Bauchi,Bayelsa, Ekiti, Imo, Katsina, Kebbi, Kogi, Ogun, Ondo, Plateau, Rivers	13	Gold	FCT, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Niger, Osun, Zamfara	24	Fluorite	Bauchi, Ebonyi, Plateau, Taraba
3	Mica	Ekiti, Kogi, Kwara, Nasarawa, Oyo	14	Clay	In all the States of the Federation	25	Bitumen	Edo, Lagos, Ondo, Ogun
4	Baryte	Benue, Cross River, Nasarawa, Plateau, Taraba, Zamfara	15	Silver	Ebonyi, Kano	26	Lead	Cross-River, Ebonyi, FCT, Plateau, Zamfara
5	Coal & Lignite	Abia, Adamawa, Anambra, Bauchi, Benue, Cross-River, Delta, Ebonyi, Edo Gombe, Imo, Kogi, Nasarawa, Plateau	16	Ilmenite	Benue, Cross River, Kaduna, Plateau	27	Zinc	Cross River, Ebonyi, FCT, Plateau, Zamfara
6	Rutile	Bauchi, Cross-River, Kaduna, Plateau	17	Limestone	Benue, Cross River, Ebonyi, Edo, Gombe, Kogi, Ogun, Sokoto	28	Bentonite	Borno, Edo, Kogi, Ogun, Ondo
7	Talc	Ekiti, Kaduna, Kogi, Niger	18	Columbite	Bauchi, Cross River, Kaduna, Kano, Kwara, Nasarawa, Plateau	29	Kyanite	Kaduna, Niger
8	Bismuth	Kaduna	19	Cassiterite	Bauchi, Cross -River, Kaduna, Kano, Kwara, Nasarawa, Plateau	30	Iron-Ore	Enugu, FCT, Kaduna, Kogi, Nasarawa, Zamfara
9	Gypsum	Adamawa, Edo, Gombe, Ogun, Sokoto, Yobe	20	Diatomite	Borno, Yobe	31	Lithium	Kaduna, Nasarawa, Niger, Zamfara
10	Marble	Edo, FCT, Kogi, Kwara, Nasarawa, Oyo	21	Phosphate	Ogun, Sokoto	32	Wolframite	Bauchi, Kaduna, Kano, Kwara, Nasarawa, Niger, Zamfara
11	Gemstones	Bauchi, Kaduna, Kogi, Kwara, Nasarawa, Niger, Ogun, Oyo, Plateau, Taraba	22	Manganese	Katsina, Kebbi, Zamfara	33	Molybdenite	Plateau
						34	Dolomite	Kogi, Oyo, Edo, Kwara and the Federal Capital Territory, Abuja

Source: Nigeria Vision 2020: Economic Transformation Blueprint

Governance and Regulation

Recent crash in crude oil price and the resultant effect on oil dependent economies like Nigeria has made it a priority to diversify the economy and encourage investors to venture into hitherto underdeveloped sectors such as solid minerals. To this end, government has introduced the Nigerian Minerals and Mining Regulation 2011 to streamline procedures for granting licenses to both local and foreign investors and guaranteed access to mining sites with minimal encumbrances.

The Federal Government has also created a National Policy on Solid Minerals to ensure an organized development of the country's mineral resources. The policy will provide clear rules and unambiguous regulations for the exploitation of the minerals with clearly prescribed patterns and roles to be played by different industry stakeholders.

The Nigerian Extractive Industries and Transparency Initiative (NEITI) 2015, reported that the regulation provides for the right to search for, or exploit minerals in Nigeria, and can be obtained through several mining titles such as: Reconnaissance Permit, Small Scale Mining License, Exploration License, Mining License, Water Policy, and Quarrying License.

Furthermore, government has put in place several incentives to improve the ease of doing business in Nigeria, by creating a favourable environment for investment. These include:

- Deferred royalty payments
- Capital allowances of up to 95% of qualifying capital expenditure
- Exemption from customs and import duties for plant, machinery and equipment for mining operations
- Three to five years' tax holiday as applicable; and tax concessions
- Possible capitalization of expenditure on exploration and surveys
- Expatriate quota and resident permit in respect of the approved expatriate personnel
- Personal remittance quota for expatriate personnel, free from any tax imposed by any enactment for the transfer of external currency out of Nigeria
- The NIPC Act 16 of 1995 allows for 100% Ownership of Investment while the Foreign Exchange Miscellaneous Act 17 of 1995, guarantees 100% Repatriation of Capital, Profit, & Dividends through authorized means.

Going Forward ...

There is no doubt that the Nigerian solid minerals sector offers viable prospects to investors as the industry remains largely untapped. However, these will remain as mere potentials if they are not actually exploited. As the country grapples with falling oil prices and the high cost of importation occasioned by foreign exchange crisis, there is no better time than now for the nation to leverage the opportunities provided by the solid minerals sector. It presents the perfect opportunity to revive the economy and diversify Nigeria's revenue base away from crude oil. Eventually, this would help curb the growing level of unemployment, move rural miners into the middle class and reduce poverty across the country.

From the foregoing, it is clear that enormous economic benefits are derivable from the full and effective exploitation of the solid mineral endowments in the country.

The Solid minerals sector offers a very viable alternative to oil revenue, if only the innate potentials in the sector could be unleashed.

(Joy Patrick-Akpan is a Research Economist, Zenith Economic Quarterly)

There is hope for investors... Finally!

- By Neil Hitchens

The economic hyper-volatility during the past quarter saw some extreme short-term instability in the prices of many assets, irrespective of whether they were commodities, currencies or equities. This was, oddly enough, precisely what we had been waiting for – even though, as we were working our way through it, the end of the world might have seemed inescapable for all investors. When markets swoon into what seems to be a total 'lemming' like decline, when they are ostensibly bent on complete and utter financial ruin, only to be shortly followed by a period of consolidation and then a slow but seemingly unrelenting period of recovery, this is actually fairly normal behaviour. Add to this the fact that for some areas the underlying economic fundamentals have moderately recovered from the previous gloomy predictions, we can breathe a (very small) sigh of relief.

However this does not mean that everything is suddenly and instantly rosy.

The global economic outlook does not remain anything other than fragile for the rest of 2016 if not well into 2017 and possibly beyond that. As we have cautioned for the past 6 quarters (Economic Quarterlies passim) the worldwide economic recovery continues to be riven by underlying disinflationary forces in combination with what could, even now, turn out to be a toxic amalgamation of slow to non-existent growth in mainland Europe, Japan and many of the major South American economies.

There has not, over the past 12 weeks, been some miraculous global recovery; instead the positives we correctly identified, in some cases as far back as 2012, are coming to the fore, as we had confidently predicted, whilst those areas of weaker economic activity continue to struggle. As such our much remarked upon observation that we currently have a prolonged twin speed world economy (cf "The Times") will be a continuing problem for most certainly the rest of the current decade and beyond – the hopelessness of the situation in Greece being one particular ultra-long-term challenge that is extremely unlikely to be harmoniously resolved while current policies continue to be pursued.

Indeed the recent pronouncements by the (ever so *slightly* subjective) Inter-

national Monetary Fund / the "IMF" that the world faces a 'lost year' and *could* be sleepwalking into a fresh crisis as investors start to lose faith in policymakers' ability to revive the global economy, are interesting. The IMF also trailed our earlier observation by noting that Chinese corporate debt levels of around $1.3 trillion posed potentially serious challenges to financial stability were defaults to push the Chinese banking system over the edge. Such a loss of confidence, could, they said, drag global stock markets into a bear market.

Such a bear market, the commentary continues, could push equity prices down by around 20% in two years as the threat of slower growth along with rising risks in China and a diminished faith in policymakers meant an upturn in household savings and a proportionate reduction in expenditure. Such a possibility would, they continued, see the Indian and Chinese economies have output losses of over -4% by 2021 and world output could fall by -3.9% or so over the same period. Unfortunately the IMF also continues in a similar vein by noting that low inflation and growth would continue to push debt burdens in countries such as Japan and Greece to fresh highs which would "entrench secular stagnation worldwide"

All well and good: however the problem with this is that not only is the IMF about a year behind with their forecasts but also that the language used is couched with so many reservations and caveats that almost any slant can be put on the eventual outcome when these particular runes are re-examined with the benefit of hindsight..

We are all well aware that any sustained corporate default on such a scale will impact lenders and the trickle-down effect will slow global growth.

We already know that Greece, especially, is in continuing and relentless economic difficulties and that if the country continues on the current path of economic lunacy that the outcome will be, to put it mildly, dire.

We have, likewise, known for many years that the Japanese economy is stagnating. This has been a 20+ year problem (!) and is likely to endure for at least another 20 years given that the unspoken problems with a shrinking Japanese population, which as we previously noted, shows no signs whatsoever of disappearing – something the 127 million Japanese population, perversely, will do by the year 3100...yet Japan is not alone in suffering from a disappearing populace: the entire South Korean people is predicted to disappear by 2750, almost within touching distance in the overall history of mankind.

Also in the first quarter of 2016 we have for many markets seen a 20% correction from highs and /or all-time highs and the subsequent rebound back to near-term averages has already happened.

We also know that the IMF has, many, many times before, got it wrong – this is no exception.

However to give it its due, the IMF does highlight the more general global economic problems in a way that can be easily reported. Yet while it gives its own forecasts in its own inimitable way, it also does not actually give any solutions or creditable answers and as always, leaves that to either fate or individual governments to try and resolve, or not.

Away from the IMF distractions the global economy continues to remain fixated by the price of oil. Producers seem incapable of agreeing among themselves the reasonably simple concept of unilaterally cutting output for all OPEC members. One reason for this helplessness could be long simmering ideological and religious differences between Saudi Arabia and the newly legitimised regime in Iran. As we noted in the previous issue, Iran has a multi-year foreign currency deficit to repair and at OPEC meetings where all that was required was a similar cut in production by all members, absolutely nothing could be agreed.

While stock and commodity markets fall temporarily on the back of each oil production set-back oddly enough prices recover quite soon after. It is almost as if, paradoxically, that market traders are coming to the understanding and realisation that 'no deal' is quite possibly the best outcome in the medium term. Short term quotas almost always collapse as producers just cannot help themselves when prices leap $5 a barrel and production always spikes, only for further talks to ensue about yet more oil quota curbs.

The 2016 way of oil producing is somewhat different. The rebalancing process for oil supply and demand can continue to its natural, market driven

conclusion. It has already taken 18 months for this new equilibrium to function – there are now some signs of falling production in non-OPEC countries and oddly enough the lower price of oil is actually feeding through into growing global demand. As such there is unlikely to be sudden sustained spikes above $45 a barrel in the short term and instead of this we are seeing a process of ever so subtle higher lows and very slightly higher highs within the charts for the past 12 months or so. Certainly the lows of sub-$30 seen at the beginning of the year were levels exacerbated by more of a 'surrender' attitude by commodity traders which, in retrospect, were at odds with the inherent market price, then ever so slightly above $30.

