Zenith Economic Quarterly

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New Banking Model in Nigeria:

Opportunities and Challenges

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Global Economy still struggling?

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The Changing Times

The saying that "change is the only constant" will always be true. Whether for an individual, business entity, community or nation—changing times will always unfold new realities. For a person, it is the vicissitudes of life; for a business, you have the business cycle; for the economy, a trade cycle, and so on. For an economy, particularly, change, positive or negative, is usually a product of policies—all things being equal. This is more so for developing economies, where, even the policy makers themselves are still "learning the ropes".

In fact, the level of development or underdevelopment of every economy has been a function of policy changes—derisively stereotyped as 'policy inconsistency' or 'policy somersaults'. Nigeria in its development strides continues to have its share of these 'inconsistencies' and 'somersaults'. In recent times these policy changes are being encapsulated under the generic term: reforms. In deed, certain sectors of the Nigerian economy would seem to be under perpetual reforms. The banking and finance industry perfectly fits into this typology. Which is why our article: "The New Banking Model in Nigeria: Opportunities and Challenges", is devoted to examining a key plank of the unfolding reforms in the banking sector. Specifically, the author traces the genesis of the existing order in the industry; its successes and challenges and peers into the new bank licensing that will supplant the decade old universal banking regime. And after exploring all likely scenarios, summed up, saying, "for the regional and national banks likely to migrate into international banking, the adjustment process for the banking industry will be much prolonged."

As the reforms are going on in Nigeria, so are they in various climes across the globe especially since the onset of the devastating financial crises in 2007/2008. Three years down the road, economic agents are still battling with the impacts; governments and economic experts are almost at their wit's end trying to turn economies around. The piece "Three Years on, Global Economy Still Struggling?" is an analysis and update of the situation in a number of economies—showing the efforts and extent of recovery. The author notes that overall, the pace of recovery from the global economic meltdown might be record slow, but the recession and its aftermath have taught the world many useful and lasting lessons.

> In the economic recovery efforts in various climes, the place of the youth has become more critical than ever before. As the greatest victims of unemployment everywhere in the world, the skills, energy and zeal of the youth remain largely untapped.

In the economic recovery efforts in various climes, the place of the youth has become more critical than ever before. As the greatest victims of unemployment everywhere in the world, the skills, energy and zeal of the youth remain largely untapped. Our piece on "Promoting Youth-led Entrepreneurship in Ghana" explores the improving business climate in Ghana; emerging opportunities for the youth; qualities for successful youth entrepreneurship as well as some challenges that lie ahead. In all, the piece underlines the need to empower young people to create wealth for themselves as well as propel economic development using their full energies and exuberance.

In a related theme, the untapped but humongous potential of the tourism industry in Nigeria is explored and analyzed in-depth. Under the rubric "Tourism in Nigeria: From Backwater to the Front Burner", the author packaged the varieties, spread and quantum of the huge touristic endowment of the country.

Our series on quality and internal control challenges in banks captures some real-life cases of fraud in banks, pointing out the salient lessons to learn from each of them. The optimism that currently drives the economy is also analyzed; just as the economic indicators are examined with annotated charts to properly gauge the economy.

Enjoy your reading!

Marcel Okeke

We acknowledge with thanks receipt of a copy of your journal "Zenith Economic Quarterly" vol. 5 No. 3 of July 2010. We also wish to thank your Financial Institution for producing a journal of this calibre that creates awareness on topical issues and gives opportunities to professionals to contribute to knowledge and promote excellence in the banking industry.

We appreciate the editorial team for their invaluable contributions towards the final output of this journal.

Thank you.

Yours faithfully,

Olutoyin. A. Adepate, FCA
Registrar/Chief Executive, The Institute of Chartered Accountants of Nigeria

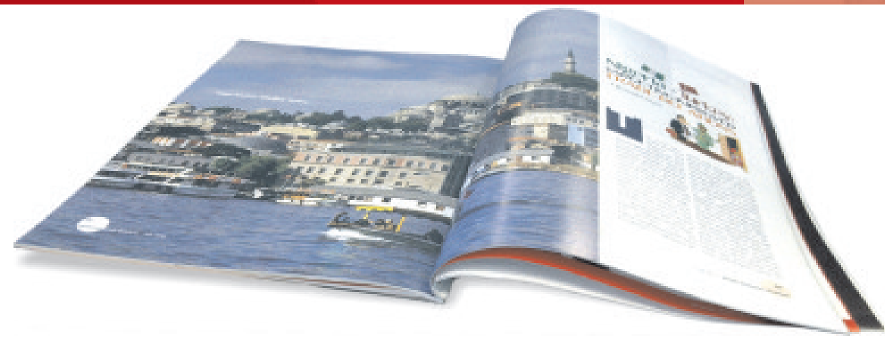
I wish to acknowledge with thanks and appreciation, the receipt of a copy of your most valuable Magazine, Zenith Economic Quarterly and to commend you and your entire staff for the quality and accuracy of the information provided in the Magazine.

I also wish to inform you that the publication is very useful to the Mission and its numerous visitors. It is my wish and desire that you will continue to supply the Mission with future copies because a special space has been created for the Journal in the Mission's Library.

While thanking you for the current copy and previous ones, please accept my dear Editor, the assurances of my esteem and respect.

Sani S. Bala
Honourable Consul-General, Consulate-General of Nigeria, Saudi Arabia

We acknowledge the receipt of a copy of the July 2010 edition of the Zenith Economic Quarterly (ZEQ), which focuses on the ever-present challenge of housing deficit in the country.



As usual, we find it highly informative and educative. We look forward to the next edition.

Thank you.

Yours faithfully

ASSBIFI
O.A. Adebiyi
O/C Research
Association of Senior Staff of Banks, Insurance and Financial Institution

I am directed to acknowledge, with thanks, the receipt of the above-mentioned publication which has been found to be quite interesting.

While congratulating you for this very informative magazine, please accept the renewed assurances of His Excellency the Ambassador's highest consideration.

D. U. Asiku
For: Ambassador
Embassy of the Federal Republic of Nigeria, Belgium

On behalf of the Director, Centre for Learning Resources, I acknowledge with gratitude your kind donation of a copy of the July 2010 edition of the above named publication to our library.

It is highly informative, educative and useful for our patrons.

We appreciate this gesture and look forward to receiving more of such invaluable publications.

Thank you.

Ilogho, J. E.
Serials Librarian
Covenant University, Ogun State

I hereby acknowledge with thanks the receipt of a copy of Zenith Economic Quarterly (ZEQ), which was recently sent to the Chairman.

May I state that the publication is quite educative and enriching in content and layout. It would be appreciated if you could put the National Population Commission on your mailing list.

Please accept the assurances of the Chairman's highest regards.

Dr. Callix Udofia
Director, Public Affairs
For: Chairman
National Population Commission, Abuja

I am directed to acknowledge, with thanks, receipt of your letter dated 30^{th} August, 2010 forwarding the July edition of Zenith Economic Quarterly (ZEQ) which focuses on the ever-present challenge of housing deficit in Nigeria.

This is a very informative publication and useful as a reference material.

Please accept, the assurances of the Ambassador's highest consideration and esteem.

Yours faithfully,

Hakeem A. Ogunkoya
Admin. Attache'
For: Ambassador
Embassy of Nigeria, France

I am directed to acknowledge the receipt of your letter dated 30th August, 2010, in which you forwarded a copy of the July, 2010 edition of your publication and to express His Excellency's appreciations.

Furthermore, His Excellency hopes to use the publication as a reference material as you suggested.

Accept the assurances of His Excellency's highest regards, pleas.

Ahmed Mohammed Zalanga
For: Permanent Secretary
Office of the Executive Governor, Bauchi State

We acknowledge, with immense thanks, receipt of a copy of the July 2010 edition of the Zenith Economic Quarterly (ZEQ).

We appreciate your kind gesture in providing the University with this journal and assure you that it will be put to proper use.

On behalf of the Vice-Chancellor, Prof. Vincent Tenebe, please accept our best assurances and regards.

Thank you

Yours faithfully,

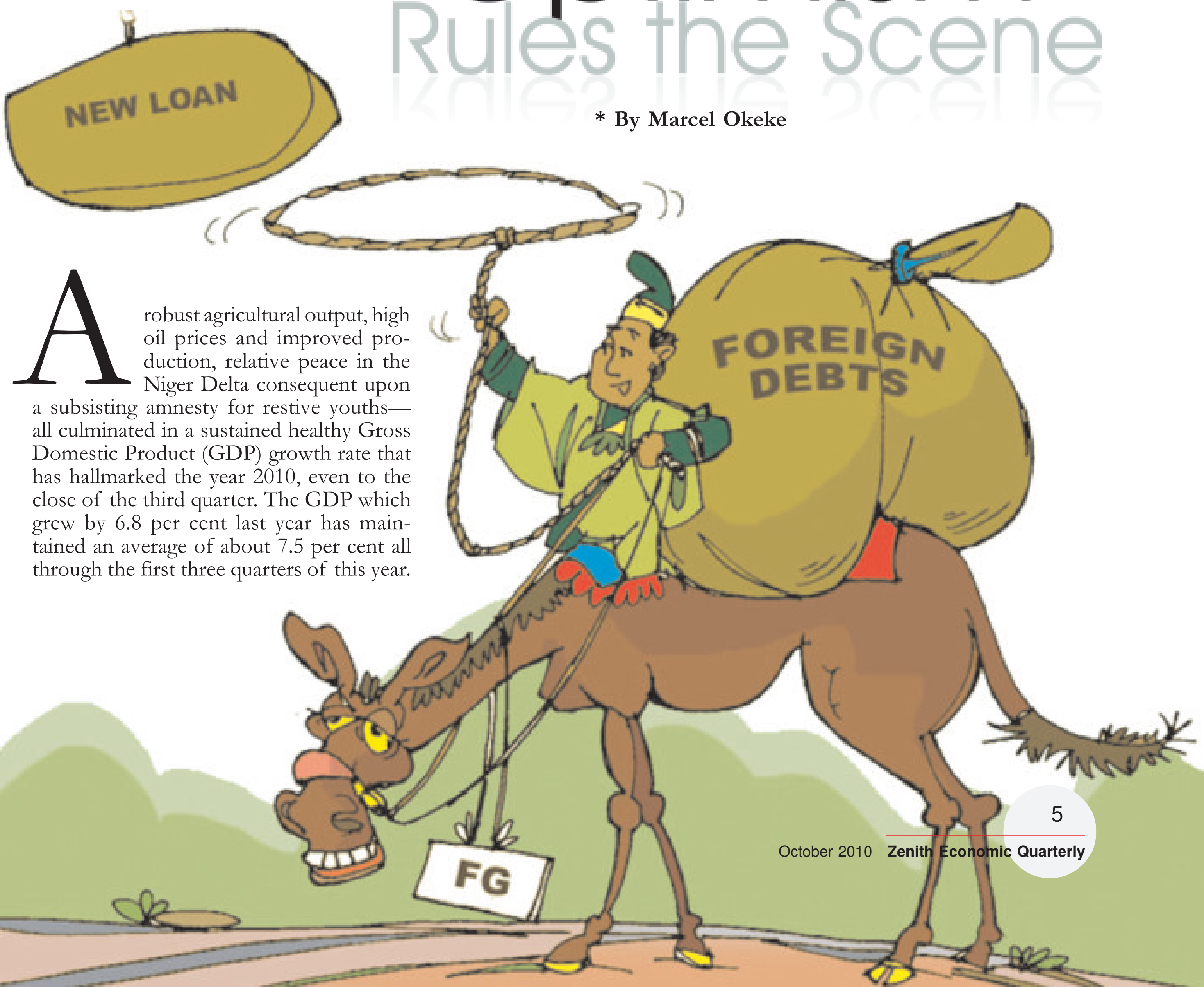
Ainodion Wosilatu (Mrs.)
Senior Assistant Registrar
For: University Librarian
Office of the Librarian/ Director Instructional Resources
National Open University of Nigeria

"I also wish to inform you that the publication is very useful to the Mission and its numerous visitors. It is my wish and desire that you will continue to supply the Mission with future copies because a special space has been created for the Journal in the Mission's Library..."

Periscope

Economy: Optimism Rules the Scene

* By Marcel Okeke



A robust agricultural output, high oil prices and improved production, relative peace in the Niger Delta consequent upon a subsisting amnesty for restive youths—all culminated in a sustained healthy Gross Domestic Product (GDP) growth rate that has hallmarked the year 2010, even to the close of the third quarter. The GDP which grew by 6.8 per cent last year has maintained an average of about 7.5 per cent all through the first three quarters of this year.

Intervention funding efforts of the Federal Government in the areas of infrastructure, manufacturing and housing, among others also influenced the trend of the economy during the (third) quarter under review. Specific pronouncements, policies and regulatory measures—all planks of the ongoing financial system reforms—equally impinged on the economy.

Other factors that influenced the economy in the third quarter include constitutional amendments/reviews by the National Assembly, the appointment of key officers/take off of the Independent National Electoral Commission (INEC), activities of major political actors, especially their declarations to contest for various offices in the 2011 general elections. The announcement effect and run-up to the implementation of a new salary structure in the Federal civil service, the appointment and parliamentary screening of the board of the Asset Management Corporation of Nigeria (AMCON), moves at deregulation of energy tariff and petroleum product prices—all also robbed off on the economy.

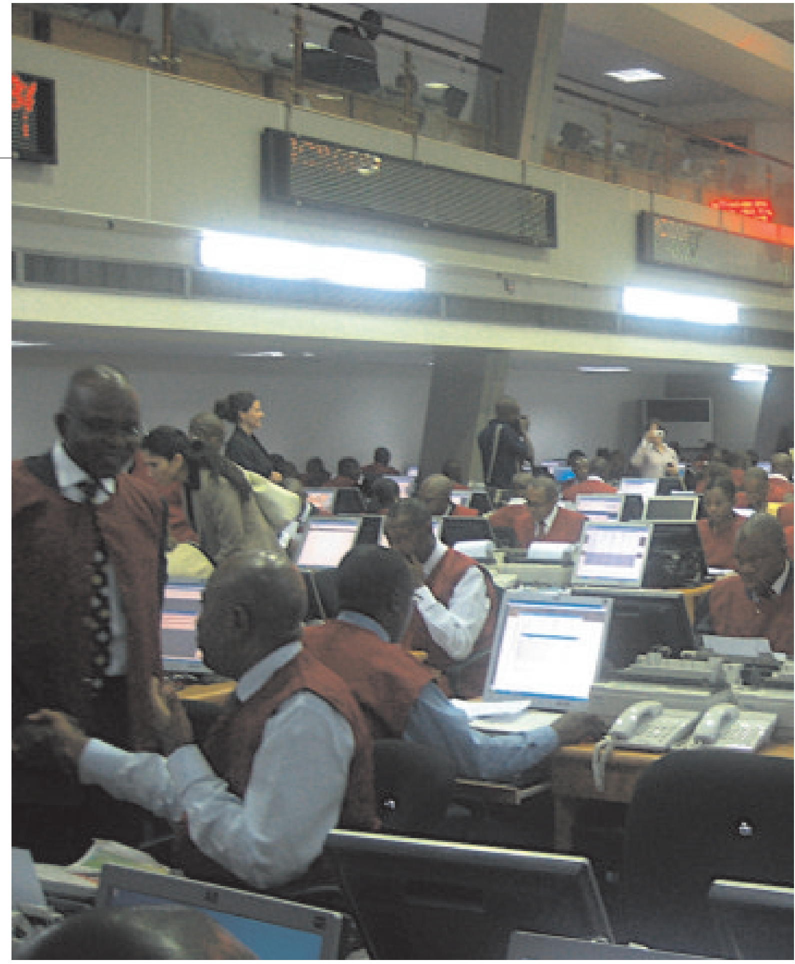
The upshot of this flurry of activity and policies came informs of inflation rate which remained at double-digit level; exchange rate that was generally stable; interest rates that climbed up as well as public debt that kept growing. Business inquiries and foreign direct investment (FDI), especially from Far East /Asian countries (China, Korea, Malaysia, etc.) also improved.

Specifically, inflation rate (as issued and revised by the National Bureau of Statistics—NBS) which stood at 14.1 per cent (Year-on-Year) in June, rose to 13.0 per cent in July, 13.7 per cent in August, and closed the third quarter at 13.6 per cent. Even at these levels which are still higher than the budgetary target of 11.2 per cent for 2010 fiscal year, Government remains apprehensive of further threat of inflationary pressure.

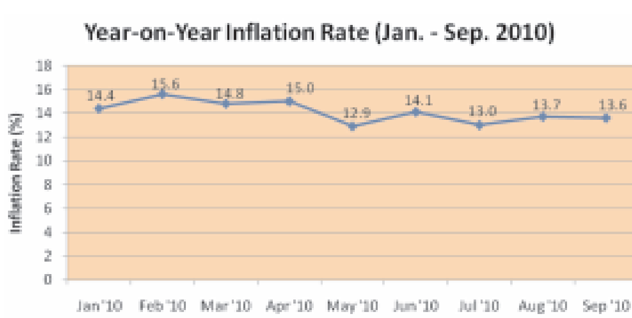
This apprehension, in the main, prompted the Monetary Policy Committee of the Central Bank of Nigeria (CBN) to espouse tight monetary stance during its meeting in September. Consequently, the MPC adjusted the Monetary Policy Rate (MPR) from 6.0 per cent to 6.25 per cent, with both the standing lending facility and standing deposit rate adjusted 200 basis points above and 300 basis points below the MPR respectively. The MPR has remained at 6.0 per cent since July 2009. In addition to the upward adjustment of the MPR, the MPC also elected to resume an active Open Market Operation (OMO) for the purpose of targeted liquidity management.

There was some volatility in the exchange rate of the Naira against the dollar and other major currencies, especially after a relative stability in the first two months of the third quarter. Thus, the local currency which recorded an average central exchange rate of N149.23/$ in June; came to N150.12/$ in July, N151.02/$ in August, and closed the third quarter at about N152.20/$. The depreciation of the Naira towards the close of the quarter was attributable to sudden rise in demand for foreign exchange by importers to position for the usual upsurge in household consumption during year-end festivities. Exhibiting the same trend as the exchange rate was interest rates—which tended to behave in tandem with the apex bank's monetary policy stance. Up until the MPC meeting of September 21, the MPR had remained at six per cent, with deposit rate crashing to less than one per cent. Average retail lending rate hovered between 15 to 23 per cent; this has slightly gone up since the upward adjustment of the MPR to 6.25 per cent.

One other feature of the period under review was the consistent decrease in the stock of the nation's external reserves: standing at $37.16 billion as at end-July,



Source: chairmanking.com



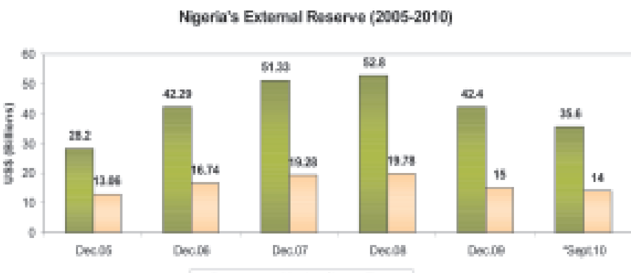
Source: National Bureau of Statistics (NBS)

it dropped to $36.50 billion in August and closed the quarter at $34.50 billion. On the other hand, Nigeria's stock of external debt inched up, rising from $3.947 billion at end-December 2009 to $4.269 billion in June and further to $4.50 by September 2010.

An analysis of the debt by the Government showed that 85 per cent of the entire stock is in form of concessionary loans, which means that such loans have terms of 30 to 40 years with seven to 10-year moratoriums. Still during the period under review, the Federal Government, through an Executive Bill, asked the National Assembly to approve an external borrowing of $4.20 billion—a Bill that is yet undergoing parliamentary considerations.

During the quarter, the CBN interventions aimed at easing liquidity pressure in the system as well as catalyzing overall economic development took various forms. There was the setting up of a N200 billion Manufacturing/SME infrastructure improvement Fund; the N200 billion SME Credit Guarantee Scheme and the N300 billion Power and Aviation fund. The apex bank also initiated a measure to give the agric sector a boost—by signing an agreement with Alliance for a Green Revolution in Africa (AGRA). The CBN-AGRA coalition is expected to evolve into a system that will provide farmers with affordable sources of finance while encouraging banks to readily take up financing opportunities in the agric sector. AGRA is an African-based organization working in partnership with governments, agricultural research organizations, farmers, private sector, civil society and other rural development stakeholders to significantly improve the productivity and income of farmers in the African continent.

In addition to the pact with AGRA, the CBN is also collaborating with the United Nations Industrial Development Organization (UNIDO) and other stakeholders in Nigeria to develop an innovative financing mechanism tagged 'Nigeria Incentive-based Risk Sharing System for Agricultural Lending' (NIRSAL)—which will make for the reduction of risks associated with loans extended to farmers. Under the already set-up Commercial Agric Credit Scheme (CACS) of the CBN, about N70billion had been disbursed during the quarter under review to 68 projects sponsored by banks in various states.



Source: CBN

Note: *External Reserve Position as at 27th Sept, 2010

THE CAPITAL MARKET

A bearish trend dominated the Nigerian capital market all through the third quarter, reflecting crashing prices of many stocks and the prevalence of very low prices for most equities. The state of the market was largely influenced by the sudden change of the chief executive and top management of the Nigerian Stock Exchange (NSE), the announcement of members of the Board of the Asset Management Corporation of Nigeria (AMCON) and other liquidity enhancing measures of the monetary authorities. The quarter recorded huge sell floats as a result of deadline directives given to banks to reduce their market exposure to 10 per cent and recouping of the over N1.0 trillion debt attached to margin facilities. The over-bearing sell pressure stretched the bearish trend, with the market recording marginal gains on a few days of the period under review. The influx of bonds and other fixed income investments in the market also paved the way to other risk aversion measures by investors who were already disillusioned by the fate of the equities.

At the close of trading during the quarter, the All-share Index of the NSE stood at 23,050.59 points as against 25,134.63 at the beginning of trading in July. The market recorded a total volume of 17.80 billion

Top 10 trade on NSE, Q3 2010

Company	Total Trades	Total Volume	Total Value
ZENITHBANK	25492	1,093,119,731.00	14,123,561,619.61
FIRSTBANK	46442	987,617,878.00	12,539,099,401.89
GUARANTY	31068	953,465,118.00	15,337,183,217.36
UBA	17352	783,120,526.00	7,762,208,894.72
TRANSCORP	1489	679,978,078.00	339,996,311.00
ACCESS	12228	641,206,627.00	5,203,345,348.79
SKYEBANK	8096	625,935,327.00	4,391,920,035.98
DIAMONDBNK	4534	544,837,001.00	3,833,440,856.16
FIDELITYBK	7241	524,511,769.00	1,254,312,256.65
FIRSTINLND	3805	515,220,586.00	268,776,960.80

units valued at N158.35 billion exchanged in 375,589 deals compared with 28.77 billion units valued at N206.97 billion exchanged in 477,953 deals in the third quarter last year. Zenith Bank topped the transaction volume for the quarter with over one billion of its shares exchanging hands. It is followed by First Bank, Guaranty Trust Bank and United Bank for Africa respectively. On a longer perspective, a total of 72.60 billion shares valued at N589.9 billion were exchanged in the first nine months of the year in 1.6 million deals. The market capitalization of the NSE closed the third quarter 2010 at N5.65 trillion, as against the peak (this year) of N6.78 trillion on April 19, from N4.99 trillion at the beginning of the year. All these translate to a return on investment of 10.68 per cent at the end of the third quarter by the NSE, as against 34.58 per cent return achieved on April 19.

The third quarter 2010 also recorded about ten supplementary listings including a total of 1.63 billion shares of N0.50 each at N7.00 per share which were added to the shares outstanding in the name of Skye Bank Plc. Ecobank as a result of special placing to ETI also added 6.6 billion ordinary shares to its shares outstanding. Other companies that had supplementary listing during the period under review include University Press Plc, Interlinked Technologies Plc, Ashaka Cement Plc, Flour Mills of Nigeria Plc, Northern Nigeria Flour Mills Plc, Academy Press Plc and 7-Up Bottling Company Plc.

Some of the new listings during the third quarter include Union Homes Real Estate Investment Trust Plc's 250 million shares; the N37 billion 7th FGN Bond 2030 series; N50 billion Bayelsa State Government Development Bond 2009/2016; N57 billion Lagos State Government Fixed Rate Bond (series 2) 2010/2017 under the N275 billion debt issuance programme; UACN Property Development Company Plc's N15 billion 10 per cent Fixed Rate Unsecured Non-convertible Bond 2010/2015 (series 1) under the N30 billion debt issuance programme. The NSE also itemized some equities for de-listing; these include West African Aluminium Products Plc, Flexible Packaging Plc, Krabo Nigeria Plc,

Source: thenigerianlawyer.com

Newpak Plc and Tropical Petroleum Plc. These companies, according to the NSE, are being delisted as a result of their non-compliance with the post-listing requirements of the Exchange.

BANKING AND FINANCE

Like in the half-year ended June 2010, most deposit money banks came out with healthy balance sheets at the close of the third quarter. Indeed, many turned from loss positions early in the year to substantial net profit by end-September 2010. This trend is the product of a number of factors including the monetary stimulus measures of the CBN, loan recovery and cost minimization efforts of the banks as well as improved risk management and corporate governance practices. For strategic reasons some the banks

MONETARY POLICY RATE (JAN. 09 - SEPT. 10)

Source: CBN

embarked on local branch network expansion while some sustained their interest offshore. In the same vein, a few others indicated interest and made moves with regard to the acquisition of some of the 'rescued banks' in the system.

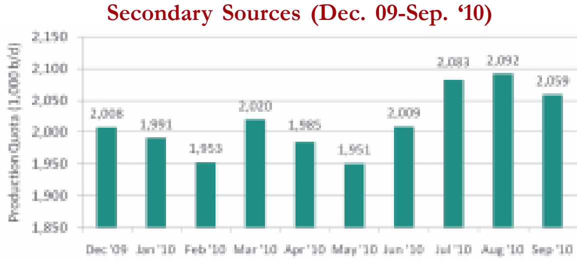
During the quarter under review, the apex bank formally released guidelines terminating the practice of Universal Banking, and reclassifying banks by levels of capitalization. Specifically, under the new licensing regime, effective October 4, 2010, all commercial banks shall divest from all non-banking businesses while specialized banks/institutions such as the primary mortgage institutions, microfinance banks, non-interest banks, development banks and discount houses shall continue to perform their specialized roles within the frame work of existing guidelines. Furthermore, commercial banking licenses shall be issued for three classes of banks: regional, national and international, with the following minimum capitalization requirements: N10 billion, N25 billion and N50 billion respectively.

The CBN guidelines also specified the spatial coverage of each category of banks-in terms of number of states to operate in, and capacity to expand offshore. Permissible businesses of commercial banks, merchant banks and the specialized banks were also spelt out. No-go areas for the commercial banks were also itemized in the guidelines. Further CBN directives have also specified mode of relationships among the parents and subsidiaries of existing universal banks. Here, a new structure –Holding Company format—is being introduced, allowing the parent company and subsidiaries to come under the canopy of a holding company. Under this arrangement, each member of the holding company will have a separate board of directors and management—and will be run as a full fledged legal entity.

Sequel to a 'target examination' it conducted on 820 microfinance banks across the nation, the CBN said 27 per cent (224) were 'terminally distressed' and 'technically insolvent' and consequently withdrew their licenses. The apex bank observed a high level of non-performing loans, resulting in high portfolio at risk (PAR), which impaired their capital. Also noted by the CBN was gross undercapitalization in relation to the level of operations; poor corporate governance and incompetent boards; poor asset-liability management, among others. In another vein however, the CBN took steps towards the actualization of its non-interest banking (otherwise called Islamic Banking) policy by issuing a license to a group of promoters to float one (Jaize Bank).

One other policy move of the apex bank during the quarter was the pegging of the maximum investment a bank can make in any state government bond; this is now capped at 10 per cent of the total amount outstanding of that bond issue. It has also directed that banks' portfolio in any state government bond shall not exceed 30per cent of the former's total portfolio in debt securities. In the circular: "Guidelines for Granting Liquid Asset Status to State Government Bonds", the CBN also pegged the maximum maturity tenor of the fixed income instrument at seven years, for such bonds to be regarded as liquid asset.

Nigeria's Crude Oil Production from Secondary Sources (Dec. 09-Sep. '10)



Source: OPEC

OIL, GAS & POWER

One key feature of the third quarter 2010 was consistently high (with some wavy movements) prices of crude oil in the international market—in the range of $70 to $80 per barrel. Thus, the OPEC Reference Basket (ORB) made steady rise all through the three months, July to September. From $72.5 per barrel at end-August, the ORB rose to $77.5 per barrel by the close of the third quarter. It was at $74.60 in July. In deed, over-

Source: panoramio.com

all, the ORB averaged $75.25 per barrel during the first three quarters of 2010, compared with $56.60 per barrel in the corresponding period in 2009 and budget 2010 benchmark of $57 per barrel. Reflecting this trend was Nigeria's crude oil production and export during the period. OPEC data show that Nigeria's crude production consistently stood around the 2.088 million barrels per day (mbpd) target of the 2010 Federal budget. From 2.009 mbpd level in June, it rose to 2.083 mbpd in July, rose further to 2.092 mbpd in August and dropped marginally to 2.059 mbpd in September.

Apparently satisfied with the industry trend generally, OPEC at its 157th meeting, October 14, 2010, opted to keep its output unchanged—for the sixth consecutive time. The twelve-member body observed that although global economic recovery was underway, there was still considerable concern about the magnitude and pace of the recovery. It noted that while there has been some easing of the overhang in crude oil stocks, market fundamentals remained weak, refinery utilization rates low and product inventories on the rise. OPEC supplies about 40 per cent of world crude oil.

Locally, the challenge of refining and importation of petroleum products continued during the period under review. The Federal Government continued with its effort at ensuring stable supply of petroleum products, especially by honouring its obligation to the petroleum marketers—accredited importers of the products. In this regard, it instituted Sovereign Debt Note (SDN) which it issued to the 'oil majors' as a commitment to pay its obligation to them within specified dates. This measure, coupled with the progress in the enactment of the Petroleum Industry Bill/Law, the signing of the Local Content Bill by the President, among others, have since restored stability and confidence in the products importation/supply business.

Meanwhile concerted efforts continued towards tackling the oil refining/supply challenge in the economy—with various state governments and private investors coming up with a number of projects in that sector. Thus, during the period under review,

NNPC Headquarters, Abuja

Zanfara State signed an agreement for the construction of a petroleum refinery in Gusau, the state capital. The project which would cost about N270 billion was awarded to the petroleum engineering company, BSM-APCL-Swinglehurst, and would be supervised by the Nigerian National Petroleum Corporation (NNPC).

Also, the NNPC and a consortium of Chinese investors (China State Construction Engineering Corporation Limited) have commenced arrangements to establish a refinery and hydrocarbon industrial park in Lagos, with the Lekki Greenfield refinery as the flagship project. The same Chinese consortium has commenced the building of a Greenfield refinery in Itobe, Ofu local council of Kogi State at a cost of about N890 billion.

In the power sector, reforms continued, with focus on generation, distribution and transmission. In deed, President Goodluck Jonathan during the period under review presented a new "roadmap for transformation of Nigeria's Power Sector" to the public—with key incentives for attracting fresh private sector investments into the critical sector. In pursuit of this, the Federal Government approved the construction of a new National Super Grid that is capable of generating about 7,000 Mw of electricity by April 2011 and 14019 Mw by 2013. The new 700 KV Super Grid is billed for completion by 2014, at a projected cost N500 billion, to further boost the existing 330/132 KV grid. Grid unavailability and unreliability has been a key obstacle and often cited by aspiring Independent Power Producers (IPP) as a critical hindrance

In the same vein, Government is focusing on the rehabilitation of some existing dams as well as the construction of new ones to further boost power generation. It has approved the construction of Zungeru Dam hydro power plant in Niger state; expected to generate about 32 Mw of electricity, which would be fed into the national grid. Work is already ongoing on Gurara Phase II hydro power project estimated to generate about 30 Mw; Dadin-Kowa hydro power plant, 34 Mw; the Mambilla and Kashimbilla power plants expected to come onstream by 2012—to generate between

150 and 200 Mw. A few other dams have been completed including the Owiwi Dam in Ogun state. Part of the reforms in the sector also has to do with addressing the issue of tariff; an area in which the National Electricity Regulatory Commission (NERC) had recently introduced the Multi-year Tariff Order (MYTO) for 2008 to 2013 to address 'appropriate pricing' for power consumption. This is part of the incentives to attract and sustain private sector investor interest in the sector through IPP. Incidentally, a number of licenses have been issued to several investors—with any significant impact yet to be felt. Records show that about 30 of such licenses have been issued so far to power-generating companies, while two licenses have been issued to distribution companies.