While such a tepid recovery is a slight diversion from earlier trends, it is nonetheless a welcome sign of things to come. The longer OPEC producers can curb their 'enthusiasm' to pump as much oil as possible the better the prospects for an eventual total and natural market equilibrium to return in 2017.

We do see some positive developments that should get us to a better place from a pricing perspective.

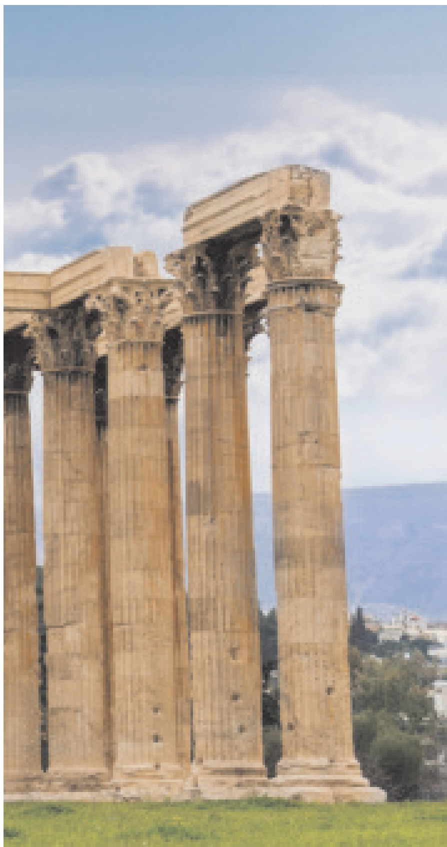
Demand for 2016 is likely to increase, but at a trickle. Certainly from the amount of gasoline being sold at the pumps in the US, demand is responding to lower oil prices in a slightly atypical American way which is seen in the "let's-go-buy-a-new-car" approach or, better still, "let's-go-buy-a-massive-SUV" stance. Auto sales are picking up and this will feed through into a more positive oil price – eventually.

Also Asian demand, including and outside China is showing stronger growth. China itself, despite the recent stock market jitters remains a huge potential and actual source of global demand.

The recent move by the central authorities to (officially) allow two children per family, rather than one, promises to eventually double the numbers of drivers (and thus, oil product/gasoline buyers) at some point in the future. However in the shorter term there will be an initial explosion in pent up consumer demand, initially, at least, for baby items but in the next decade for additional consumer items of all descriptions – especially, and this should be carefully noted, consumer electronics. Here we note in passing the recent weakness in the Apple price (down from $132 in July 2015 to a medium-term low of $94 in March 2016) which should and could be viewed as a very appropriate entry point for new investors or for existing positions to be added to. Add to this a very tempting dividend yield of 2%, which is currently higher than the US Treasury 10 year, standing at around 1.85% and for the longer-term investor with a 5 year view this might just be something to tuck away for the future.

An additional looming positive is that, oddly enough, such low prices as we have already indicated, means that production from high expense wells has ceased or is at the very least substantially lower. As natural reservoir production declines at its current historical rate of 4%-5% this means that even without demand growth, the oil and gas industry must find and produce another four million barrels per day every year just to keep up with current demand. This 'normal' state of affairs does usually act as a natural pricing positive. Linked to this natural attrition we have now seen the downside of the previously commented upon decline in US shale production – a trend that is expected to continue throughout 2016. Additionally billions of dollars of investments have been delayed due to the current sharply low price environment. In other words millions of US barrels of oil will not be produced in the years to come. This also sets the stage for an eventual sustained price rally from the $30's level.

Eventually we will see a naturally leaner, stronger oil industry – despite or, in spite of, any intervention, oil is a free market. Today's new lower price situation is and will force innovations in the way oil is developed and produced. Prices, whether high or low, force innovation and it is highly likely that we are in the early stages of an industry wide phenomenon where oil production



costs are reduced through new approaches and technological innovation.

The endgame is an oil and gas industry that will be stronger, leaner, and built to last.

Europe - it's not all about Greece, for once!

While I have been rightly accused of being appropriately critical of some of the economic policies adopted and embraced by the European Union (EU) we sadly report that after a period of unnatural quietness for investors, the same old problems are about to have a much feared summer revival.

Irrespective of the looming vote in the UK about whether to finally leave the EU or not, which despite much outward bluster about a stay vote not leading to an inescapable closer union (it will!), the rest of the EU edifice is wobbling badly. Rather like a punch-drunk boxer, the ECB is just about able to maintain financial stability but we are seeing the growing signs that despite the full-on, almost desperate liquidity being thrown at markets, there remains a great fear that the Euro experiment is about to go desperately, very badly and possibly terminally wrong.

Irrespective of the non-financial crises happening within the EU component states, the most visible embodiment of which is the ever growing and seemingly unstoppable migrant emergency, the ECB finds itself, yet again, with the seemingly impossible task of corralling multiple non-divergent economies in the same direction. A task which, as the phrase goes, makes herding cats look stress-free...

So it is hardly the best time for an old horror to remerge – "Euro Crisis - Mark 2" – but just as you thought it was safe to breathe a sigh of relief, on the horizon there is evidence that the crisis from the past few years never actually died, it merely went underground into hiding.

Recent electoral results in Europe seem to point to the high possibility that a group of German-influenced, austerity-imposing governments are about to be swept away. Given continuing, old and oft-repeated mutterings from Spain and Portugal, with the Greeks feeling especially hard done by as usual, recent German poll results point to the possibility of a difficult summer ahead. While the next round of Federal elections in Germany will not happen until October 2017, recent results for Angela Merkel's CDU point to the possibility of an almost seismic change in German politics.

Outside of Germany, German-driven austerity is being rejected wholesale.

Greece, despite having elected an anti-austerity government was effectively cornered into accepting the ECB bailout. Oddly enough at a recent meeting with the ex-finance minister I was told that the only reason the Greeks did not accept the inevitable and default was that there was no physical replacement currency easily available. However, and here we are being a little mischievous, as it takes, I was told in confidence, 12-18 months to print a new currency, Drachma banknotes could theoretically be available by the end of 2016....pure and utter speculation and hearsay I know and must emphasise, but the odds of 'something' happening continue to grow.

Despite the fact that, even after the recent 'near misses', most dispassionate and objective observers continue to agree the state of the Euro continues to be critical and the Eurozone economy remains in deep trouble. The problem is that despite the ECB continuing to flood markets with liquidity just at the moment the UK and US Central Authorities are stopping their QE programmes, there is a looming European problem which most com-

Selected European Economic forecasts for 2017

Country	Unemployment Rate	Gross Public Debt to GDP Ratio
UK	4.9%	88.2%
Germany	5.2%	66.8%
France	10.3%	97.1%
Italy	11.3%	130.6%
Spain	18.9%	101.1%
Portugal	10.8%	127.2%
Greece	22.8%	181.8%

Source: European Commission

mentators have either ignored or quite simply have not factored into their death-spiral calculations...

Both the Federal Reserve and the Bank of England realised when they started their QE (Quantitative Easing) that the pool of available fungible resources was a "known/known" and that there are and were certain natural limits to the amount of aid possible. Admittedly the US government did, effectively, temporarily nationalise some parts of the financial sector, the aim was always to have a focused QE programme leaving enough slack within the system for a 'regular' market to continue to operate.

The looming problem within Europe is that the pool of both investment grade Sovereign Debt as well as higher quality Corporate Debt issued in Euros by purely European companies eligible for inclusion within the ECBs purchasing program remains worryingly small. Given the stated aim of the ECB to inject initially €60 Billion a month which has 'mysteriously' now been increased to €80 Billion, combined with the possibility of negative official interest rates until well into 2017, if not beyond, the underlying participating asset pool will become smaller and smaller – from what was a low starting point.

The decision in March to include corporate investment grade debt in the ECBs QE, so quickly into the process, shows that my initial suspicions were spot on.

Apart from the fact that, for instance, all short term German Government Debt / Bunds will continue to have actual negative yields for some time to come, there will now be a growing temptation by the ECB, as the pool of available liquidity dries up, to start going further and further down the investment grade quality spectrum in the search of new bond sources. Certainly the ability of corporates to issue almost unlimited quantities of debt with the specific aim of pitching it directly at the ECB as buyer not only of last resort, but also the first, is tempting for many companies. However more prudent companies will shy from this almost limitless funding possibility, irrespective of the miniscule coupons that will most probably be tendered, as such issues will remain a balance sheet liability as at some stage, though quite when remains shrouded in the mists of uncertainty, the ECB as it currently exists will want to be repaid.

So far so good, for responsible and ethically run corporates – yet the problem is that the temptation for lesser quality companies and institutions to try and inflate or boost their credit quality in the very short-term in order to become eligible for ECB inclusion will be almost too much to resist. Here I would include some of the lesser and worse capitalised banks such as the multitudinous number of different financial institutions highlighted purely for illustrative purposes and not to pick them out individually, such as the inordinate number of Italian banking groups. Many such institutions are effectively 'zombie' companies only being kept alive to ensure there is not an additional and terminal banking collapse in Southern Europe – something that must be prevented at all costs to maintain the veneer of respectability that the Euro must be seen to have.

As such we would advise all corporate debt investors, especially those with exposure to Euro denominated and European headquartered ECB eligible issuers to be extremely careful about what your underlying exposure and risk profile actually is. There is the distinct possibility not too far down the line for the corporate debt market collapse that was initially feared in China to actually happen in Europe.

Here we must reiterate the long simmering fears that the Euro has merely been given a stay of execution. However, how and when the end happens is currently not on the table.

It is not that we think the Euro, per se, is a deeply flawed entity – far from it.

Were it to have been introduced in a very limited number of countries in parallel with changes at Sovereign levels to fiscal rules and/or budgets to create a totally level playing field – here we would emphasise that the prerequisites for identical income, VAT and corporate tax rates and threshold levels are critical – then the currency would have been a cast iron winner. We do not wish to trawl through, ad nauseum, our earlier, totally correct observations about the dilution effects of having 27 members in a single currency.

But, to continue: it is agreed by all that in its current state the Euro is unsustainable without some fairly radical changes. Yet, despite this comprehension, no one has actually managed to propose a sensible, sane and rational series of solutions.

If, as or when the Euro crisis returns, it will be simply because policy makers can't or won't face the conundrum at the heart of the single currency - the

shackling together of very different economies with very different needs.

This summer will see the resumption of the on-going tragedy that is the Greek bailout conditions. Yet, as we have already noted, the Syriza government in Greece is unwilling to knuckle under and give in to demands for yet more cuts to service its debt while the Troika - the International Monetary Fund (IMF), the European Commission and the ECB - can't agree on what they should do anyway. Not exactly a good hors d'oeuvre for the actual final negotiations. While the IMF prescribes more debt relief it doesn't want to finance it. If it were to walk away, Greece would be back in the critical ward immediately with a government elected first to oppose austerity would be forced to implement it.

However the underlying disparity in economic growth makes for grim reading for those who refuse to accept that there is not a North-South divide.