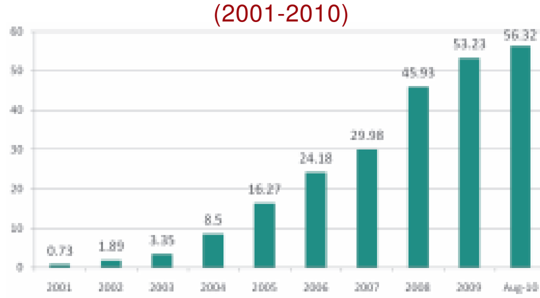
Source: ajaengineering.com

Telecommunication

The growth momentum in the telecoms industry continued into the third quarter 2010 with the total installed capacity standing at 218.76 million lines as at end-September; an increase of about 94 per cent over the 112.734 million lines as at December 31, 2009. Similarly, according to the Nigerian Communication Commission (NCC), total active lines hit over 82 million by the end of the third quarter, from about 75 million lines as at end 2009. The active lines were made up of mobile (GSM): 74.07 million, representing about 90.50 per cent; mobile (CDMA): 6.60, representing 8.0 per cent; and fixed wireless 1.25 million, representing 1.50 per cent. In terms of teledensity—the number of telephones in use per 100 persons—also rose to 58.52 in August 2010, from 53.24 as at end 2009.

Also in tune with the upward trend in the telecoms industry, figures from the National Bureau of Statistics (NBS) show that the sector recorded a real GDP growth of 33.74 per cent in the second quarter 2010, compared to 33.62 per cent in the corresponding period of 2009. NCC records also show the market share of GSM operators in the country as at August 2010 as follows: MTN Nigeria Communications Limited: 46.19 per cent; Globacom Limited: 26.87 per cent; Zain Liited: 24.74 per cent; EMTS Limited (Etisalat): 1.76 per cent; and M-Tel Limited: 0.44 per cent.

Nigeria's Teledensity Growth (2001-2010)



Source: NCC

A number of reform measures were introduced by the NCC during the period under review including SIM registration and number portability. Under the SIM registration policy, subscribers who wish to purchase and activate mobile phones must have their photographs and finger prints taken by their operators for proper identification. Existing owners of active telephone lines who are not properly registered are also required to submit themselves in their operators' designated centres for the same purpose. Modalities for the number portability exercise are still being worked out by stakeholders in the industry. Number portability will allow for convenient switching between service providers without changing telephone number. The major advantage to subscribers is the ease to change service providers without having to notify their contacts of a number change.

The lingering privatization process of Nigerian Telecommunications Limited (NITEL) was on the front burner during the period under review. In fact, a core investor—New Generations Consortium—emerged the preferred bidder to pay $2.50 billion to acquire 75 per cent of NITEL and its mobile arm—M-Tel. This would mark the fifth time this manner and level of privatization arrangement had been attempted for this critical national asset.

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

MONETARY, CREDIT, FOREIGN TRADE AND EXCHANGE POLICY GUIDELINES FOR FISCAL YEARS 2010/2011

(MONETARY POLICY CIRCULAR NO. 38)

SECTION THREE *(Continued)*

3.2.9 Ways and Means Advances

The CBN shall continue to fulfill its statutory role of providing Ways and Means Advances to the Federal Government at a maximum of 5.0 per cent of the previous year's actual revenue of the Federal Government and repayable as soon as possible and in any event not later than the end of the financial year in which they were granted.

3.2.10 The Payments System

(i) Promoting the Use of Cheques and e-Money

The CBN shall continue to work with all relevant stakeholders on enhancing the efficiency of the payment system. To this end, the Bank shall intensify the efforts aimed at the migration of the system from being cas-based to electronic-based through the implementation of a number of identified and well-defined initiatives. In addition to this, an enabling environment shall be created for the efficient processing of cheques and other paper-based instruments through complete application of the already adopted measures. The measures include:

(a) The Nigerian Cheque Printers Accreditation Scheme (NICPAS)

The Bank shall ensure strict compliance with the minimum technical requirements for effective implementation of cheque standard. To this end, the Nigerian Cheques Printers Accreditation Scheme was established to regulate cheque printing and standardization. Only accredited printers, foreign or local, shall be given approval/license to print cheques in Nigeria. All accredited printers shall provide back-up for Disaster Recovery Plan (DRP) and business continuity.

(b) Cheque Clearing

As part of the effort to develop the payments system, the Bank shall ensure that the system remains safe and efficient. To this end, the cheque clearing cycle shall remain at T+2 (transaction day plus two additional working days for both local and upcountry cheques) for effective payment.

(c) Maximum Limit on Cheque Payments

The Bank shall continue to maintain its supervisory role on risk reduction measures in line with international best practice. Consequently, the maximum limit on cheque payments shall be N10 million, and any payment value exceeding that amount shall be made through e-payment mode such as Central Interbank Funds Transfer System (CIFTS) otherwise referred to as the Real Time Gross Settlement (RTGS) System.

(ii) Electronic Payments

Towards the development of the electronic payments system, the CBN shall issue guidelines to support the following payment system initiatives.

i. Government Supplier Payments
ii. Person-to-Person (P2P) Payments
iii. Salary and Pension Payments
iv. Taxes Payments
v. Securities Settlement
vi. Consumer Bills Payments
vii. Stored Value and Prepaid Cards
viii. Cheques and Automated Clearing House (ACH) Credits and Debits
ix. Cross-border Payments

(iii) CIFTS Operations

The CBN shall update the CIFTS operational guidelines when necessary to improve the efficiency of the system. The operation hours of the CIFTS remains between 8.00 a.m. to 3.30 p.m. on working days. Any participant that fails to comply with the CIFTS operation hours shall pay appropriate penalty as specified in the operating guidelines/circular.

(iv) Settlement and Clearing Banks

Settlement account for banks that meet the prescribed criteria for clearing and settlement operations shall be maintained by the CBN. To this end, the following are the minimum requirements for maintaining Settlement Account with the CBN.

- Capacity to provide the clearing collateral of not less than N15.0 billion worth of treasury bills, which will be reviewed from time to time.
- Ability to offer agency facilities to other banks and to settle on their behalf, nationwide.
- Branch network in all the CBN locations.

Banks that meet the specified requirements shall be designated as "Settlement Banks". Other banks that failed to qualify shall do their clearing through the Settlement banks under agency arrangement and shall be known as "Clearing Banks". The terms of agency arrangements shall be mutually agreed between the Settlement Banks and the Clearing Banks. Meanwhile, all banks shall continue to maintain three accounts (Current Account, RTGS-Settlement Account, and CRR Account) with the CBN.

(v) Card Security

In order to ensure maximum customer protection on the use of card and card issuance, the Bank in its regulatory capacity, shall encourage card issuers/acquirers to ensure that all devices/software used for transmitting financial data with their switching networks are Europay, MasterCard and Visa (EMV) – compliant. The production and issuance of cards with magnetic stripe shall be discontinued. Card issuers and financial institutions shall ensure that all cards produced and issued are chip-based. Switches shall also ensure that the physical security requirements on cards are compliant with global standards and a disaster recovery plan is put in place. The CBN shall ensure that the following rules are observed by all card issuers:

a. No card issuer or its agent shall deliver any cards in a fully-activated state.
b. A card issuer shall keep sufficient internal records over a sufficient period in line with existing CBN guideline on e-banking to enable the tracing of errors on cards-related transactions.
c. All card schemes must be approved by the CBN.
d. A card issuer shall put in place adequate credit control to track and minimize credit card defaulters.
e. Full compliance with guidelines on transaction switching services, guidelines on stored value/prepaid cards as well as e-banking guidelines issued by the CBN.

A card issuer must furnish its card holders with a detailed list of contractual terms and conditions prior to activation. Such terms shall include at a minimum

- Fees and charges;
- Withdrawal limits;
- Billing cycles;
- Termination procedures;
- Default/theft/misuse of card procedures; and
- Grievance/Complaints procedures.

The CBN shall establish a help desk to receive complaints on Card and ATM related issues. The help desk could be reached online the following e-mail address: atmhelpdesk@cenbank.org as well as the following telephone numbers; **09-462-38425 and 09-462-38471**

3.2.11 Publication of Financial Statements

In accordance with Section 27 of BOFIA 2004, a bank is required, subject to the written approval of the CBN, to publish not later than four months after the end of its financial year, its audited financial statements (balance sheet, and profit and loss account) in a daily newspaper printed and circulated in Nigeria. To ensure greater commitment by the Board and Management of banks to comply with this mandatory requirement, the CBN shall hold the Board Chairman and Managing Director of any defaulting bank directly responsible for any breach and impose appropriate sanctions which may include the following:

a) Barring the MD or his/her nominee from participation in the Bankers' Committee and disclosing the reason for such suspension.
b) Suspension of the foreign exchange dealership license of the bank and its name sent to the Nigerian Stock Exchange in the case of a public quoted company.
c) Removal of the Chairman and Managing Director from office if the accounts remain unpublished twelve (12) months after the end of the bank's financial year.

The CBN vide its circular dated June 18, 2009 has adopted December 31, as a common year end for all banks and discount houses effective from December 31, 2009. Consequently, all banks and discount houses will be required to publish their annual financial statements within four months from end-December 31, in line with the provisions of BOFIA , 2004.
Also, in order to facilitate the implementation of consolidated supervision, all banks and discount houses' financial institution subsidiaries are required to adopt December 31, as their accounting year end.

3.2.12 Other Policy Measures

The Bank shall continue to pursue its developmental role vigorously in 2010/ 2011 by supporting specific programmes/projects in view of the persistent demand – supply gap in financing the real sector (e.g. agricultural sector). Improving access to finance by micro, small and medium enterprises (SMEs)is necessary to generate employment and moderate inflation.

(a) Financing the Development of SMEs Government instituted various measures and schemes to promote the growth of SMEs in view of their importance in employment generation and economic development. These measures involved, in some cases, establishment of sector specific development finance institutions (DFIs) such as the Bank of Industry (BOI) and Nigeria Agricultural, Cooperative and Rural Development Bank (NACRDB). The Bank will continue to collaborate with the DFIs to develop the sub-sector in 2010/2011 fiscal year. In addition, the Bank will continue to strengthen the supervision of the DFIs to ensure that they deliver on their mandates to improve funding of the SMEs sub-sector.

(b) SMEs Credit Guarantee Scheme (SMECGS) The gap created in the financing of SMEs by the policy shift in 2009 with respect to the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) necessitated the establishment of SMEs Credit Guarantee Scheme (SMECGS) in view of the role of SMEs in economic growth and development. The Bank shall in 2010/2011 set up the SMECGS to mitigate the risks associated with lending to the sub-sector, which is one of the major impediments to its access to finance. The Scheme is expected to encourage financial institutions, particularly, deposit money banks (DMBs) to lend to small businesses, which have viable projects and good prospects of success, but unable to satisfy the lender's collateral requirements. Eligible beneficiaries would be micro, small and medium scale enterprises in the real sector and related service industries.

(c) Microfinance Development Fund (MDF) The Microfinance Policy stipulates that a Microfinance Development Fund (MDF) shall be established to support the development of the microfinance industry. The establishment of a Microfinance Development Fund will therefore be pursued in 2010/2011 as a reliable source of funding for the industry, including providing refinancing, guarantee and wholesale facilities and liquidity support to microfinance banks/microfinance institutions (MFBs/MFIs) to enhance their lending activities to micro, small and medium enterprises (MSME). Other auxiliary programmes include the Entrepreneurial Development Centres (EDCs) initiated in 2006, to develop entrepreneurship spirit and generate employment among Nigerian graduates and school leavers. Six EDCs were earmarked for establishment. While three EDCs have already been established, the remaining three shall be established in 2010.

(d) Microfinance Credit Fund (MCF)
The Micro Credit Fund (MCF) was established in February 2008 to be a partnership between deposit money banks and State Governments for the funding of microfinance activities. In 2010/2011, deposit money banks (DMBs) shall continue to set aside 5 per cent of their annual profit after tax for the MCF, while State Governments which intend to support micro-activities can borrow 50 percent of the amount required for the programme as counterpart funding from DMBs. Interest charges for loan facilities to State Government under the Scheme in 2010/2011 shall remain at 8 per cent as in the previous years.

(e) Commercial Agriculture Credit Scheme (CACS)
The Central Bank of Nigeria in collaboration with the Federal Ministry of Agriculture and Water Resources (FMA&WR) set up the N200 billion Commercial Agriculture Credit Scheme (CACS) in March 2009 to fast track the development of commercial agricultural enterprises, generate employment and enhance national food security. The interest rate under the Scheme shall remain at 9 per cent in the 2010/2011 fiscal years. The fund shall continue to be disbursed to eligible beneficiaries through selected deposit money banks (DMBs). Any infraction to the guidelines by participating banks (PBs) shall be appropriately sanctioned.

(f) Agricultural Credit Support Scheme (ACSS)
The ACSS was introduced as a Presidential initiative in 2006 to promote large-scale commercial agricultural projects through reducing the cost of access to funding for agricultural production. Credit facilities under the ACSS shall continue to be granted at 14 per cent interest rate per annum, while farmers that fully repaid on schedule shall be entitled to a refund of 6 per cent of the interest paid on the loan. The Bank shall monitor the Scheme to improve its performance in 2010/2011.

(g) Refinancing and Rediscounting Facility (RRF) for Medium to Long-Term Credit
The Refinancing and Rediscounting Facility (RRF) established to encourage banks to lend on medium-long-term to the productive sectors elicited only a modest response from banks. Accordingly, a review of the Guidelines on RRF shall be undertaken in fiscal years 2010 and 2011, in collaboration with all stakeholders, in order to regenerate interest in the use of the facility and make it more attractive to banks.

(h) Infrastructure Finance
Infrastructural development remains grossly inadequate relative to the nation's requirements due to lack of funds. To improve financing of infrastructure development, the Bank shall in 2010/2011 fiscal year in collaboration with stakeholders, launch an Infrastructure Finance Policy and Development Strategy (IFPDS) and Diaspora Mobilization Initiative (DMI) to encourage Nigerians outside the country to support the country's development as well as make Nigeria attractive to the private sector and foreign direct investment.

(i) Orderly Development of the Banking System
1. Minimum Paid-up Capital Requirement
In view of the need to strengthen the operational capacity of deposit money banks and minimize the risk of distress, the banks were required to shore up their shareholders funds to N25 billion by the end of December 31, 2005 during the consolidation exercise. This level of capital requirement shall be maintained in the 2010/2011 period.

2. Transparency in Banks Operations
The CBN shall in the fiscal years 2010 and 2011, continue to closely monitor the operations of banks, in order to ensure the adoption of international best practice, risk based supervision, consolidated supervision, compliance with laws and regulations and sound banking system. The CBN shall continue to consult and dialogue with stakeholders in the industry to foster better understanding. Furthermore, the Bank shall continue to promote high ethical standards in the banking industry. The Bank shall during the period continue to review the guidelines on risk management, e-banking, risk-based supervision, consolidated supervision; code of corporate governance, Non-Interest Banking, credit bureau and Anti-Money Laundering /Counter Financing of Terrorism (AML/CFT) manual to ensure soundness and financial sector stability.
(to be continued next edition)

Three Years on, Global Economy still Struggling?

* By Eunice Sampson

Three years into the recession, it is at least reassuring to know that global economies are no longer shrinking, only advancing too slowly!