But a devastating recent Wikileak has poured fuel on the fire. It appears (allegedly) to show the IMF is actively pondering steps to bankrupt or implode the Greek economy which, just in itself, will make for an interesting next meeting of Eurozone finance ministers. Even to contemplate such a step informally could be construed by many that the global elite don't care about real people, which is at the root of growing groundswell of revolt against Germany. For Greece is not alone as the new left-wing Portuguese government (closely followed by the new anti-austerity Spanish perspective on matters) is also demanding a change of policy which is a direct challenge to German orthodoxy and one that has some politicians in despair.

But it is Italy that is the real worry. Its huge banking crisis has gone largely unnoticed.

As we indicated above the strains in the EU's fourth largest economy could yet trigger the next mega-crisis as the sluggish European economy stubbornly refuses to grow, and is threatening to emulate Japan's long-running stagnation. While, as we continue to signpost, the ECB has with the March change in QE stance already started to show signs of having completely and utterly run out of ideas, or, more harshly, totally lost the fiscal plot.

Negative interest rates already cause more than raised eyebrows in Germany and recent musings about "helicopter money" - a sort of post-Keynesian stimulus, achieved not by investing in big public projects, but by simply giving people money to spend - shows that we are now not just at the last chapter of the European financial handbook, but looking at the sealed appendix marked 'Only to be tried if all else fails'.

Yet few are willing to voice concerns that the real end to the problems would be achieved with a new EU treaty with ever closer fiscal and monetary integration. There is impeccable logic here but the solution is very unlikely to be enacted.

So the stage could be set for another crisis but the EU has a habit of muddling through each similar calamity. It is never elegant, never the complete answer, but survival is what policymakers eventually ensure will happen – even if such measures are stop-gap at best.

In the end the political will exists to ensure that a solution will always be fabricated.

Yet this could be the year that political tensions between North and South grow so great that the fabric of the Euro and Eurozone is finally ripped into an irreparable state.

As such we continue to advise extreme investment caution and for the moment cannot see any scope for increasing investment positions anywhere within the Central Eurozone area except, just possibly, Germany

However within a few weeks this could all be come a technicality thanks to the UK...

The UK - Brexit is still very much possible...

By the time the next Economic Quarterly is produced the results of the UK poll on June 23rd will be known. The question being asked of the electorate is simple:-

"Should the United Kingdom remain a member of the European Union or leave the European Union?"

Upon these sixteen words hang, most probably the fate not only of the UK stock, currency and bond markets for the next 20 years, but also and inevitably, the fate of the EU as we know it.

Just as the migration crisis temporarily eases, Berlin and Paris are bracing themselves for another blow - the possibility of the UK daring to leave the EU. The Ukraine crisis is almost forgotten, but those Dutch who could be bothered to vote have just rejected an ever-growing union and it is such a small, almost missed signal that could signal the first stage in the implosion of the European dream.

The UK has had a somewhat schizophrenic relationship with the European Union for the past 40 years and the current vote is merely the public expression of a deep-seated fear and loathing held by many for what the EU stands for – certainly the entry specifications for the UK in 1974 have changed out of all recognition when the vote then was for solely one of entering a trade grouping, not the political edifice that has evolved since then.

While it is tempting to think that Prime Minister Cameron only put in the promise of a referendum in his party manifesto last year because he thought there was not a change of him actually winning an outright mandate, we are where we are now and this is actually going to be for investors both a very volatile period but one that will, ultimately, present the possibility of making substantial returns, irrespective of whether there is a Stay result or a Leave.

Certainly I will state before the result that, as at the time of writing, it is going to be quite a close result – most likely a final result of 47% / 53% is the probable final outcome - but for which side remains slightly clouded.

Also as we have to remain impartial I will not comment on the arguments currently raging through the UK press about the benefits of staying or exiting – read in a kind light, any and all not too outrageous hypotheses all sound quite

reasonable. However my own vote by itself will not change anything and it is to be hoped that even in a tight finish the eventual result will be accepted by the losing side.

Yet while we would advise extreme caution for anyone willing to either add too existing UK/FTSE 100 positions there is a rather neat little investment strategy which, irrespective of the result could be profitable.

Certainly a 'naked' position either being purely long or short of the FTSE 100 and similarly a currency position in the Sterling vs. Euro pair is inadvisable, at the time of writing, as the final result remains statistically impossible to separate

But for those of you with patience I might suggest the following little trade which would produce returns whatever the result.

In such a poll we have what is called a 'binomial' outcome – there can only be one of two results: either the UK stays, or it leaves. Unlike a General Election where one party can win under half the vote and still form a government, with our without the help of smaller aligned other parties, in this case the result is simply that – a definitive outcome.

Yes or No

In this case volatility in the run—up to the vote will be high, in fact significantly higher than it would be for a General Election, as various polls will give the

belief that one side or the other will have the upper hand. Given this, placing our trades will need to wait until closer to the poll which, as this is written some three months before the actual vote, makes the planning a little simpler.

As we have seen before, there are only occasional times the eventual outcome will most likely produce, in investment terms, an explosive market reaction.

If the UK does actually vote to exit,

the FTSE 100 would most likely fall by around 10%-15% or, from a level of around 6,500 we could see a fall of somewhere between 650 and 1,000 points. Sterling against the Dollar and Euro would also implode by about the same so we could see 'Cable' (US$ vs. GBP) move from around 1.4400 to 1.3000 and versus the Euro it would move from 0.7900 to possibly somewhere around 0.8700 or higher.

If the UK votes to stay, the upside reaction is likely to be almost as explosive but probably not quite by as much: a typical 'relief rally' in fact. The FTSE 100 could possibly add around 500-750 points (7,000 – 7,250), Cable would add around 5cents – 10 cents (1.4900-1.5400) and against the Euro we could see a strengthening to somewhere in the region of 0.7250 – 0.6950.

Oddly enough the reason a "remain" vote would see the lesser moves is because this is the desired result by the major political parties.

No matter. There is plenty of mileage to be had simply because there is not the possibility of a 'We- will-say-'stay'-but-hold-on-a-second-while-we-think-about-it' reaction.

Given the only possible outcomes this is an ideal moment to place what is technically called a Long Straddle – where a put and call are purchased at the same strike price so long as the trade is placed 'At the Money' i.e. if the FTSE on the day of placing the trade is at or around 6,400 you would be buying identical numbers of FTSE 100 6,400 puts and calls. If the index moves to 7,200 or 5,600 you would pick up 800 points in premium less the costs of the underlying trade of the 'losing' put or call….but because of the short term nature of the trade would not lose too much time premium which is factored into your purchase price.

In such a scenario such a trade is specifically appropriate for the large moves such as those that we are more than likely to see with the added safety net that irrespective of the result money will be made even though the trade is placed during a period of high volatility. The costs of such a trade are going to be a matter of a couple of hundreds pips at most (depending on your individual strategy) which is more than outweighed by the upside/downside potential for the trade.

However what happens after the vote will be a completely different matter and something which at the moment, especially were the UK to vote to exit, have unintended consequences – Sweden is rumoured to already be contemplating an exit vote if the UK votes 'Out' and the Netherlands is also quite likely to wish to do something similar. However such a stance from these two countries should be viewed in the wider context of being a cast iron excuse for each country to use a possible UK exit as a means to extract more country specific concessions from the EU leadership.

Until mid-June, then, there remains the unwelcome prospect of UK markets being extremely unwelcoming – there is nothing investors hate more than uncertainty and this will be highly evident. As such, certainly until nearer the vote, it would be possibly very unwise to add to any existing UK positions in any asset class until or unless a more certain outcome is revealed.

Then again given the recent failures of UK opinion polls, any implied large lead for either the Stay or Leave camp will be treated with extreme suspicion unless the gap between the two results widens significantly to over 25 points (37.5 – 62.5 or wider).

Short-term, at least, investors should remain extremely cautious.

However nearer to the poll date, matters should become much clearer and ultra-short term trades might well be applicable as, described above.

Japan - negative interest rates are, quite possibly, the final roll of the economic dice…

If you were thinking that the ECB was scraping the bottom of the economic solutions 'barrel' then you might have forgotten Japan's economic doldrums, which are seemingly never ending. It is with some sense of longer-term foreboding mixed with the possibilities of some very positive short-term gains that we were not too surprised by the announcement from the Bank of Japan (BoJ) on

Friday January 29th that Japan was now taking a more aggressive step by cutting interest rates below zero – the rate of a negative -0.1% would be applies on excess reserves placed centrally by Japanese institutions.

The policy now means banks are essentially paying for the privilege of depositing their own money and could quite possibly represent an actual last resort for a country that has struggled through over 20 years of weak to non-existent growth. But the BoJ is only following other central banks with its negative interest rate policy as a sign of the continuing global trouble from low oil prices, stalling international trade and slowing growth in China.

For what feels to be about the 900th time (I am exaggerating, I know) Japan's prime minister, Shinzo Abe, is seeking yet another way out of this continuing cycle of weakness. The Bank of Japan's governor, Haruhiko Kuroda, said the negative interest rate was in response to global economic instability but as a policy in itself it is probably ultimately futile.

Mr. Abe has already tried to stimulate the Japanese economy with various measures such as temporary tax cuts and inflated government spending to spur growth and try and stoke inflation – something that in the current global deflationary spiral is possibly impossible.

Despite all such stimulus measures the economy has really not moved out of a full-time recession under his administration, sowing doubts about his policies.

The BoJ's policy board took great pains to say the rate cut was based on global conditions, not the Japanese economy itself, but this might, yet again, be more a posit that they are trying to save face rather than admit the rather unwelcomed truth that amongst other problems such as a rapidly declining population, it would take a short-term economic miracle or global hyper-inflation (neither of which are likely) to finally kick-start the Japanese economy.

In fact the temptation remains for the BoJ to cut rates further if necessary – something that we have seen elsewhere with varying to little overall effect.

A move to negative rates was, we were told in our economics studies, outwardly a measure of total and utter desperation on the part of Central Banks.

As all the traditional tools have been exhausted and with the likelihood of weak prospects for economic growth in many countries, businesses are reluctant to borrow for practically any new projects even with almost giveaway borrowing rate.

If deflation also becomes a long-term globally entrenched problem then repaying even a loan at an interest rate near zero could become difficult.

As we have seen in Europe already, three other countries not in the Euro - Denmark, Sweden and Switzerland - also have negative interest rates purely because all three have been held by markets given each countries' stated aim of shadowing the Euro – and we all know the fiscal disaster that happened to Sterling when it shadowed the 'Snake' (the precursor to the Euro) in the 1990's.

Such a situation is unlikely to disappear anytime soon as investors continue to be keen to diverge away from the

perceived long-term risks of physically holding the Euro and feel that the Franc and the two Krona(s) are all better longer-term prospects to be invested in when it all goes rign with the Euro…

Equities - despite a slow start there are some positives for 2016

Looking at the chart below of the three major index groupings you might be forgiven for thinking initially that 2016 could end up like 2015, where we had negative returns all round.