By the general definition of a recession as two successive quarters of negative growth, it can be said that most developed economies entered recession at different times between 2007 and 2009.

The US was the first to slip into recession in December 2007 even though this was not officially reported until December 2008. In third quarter 2008, the 15 countries that make up the eurozone also joined the growing list of economies in recession, the first in the bloc's 10-year history.

In its first recession in nine years, the United Kingdom joined the queue in December 2008 after experiencing a contraction in the third and fourth quarter of that year.

The world's second-largest economy, Japan, slipped into recession in third quarter 2008, after a decline that started in the second quarter of that year, marking its first recession since 2001.

As the crisis entered 2009, more casualties were recorded, including Brazil which suffered a recession in first quarter 2009. France, South Africa, Switzerland and Romania are among a long list of other countries that entered into recession at the end of first quarter 2009.

By early 2009, some economies were already out of the recession. The French and German economies grew 0.3% in second quarter 2009, eliciting relief in Europe as the two regional powers came out of the woods.

After four consecutive quarters of decline beginning in second quarter 2008, Japan grew 3.7% year-on-year in second quarter 2009, taking the Asian economic giant out of recession.

Brazil left the recession corridor in second quarter 2009 after its GDP advanced 1.9%. GDP rebounded

2.93% in Mexico in the third quarter of 2009 after about a year in recession.

Following four successive quarters of decline and numerous government interventions, the US economy grew by an encouraging 3.5% in third quarter 2009, signaling the end of the recession.

The UK economy came out of recession in the fourth quarter of 2009, after a timid 0.1% growth. This hesitant expansion came after six consecutive quarters of decline - the longest since quarterly figures were first computed in that country in 1955. The UK was the last major economy to come out of the recession after the US, Japan, Germany and France received economic respite in the previous quarters. Compared with the 3.5% growth that drew the US economy out of the recession, and the first GDP advancement that succeeded the recession in other major economies, UK's 0.1% growth was weak indeed, but received with the excitement of "half bread being better than none".

Following four successive quarters of decline and numerous government interventions, the US economy grew by an encouraging 3.5% in third quarter 2009, signaling the end of the recession.

By year-end 2009, most countries in recession were out of it and the dilemma became how to bring the battered economies to full scale recovery. As 2010 drags to an end, virtually all the major economies – including the United States, UK, Canada and Spain – are still struggling with this goal.

Why are Economies still struggling?

While the recession is rightly rated as one of the worst in modern history, the snail paced growth that has trailed its official end in 2009 remains its major peculiarity.

Going by experts' estimates, United States, the world's leading economy, is not set for significant

Countries in Recession and how they got there (2007-2009)

		in the first quarter.
Singapore	October 10, 2008	Its first recession since 2002, Singapore was first Asian country to slip into a recession following the credit crisis. Singapore's export-dependent economy shrank by an annualized 6.8% in third quarter 2008 after a 6.0% contraction in the second quarter
Germany	November 13, 2008	The biggest European economy contracted by 0.5% in third quarter 2008 after GDP fell 0.4% in the second quarter, putting it in recession for the first time in five years
Italy	November 14, 2008	After three years of respite, Italy fell into a recession when its third quarter 2008 GDP contracted 0.5% following a second quarter drop by 0.3%
Eurozone	November 14, 2008	As an economic bloc, the Eurozone officially slide into recession in third quarter 2008 owing to pressure from German and Italian economies. This was its first recession since its creation in 1999. By first quarter 2009 almost all the economies in the zone had experienced a recession
Japan	November 17, 2008	Japan, the second largest economy in the world after the US, was hit by a recession in the July-September quarter of 2008 with a contraction of 0.1%, after an earlier 0.9% contraction in the previous quarter
Sweden	November 28, 2008	The Scandinavian country entered into recession after GDP shrank 0.1% in both the second and third quarters of 2008
United States	December 1, 2008	The United States slide into recession in December 2007, the first economy in the world to do so during this crisis; and bringing to an end an economic expansion that spanned six years
Canada	December 9, 2008	Canada has experienced intermittent negative growth since the commencement of this crisis and was on several occasions on the brink of a recession. After a sharp fall of 3.4% in the fourth quarter of 2008, another decline by 1.4% in first quarter 2009 took it into recession.
UK	January 23, 2009	The world's sixth biggest economy experienced a 1.5% dip in GDP during fourth quarter 2008 after a 0.6% decline in the third quarter, taking it into its first economic recession in over 16 years. There was a further 1.9% decline in first quarter 2009
Taiwan	February 18, 2009	The Asian Tiger declined by a whopping 8.36% in fourth quarter 2008, bringing it into recession having suffered two consecutive quarters of economic contractions
France	May 15, 2009	After narrowly escaping a recession in 2008, Europe's second biggest economy contracted by 1.2% in first quarter 2009, the second consecutive decline after a 1.5% fall in fourth quarter 2008.
Mexico	May 20, 2009	The Mexican economy was the first in Latin America to officially enter recession, with its GDP shrinking 8.22% in first quarter 2009, after an earlier decline by 1.6% in fourth quarter 2008.
South Africa	May 27, 2009	South Africa was one of the very few countries in Sub Saharan Africa, which, owing to its relatively huge exposure to the western economies, entered into a recession during the current global economic crisis. A major drop in export demand caused a GDP decline of a whopping 6.4% in first quarter 2009 after falling 1.8% in the previous quarter, resulting in the country's first recession in 17 years.
Switzerland	June 2, 2009	After declining by 0.3% in fourth quarter 2008, Switzerland entered a recession in first quarter 2009 when the economy shrank 0.8%. The recession was driven by a plunge in export demand
Brazil	June 9, 2009	After a decline in GDP in the previous quarter, Brazil slipped into a recession in first quarter 2009.

Source: Wikipedia; Research & EIG

recovery until after 2011. For the first time, the economy has failed to pick up quickly after a major recession.

In previous recessions of this magnitude, notably that

of 1980-1982 which was triggered by the Iranian Revolution of 1979 and resulted in severe debt crisis in Latin America and a prolonged depression in the United States, the pace of recovery after the recession was quick. Following intermittent declines between 1980 and 1982, the US economy had experienced a major surge with 5.1% and

9.3% respectively in the first two quarters in 1983. This time, it has not been so lucky; and some post recession trends are contributing to this ill luck.

In the post recession period, unemployment remains as much a critical challenge as during the recession. In countries like the United States and the UK, monthly employment data generates global interest as concerned observers await the slightest signal of expedited recovery. While there has been no major downswing in recent months, unemployment levels remain stubbornly flat in defiance of the many palliatives of governments.

source: germanoriginality.com

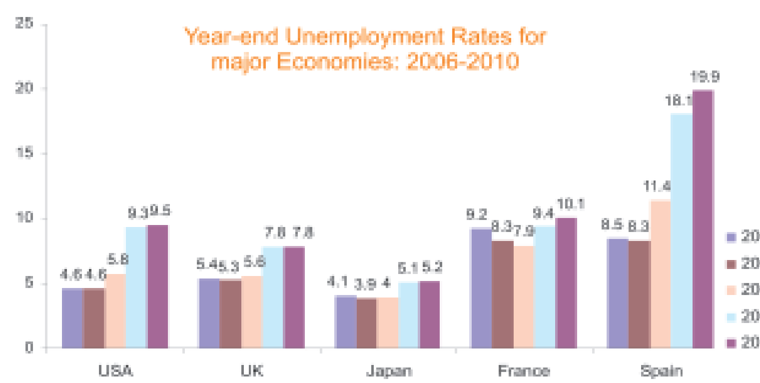
Alster Lake, Hamburg, Germany

The October 9-15, 2010 edition of the Economist describes high unemployment as "the most visible scar left by the recession" – so far, 17 million people have been thrown out of their jobs in the 32 rich OECD countries alone.

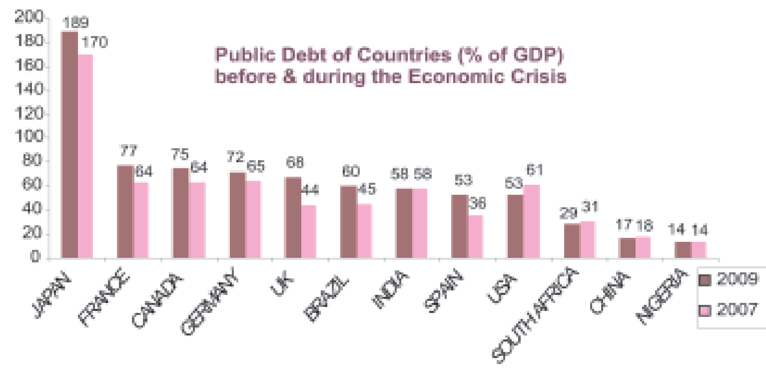
Except in Germany were unemployment has been 'miraculously' curtailed, most developed economies are faced with high unemployment numbers. The latest available data as at October 2010 shows that unemployment rate was 19.9% in Spain; 9.8% in France; 7.7% in the UK and 9.6% in the US. Considering their pre-recession positions and the fact that the recession has been technically over for about a year, these figures remain worrisome.

Another factor weighing down recovery is the persisting housing sector slump. Many house owners still struggle with threats of foreclosure and sharp decline in the value of their homes. In some countries, home values have fallen by as much as 60-70% since the sub prime crisis began. Pilling job losses is reducing the ability to meet mortgage commitments, keeping risks of foreclosure high. US 2010 quarterly data show that one in every seven mortgages is faced with foreclosures. Mortgage industry reports published by RealtyTrac shows that foreclosure filings – default notices, scheduled auctions and bank repossessions – were reported on 930,437 properties in the third quarter, about 4 percent increase from the previous quarter.

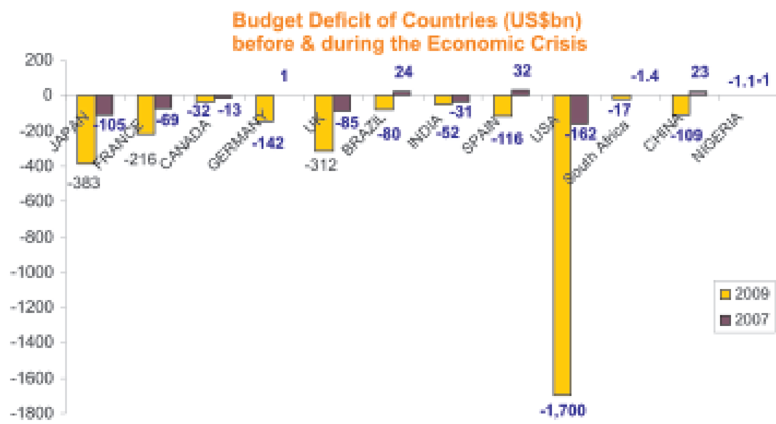
The rising budget deficit and pilling public debts in many developed economies pose major bottlenecks to economic recovery as much as they are also fallouts of the crisis. With Japan's public debt nearing 200% of GDP and the United



Source: OECD; ILO.* 2010 figures are the latest published data as at October 2010



source: CIA World Factbook



source: CIA World Factbook

States' budget deficit a record $1.75 trillion, the much awaited economic bounce back in the world's biggest economies seems a bit far off.

The drastic drop in consumer confidence and spending is perhaps one of the biggest post recession challenges in the rich economies. An interesting development in the US for example is that more people are saving now than before the recession, despite the rising joblessness and cuts in wages. This has created a gap in spending and demand.

Experts have termed this a balance sheet recession which could be deflationary, and with negative impact on growth and employment. One of the suggestions to check the trend is for government to borrow and spend the excess savings of the private sector, thereby returning the money to the income stream.

As at third quarter 2010, the rate of personal savings in the US, as percentage of disposable personal income, has risen from 2% at the start of the recession to about 6%. For example, personal savings as a percentage of disposable personal income was 5.8 percent in August, compared with 5.7 percent in the preceding month of July.

As the expected 'quick fix' is not materializing and the crisis seems to be lingering far longer than envisaged, Americans are now saving frantically not just for, but during the 'rainy day'.

In a typical economic condition, increased savings is a positive indicator. But what the troubled economies need right now is a boost in demand and supply which can only be achieved with robust consumer confidence and spending.

The good news however is that personal income is gradually trending upward in these countries, even though slowly. In August, US Personal Income increased $59.3 billion or 0.5%; Personal consumption expenditures (PCE) also increased by $41.3 billion or 0.4%, a pointer to an impending boost to consumer spending.

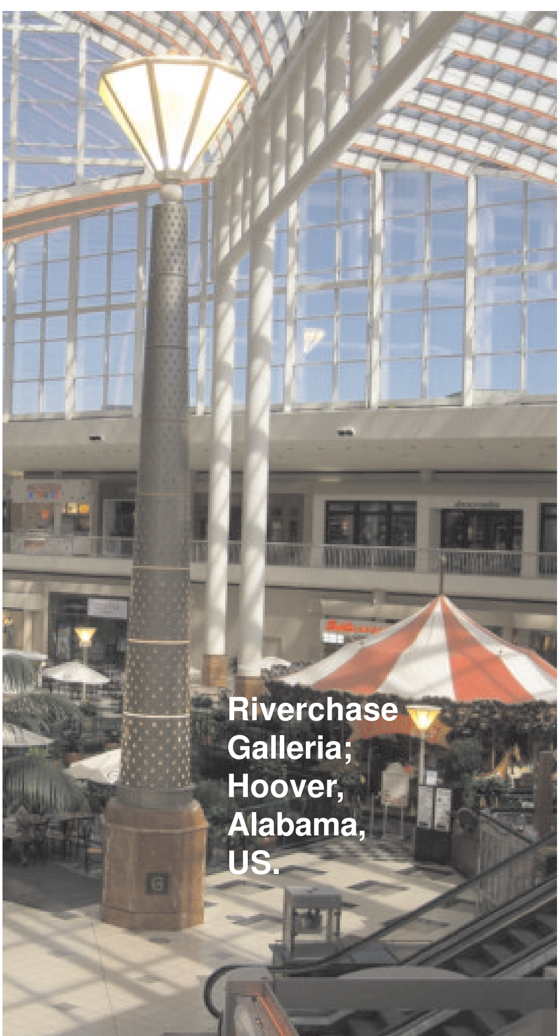
Another hiccup is the growing division among economists on the way forward. The recurring debate for and against expansionary government policies has slowed the decision making process with downside effect on recovery. While some opine that government's continued spending would boost economic activities and spur demand, the other side of the divide says too much has already been spent on industry bailouts, welfare, tax cuts and waivers, etc.

source: labelscar.com

A school of thought is pushing for another round of stimulus to boost the near stagnant growth while others are calling for the introduction of austerity measures including budget cut and a halt to plans for additional stimulus.

Political intrigues in some countries have also not helped matters as proposed policies targeting economic recovery are trivialized or stalled for political gains. The US Federal Reserve is expected to announce a new round of monetary stimulus on November 3, a plan which many fear, might be stifled by bureaucratic bottlenecks.

The fact that financial institutions are still not lending despite the massive bailouts is also a critical challenge. Banks' confidence level is low in the face of rising unemployment, pay cuts and persisting crisis in the mortgage sector. Credit worthiness and ratings of borrowers have plummeted since the beginning of the crisis, a major disincentive for



Riverchase Galleria; Hoover, Alabama, US.