But look again…..for all three global indices to recover as quickly as they did from -10% or worse falls in the first three weeks of the year to end the quarter up +5.37% for the MSCI Emerging Index, barely changed at -0.88% for the MSCI World and -2.53% for the MSCI Frontier (notoriously volatile as we have discussed before) is actually making me feel much more positive for the projections for the rest of 2016.

Certainly January was a horrible beginning to the year; within 20 days the FTSE 100 had fallen nearly 10% and other major indices were running similar losses. However, for those with longer term memories than financial and business reporters, whose job it is to report in the shortest possible time-frame with the maximum pessimism, you will remember our sage advice from 2015.

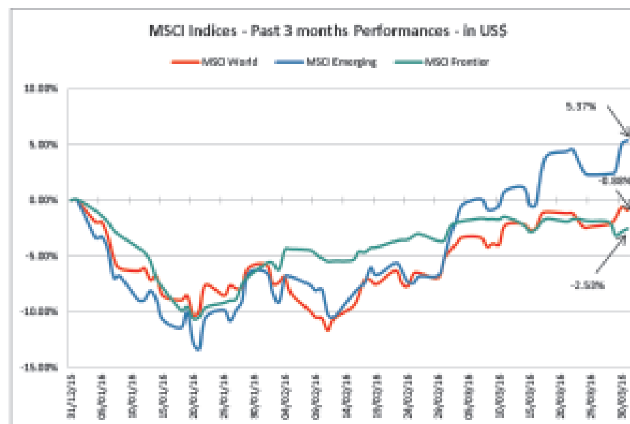
We were one of the first, if not *the* first, to predict that the Chinese growth rate would be gradually officially ratcheted down by around the -0.1% per quarter rate; something that, 'mysteriously', is starting to happen. This would bring growth rates of around +6.5% for 2016-17, far more economically believable, rather than to have an economy growing at a constant +7% annual rate, quarter in and quarter out.

The last time we saw such consistently and steady growth rates were with the Madoff Ponzi scheme and we know how that all turned out!

The Chinese slowing growth story coupled with a dip in oil below $30 were in themselves nothing new and rational beings should have ignored this.

The slowing growth story has been lurking in the background for about 5 years and official guidance to lower but more believable growth rates is a welcome positive. Also the fall in oil prices that were seen are not directly correlated to slower Chinese growth. In fact, as we mentioned in earlier commentaries, the massive increase in US shale production has occurred totally and utterly separately from Chinese growth and is rather like blaming the varying fortunes of your favourite football team on the changing price of washing powder.

For those of us with longer memories it was not so long ago that stock market falls were being blamed, sometimes



MSCI Developed Country Index Components
Q1 2016 Performances and past 12 months
Top and Bottom 5 Indices

	Q1 2016	Past 12 Months
CANADA	+10.65%	-12.21%
NEW ZEALAND	+9.26%	+1.35%
SINGAPORE	+4.81%	-15.24%
PORTUGAL	+3.24%	-5.77%
NORWAY	+1.43%	-2.25%
MSCI WORLD INDEX	-0.88%	-5.32%
FINLAND	-5.84%	-8.02%
SWITZERLAND	-6.28%	-9.14%
JAPAN	-7.32%	-8.77%
ISRAEL	-10.43%	-10.59%
ITALY	-11.66%	-17.09%

MSCI Emerging Markets Country Index Components
Q1 2016 Performances and past 12 months
Top and Bottom 5 Indices

	Q1 2016	Past 12 Months
BRAZIL	+27.39%	-14.74%
PERU	+26.97%	-8.73%
COLOMBIA	+21.98%	-14.86%
TURKEY	+21.11%	-4.26%
HUNGARY	+17.30%	+36.95%
MSCI EMERGING INDEX	+5.37%	-14.14%
INDIA	-2.90%	-14.53%
QATAR DOMESTIC	-3.07%	-17.92%
EGYPT	-7.10%	-30.23%
CHINA A 50	-10.12%	-21.11%
GREECE	-12.23%	-52.81%

MSCI Frontier Markets Index Components
Q1 2016 Performances and past 12 months
Top and Bottom 5 Indices

	Q1 2016	Past 12 Months
TUNISIA	+15.35%	-3.68%
ESTONIA	+14.76%	+17.75%
CROATIA	+9.31%	+6.95%
MOROCCO	+8.88%	-6.14%
ARGENTINA	+8.24%	-24.31%
MSCI FRONTIER INDEX	-2.53%	-15.62%
SAUDI ARABIA DOMESTIC	-9.04%	-27.17%
BAHRAIN DOMESTIC	-11.16%	-24.09%
ZIMBABWE	-13.68%	-47.64%
SRI LANKA	-15.06%	-24.33%
NIGERIA	-17.21%	-28.00%

erroneously, on the rising price of oil.

In other words these are two completely separate events and have merely been incorrectly linked in order to try and prove some non-existent association for the purposes of sealing newspapers.

So the real reason for the stock market wobbles were a series of unrelated but simultaneous strokes of bad luck for investors, who in the midst of this panic might have decided to sell – always a wrong move and something against which we always caution – especially in the more mature, Developed Indices.

For London the standout event has to be, as it will be until the end of the first half of the year, the EU vote – a vote on a possible British Exit "Brexit".

Certainly we are seeing a complete and utter paralysis of forward planning by many British and European institutions, a fact highlighted in suddenly marginally worse unemployment rates, a reduction in capital expenditure and an unwillingness of big businesses to do anything other than remain completely mesmerised in the headlights of uncertainty.

Again, though, this is an event completely and utterly dissociated from the problems in China – a parallel problem, not an identical one.

Another factor in the precipitate fall might well have been the decision by some sovereign wealth funds when the price of oil had fallen, maybe too far for their own liking and they needed to raise some cash. The finger isn't exactly pointing at Saudi Arabia which has to experience some utterly real austerity for the first time in living memory, but they might well have been one of the contributing factors.....

Also we have been tending to overlook the ever so slight tightening of money supply – as we pondered the Feds raising of interest rates, admittedly by only +¼% was probably too late. However the unintended consequences of such a small money supply compression might just have been to unnerve some of the more anxious margin traders.

Finally there is a more complex but growing reason – robot trading.

The exponential growth in algorithmic trading and its expansion out from the hedge fund universe into more regular 'normal' trading is a worrying trend.

We have already seen instances of 'flash crashes' where prices in individual stocks or indices suddenly plunge for no apparent reason, especially where there is no underlying economic or price sensitive releases. It is becoming more apparent that trends, whether bull or bear, are becoming more prolonged and also more extended.

The trading programmes that are now being offered as a matter of course by all the large trading houses is a trend we have to be both wary of and try and understand. Certainly for those who have an inbuilt chartist slant the precipitate falls in January were a good opportunity to add funds to existing index positions and something that we had privately advised as the time.

Certainly an inspection of the major winners and losers for the first quarter of 2016 makes for simultaneously depressing and yet interesting reading.

While the indices in the US ended the quarter flat it is from the lows that we must comment – such short-term strength gives us great hope for the first half of the year, even until the end of the 3rd quarter ahead of what is likely to be an extremely factious, ill-tempered and disruptive US presidential election.

While the Democratic nominee should be, barring an upset, Mrs Clinton, there is likely to be an extremely acrimonious and bad-humoured Republican convention, due to be held in Cleveland, Ohio from 18th-21st July.

It is looking quite possible that the convention may be extended even longer if no single candidate gains an initial overall majority. Certainly markets are quietly perplexed about what would happen were Donald Trump to win the Republican nomination and, more disquietingly, were he to be voted in as President.

Certainly given a peculiar series of events this could happen were the anti-Hillary [Clinton] vote be galvanised successfully.

Yet for the next quarter there is little to upset most of the major indices – the caveat being London where our suggested strategy should be kept at the back of your mind at all times.

The US will see what is probably likely to be a quiet and very slight uptick in economic activity, while mainland Europe as well, is likely to benefit from the absence of any major bad news but still remain mired in underlying stasis.

Certainly the problems of the oil producing nations will be quietly ignored for the next three months and trouble spots such as the Ukraine and Syria are also likely to remain kicked into the long grass with no significant resumption in violence expected.

The only possible problem is likely to be Libya where there are signs of yet another ill-conceived military rescue plan being formed to aid whichever regime NATO wishes to prop up.

As Libyan oil production has dropped off the radar any near term resumption is likely to be insignificant and ignored.

Within the Emerging Markets universe there were positive moves for the vast majority of components for the first quarter of 2016 and yet the 12 monthly returns for all but one component (Hungary, which as we have noted previously is pressing all the right buttons economically) were depressingly negative, highlighting not only the overall -14.14% return for this index over the past year but also the continuing weakness in the area as a whole.

While the moves in Brazil were more the visual embodiment of the looming resolution of the political crisis that has hit the country in recent months with the impeachment of the President most likely to now occur, positive contagion for such a stock market rise seen in its neighbours in Peru and Colombia were slightly unexpected.

However the worst performer, yet again (!) should not surprise – Greece continues to sink almost without trace as even with the fillip of an intra-quarter rally (within the overall mega-bear market) it managed to lose almost a further 1/8th of its value.

As we continue to caution and continue to stress – do not go anywhere near the Greek stick market. Usually an equity index may be seen as a forward indicator of the health of a particular countries' economy. For Greece to show not only such a savage quarterly loos yet again but also even with the small rally to have lost over half its value (again!) over a 12 month period is telling even the most obstinate investor that any money invested is a wasted investment.

Yes, one day the market will be a big, fat 'Buy': Yes, the economy will recover: Yes the country will emerge from recession.

But...whether this is in 2 quarters, 2 years or 2 decades remains clouded in mystery. The odds though on a recovery in 2 quarters are also non-existent – this is called a 'Hint!'

We also note that the returns from India, -2.90% and China, -10.12% are not too shocking – certainly India seems to be picking up slowly – it must be remembered that these returns are from lower lows and both show the inherent underlying strength not only in the respective economies but also the individual stock markets if the authorities can be prevented from 'assisting' or stimulating markets artificially.

While we do not currently advocate adding to position in each country the rest of 2016 could well be a positive for both stock markets and additional positions can be added to bring you back up to index weighted levels on any dips – depending on overall stock market sentiment at the time. Yes I like both countries and yes in the longer term (10+ years) both will do well as the iron grip of government 'inspired' intervention is eased, but inherent underlying high volatility remains for the moment.

Meanwhile in the Frontier markets overall quarterly returns of 'only ' a -2.53% fall isn't too bad at all given the high dependence of many component countries on oil and petro carbon elements.

While we merely note the position of Nigeria as the worst performing market please also note that the 12 month returns were on a par with Ukraine (-24.31%) and Bahrain (-24.09%) and that given the propensity of oil to rise from the depressed end of quarter levels there could well be some positive tom come here.

This area is starting to be of interest again after a multi-year and well deserved 'Avoid' rating and we will spend the next quarter examining the individual components of this index.

Estonia overall is one of the best performing markets in this sector – certainly the reduction in the near-term threats from Russia have helped here along with the bolstering of tis internal

defences with the positioning of additional NATO forces within the region

Jamaica, even though it does not appear on the Top5, as we noted in the previous issue, is starting to be of extreme interest given its willingness now to reform its markets andalso its proximity to the 'new kid on the block' – Cuba where the wraps have come off its intended return to near-normality over the next 5-6 years including, as we wrote about previously the reopening of the Havana Stock Exchange.

While Jamaica's annualised 5 year return of +3.29% it is one of **ONLY** 4, yes, **FOUR** Frontier markets with a positive 5 years annualised return – the others being Kenya, +11.62%, Pakistan, +2.20% and Trinidad and Tobago, +6.88% (Trinidad is definitely feeling the positive effects of being in the Jamaican index slipstream) it is now starting to hit certain of my own personal key metrics as regards accessibility, transparency and affordability.

While I am always open to the benefits of a fieldtrip to personally examine both the Jamaican and Trinidadian stock markets, I fear my research next quarter will have to be made at arm's length.

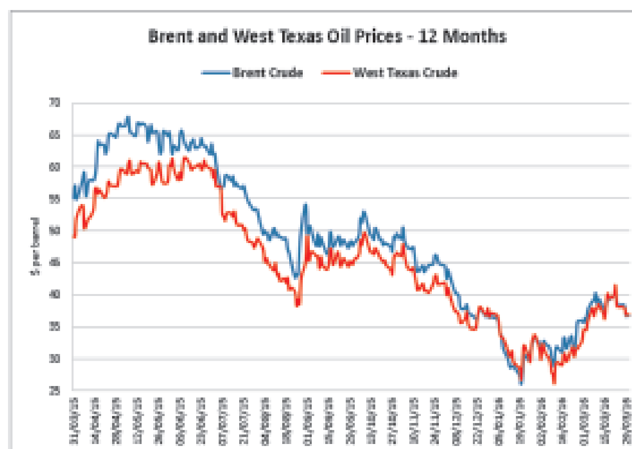
Oil - starting to shake off previous extreme weakness...

As we commented earlier in the piece, the weakness in oil is partially self-inflicted, partially the market having a final shake-down and also a final easing of the thrombosis from extremely high cost exploratory ventures being forced out of business.

As the chart shows the bear trend we identified at the end of the year has been partially reversed (always look for a retracement of over 10% for initial confirmation and 20% for full and final confirmation of a short-term trend reversal). Prices have risen from lows of $26 in January 2016 and hit highs of just over $40 in March – this in itself was a rise of over 50%, well within reversal territory.

A quarter end price of $36 for both Brent and West Texas is a strong enough move to put into place near-term price floors as well as showing that demand is strong enough but not too strong to push prices rapidly higher without encouraging production to resume in the more expensive sources such as the Canadian Tar Sands which would have the potential to depress prices further.

Strangely enough what has been missed is that at the new elevated production levels, apart from Saudi Arabia, the rest of OPEC does not actually have the infrastructure currently in place to physically produce more oil – and this is something the market probably subliminally realised when prices first popped back above $30. We discussed previously the parlous state of the Iranian infrastructure and how it



Source: Reuters

would take years to not only replace and upgrade the existing pumping facilities but the extended lead time required to physically produce oil from new Persian sources.

The recent inability of OPEC to agree on production quotas does show that for the moment that the ability for the market to react to such a negative shock is still there but, as commented on earlier, the reaction to such announcements is overall far more muted and actually the total effect is for there to be, in the end, very little net reaction one way or the other.

Market dynamics are changing fast, though. While lower prices spur innovation to try and enable producers to pump oil more efficiently, output globally is also beginning to slip.

The North Sea is a good example close to home – while production still continues many of the oil fields discovered in that initial boom time of the 1970's are either exhausted or have substantially reduced reserves. New production needs the introduction of more expensive deep sea technology and as such new fields are unlikely to be discovered in the coming years unless the price is more supportive.

The Saudi Arabian economy continues to suffer from the low oil price. So long as the Saudi Riyal continues to be pegged to the dollar the longer the Saudi economy will burn through US$ 10 billion a month in reserves.

The Saudis are, in some ways, like the Japanese – an odd comparison to make I know. They continue to wish to remain the lynch-pins of OPEC and for economic as well as religious reasons, wish to remain the masters of all they survey. But their actions in refusing to accept a compromise deal proposed by their arch-enemy Iran means that OPEC in its current state is probably slowly but surely being killed off. It is this refusal to countenance loss of 'face' on the global stage that will eventually be the undoing of yet another cartel.

Elsewhere in OEPC there are signs that it is all being held together by the political equivalent of sealing wax and string. Venezuela having previously adopted a 4 day week has now reduced this to a 3 and most recently a 2 day working week – the economics of lunacy incarnate!

Angola has been forced to go to the IMF for short-term help, something only a year ago it vowed it would never do.

Iraq, despite winning back substantial territory from ISIS/ISIL has been unable to produce as much oil as it wished and again has had to go for help to the IMF.

Libya, as already mentioned is a basket case and what little production being pumped, there is at risk of a complete and utter shut-down.

Oddly enough what we are looking at is a supply crunch coming sometime soon – but probably not until 2017.

Something, somewhere is going to give way – but quite what or where is at the moment shrouded in mystery.

As such while the oil price will most probably hover between $35 and $45 a barrel, it is quite likely that prices will some plateau around the $50 level – a welcome sign of relief, no doubt, for many of our readers.

2016 - Q2 probably going to be positively quiet until the last week of the quarter….

It is looking far more hopeful that after so many quarters of caution that for investors in most asset classes there will now start to be seen some positive returns and in some cases some very large short-term returns.

After a January 2016 which looked like reinforcing our cautionary stance, it is the speed and strength of recovery in most of the major indices (with some notable exceptions) that now gives us some real, as opposed to false, positives.

Certainly the US appears to be quite happy to ignore the political problems with the nomination process for the next US President until well into the 3rd quarter this year. While US corporate earnings continue to be fluctuating there are some of the old stalwarts who continue to maintain their near monopolistic, demand insensitive pricing models to continue with robust earnings growth.

Certainty with a muted Fed the coming quarter could well see the Dow and S&P500 hit new all times highs again and as such we would caution against anything other than a full index weighted position, or even slightly higher – a position which could be easily added to at the expense of the UK, given the peculiarity of the British Electorate to give anything other than a desired or expected result in most recent elections.

Brexit in the UK will continue to weigh on all aspects of investments – while the eventual outcome may well be extremely positive for markets, it is the getting there that will be extremely difficulty and here, despite this being my home economy, I will advise and issue an EXTREME caution warning. Until or unless there is a definitive trend emerging AVOID adding to any FTSE 100, Gilts and Sterling positions.

Once the threat has passed and the result has emerged from the referendum then re-examine the actual UK economic indicators – taking into account our little short-term high return strategy outlined above.

Be patient – the time has come again to get investing – soon, if not now!! *- (Dr. Neil Hitchens, ACSI – Independent Investment Financial Strategist and Manager. He may be contacted at any time via email at the following email address:* **ceo@mountross.com**

Discourse

FINANCIAL LITERACY: AN IMPERATIVE FOR ECONOMIC GROWTH

- By Kazeem Aremu

The National Financial Inclusion Strategy (NFIS) was launched on October 23rd, 2012 with the aim of reducing the financial exclusion rate in Nigeria from 46.3 percent as at 2010 to 20 percent by 2020. A key component of the implementation process of NFIS is the financial literacy framework developed in 2012 in collaboration with relevant stakeholders.

Financial literacy is the possession of knowledge and skills needed by an individual to efficiently manage financial assets and resources in order to enhance economic growth and development. According to the Central Bank of Nigeria, financial education enables financial services providers to better understand their products, the associated risks and the needs of their customers.

Benefits of Financial Literacy

The benefits of financial literacy include:

- It enhances individuals' knowledge of financial products and services, and financial capability by empowering the educationally disadvantaged segment of the population to have access to inclusive financial services. A sound financial skill will enhance the scope and scale of adoption of financial services.
- It promotes savings culture and sound financial discipline. Financial literacy training can make an educationally disadvantaged person literate in words and numbers, thus enhancing his ability to practice long term savings and investment.
- It encourages entrepreneurship, transparency and accountability, and creates access to the varied financial services needed to nurture their businesses.
- It facilitates significant inclusion in the number and percentage of financially excluded persons.
- Financial Education is necessary for financial system stability, by giving

key industry players the capacity to understand market's early warning signals. This will protect financial assets, improve livelihood, and deepen financial inclusion

• An efficient adoption of financial services will enhance sustainable growth and profitability of financial institutions, thereby facilitating long term confidence in financial markets and system.

• A financially literate person will possess the requisite financial skills needed to contribute to economic development. The financial capability attained will foster higher standard of living leading to improved social well-being of an individual.

• It increases the choice of financial products and services available at affordable costs to customers and promotes innovation and healthy competition.

• With a higher literacy level of bank customers, regulation and supervision will be wider, broader and more efficient.

• A sound financial education will reduce drastically the prevalence of fraudulent activities in the financial system such as 'Ponzi Schemes'.

Measuring the Current Level of Financial Capability

In January 2013, the Central Bank of Nigeria (CBN) developed and approved the Financial Literacy Framework (FLF) in collaboration with other relevant stakeholders. A Baseline Survey for Financial Literacy (the Baseline) was carried out in 2015, in the context of the Financial Literacy Framework (FLF).The overall goal of the Baseline Survey was to measure the levels of financial capability in Nigeria. This appraisal will guide financial literacy policy options and tackle key challenges observed using financial education interventions and progress monitoring.

The findings of the Baseline survey highlight the key issues to be addressed to enhance the level of financial capability in Nigeria. And they include:

• The level of education is low. About 50.7 per cent of the adult population in Nigeria has either no formal educational qualifications or has only com-

Highest level of education	Male	Female	National	Group
No formal education	24.4%	33.6%	29.0%	Unschooled = 29.0%
Primary education	20.5%	21.0%	20.8%	Basic education = 32.5%
Junior secondary education	11.2%	12.2%	11.7%	
Senior secondary education	25.4%	20.8%	23.0%	Intermediate School = 23.0%
National diploma	5.0%	2.8%	3.9%	Tertiary other than degree = 6.9%
National certificate of education	3.0%	2.2%	2.6%	
Nursing college diploma	0.4%	0.4%	0.4%	
University degree	5.6%	3.4%	4.5%	Tertiary degree and postgraduate = 8.6%
Post graduate degree	1.1%	0.3%	0.7%	
Other	3.5%	3.3%	3.4%	

Source: Central Bank of Nigeria's Baseline Survey

pleted some primary education.

• High drop-out rates of youth from school causing exclusion from financial education interventions embedded in school curricula, and the need to reach them through other means.

• Income per capita is low and two third of the adult population in Nigeria earn less than the minimum wage of N18, 000 per month. Low income levels limits an individual's capacity to save and plan for retirement and provide for their dependents.

• The Baseline survey revealed that the decision making role of women in households is negatively impacted.