Major Timeline in the Global Financial Crisis

8 February 2007: HSBC warns of subprime losses	HSBC was the first to officially raise an alarm over the subprime crisis when it revealed huge losses at its US mortgage arm, Household Finance.
2 April 2007: New Century goes bankrupt	New Century Financial, a leading subprime lender, files for bankruptcy, leading to market panics and putting severe pressure on the shares of other US mortgage banks, including Countrywide.
9 August 2007: Credit markets freeze	Credit markets go into freefall after Paribas announces that two of its hedge funds are frozen due to "complete evaporation of liquidity" in asset backed security market. European Central Bank injects 170bn euros into the banking market and Fed lowers interest rates. Bank of England refuses to intervene in credit markets.
14 September 2007: Run on the Rock	Savers in struggling UK former building society Northern Rock begin withdrawing their savings after the BBC reveals the bank has received emergency financial support from the Bank of England. Northern Rock is in trouble as it was heavily reliant on the wholesale money market to fund its operations, and these markets have dried up
17 March 2008: Bear Stearns Rescue	US investment bank Bear Stearns is rescued by rival bank JP Morgan Chase after the US government provides a $30bn guarantee against its mounting losses. It is the first sign that, rather than easing, the financial crisis is getting worse but investors are relieved that US government is prepared to act as lender of last resort.
7 September 2008: Fannie Mae Rescue	US government rescues giant mortgage lenders Fannie Mae and Freddie Mac, taking them into temporary public ownership after they reveal huge losses on the US subprime mortgage market. Their failure would have triggered a run on the dollar as many foreign governments had invested in their bonds, believing they were already guaranteed by the government
15 September 2008: Lehman Brothers goes Bankrupt	US investment bank Lehman Brothers goes bankrupt after the US government refuses to bail it out. Merrill Lynch is bought by Bank of America after revealing it is also facing huge losses. Insurance firm AIG, which issued credit guarantees for subprime mortgages, is rescued the next day with an $85bn loan from the US Treasury
17 September 2008: Lloyds takes over HBOS	Lloyds agrees a £12.2bn takeover of the ailing Halifax Bank of Scotland (HBOS), the UK's largest mortgage lender, after its shares plummet amid concerns over the firm's future. The UK government invokes a national interest clause to bypass competition law, as the new bank is responsible for close to one-third of the UK's savings and mortgage market
3 October 2008: $700bn Bailout approved by Congress	The biggest financial rescue in US history is approved after a protracted debate in Congress, and initial defeat a week earlier. Republicans and Democrats alike were reluctant to bail out the banks with such large sums while ordinary citizens were suffering. Both presidential candidates endorse the bail-out
13 October 2008: UK Government rescues RBS and Lloyds-HBOS	Two of UK's major banks, RBS and HBOS, are in major trouble as financial markets collapse. Having merged with HBOS in September, Lloyds is hit by the huge debts built up by its new partner in the mortgage market, while RBS is struggling with its expensive merger with ABN-AMRO. The UK government injects £37bn to stabilize both banks
16 December 2008: Fed cuts key rate to near zero	The US central bank cuts its interest rate to 0-0.25% in an attempt to stem the deepening recession and ease liquidity. It is the lowest rate in the history of the Fed
14 February 2009: Us Congress passes $787bn stimulus	President Obama wins his first major victory in Congress as it passes a huge economic recovery plan aimed at preventing the US from falling deeper into Recession as a result of the credit crunch. Much of the money will go to the states to curb laying off public sector workers, while some will be invested in infrastructure projects like roads, schools and green energy
2 April 2009: G20 Summit in London	World leaders pledge an additional $1.1 trillion to ease the impact of the crisis on emerging markets and promise coordinated action to fight the slump and improve regulation. Gordon Brown emerges triumphant from a global summit, which he claims is a turning point in the crisis, and stock markets begin to revive. However, not all the money pledged is actually delivered
22 April 2009: UK Budget reveals huge deficit	The UK Chancellor Alistair Darling reveals that the credit crunch will lead to the largest budget deficit in UK financial history of £175bn, with total government debt set to double to £1 trillion by 2014. Mr Darling admits it will take two Parliaments, or 10 years to get the budget back to the position it was in before the credit crunch

Source: BBC; Bloomberg

	Real GDP 2009	Real GDP Projections 2010	Real GDP Projections 2011	Consumer Prices[1] 2009	Consumer Prices[1] Projections 2010	Consumer Prices[1] Projections 2011	Current Account Balance[2] 2009	Current Account Balance[2] Projections 2010	Current Account Balance[2] Projections 2011	Unemployment[3] 2009	Unemployment[3] Projections 2010	Unemployment[3] Projections 2011
Europe	**–4.0**	**2.0**	**1.8**	**1.3**	**2.3**	**2.0**	**0.1**	**0.3**	**0.5**	. . .	. . .	. . .
Advanced Europe	**–4.1**	**1.7**	**1.6**	**0.7**	**1.8**	**1.6**	**0.3**	**0.8**	**1.0**	**8.8**	**9.4**	**9.3**
Euro Area[4,5]	–4.1	1.7	1.5	0.5	1.6	1.5	–0.6	0.2	0.5	9.4	10.1	10.0
Germany	–4.7	3.3	2.0	0.2	1.3	1.4	4.9	6.1	5.8	7.5	7.1	7.1
France	–2.5	1.6	1.6	0.1	1.6	1.6	–1.9	–1.8	–1.8	9.4	9.8	9.8
Italy	–5.0	1.0	1.0	0.8	1.6	1.7	–3.2	–2.9	–2.7	7.8	8.7	8.6
Spain	–3.7	–0.3	0.7	–0.2	1.5	1.1	–5.5	–5.2	–4.8	18.0	19.9	19.3
Netherlands	–3.9	1.8	1.7	1.0	1.3	1.1	5.4	5.7	6.8	3.5	4.2	4.4
Belgium	–2.7	1.6	1.7	0.0	2.0	1.9	0.3	0.5	1.8	7.7	8.7	8.5
Greece	–2.0	–4.0	–2.6	1.4	4.6	2.2	–11.2	–10.8	–7.7	9.4	11.8	14.6
Austria	–3.9	1.6	1.6	0.4	1.5	1.7	2.3	2.3	2.4	4.8	4.1	4.2
Portugal	–2.6	1.1	0.0	–0.9	0.9	1.2	–10.0	–10.0	–9.2	9.6	10.7	10.9
Finland	–8.0	2.4	2.0	1.6	1.4	1.8	1.3	1.4	1.6	8.3	8.8	8.7
Ireland	–7.6	–0.3	2.3	–1.7	–1.6	–0.5	–3.0	–2.7	–1.1	11.8	13.5	13.0
Slovak Republic	–4.7	4.1	4.3	0.9	0.7	1.9	–3.2	–1.4	–2.6	12.1	14.1	12.7
Slovenia	–7.8	0.8	2.4	0.9	1.5	2.3	–1.5	–0.7	–0.7	6.0	7.8	8.1
Luxembourg	–4.1	3.0	3.1	0.4	2.3	1.9	5.7	6.9	7.2	6.0	5.8	5.6
Cyprus	–1.7	0.4	1.8	0.2	2.2	2.3	–8.3	–7.9	–7.4	5.3	7.1	6.9
Malta	–2.1	1.7	1.7	1.8	1.9	2.1	–6.1	–5.4	–5.3	7.0	6.9	6.9
United Kingdom[5]	–4.9	1.7	2.0	2.1	3.1	2.5	–1.1	–2.2	–2.0	7.5	7.9	7.4
Sweden	–5.1	4.4	2.6	2.0	1.8	1.9	7.2	5.9	5.7	8.3	8.2	8.2
Switzerland	–1.9	2.9	1.7	–0.5	0.7	0.5	8.5	9.6	10.3	3.6	3.6	3.4
Czech Republic	–4.1	2.0	2.2	1.0	1.6	2.0	–1.1	–1.2	–0.6	6.7	8.3	8.0
Norway	–1.4	0.6	1.8	2.2	2.5	1.4	13.1	16.6	16.4	3.2	3.5	3.6
Denmark	–4.7	2.0	2.3	1.3	2.0	2.0	4.2	3.4	3.0	3.6	4.2	4.7
Iceland	–6.8	–3.0	3.0	12.0	5.9	3.5	–6.5	–0.9	2.1	8.0	8.6	8.4
Emerging Europe[6]	**–3.6**	**3.7**	**3.1**	**4.7**	**5.2**	**4.1**	**–2.5**	**–3.7**	**–4.0**	. . .	. . .	. . .
Turkey	–4.7	7.8	3.6	6.3	8.7	5.7	–2.3	–5.2	–5.4	14.0	11.0	10.7
Poland	1.7	3.4	3.7	3.5	2.4	2.7	–1.7	–2.4	–2.6	8.2	9.8	9.2
Romania	–7.1	–1.9	1.5	5.6	5.9	5.2	–4.5	–5.1	–5.4	6.3	7.2	7.1
Hungary	–6.3	0.6	2.0	4.2	4.7	3.3	0.2	0.5	0.7	10.1	10.8	10.3
Bulgaria	–5.0	0.0	2.0	2.5	2.2	2.9	–9.5	–3.0	–3.1	6.8	8.5	7.6
Croatia	–5.8	–1.5	1.6	2.4	1.9	2.8	–5.3	–3.8	–4.7	9.2	9.5	9.0
Lithuania	–14.8	1.3	3.1	4.2	1.0	1.3	4.2	1.9	0.2	13.7	18.0	16.0
Latvia	–18.0	–1.0	3.3	3.3	–1.4	0.9	8.6	5.5	2.9	17.3	19.8	17.5
Estonia	–13.9	1.8	3.5	–0.1	2.5	2.0	4.5	4.2	3.4	13.8	17.5	16.4

	Real GDP 2009	Real GDP Projections 2010	Real GDP Projections 2011	Consumer Prices[1] 2009	Consumer Prices[1] Projections 2010	Consumer Prices[1] Projections 2011	Current Account Balance[2] 2009	Current Account Balance[2] Projections 2010	Current Account Balance[2] Projections 2011	Unemployment[3] 2009	Unemployment[3] Projections 2010	Unemployment[3] Projections 2011
Sub-Saharan Africa	**2.6**	**5.0**	**5.5**	**10.4**	**7.5**	**7.0**	**–1.7**	**–1.1**	**–1.9**	. . .	. . .	. . .
Oil Exporters	**5.0**	**6.7**	**7.0**	**11.6**	**11.3**	**9.4**	**6.0**	**8.2**	**7.4**	. . .	. . .	. . .
Nigeria	7.0	7.4	7.4	12.4	11.9	9.8	14.1	13.0	11.8	4.5	4.5	4.5
Angola	0.7	5.9	7.1	13.7	13.3	11.3	–5.0	1.6	1.5	. . .	. . .	. . .
Equatorial Guinea	5.3	0.9	2.1	7.2	8.0	7.1	–16.0	–2.8	–11.6	. . .	. . .	. . .
Gabon	–1.4	4.5	5.0	2.1	3.0	3.5	16.6	15.2	14.3	. . .	. . .	. . .
Chad	–1.6	4.3	3.9	10.1	6.0	3.0	–35.7	–32.0	–25.4	. . .	. . .	. . .
Congo, Republic of	7.5	10.6	8.7	4.3	5.2	4.5	–7.7	4.2	7.9	. . .	. . .	. . .
Middle-Income	**–1.7**	**3.3**	**3.6**	**7.1**	**5.5**	**5.7**	**–4.1**	**–4.4**	**–5.8**	. . .	. . .	. . .
South Africa	–1.8	3.0	3.5	7.1	5.6	5.8	–4.0	–4.3	–5.8	24.3	24.8	24.4
Botswana	–3.7	8.4	4.8	8.1	6.7	6.3	–2.1	–0.5	–0.4	. . .	. . .	. . .
Mauritius	2.5	3.6	4.1	2.5	2.5	2.6	–7.8	–9.4	–9.0	8.0	7.5	7.3
Namibia	–0.8	4.4	4.8	9.1	6.5	5.9	–1.7	–2.6	–6.0	. . .	. . .	. . .
Swaziland	1.2	2.0	2.5	7.6	6.2	5.6	–6.2	–12.6	–12.3	30.0	30.0	30.0
Cape Verde	3.0	4.1	6.0	1.0	1.8	2.0	–9.9	–18.6	–18.2	17.0	17.0	17.0
Seychelles	0.7	4.0	5.0	31.8	–2.4	2.5	–35.1	–39.5	–35.5	5.1	4.6	4.1
Low-Income[4]	**4.5**	**4.9**	**6.0**	**12.6**	**6.2**	**6.0**	**–6.8**	**–7.4**	**–8.3**	. . .	. . .	. . .
Ethiopia	9.9	8.0	8.5	36.4	2.8	9.0	–5.0	–3.9	–8.0	. . .	. . .	. . .
Kenya	2.4	4.1	5.8	9.3	4.1	5.0	–6.7	–6.7	–7.4	. . .	. . .	. . .
Tanzania	6.0	6.5	6.7	12.1	7.2	5.0	–10.0	–8.8	–8.8	. . .	. . .	. . .
Cameroon	2.0	2.6	2.9	3.0	3.0	2.7	–2.7	–3.9	–4.1	. . .	. . .	. . .
Uganda	7.2	5.8	6.1	14.2	9.4	5.5	–4.0	–6.4	–9.2	. . .	. . .	. . .
Côte d'Ivoire	3.8	3.0	4.0	1.0	1.4	2.5	7.2	6.8	2.5	. . .	. . .	. . .

	Real GDP 2009	Real GDP Projections 2010	Real GDP Projections 2011	Consumer Prices[1] 2009	Consumer Prices[1] Projections 2010	Consumer Prices[1] Projections 2011	Current Account Balance[2] 2009	Current Account Balance[2] Projections 2010	Current Account Balance[2] Projections 2011	Unemployment[3] 2009	Unemployment[3] Projections 2010	Unemployment[3] Projections 2011
Advanced Economies	**–3.2**	**2.7**	**2.2**	**0.1**	**1.4**	**1.3**	**–0.3**	**–0.3**	**–0.1**	**8.0**	**8.3**	**8.2**
United States	–2.6	2.6	2.3	–0.3	1.4	1.0	–2.7	–3.2	–2.6	9.3	9.7	9.6
Euro Area[4,5]	–4.1	1.7	1.5	0.3	1.6	1.5	–0.6	0.2	0.5	9.4	10.1	10.0
Japan	–5.2	2.8	1.5	–1.4	–1.0	–0.3	2.8	3.1	2.3	5.1	5.1	5.0
United Kingdom[4]	–4.9	1.7	2.0	2.1	3.1	2.5	–1.1	–2.2	–2.0	7.5	7.9	7.4
Canada	–2.5	3.1	2.7	0.3	1.8	2.0	–2.8	–2.8	–2.7	8.3	8.0	7.5
Other Advanced Economies	–1.2	5.4	3.7	1.5	2.4	2.5	4.8	5.0	4.9	5.0	4.8	4.7
Memorandum												
Newly Industrialized Asian Economies	–0.9	7.8	4.5	1.3	2.6	2.7	8.5	7.1	6.9	4.3	3.8	3.7

source: IMF

source: spain4uk.co.uk

Madrid, Spain

lenders.

But the current lull in lending in some economies goes beyond banks' unwillingness to take risks. In a new twist, consumers are as unwilling to borrow as financial institutions are unwilling to lend, resulting in a demand/supply quagmire that is hurting output severely in credit driven economies of Europe and America.

Lessons from the Crisis

The predicament of the global economic crisis of 2007-2010 has continued into the last quarter of 2010. Though the most affected economies have survived the decline, their growth rate remains uncharacteristically far below average. Unemployment rate remains high while interest rate is at near zero

percent. The quick bounce back that traditionally accompanies a recession of this scale has not been achieved; and this has impacted on recovery efforts in other parts of the world.

However, the pace of recovery might be record slow, but the recession and its aftermath have taught the world many useful lessons it will not forget in a hurry. It might not be over assuming to say that far reaching global economic reforms would evolve by the time this crisis is finally over, leading to a completely new era in financial services management.

To start with, all things being equal, the financial services sector will receive more regulatory attention than at any other time in global history. The Dodd-Frank Act in the US designed to overhaul the financial system and operators has already set the pace. The birth of 'bad banks' in Germany and Ireland to take bad loans off the balance sheet of troubled banks and shift them to the public sector is another post recession policy that would reshape the financial services industry in the coming years.

Another significant incidence which may not have come so soon but for the current downturn is the new Basel III In September 2010 the Basel Committee of international bank regulators agreed a new set of requirements for banks' liquidity and capital. These rules will require global banks to have common equity equal to at least 7% of their risk-weighted assets, up from the current 2%.

Experts opine that though these new rules may hurt lending they would at least enhance stability in the financial system. The new minimum common equity requirement will take effect in 2015, and the additional buffer, in 2019.

Lastly, developing economies, both those that have been directly impacted by the crisis and the few that luckily have been mere observers, would also have leant some useful lessons. While the temptation to copy trends in developed economies is rife in most of these countries, the vicious tests some of these trends have been put to by the current predicament are good reasons to be more insightful and meticulous in efforts to develop their financial services systems along global standards.