• According to the survey, two third of the adult population is married; about 50.4 million or 51.1 per cent of this is monogamous; 15.1 million or 15.3 per cent is polygamous; 24.5 million or 24.9 per cent are single; while the balance of 8.6 million or 8.7 per cent are separated/divorced or widowed.

• Financial education initiatives through employee-based programmes have limited reach. Therefore, innovative forms of communication should be considered to reach farmers and owners of small enterprises.

• About 29.1 million of Nigerians are into Agriculture and this serve as their main source of employment; 25.7 million or 26.1 per cent run their own business; while 25.3 million or 25.7 per cent of the population depend on family and friends. Only 7.4 million or 7.5 per cent is formally employed.

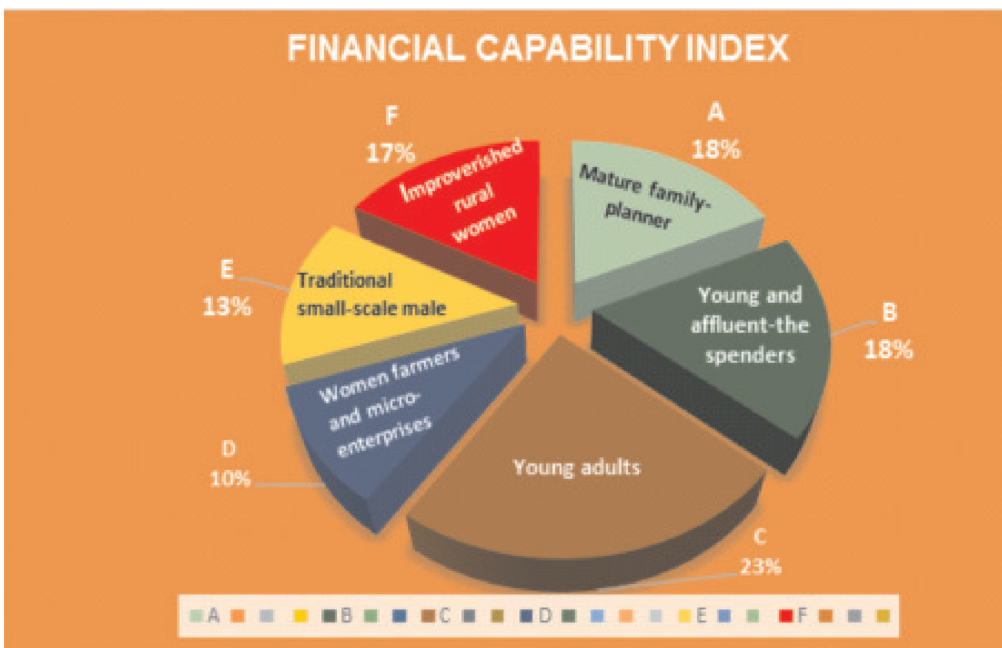
• About 46.8 million adult population in Nigeria experience financial vulnerability. These category of people often run out of money to meet regular expenses. As a result, 18.5 million or 39.5 per cent of this class of people opt for borrowing while 11.5 million or 25.0 per cent use current savings to meet their financial obligations or needs.

Financial Capability Segments

There is a strong connection between the levels of financial capability and levels of education, which in turn depend on the socio-economic and geo-political context of an individual. Hence, there is need for a critical analysis of Nigeria's literacy levels as well as segmentation of its financial capability by categories in order to understand the main 'Baseline' issues and policy choices that government could explore.

Government Intervention Plans and Policies

The Federal Government has approved financial literacy education for market women, traders and artisans, as part of activities lined up for implementation in the 2016 Budget. According to the Nigerian President in the 2016 Budget Speech tagged 'The Budget of Change', "We also intend to partner with State and Local Governments to provide financial training and loans to market women, traders and artisans, through their cooperative societies. We believe that this segment of our society is not only critical to our plan for growing small businesses, but is also an impor-



Source: Central Bank of Nigeria (2015 baseline survey report)

tant platform to create jobs and provide opportunities for entrepreneurs."

Based on the Financial Capability index depicted above, the priority segments in the Federal Government's plan are three:

• Market segments with low index scores. These are women farmers and micro-enterprises with 10.3% score;

• Traditional small-scale male farmers with 13.5% score; and

• Impoverished marginalized rural women with 16.9% score.

Segments (D, E and F) have poor literacy levels, low levels of English proficiency, and limited exposure to mainstream media (radio). In addition, they are mostly financially excluded, and cannot be easily reached at their places of work – subsistence farms, markets or street trading. Therefore, innovative means needed to reach these segments are face-to-face training of small groups, supplemented by radio and village road shows, among others.

The first group in the Financial Capability index (Segments A, B and C) are capable of undertaking self-education. However, according to Government's plan, they will be reached via the formal educational system, employee wellness programmes, seminars, formal financial institutions, mainstream media and through information technology especially computers and mobile phones. The focus of financial education for this group will be on second tier products, such as pension schemes, investment options, insurance, and mobile banking. They will also be made aware of their rights and responsibilities, and available recourse options.

Also, financial literacy will be taught as a subject at the junior and senior secondary school levels in Nigeria before the end of 2017. To make the plan a reality, the Central Bank of Nigeria (CBN) has commenced an initiative with the National Education Resource Centre (NERC) to make financial literacy a part of the curriculum of secondary schools across the country.

The Financial Literacy implementation plan of the Federal Government within the short, medium and long term include the following:

Short-Term Plans (By the end of 2016)

• Obtain the approval of the Committee of Governors (COG) and Board of Directors for the revised National Financial Literacy Framework (NFLF).

• Transfer the coordination and secretarial functions for the implementation of the NFLF from the Consumer Protection Department of the CBN to the Financial Inclusion Secretariat.

• Convene a National Stakeholders' workshop to launch and validate the NFLF and present findings of the 2015 National Baseline Survey on Financial Literacy

• Constitute Working Groups in accordance with the provisions of the NFLF to review findings of the 2015 National Baseline Survey on Financial Literacy.

• Working Groups to identify priority areas from the 2015 National Baseline Survey on Financial Literacy and design targeted financial literacy programs for intervention across the identified segments.

• Develop guidelines on content, standards, codes of conduct and requirements for Financial Literacy Practitioners in Nigeria to standardize the implementation of financial education programs.

• Develop a Monitoring and Evaluation Framework to assess impact of the various Working Groups' initiatives.

Medium-Term (By the end of 2017)

- Incorporate Financial Literacy into the National school curriculum of Basic and Senior Secondary schools.
- Conduct annual performance assessment and review of set targets across individual initiatives in accordance with the Monitoring and Evaluation (M&E) framework developed.
- Commence the teaching of financial literacy curriculum in schools.

Long-Term (After 2017)

- Conduct National Survey on Financial Literacy to assess shift in Financial Capability levels in Nigeria.
- Establish a National Financial Literacy agency that will be responsible for propagating Financial Literacy in Nigeria.

Tackling the Financial Literacy Challenges

Essentially, the focus of any financial literacy framework is to improve social well-being and empower people to be in control of their finances and avoid debt. This will boost the confidence of the citizenry and facilitate the acquisition of basic and advanced financial skills and capabilities regarding savings, investment, insurance, retirement plans and mutual benefits, among others.

Additionally, enhancing financial literacy starts from the acquisition of basic skills and knowledge on the followings: knowing your financial rights and responsibilities; knowing the risks associated with your choice of financial products; and knowing how to keep within budget and avoid debt.

The Nigerian population is young and growing rapidly (55.2 per cent of the population are aged 16 to 35 years). Hence, it is imperative that financial education should start at a young age when attitudes and values are still being formed. The youth can also play a major role in educating their parents, as one in 10 adults consult with their children on financial matters. This calls for the use of simple language in financial documents and financial education initiatives.

Innovative and unique forms of communication should be considered to reach farmers and owners of small businesses According to CBN's financial literacy baseline survey report, Radio is the most popular media. About 71.1 million Nigerians listen to radio, representing 40 percent of the population. This is followed by TV, mobile phone advertisement and newspapers.

Low income levels were found to be one of the main barriers to financial intermediation. Personal financial education is a precursor to managing the finances of an enterprise, and thus there is a need to separate plans and budgets for household from that of businesses. This will foster transparency, credit worthiness and accountability.

The launching and use of dedicated websites and apps for different target groups in the financial capability index is imperative. Constant awareness creation is required to reach the target audience; while the use of mass media (especially the adoption of radio and television) will be critical to pass on knowledge on financial literacy and capability.

An independent institute of Financial Literacy could be set up with the aim of providing financial education that will enhance consumer welfare and allow them to have a grip of their finances. The institute should be partly funded by public-private partnership. The rest of its funding strategy can be sourced through the sale of books, software, tuition, training, sponsorships, among others.

Also, there is the need to increase significantly the knowledge and awareness of financial products and services as well as basic financial processes in the country. According to the CBN's baseline survey, 69.7 million or 70.7 per cent of the adult population have not heard of mobile-money, while about 81.0 million or 82.2 per cent of the adult population indicated that they have no knowledge of processes such as paying with or receiving money through a mobile phone; 80.7 million or 81.9 percent have no knowledge about obtaining insurance.

Moreover, prioritization of financial education and training on basic budgeting and long term planning in the aspect of retirement, insurance and savings is key to financial literacy and inclusion. For instance, most respondents (97.8 per cent) have retirement strategies in place, but only 9.0 per cent believe that these will be sufficient to provide for their retirement; and a further 42.8 per cent believe that these will only cover their retirement to some extent.

The financial services sector should introduce products such as simple savings accounts with no administrative fees, no minimum balances and with positive returns on deposits. Additionally, the Central Bank of Nigeria could provide micro-credit for agriculture while Federal Government initiates micro insurance scheme and low-cost housing financing, among others.

Financial service providers can play a major role in supporting financial education targeted at Nigerian adult population by funding seminars, editorials in newspapers and radio talk shows. Also, large employers of labour (such as governments, banks and other big corporations) should be encouraged to introduce employee wellness programmes as part of their corporate social responsibility.

Financial education should be embedded into the Nigerian education curriculum. The countries that have adopted this method are Netherlands, South Africa and Malaysia, and their curricula content could be customized for the Nigerian context. Also, extra-curricular activities, such as savings clubs could be introduced for immediate impacts on the youth.

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Conclusion

The effectiveness of Federal Government's financial literacy plans will be largely dependent on the mode of delivery of financial education; the proportion of the national budget allocated and other resources set aside for its implementation; the level of stakeholders' awareness, engagement and inclusiveness; and the level of acceptance by the targeted Nigerians. Importantly, for it to gain wide acceptance, the targets of these initiatives should be made to see the direct link between financial literacy and economic growth and development.

(Kazeem Aremu is a Research Economist, Zenith Economic Quarterly)

Discourse

SME Development as Effective Tool for Women Economic Empowerment

- By Ugochi Chibuzor Nweke

At the beginning of the new millennium, world leaders came together to find ways to tackle some of the world's most pressing problems. They came up with the Millennium Development Goals (MDGs) in 2000. These goals were expected to be achieved by the year 2015. Eradication of poverty was the first of these goals.

Nigeria, like other countries, has been working towards the improved socio-economic condition of its citizenry, a key principle of the MDGs. And developing Small and Medium Scale Enterprises (SMEs), has been identified as one of the key steps towards poverty alleviation, wealth creation and employment generation.

SMEs in the Nigerian economy

Small and Medium Scale Enterprises (SMEs) do not have a generic definition. Each economy based on its specific dynamics, has its own definition of SMEs. The Central Bank of Nigeria (CBN) in their N200billion credit guarantee scheme de-

fined SME as an enterprise that has asset base (excluding land) of between N5million –N500 million, and labour force of between 11 and 300. In Nigeria, the National Council of Industry (2003), categorized enterprises based on the criteria tabulated below:

In Nigeria, SMEs constitute a significant source of employment generation. They also are a source of Internally Generated Revenue (IGR) for the government through tax payments.

The International Finance Corporation (IFC) has stated that "there is a positive relationship between a country's overall level of income and the number of SMEs per 1,000 people". SMEs are the bedrock of industrialization as they constitute effective demand and supply agents in the economy.

SMEs facilitate the development of local technologies and the mobilization of domestic savings for investment purposes. This increases the efficiency and competitiveness of larger firms and that of the local economy.

Quite a number of SMEs have proper knowledge of economic dynamics in the markets where they operate. However it is important to note that not all SMEs are in the formal sector. A lot of SMEs operate in the informal sector. In Nigeria, over 50 percent of SMEs operate in the informal sector.

'When women participate in the economy, everyone benefits.' **- Hillary Clinton.**

Women and SMEs in Nigeria

According to a study by the United Nation Industrial Development Organisation (UNIDO), the industrial sector in Nigeria is dominated by small-scale enterprises, which constitute 66 percent of all industrial establishments. Nigerian women own about 25-30 per-cent of registered businesses in the country. And while women constitute an estimated 50 per cent of the country's population, the important entrepreneurial role they could play in the economy has not been fully realized because they are still largely hidden within the informal sector.

Women economic empowerment is increasingly viewed as arguably the most important way of triggering economic growth and development in emerging economies. Economically strengthening women – who constitute about half the world's population – is not only a means of advancing women's human rights, but also a viable tool through which economic growth can be spurred. Women's economic empowerment refers to women's capacity to bring about economic change for themselves and the larger society.

Women entrepreneurs have become increasingly important, making influential impact in global economies and businesses. But women business own-

Size	No. Of Employees	Total Cost Including Working Capital But Excluding Land
Micro	1-10	Less than 1 Million
Small	11-35	1Million – less than 40Million
Medium	36-100	40Million – less than 200Million
Large	101 and Above	200Million and Above

Source: Mediterranean Journal of Social Sciences

ers in Nigeria remain largely under-utilized, which has significantly reduced their contribution to the economic development of the country.

A good number of the few successful female entrepreneurs started their businesses later in life and after a successful professional career. Thus they entered the business world with better educational and professional experience. But the majority of female business owners do not have adequate education, training and experience needed to excel in the business world. Moreover, most female-run businesses are in the informal sector of the economy and have no defined business structures. To effectively empower women, it is important to mitigate the various challenges they face as entrepreneurs – cultural boundaries, poor access to finance, inferior educational backgrounds poor financial literacy and inadequate skills on financial management.

The Indian Experience

India's empowerment of women SME owners has been through privately operated micro finance initiatives. The Bangladesh famine of 1974 inspired Professor Muhammad Yunus to establish the Grameen Bank in 1976. A doctor of economics of the Vanderbilt University in the United States, Yunus developed the principles of the Grameen Bank from his research and experience.

Within two decades of operation, the bank had given out loans of about $7.6 billion. 97 percent of its seven million borrowers were women and impressively, loan repayment rate was at 98.28 percent. This remarkable performance encouraged other similar initiatives within and outside India, including the SHARE initiative.

The Indian organization, SHARE Micro Finance Limited targets rural women whose per capita income is less than $8 a month. The World Bank's poverty line as at 2015 was $58 a month. Each woman gets a microfinance loan of $50 to $100 to fund entrepreneurial projects they had proposed. And more often than not, they break-even in no time.

For example, a woman buys a rickshaw or bicycle to transport the wheat grown by her family to the market. The rickshaw would allow her family to save the 50 percent of the profits from the wheat that would have gone into paying another transporter to take the products to the market. On the high-tech end, some women open Internet kiosks that become profitable within the first three months and provide a livable wage within six months.

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SHARE has continually reported an impressive repayment rate on the more than $71 million it has disbursed in 3000 villages in India since inception in 1994. Of its 197,000 clients, 77 percent have experienced a significant reduction in poverty level; and 38 percent are no longer considered poor.

Inspired after a meeting with Muhammad Yunus, Roshaneh Zafar quit her job at the World Bank in 1995 to set up the Kashf Foundation in Pakistan. With a strong belief in empowering women socially and economically, she adopted the Grameen Bank model. Starting with just 15

clients in 1996, Kashf now supports approximately 500,000 families. The organization has not only provided women with $265 million in loans, it has also expanded to provide women with education, training, and employment opportunities. According to Kashf, the decision to focus on women-owned small businesses was to leverage the ripple effect that women's empowerment brings about. If you empower one woman, she's going to empower ten more; thus stimulating empowerment in her entire community.

Challenges Confronting Women Entrepreneurs in Nigeria

Some of the key challenges faced by women entrepreneurs in Nigeria are not too different from the general problems faced by small and medium scale business owners in the country. According to the Institute of Development Administrators of Nigeria (IDAN), they include:

Funding- this is probably the biggest challenge faced by female business owners in Nigeria. Low productivity in the economy simply indicates that there are no funds to invest in the activities that could increase output. Financing of local businesses is still elusive to SMEs operating in the country, especially women entrepreneurs. Available funding is usually from personal savings and thrift. It is almost impossible to get loans from commercial banks as SMEs are perceived to have larger risk of default compared to more established enterprises. This is due in part to the fact that they often do not have defined business plans and structures. They also do not have proper insurance policies in place.

Entrepreneurial Skills: A lot of new and small entrepreneurs lack the know-how to build viable and sustainable business models. Many SMEs do not possess the capacity to manage and acquire the basic skills required for effective planning, organizing, coordinating, leading and communicating in the business environment. Creativity and innovation are skills often acquired through previous work experience in other enterprises or through participation in technical and managerial training activities. These are experiences many of them never have access to. SMEs in Nigeria usually record high failure rate due to poor managerial and entrepreneurial skills by the business owners and managers.

Inadequate Infrastructural and Institutional Support: Weak infrastructural facilities such as electricity, portable water, feeder roads, among others, are the bane of SME growth in Nigeria. Besides, there is no adequate protection of intellectual property rights. Also, administrative bottlenecks make it more difficult for SMEs to meet regulatory requirements.

Women owned SMEs face some additional challenges that are more or less peculiar to them. These include:

- Cultural inhibitions
- Societal discrimination
- Balancing business and family responsibilities
- Low literacy rate and numeracy skills
- Lack of role models and mentors

Women entrepreneurs work more in the informal sector because of technical and financial barriers. They also seem to have less viable businesses, less mobility, limited business network, coupled with inability in most cases to have land titles needed as collateral for bank loans. They are more credit constrained because they are perceived as riskier borrowers, even though a study by the International Finance Corporation (IFC) found no material gap between women and their male counterparts when it comes to productivity in the SME sector, '*ceteris paribus'*.

Going forward

Micro financing has proven in many cases to be an effective way of increasing women equality and economic independence. Various programs have been put in place globally to provide micro finance for SMEs with a few focused specifically on those that are run by women.

In Nigeria, the Central Bank of Nigeria (CBN) launched the MSMEs fund in august 2013 to provide the much needed capital for that sub sector of the economy with the view of channeling long-term, low-interest funds to players through participating financial institutions.

In line with its women empowerment and entrepreneurship development goals, the CBN has earmarked 60 percent of its N220billion Micro, Small and Medium Enterprises Development Fund (MSMEDF) to women entrepreneurs in the country. This means that female entrepreneurs in the country have access to about N132billion. Many

women are however not aware of this fund. Information about such opportunities need to be disseminated effectively to the grassroots, informal sector where much of the female business owners operate.

There is a need to also support the development of a strong, reliable SME sector by providing financial literacy. Basic training in skills such as management, bookkeeping, business planning, marketing, distribution, and quality control should be organized for small business owners. Large corporations can also assist through technology transfers, direct investment in infrastructure, mentoring and knowledge sharing. They can also help their SME suppliers to comply with international standards such as ISO 14001. Such compliance can enable SMEs to compete in international markets while at the same time improving the overall quality of supplies to large corporations.

The country still needs to do more to promote public-private partnerships to attract venture capital funds and higher levels of investment. To achieve this, measures should be put in place to create investor-friendly environments. In this regard, big corporations and potential investors need guarantees that their investments and infrastructure are not going to be expropriated.

Also, most SMEs do not realize the considerable impact they could have on the physical environment where they operate. More often than not, environmental concerns do not figure high on their business agenda. It is important therefore that they are carried along in the Sustainable Development goals of the country. The need for environmental awareness cannot be overemphasized. SMEs should be encouraged to carry out environmental risk assessments and apply the rules of Reduce, Reuse or Recycle in all their business activities.

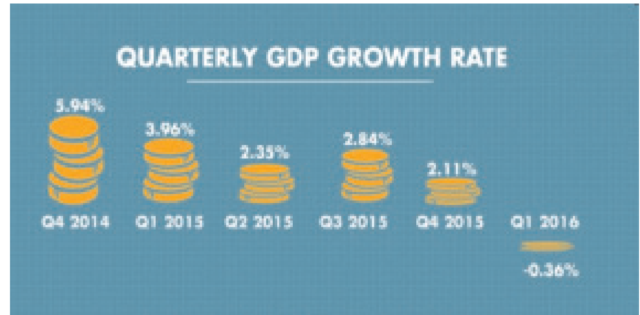
In conclusion, women's economic empowerment – that is, their capacity to bring about economic change for themselves and others – is increasingly viewed as the most important and effective way of ensuring equality between women and men. But economically strengthening women – who are half the world's population size – is not only a means by which to advance women's human rights, but also an effective way of spurring rapid economic growth. When the government, businesses and communities invest in women, and when they work to eliminate inequalities, the country's poverty level is significantly reduced and every economic agent is better off.

(Ugochi Nweke is a Research Economist, Zenith Economic Quarterly)

MACROECONOMIC ENVIRONMENT

The Nigerian economy recorded a somewhat "weak" performance in major indicators in the first quarter of 2016, amid a challenging global environment characterized by slumping commodities prices. Key economic indicators, like the stock of foreign reserves, remained under pressure throughout the quarter, despite slight recovery in global oil price and continued forex regulations by the Central bank of Nigeria (CBN). Similarly, Gross Domestic Product (GDP) growth in the period under review contracted, while Inflation recorded a relatively stronger increase, trending outside the CBN band.