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

The Central Bank of Nigeria has released guidelines for a structural overhaul of the operations of banks, discarding the universal banking policy. In the new licensing model, banking will be calibrated in a capital scale and fitted into a four-tier operating structure of international, national, regional and specialised institutions. As part of the new structure, the Central Bank has also introduced a holding company model that permits a non-operating holding company to own banks and non-bank subsidiaries.

The eventual ending of the universal banking regime and the implementation of the new licensing model have far reaching implications for the banking industry. The most critical aspect of the consideration is the fact that universal banking was a market-induced evolution rather than a regulatory invention. It was the end of a quest to end competitive disadvantages for some class of banks and create level playing field for all.

The new bank licensing model will tamper with the concept of level playing field in marketplace competition and return the industry to institutional distinctions. This is an area of major interest in this analysis. The removal of barriers in competition and the crumbling of market segmentation in the financial services industry have since been a global trend. It will be interesting therefore to see how the Central Bank's four-tier structure ranks amid the market-induced trend towards financial markets integration at the global level.

New Banking Model in Nigeria: Opportunities and Challenges

*** By Mike A. Uzor**

An assessment of the nature and cost of compliance with the new licensing policy will be made in an effort to illuminate the path the banking industry will now have to follow. The likely effect of compliance on the banking public is of great importance when a bank with a national spread folds back into a regional entity, for instance. Also how much of welcome will a once regional bank receive elsewhere when it decides to go national?

How far does the Central Bank's new policy reckon with the need to diffuse ethnic and religious sensitivities? In a nation that needs a continuing effort to foster unity, what will be the fate of banks considered 'alien' during religious and ethnic crisis?

The timing of the new policy is also of prime importance in an industry that has been moving from one reform to another over the past one and half decades. Banking policy has been changing radically since the mid 1980s from virtually unlimited entries in the 1980s to massive closures in the 1990s and then to a forced consolidation in 2004. A look at the regulatory risk exposure of the banking industry will be made to weigh the cost and benefits of major policy changes.

The appearance of non-operating holding companies in the system has implications for regulation. What regulatory challenges can be expected and what level of cooperation among regulators will be needed to foster a coherent operating structure?

Evolution of universal banking

The introduction of universal banking in 2000 was the climax of a trend towards the submersion of institutional boundaries among banks, which began in the 1990s. The trend itself was triggered by high competition on the liability side of the balance sheet that followed the Central Bank's liquidity tightening measures in the 1980s. The first major hit on bank liquidity happened in 1986 when import deposits awaiting foreign exchange releases were demonetised. The second measures came in May 1989 when the Central Bank directed that all public sector related deposits in banks be transferred to the apex bank.

The severe liquidity cuts set banks on the most aggressive competitive battle that turned out to be a lethal combat. A critical element of the survival strategy was the pressure from banks to remove regulatory restrictions in competing for deposits. Between 1990 and 2000, banking regulation gradually responded to these demands. The first regulatory whistle for the eventual crumbling of institutional barriers between commercial and mer-

NEW CAPITAL STRUCTURE: REQUIREMENT FOR INTERNATIONAL BANKING LICENCE

Bank	Equity Base – Dec. 2009 [Nb]	Paid-up Capital – Dec. 2009 [Nb]	Capitalisation shortfall [Nb]
Zenith Bank	335.6	12.56	37.44
First Bank	309.6	14.50	35.50
GTB	187.1	9.33	40.67
UBA	181.5	10.78	39.22
Access Bank	167.6	8.13	41.87
Fidelity Bank	130.7	14.48	35.32
FCMB	129.6	8.14	41.86
Diamond Bank	105.6	7.24	42.76
Skye Bank	88.1	5.79	44.21
StanbicIBTC	80.5	9.37	40.63
Ecobank Nigeria	73.5	3.61	46.39

Source: Computed from banks' financial reports
Note that the amount specified for capitalisation will be less than indicated for banks that made bonus issues in 2009.

NEW CAPITAL STRUCTURE: REQUIREMENT FOR NATIONAL BANKING LICENCE

Bank	Equity Base – Dec. 2009 [Nb]	Minimum Capital Injection [Nb]	Remarks
Sterling Bank	21.1	3.9	
Unity Bank	0.7	24.3	Concluded public offer
Wema Bank	[45.0]	70.0	Concluded special placement offer
Oceanic Bank	[115.9]	140.9	
FinBank	[125.9]	150.9	
Bank PHB	[194.6]	219.6	
Union Bank	[238.3]	263.3	
Afribank	[258.1]	283.1	
Intercont. Bank	[380.1]	405.1	

Source: Computed from banks' financial reports

A major barrier however remained, which was the exclusion of merchant banks from providing payments services to customers by use of cheques.

chant banking sounded in 1991.

Banks and Other Financial Institutions Act [BOFIA] No. 25, 1991 granted commercial banks permission to engage in equipment leasing business, which was hitherto reserved for merchant banks. The decree also permitted banks to own subsidiary financial institutions, which they held unofficially then. By then diversification of operations to other arms of the financial services industry was in full gear and the permission granted in the decree was in reality an endorsement of an unstoppable trend.

Other regulatory responses soon followed in reinforcing the trend towards the disappearance of institutional boundaries in the banking industry. These include the lowering of the minimum deposit amount merchant banks were permitted to take from N50,000 to N10,000. The reduction at a period of high inflation and highly depreciated exchange rate meant virtually a permission into retail banking. In August 1996, the Central Bank exempted merchant banks from observing cash reserve requirements and the mandatory allocation of credit to the small-scale enterprises. This was in the effort to redress their competitive disadvantage.

A major barrier however remained, which was the exclusion of merchant banks from providing payments services to customers by use of cheques. This constrained the ability of merchant banks to access interest free liabilities. This barrier became a growing source of discontent and the agitation to create a level playing field continued.

In June 1999, the Central Bank responded to this demand by offering merchant banks the option to convert into commercial banks. The regulatory move provided a big door of opportunity to merchant banks and applications for conversions flowed. By the end of 2000, not less than 10 merchant banks had converted to commercial banking.

Conversion from merchant to commercial banking was an escape from operating restriction in a highly competitive environment. Besides, the objectives for

BANKS' COMPLIANCE WITH MINIMUM PAID-UP CAPITAL OF N50 BILLION

Bank	Paid-up Capital Dec 2009 - Nm	Minimum Capitalisation Required - Nm	Outstanding Shares - Million	Minimum Shares to be Issued Million	Minimum Bonus Issue Needed	Likely Post Capitalisation Vol. of Shares - Million
First Bank	16.316 +	33.684	32,632	67.368	3 for 1	130,528
Zenith Bank	15.698 +	34.302	31,396	68.604	3 for 1	125,584
Fidelity Bank	14.481	35.519	28,963	71.037	3 for 1	115,852
UBA	12.933 +	37.067	25,867	74.133	3 for 1	103,468
GTB	11.659 +	38.341	23,318	76.682	4 for 1	116,590
StanbicIBTC	9.375	40.625	18,750	81.250	5 for 1	112,500
Access Bank	9.040 +	40.960	18,081	81.920	5 for 1	108,486
FCMB	8.135	41.865	16,271	83.729	6 for 1	113,897
Diamond Bank	7.237	42.763	14,475	85.525	6 for 1	101,325
Ecobank	6.940 +	43.060	13,880	86.120	7 for 1	111,040
Skye Bank	6.609 +	43.391	13,219	86.781	8 for 1	118,971

Source: Datatrust

+Inclusive of bonus issued in 2009 or special placing in 2010

delimiting commercial and merchant banking such as avoiding conflicts of interest, excessive risk taking and possible abuses in credit and investment operations, were no longer tenable in the environment of liberalisation and deregulation of the financial services market.

By the end of the 1990s decade, the eventual end of the commercial and merchant banking distinction had come. In 2000, the Central Bank surveyed the operating environment for universal banking and gave approval to its introduction in principle. The guidelines for universal banking were issued in December 2000, creating a level playing field for all banks for the first time to extend their frontiers beyond traditional banking services. Under the guidelines, banks were permitted to engage in any or a combination of money market, capital market activities and insurance services.

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Changes expected from the new licensing model

The main target of the new licensing model is to withdraw the permission to banks to engage in non-traditional banking activities. A bank will only be licensed to operate core banking services specifically defined in it mandate. Since it cannot engage in any other financial markets activity, it will not be permitted to own a subsidiary and, in fact, will not need subsidiaries within the same geographical market.

Expansion of the business will be vertical only into new geographical markets and no longer horizontal into non-core banking business. This will ensure that a bank concentrates and specialises in the core banking business rather than try to be a financial supermarket, where fraudulent directors

often use subsidiaries to loot the vaults.

A bank will become either commercial or merchant. A merchant bank is required to have a minimum paid-up share capital of N15 billion. A commercial bank may be one of three types – regional, national, or international, with minimum paid-up capital requirements of N10 billion, N25 billion and N50 billion respectively. There will be specialised banks under which primary mortgage institutions, discount houses, development banks and microfinance banks are grouped. New comers to this group will be the proposed non-interest banks, which may be either regional or national.

Note worthy is the return from shareholders' funds to paid-up share capital in defining minimum capitalisation benchmarks for banks. The implication of this is that some banks will have to capitalise their reserves to comply with the requirement while some others will need fresh equity injection to meet the regulatory requirement. To the banks with negative equity capital, the new capital requirement is a big mountain ahead. They will need to make massive injections of new funds to cross the regulatory hurdle.

At present, 11 banks are in a position to meet the requirement of N50 billion paid-up capital for international banks without raising new money. They will however need to capitalise a large amount of outstanding reserves, which are more than adequate for that purpose anyway. Because regulatory policy shifted from paid-up capital to shareholders' funds during the consolidation exercise, paid-up capital amounts of banks are presently quite low relative to equity base.

Now that policy has swung back to paid-up capital, only the 11 banks are in a position to comply without seeking fresh capital injection. Capitalisation of reserves appears to be a more viable option for them than raising new money in the present environment. As per the table below, the least that may happen will be a four-fold increase in paid-up capital of these banks. This means outstanding shares will also multiply between four and nine times for the banks to comply with the new paid-up capital benchmark.

There is wisdom is 'ring fencing' banking, according to the Central Bank from non-banking business as a strategy to secure depositors funds. A good part of the huge losses that hit banks' revenues and capital stock during the financial crisis came from the operations of subsidiaries. In effect, the operations of banks' subsidiaries - that are mostly not within the regulation of the Central Bank, do expose depositors' funds to greater risk of loss.

International banks will be allowed to own banking subsidiaries in other countries only, which should not engage in any other business than banking. Operating mandates of foreign subsidiaries is however not within the Central Bank's authority. It seems that foreign subsidiaries of international banks will be the escape route for banks to do offshore what they will not be allowed to do at home. This is because it is likely to be easier and less costly for an overseas subsidiary to set up a new outfit in the country of residence than its holding company at home to incorporate a new company in the same country.

Some holding companies may resort to registering a local subsidiary that will oversee all its international operations. All foreign-based subsidiaries will then come under the umbrella of such an institution.

The holding company model

A holding company model is an essential part of the new licensing structure, as it provides a survival roof to house the numerous subsidiaries of banks already in existence. Without a holding company, all the existing subsidiaries of banks will need to either be sold off or shut down. The repeal of the universal banking guidelines requires

banks to divest from all non-banking subsidiaries.

The holding company isn't expected to be restricted to hold equities in only banks and financial services organisations. It will be owned by the shareholders that presently own the group of a bank and its subsidiaries. Since it is a regulatory invention, the Central Bank, is likely to see the need to spell out restrictive operating framework for holding companies at this stage.

Where a bank does not own its subsidiaries fully, only its proportionate share of the institution will be transferred to the holding company. Consequently, net profit made in a year will be split between equity holders of the parent company and non-controlling interest.

The principal activity of a holding company will be to provide banking and other financial [or non-financial] services depending on its regulatory authorisation through its subsidiaries within the area specified in its operating licence. A holding company will normally publish consolidated financial statements of itself and that of the group of its subsidiaries.

An income statement of a typical non-operating bank holding company will show dividends as its main revenue line, representing profit for the year. To the profit for the year, profit/loss from sale of investments and net valuation gains/losses are added or deducted to arrive at comprehensive income for the period. The holding company can be expected to share some assets with its subsidiaries, such as buildings, human resources, information technology and other infrastructures. That means it will have an opportunity to earn additional income and will also bear some costs, though it is considered non-operating. Such incomes and cost will however be relatively small.

The assets of the holding company constitute essentially investments in subsidiaries, which are represented by the sum of share capital and reserves on the liability side of the balance sheet. Consequently, in terms of the size of the balance sheet, a non-operating bank holding company will be significantly smaller than the group. This is because the principal assets and liabilities of the subsidiaries are not part of its financial position.

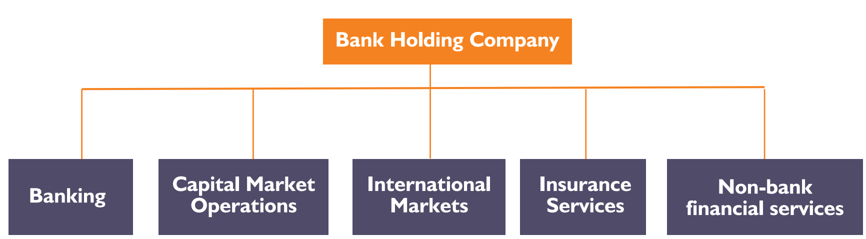
The specific surgical operation that will happen is to detach ownership and control of banks' subsidiaries from the bank itself. Ownership will be transferred to the holding company – where a group chief executive officer is expected to reside. The group chief executive officer will have responsibility to oversee and report on the operations of the entire group. The chief executive officer of the bank, like any of the other subsidiaries, will report to the group chief executive officer.

Responsibility for realising overall corporate objectives resides with the group chief executive. To that responsibility attaches the authority for planning and implementation of strategy needed to realise the group's corporate targets. Who becomes the chief executive officer of the holding company is not expected to be within the jurisdiction of the Central Bank.

The change over to a holding company model is very likely to involve rationalisation of existing subsidiaries of banks. It is not likely that all the subsidiaries at present would continue to exist as separate entities. Some of the subsidiaries are likely to be collapsed to form about five core areas of bank's operations at the moment. These are banking, capital market and international market. The rest are insurance services and non-banks.

It is pertinent to point out that while a holding company might have a com-

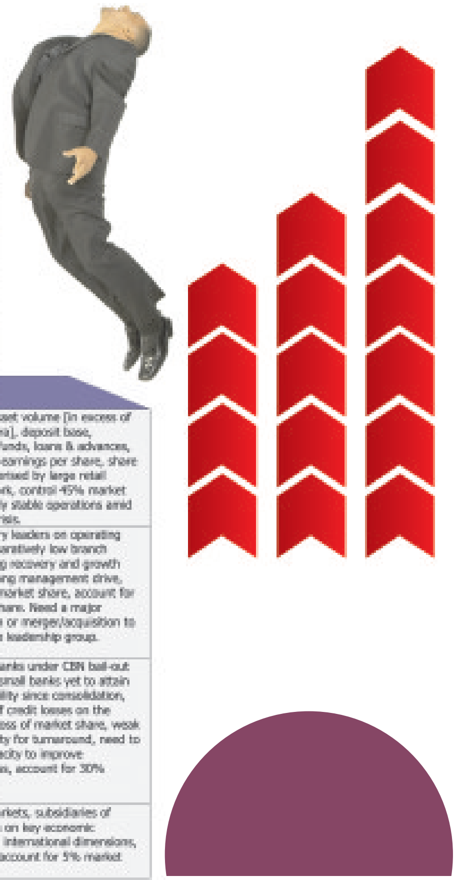
Likely Holding Company Structure



Banks' Competitive League 2010

Industry Leaders	First Bank, Zenith Bank, UBA GTB
Emerging Banks	Access Bank, Diamond Bank, FCMB Skye Bank, Fidelity Bank, StanbicIBTC
Restructuring Banks	Union Bank, Oceanic Bank, Intercontinental Bank, Bank PHB, Afribank, Sterling Bank, Finbank, Unity Bank, Wema Bank, ETB, Spring Bank
Niche Operators	Citibank, Ecobank, Standard Chartered Bank

Industry Leaders	Leading banks by asset volume [in excess of one trillion naira], deposit base, shareholders' funds, loans & advances, profit volume, earnings per share, share price. Characterised by large retail banking network, control 45% market share, relatively stable operations amid the financial crisis.
Emerging Banks	Rank next to industry leaders on operating stability, comparatively low branch visibility, strong recovery and growth prospects, strong management drive, likely to raise market share, account for 20% market share. Need a major recapitalisation or merger/acquisition to launch into the leadership group.
Restructuring Banks	A mixture of large banks under CBN bail-out and relatively small banks yet to attain operating stability since consolidation, large impact of credit losses on the capital stock, loss of market share, weak internal capacity for turnaround, need to build new capacity to improve competitiveness, account for 30% market share.
Focused Operators	Operate in niche markets, subsidiaries of foreign banks, focus on key economic sectors/activity with international dimensions, very few branches, account for 5% market share.



pany registrar as its subsidiary, the Central Bank isn't going to allow the company to handle share registration for the bank. How it will enforce this rule at the group level, which will now come under the domain of other regulatory bodies, will depend on the level of co-operation among financial markets regulators. Share registration fraud is believed to be so much that regulators are very likely to be unanimous in extending the restriction.

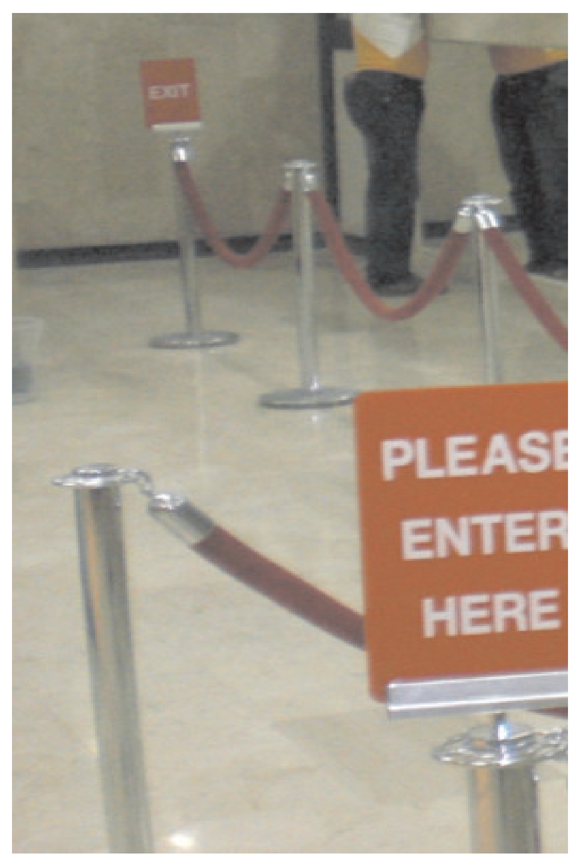
Significant regulatory changes will need to happen to permit the change to the holding company structure. The existing subsidiaries of banks were formed under different regulatory provisions of the Central Bank and those provisions will need to be collapsed to permit the restructuring that should take place. The permission granted banks to own non-bank subsidiaries under the enabling act will need to be withdrawn through necessary amendments. Withdrawal of universal banking licences may therefore be insufficient without amending the principal act.

Implications for competition

Banking, by its nature, is a business that thrives on reputation. Every bank strives to build around its personality images that create confidence and pride of association among the banking public. Why a potential depositor decides to open an account with a particular bank is because he believes that bank isn't in anyway inferior to any other bank accessible to him.

Competition in banking services has always been and will continue to be to portray an institution as superior in as many areas of operations as possible. Once a competitive edge is created by a bank or for it such as through regulatory policies or actions, others who fail to match that advantage will be sure to lose business.

Once a competitive edge is created by a bank or for it such as through regulatory policies or actions, others who fail to match that advantage will be sure to lose business.



During the period of financial distress in the banking industry in the 1990s and to some extent even today, the appointment of a bank for revenue collection for a government or government agency is regarded as an indication that the bank is financially healthy. Soon most banks secured such revenue collecting contracts with various government institutions and freely brandished the appointment letters to potential depositors.

Following the risk asset audit in banks in 2009 and the classification of eight banks as unhealthy, competition has tilted against such problem banks to the advantage of those rated healthy. The operating structure and market share distribution in the banking industry has been altered significantly to the disadvantage of the problem banks.

What prospects for regional banks?

As regulatory actions and policies affect industry competitiveness so do the ability or inability of banks to render financial services. Hence a regional bank based in the west will not attract people and institutions that do businesses in the east and the north. If it is an existing bank, its clientele base will most likely split as people seek to open accounts with national banks to be able to do what the regional banks will no longer be able to do for them. In that way a regional bank will be shorting its operating horizon.

The banks are permitted to operate in a minimum of six and a maximum of 12 contiguous states of the federation, which must lie within two geo-political zones. A major concern in that arrangement is that ownership is likely to reflect the chosen areas of operation, which will re-introduce ethnic dimension in the banking business.

In an era of high mobility of people and capital, it seems to me that the concept of regional banking needs a rethink. Such a bank does not appear to have been modelled towards customer orientation and will appear to be significantly disadvantaged in competition. If national banks can do all that regional banks can do and more, regional banks will gradually thin down to no more than microfinance banks and with time be driven out of business completely.

In a banking system where safety is yet to be attained, the notion would be 'if you are regional, you are not strong'. As merchant banks pressed to become commercial banks in the 1990s, it can be expected that regional banks will soon begin to press to become national banks even for survival. It seems to me that it is better for the system that they are not created in the first place.

There is however just one narrow door open for regional banks to establish a competitive edge and thrive in the country. This requires that they detract from general banking services and build their services around regional economies. This escape route is easier described than followed. A regional bank must of essence become an agricultural bank to develop survival roots and a successful one at that.

Perhaps the Central Bank expects that with such banks Nigeria could return to the era of groundnut pyramids in the north, the booming cocoa business in the west and the golden palm produce in the east. This will be wonderful but such banks will need to wear a complexion other than that of commercial banks to be able to accomplish that dream. They will need longer-term liabilities to provide development finance needed to build the plantations.

If the Central Bank doesn't have a clear answer as to how regional banks will be funded to get them deeply rooted in regional economies, such banks cannot survive the competitive hostility waiting to stifle them at birth. To that must be added concerns about the hostile operating environment that are not conducive for small-scale businesses to thrive in the country.

How to sustain regional banks without growing regional economies will perhaps be a new lesson in business strategy. High mortality rate for small-scale enterprises was the key factor that frustrated government-owned development banks. Strong growth in regional economies is a key requirement for regional banks to have a competitive edge.

Microfinance banks appear to have better prospects than regional banks. The significantly higher interest rate structure of microfinance banks gives them a competitive edge. Microfinance banks receive large funds in deposits because of comparatively higher interest rates they pay. They also charge as much as 50% per annum on loans they disburse.

Regional banks will appear to have

neither the operating advantages of national banks nor the operating freedom of microfinance banks. With time I see them migrating either upwards to become national banks or downwards to the microfinance banking class.

Who becomes a national bank?

The prospects for national banks will be defined by the category of existing banks that eventually belongs to this group. Nigeria Banking & Economy 2010 identified four categories of competitive leagues of banks. These include industry leaders, made up of the largest banks that passed the Central Bank's financial stress test and emerging banks, which are medium-sized healthy banks. The rest are restructuring banks – which constitute the big and small banks that were harder hit during the financial crisis and lastly focused operators, which are subsidiaries of foreign banks.

Most of the industry leading members and emerging banks are already largely international banks by virtue of a number of banking subsidiaries they have built offshore. Also, they have equity funds well above the paid-up capital benchmark of N50 billion specified under the new licensing structure. It can therefore be taken for granted that they will apply for international banking licences. Using their relatively large reserves to meet the paid-up capital requirement involves just accounting entries.

It can be expected therefore that national banks will emerge from the host of the restructuring banks most of which presently wear a Central Bank's label of 'unhealthy'. That exactly is where their problem begins. Apparently, they will become national banks not by choice but because they have no other option. They lack the ability internally to become international banks, suggesting that those of them that already have offshore subsidiaries will have to wind up such operations.

If national banks eventually emerge in this way, the market will not forget that they have competitive impairment. Consequently, the market-

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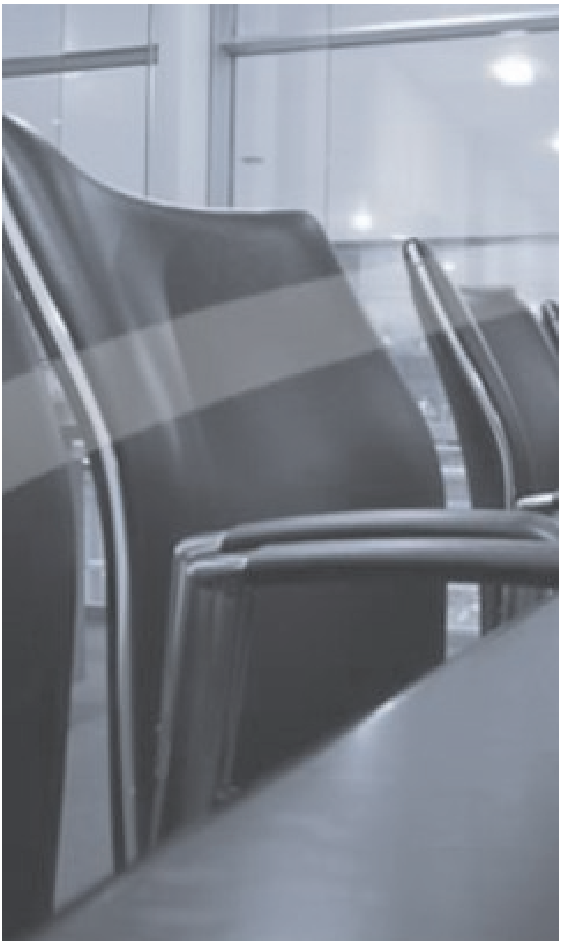
place use of the term 'national banks' will most likely refer to weakness. Such banks can be expected to continually fall below the red line of many organisations' list of approved banks for business relationships.

Again, since international banks can execute international transactions faster and perhaps at a lower cost, there can hardly be a justification for prime customers choosing a national bank. National banks cannot compete for plum businesses with international banks and win. The competitive disadvantage would likely return the system to the pressure to end institutional distinctions once again and create level playing field just as it happened in the 1990s.

The implication of the foregoing is that national banks are likely to be banks in transition. This means no bank would like to start and stay as a national bank and this applies also to regional banks that may have migrated into the group. While it may be the only option to get licensed as a national bank, the target ultimately will be to become an international bank.

As soon as each bank in this category puts its house in order, it will apply for international banking licence even if all it does is to open one obscure office in the West Coast backyard. A bank will need to wear the label of 'international' even for it to get business in the national market.

Looking ahead therefore, I see empty seats in both regional and national banking categories in a matter



of two to five years from licensing. The Central Bank's policy will initially disturb the competitive equilibrium of the banking industry and with time the operators would converge once again in one equal class. Most banks will strive to become international banks and are likely to attain that status in a matter of a few years from system shake up.

Niche banks to maintain the edge

Niche operators are likely to remain focused on their respective markets irrespective of whatever name they choose to call themselves. It would have been more appropriate for them to become specialised banks by virtue of their limited market focus. If they choose to answer national banks, their operations are not likely to be national in nature, neither does retail banking fit into the strategy of these (mostly) foreign banks' subsidiaries. These banks understand the markets they serve and can be expected to stick to their niche no matter the new licensing tag they are made to wear.

It is in respect of this class of banks that the new bank licensing model will test its credibility. The new licensing structure will follow the criterion of how much a bank weighs on a capital scale. This suggests that foreign banks' subsidiaries operating in Nigeria can apply and be licensed as national or international banks once they meet the qualifying capital requirements.

The possibility of foreign banks' subsidiaries - that operate here virtually as unit banks being licensed as national or international banks, needs a total reconsideration. Licensing banks on the basis of capital base against different market coverage will be misleading. There is a presumption that banks that must meet higher capital requirements also carry higher operating risk. This will be interesting to the Nigeria Deposit Insurance Corporation for the purpose of calculating deposit insurance premium.

How specialised will be specialised banks?

The patchy peace and unity that have held Nigeria together for 50 years derive from official emphasis of its secularity and a deliberate play down of ethnic and religious differences. Apparently, if the Central Bank decides to license banks that somewhat reflect regional and religious ownership interests, it may be with good intensions of promoting economic activity. In practical terms however, that move will be subject to wide interpretations and misinterpretations.

If we go down the path of history of banking development in this country, it will become obvious how licensing one bank along regional or religious dimension easily spurs competition in that direction. In the days of regional governments, each region competed to set up a regional bank. Western region registered Cooperative Bank of Western Nigeria in 1953 under the West Cooperative Societies Ordinance. The Eastern Nigeria government gave the Cooperative Union of Eastern Nigeria a grant of £10,000 to set up Cooperative Bank of Eastern Nigeria in 1954. The idea of Kaduna Cooperative Bank was first muted in 1960 but was eventually registered in 1972 as North Central Cooperative Bank Ltd.

After the civil war, during which the regional system of government gave way for a state structure, competition to build banks shifted to state governments. Every new state created along the line built a bank of its own. History is proof that banks built for reasons other than pure commercial considerations aren't going to be around for long. Of the 18 commercial banks in operation in 1977, 11 of them were owned either by state governments or regions. Of those 11, only Wema Bank is still in business today.

If the Central Bank licenses one regional bank, it should stand ready to license such banks for each identifiable region. The least it can expect will be six to cover each geo-political zone of the nation. Since the beginning of modern banking business in Nigeria, it had been impossible to separate politics from banking until the consolidation policy accomplished that feat in 2005. It is my candid opinion that the Central Bank should not reopen that chapter again.

If banking business is to return to ethnic ownership and a religious dimension is added to it still, we must fast and pray hard that there would be no ethnic or religious violence again. If not, we will only be adding banks to the list of houses, churches and mosques that are the usual targets for destruction during violence. Banks that wear religious colours will become the banks for the 'children of God' and other banks for 'unbelievers [sinners]'. If we let the marriage between religion and banking happen, it may not be possible for the Central Bank to ever put them asunder.

Cost of regulatory compliance

Every banking reform has a cost, some of which are quantifiable in money and others reflect in terms of time efficiency losses and customer inconvenience. A reform is tantamount to breaking down the existing structure and building up again a different one. The change process therefore involves a slow down and in some cases even complete stoppage of the system activity. Operators will have to return to the strategy rooms to recreate plans that will fit into the new operating environment.

Consultants will be extensively involved in the process of knocking down the existing structures and rebuilding according to the regulatory mandates. Such consulting jobs on an entirely new business organisation model are likely to be hired from outside the country. Their fees will expectedly be counted in foreign currency in a depreciating local currency environment.

There will be need for retooling in terms of both human and material resources. Part of the existing resources is bound to become obsolete as a result of the structural change. Job losses cannot be ruled out in the process of rationalising the existing subsidiaries of banks.

The extent of the structural overhaul that will take place and the cost of its implementation will depend on how far or close a bank is from its operating target. International banks are very likely to have the minimal structural changes. Their main task will be to restructure existing subsidiaries.

For banks that are already international in nature that would fold back into national or regional operations, the cost of such adjustments will be quite high. They will need to either sell or shut down branches and subsidiaries presently outside their new operating jurisdictions. If a national bank shrinks into regional operation and later seeks to re-enter the national market, the cost of exiting and re-entry will be enormous in terms of money, lost opportunities and strategic positioning in the marketplace.