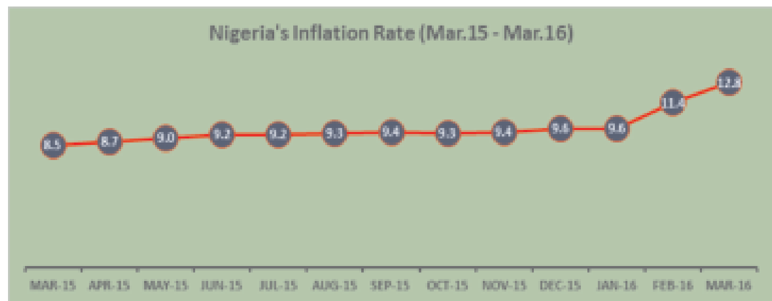
GROSS DOMESTIC PRODUCT



Source: National Bureau of Statistics (NBS)

In the first quarter of 2016, Nigeria's gross domestic product (GDP) contracted by 0.36 per cent, as oil output fell and manufacturing, finance & insurance and real estate sectors declined considerably. Growth was 2.47 percentage points or 13.71 per cent, lower than the growth of 2.11 per cent recorded in the preceding quarter. And like the preceding quarter, first quarter 2016 was characterized by uncertainties around economic policies; adverse external environment; security challenges in some parts of the country which affected crude oil production and the production and distribution of agricultural produce; low electricity supply; fuel shortages; and foreign exchange crisis. This is the first time growth is contracting since 2004.

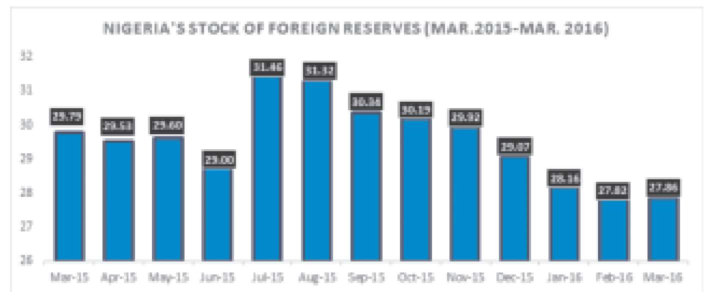
INFLATION



Source: National Bureau of Statistics (NBS)

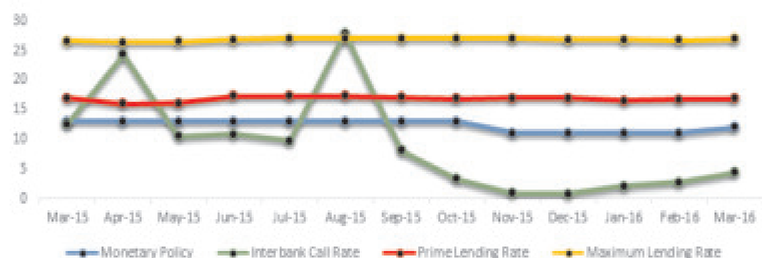
The Consumer Price Index (CPI), which measures inflation, recorded a significant uptick in the first quarter of 2016. According to the National Bureau of Statistics (NBS), the headline index, which opened the year at 9.6 per cent (year-on-year), rose to 11.4 per cent in February. It rose further by 1.4 percentage points to 12.8 per cent in March, a high last recorded in July of 2012, and a reflection of an increase in the prices of goods and services across the nation. The significant spike in headline index was as a result of higher food prices, as well as increases in the transportation division following shortages in the supply of Premium Motor Sprit (PMS). The knock-on effect of foreign exchange movements also affected the prices of imported food and non-food items.

EXTERNAL RESERVES



Source: Central Bank of Nigeria (CBN)

Nigeria's stock of external reserves remained under pressure in the first quarter of 2016 despite slight recoveries in oil prices and the continued tight foreign exchange stance of the Central Bank of Nigeria (CBN). On a month-on-month basis, stock of foreign reserves stood at US28.16 billion as at end-January, 2016 but slipped to US$27.82billion at the end of February, 2016. However, it inched up to US$27.82billion as at end-March 2016, just enough to provide less than six months of imports cover. As witnessed in the previous quarter, the Central Bank of Nigeria (CBN) continued to deplete the external reserves to meet the demand for foreign exchange as well as to support the local currency which has remained under severe pressure in recent times.



Source: Central Bank of Nigeria (CBN)

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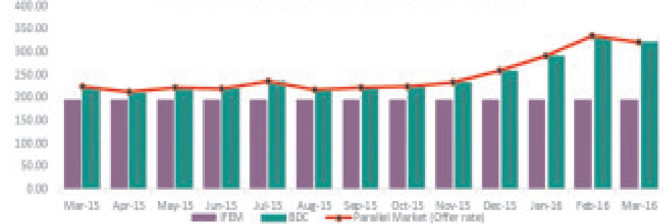


Source: Central Bank of Nigeria (CBN)

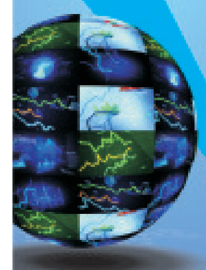
INTEREST RATE

The Central Bank of Nigeria, in its Monetary Policy Committee Meeting of Monday and Tuesday, March 21 and 22, 2016, raised the Cash Reserve Ratio (CRR) from 20 per cent to 22.50 per cent. The apex bank also increased the Monetary Policy Rate (MPR) from 11 per cent to 12 per cent, in a swift move to tighten monetary policy stance to ensure price stability. Thus, in the first quarter of 2016, money market interest rates remained low and relatively stable, except for interbank call rate that rose slightly to about 4 per cent in March, 2016.

EXCHANGE RATE

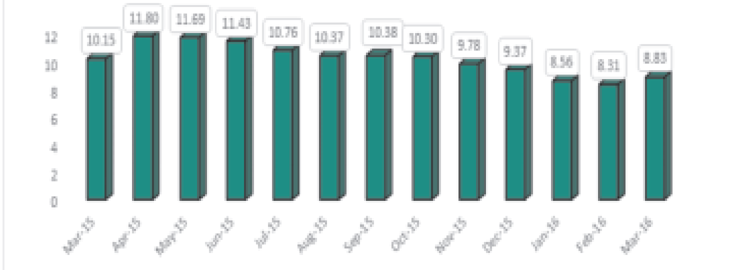
The average naira exchange rate was stable in the interbank segment of the foreign exchange market but remained under pressure at the Bureau De Change (BDC) segment of the market. The official exchange rate averaged at N197/US$ in the period under review while it averaged N313/US$ in the BDC segment. On month-on-month basis, the exchange rate opened the quarter in January at N289.78/US$ but fell to N329.83/US$ in February, before appreciating to close in March at N320.93/US$. Continuing its various administrative measures to support the naira as well as conserve the nation's stock of foreign reserve, the CBN stopped the sale of foreign exchange to BDCs, allowing operators in this segment of the market to source their foreign exchange from autonomous sources.

FACTS& FIGURES



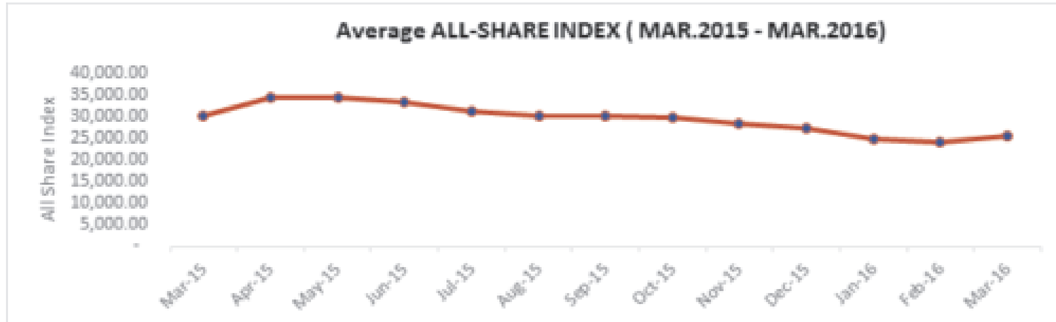
CAPITAL MARKET

The Nigerian equity market opened 2016 on a back foot as the market performance gauges fell lower than in the closing quarter of 2015. Specifically, the Nigerian Stock Exchange All Share Index (NSE ASI), which opened at 28,370.32 at the beginning of the quarter, closed at 25,306.22, representing a decline of 10.80 per cent. Similarly, the market capitalisation, which stood at N9.850 trillion at the end of fourth quarter 2015, fell further by 11.63 per cent, to end the first quarter of 2016 at N8.704trillion. Market performance was affected by the continued exit of foreign investors, weak domestic



Source: Nigeria Stock Exchange (NSE)

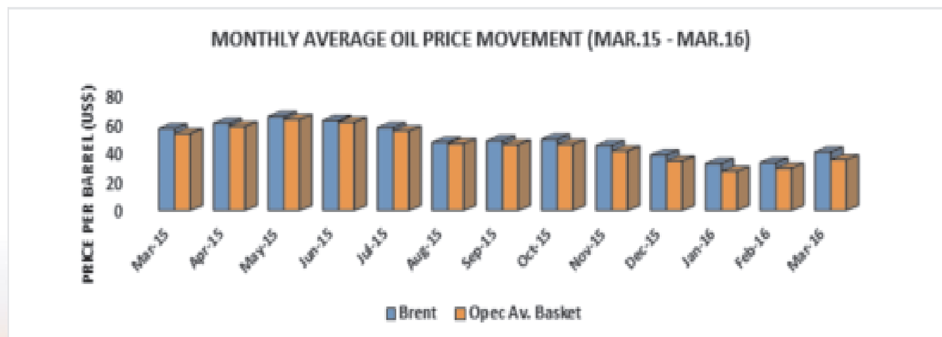
investors' sentiments amid poor year end financials, continued restrictive foreign exchange stance of the Central Bank of Nigeria (CBN) and unclear, delayed take-off of the present government's economic policies.



Source: Nigeria Stock Exchange (NSE)

OIL PRICES

In the first quarter of 2016, crude oil prices deteriorated further, hitting a 12-year low in January/February, before recovering in March. Specifically, the OPEC Reference Basket (ORB) declined by around 21 per to average US$26.50 per barrel in January, owing to excess market supply and a weakening Chinese economy. However, it recovered in February for the first time in three months, gaining 8.4 per or US$2.22 to reach US$28.72 per barrel, before posting a 50 per cent rally in March to close the quarter higher than the previous quarter at US$34.65 per barrel. The rally in the last two months of the quarter was supported by an expected decrease United States' production as well as positive market sentiments arising from the output freeze plan proposed by major crude oil exporters. Similarly, Brent crude ended the quarter at US$39.79/per barrel, higher than the US$37.80 per barrel average as at December, 2015.



Source: Organisation of Oil Exporting Countries (OPEC)