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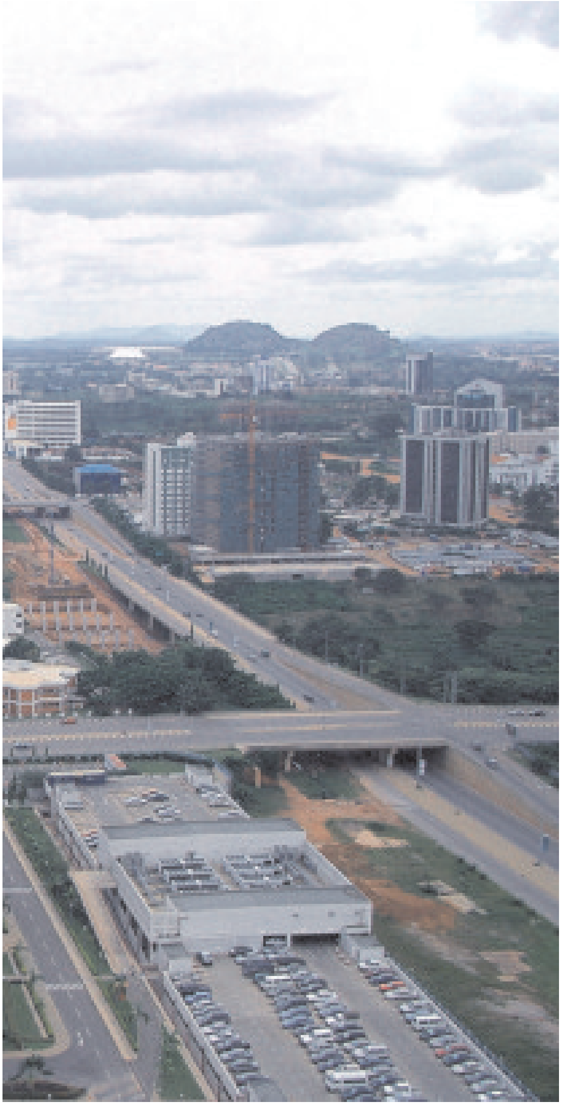
The cost and inconvenience to the banking public will also weigh high where a bank seizes to operate in the area. Will the bank choose to repay depositors their funds rather than give away hard won accounts to competitors on a platter of gold? Assume the Central Bank directs that such branches be sold to other banks, can it also guaranty that the selling bank and the potential buyer will agree on price? If they don't, what happens? If they do, the process of integrating the acquired branch will involve cost implications and inconveniences of service disruptions, particularly where technology platforms are different.

A direct implication of a once national bank folding into a regional entity is loss of market share. There is however just one condition under which that development isn't going to be a problem in the longer term. That is where there is a compensatory gain of market share in the regional market. Regulatory incentives will be required to provide competitive advantages that can make that happen.

Extreme caution is needed however in fashioning policies that may tamper with operating freedom and liberalisation in the marketplace. Regulatory policies must of necessity avoid creating captive markets that restrict competition in the banking industry. If other banks are significantly hindered in competing within the domain of regional banks, their holding companies will move to float regional or



specialised banking subsidiaries to counter those advantages.

It is not anticipated that a holding company will be restricted from owning more than one type of bank in its group. If regulatory policies tilt more to the side of excessive limitation to the holding company in a system that claims to be market-based, they are not likely to be sustainable. In a matter of time, it can be expected that holding companies would become the most powerful cartel in the economy. Only then will the full implications of the Central Bank's policy become clear: removing power from banks it can control and giving it to holding companies that it can't.

A major issue of concern is indeed how soon the banking sector will attain stability, which is important for it to devote more time serving the market than adjusting from one reform to another. It is apparent that the proposed changes will delay the attainment of that much needed stability. Considering also the scenario I have painted here of regional and national banks likely to migrate into international banking, the adjustment process for the banking industry will be much prolonged.

Timing of the policy change

There is no ideal time to institute a policy change in terms of the physical calendar. A policy change must first happen before the good or bad effects will be felt. The question therefore is: what is the nature of the policy input and the results anticipated?

Because measures in the banking sector are transmitted to the rest of the economy, regulators need to be fairly certain as to what changes the intended policy will make in the economy. Policy changes will be justified at any point in time that it can be shown that anticipated benefits far exceed the cost of the system disturbance.

Because banks are the medium to effect desirable changes in the real sector, it is important for the Central Bank to show how its proposed policy changes will stimulate economic growth and development across sectors and industries. The problem with banking reforms has been their focus on changes within the banking sector rather than the real economy that should determine what changes are desirable in the first place.

The need for changes in the banking sector, which is a service industry, ought to be driven by discovery of new opportunities in the real sector. Any changes in the banking sector that are not warranted by new developments in a number of sectors in the real economy aren't going to be much beneficial. A banking reform is expected to fit into the overall economic development strategy of the nation. Changes that are taking place in the economic structure should determine changes to be made (if any) in the banking policy.

A major fall-out of the banking consolidation policy is that it set out to build the banking sector and not the economy *per se*. The main target was to build banks as big as the big banks in other countries. We withdrew large resources from the rest of the economy to accomplish that purpose. In the end, there were no ready channels for the huge resources placed in the hands of banks to get into productive activities. This led to excessive concentration of banks in the financial markets.

It is important that the Central Bank does not let this costly mistake happen the second time. It needs to be pretty certain how the desirable changes needed in the rest of the economy warrant the changes it has proposed in the banking sector in clearly measurable terms. Banks are servants to the economy and we cannot reasonably set out on a mission to transform the servants without showing how that move fits into the strategy of accomplishing the master's objective.

*(*Mike Uzor is the MD/CEO, Datatrust Consulting Ltd)*

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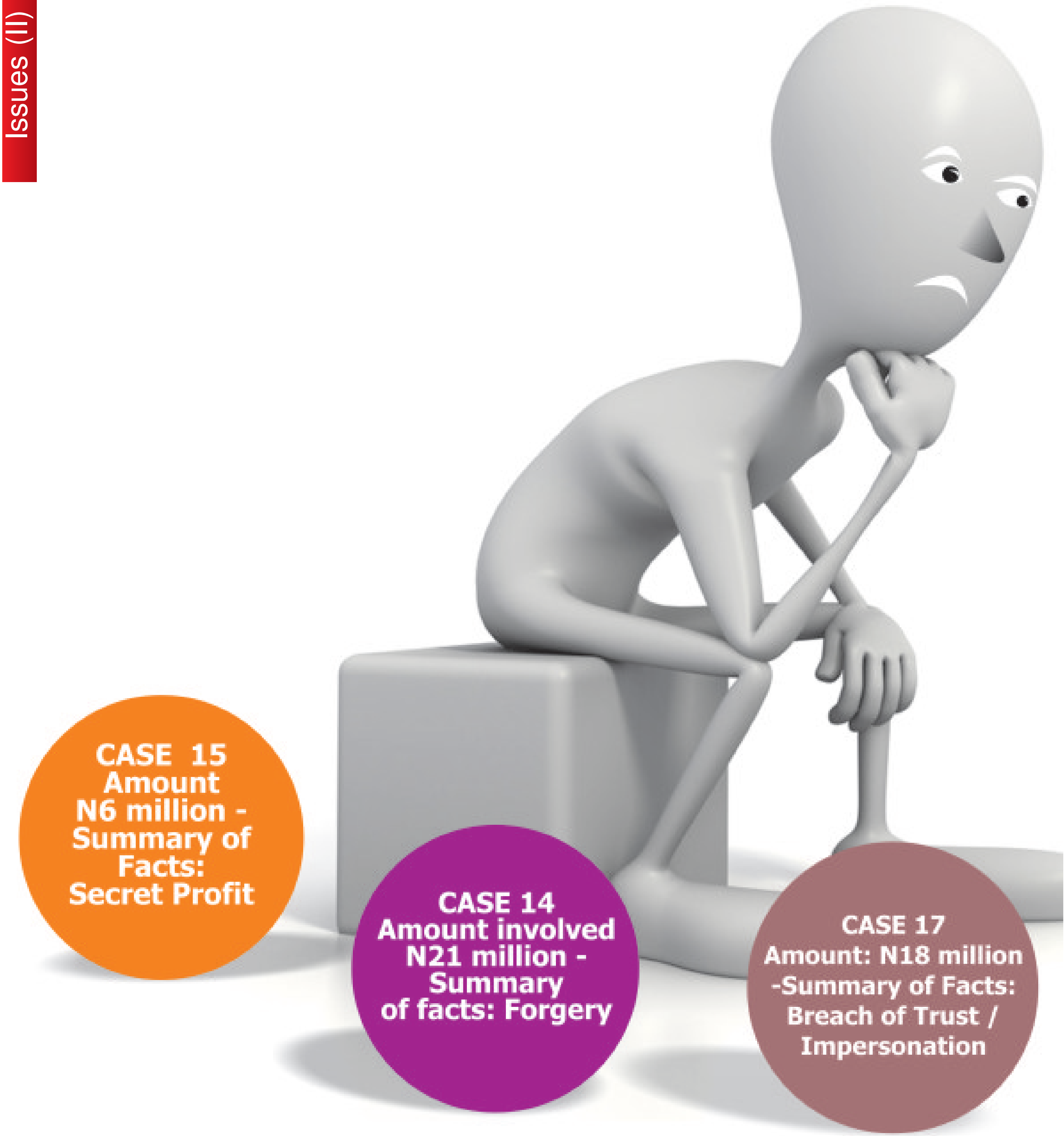
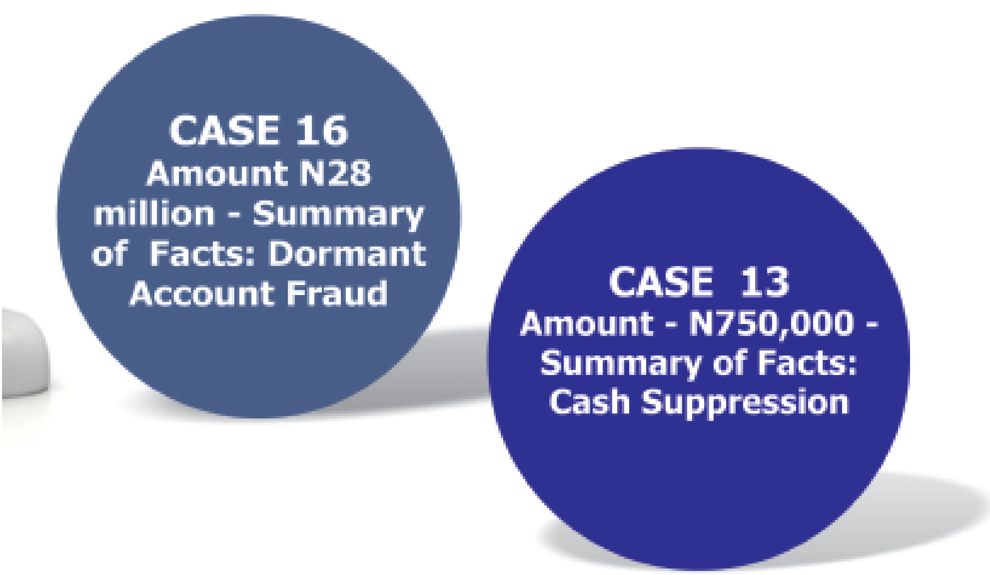

CASE 15
Amount
N6 million -
Summary of
Facts:
Secret Profit
CASE 14
Amount involved
N21 million -
Summary
of facts: Forgery
CASE 17
Amount: N18 million
-Summary of Facts:
Breach of Trust /
Impersonation

Quality & Internal Control In Banks: Practical Challenges (2)

* By Chuks Nwaze

As promised in the last edition of this serial, we shall continue in this edition and the next, to demonstrate the practical difficulties encountered on a daily basis by bankers and their customers not only as a basis for conflict resolution but also as input for general ethical re-orientation for the two parties as well as the larger society.

Although, reader-friendly language has been employed to reduce the technical details to the barest minimum, I shall continue to advise non-bankers to exercise some patience in order to appreciate the issues at stake as well as the lessons to be learnt from each case.



CASE 13

Amount - N750,000 - Summary of Facts: Cash Suppression

Mr. F who is a dispatch rider in bank F introduced a restaurant to his bank for banking relationship. Although everybody has a target to meet as a precondition for retaining their jobs, the operational guidelines of the bank does not permit a dispatch rider to handle customer deposit.

After opening account with the bank, Mrs. R who is the proprietor of the restaurant explained that the dispatch rider was well-known to her and should be allowed to be coming to pick her daily sales for lodgment. Although the manager declined this request, drawing her attention to the bank's policy, she stuck to her guns saying that was the only condition for the account relationship. The manager grudgingly accepted since he needed the account.

Having been subjected to this temptation Mr. F became "wise". He was lodging in less than what he was collecting from the restaurant. This continued for one month when Mrs. R requested for her statement of account. As the fraud was uncovered, Mr. F was apprehended for misappropriating a total of N750,000 but he had no money to return. Mrs. R insisted that the bank should refund the money stolen by their staff (i.e Mr. F).

Typically, a customer who wants to transfer Fx enters the branch to effect the transaction. The manager quotes the going rate plus his own margin which the customer is not aware of. The customer writes his cheque for the naira equivalent of the money he wants to transfer after completing the necessary forms.

Lesson:
As earlier pointed out, it is better to stick to the policy at all times. The manager should have insisted that the cash be picked up by authorized operation personnel which is the bank's standard practice. It is the anxiety to win an account at all cost that causes problems of this nature.

CASE 14

Amount involved N21 million - Summary of facts: Forgery

Forged transfer documents including a transfer instruction written on the letter-headed paper of G Ltd was submitted to bank G by the representative of a fraud syndicate.

The purported instruction from G Ltd to their bankers (i.e bank G) was that the sum of N21 million should be transferred to another company's account in another bank (the company's account in that bank was fraudulently opened by the fraudster).

Having implemented the instruction, bank G called G Ltd, asking that an authorized personnel should come and pick up the transfer documents. That was when G Ltd, responded that they were not aware of any transfer and that none was authorized. Subsequent investigation revealed the scam.

Although the internal collaborator in G Ltd was apprehended, the external members of the syndicate were nowhere to be found while the money was withdrawn in cash from the other bank. Both bank G and G. Ltd, are in court on the matter.

Lesson:
Authorized representative should always be formally introduced to the bank by the company, with an official letter containing the photograph of the person. If bank G had insisted on this standard procedure, the court case would have been avoided.

CASE 15

Amount N6 million - Summary of Facts: Secret Profit

The manager of one of the upcountry branches of bank C was in the business of foreign exchange transfer making money for the bank and also for himself.

Typically, a customer who wants to transfer Fx enters the branch to effect the transaction. The manager quotes the going rate plus his own margin which the customer is not aware of. The customer writes his cheque for the naira equivalent of the money he wants to transfer after completing the necessary forms.

The manager goes ahead to remit the amount required for the transfer to his head office and draws out his margin in cash. For a long time, business was booming and life was good until his branch staff started grumbling that he was "eating alone" and the practice was leaked to head office inspection department.

Subsequent investigation revealed that the manager had made a whooping sum of N6 million within a period of eighteen months, all of which was withdrawn with internal vouchers most of which were written and approved by him.

As the money did not belong to the bank and no customer had complained,

he was simply asked to resign.

Lesson
This manager set up a business within the banking hall, using the facilities of the bank to make secret profit for himself. It is more a breach of ethics than fraud.

CASE 16

Amount N28 million -Summary of Facts: Dormant Account Fraud

Mr. J who is an internal fraudster and a staff of bank J recruited an outsider to be used as a conduit for the purpose of siphoning fund fraudulently transferred to a dormant account by him.

To conceal their actions, the photograph of the outsider was used to supplant that of the real owner of the account. Hence, all that he was required to do was simply to show up in the banking hall and withdraw the money while Mr. J would make the money available in the dormant account through designated suspense accounts.

The scam became evident when the bank embarked upon a massive reconciliation of all suspense accounts. By then the syndicate had already withdrawn N20 million out of the N28 million fraudulently transferred so far from the dormant account while N8 million was still outstanding which was blocked.

Some of the syndicate members were physically apprehended while others ran away. The manager who was erroneously approving the withdrawals was also in the police net.

Lesson:
This is a case of abuse of suspense and dormant accounts in the absence of proper controls. This manager who did not keep track of what was happening in these two accounts has not earned his pay.

CASE 17

Amount: N18 million -Summary of Facts: Breach of Trust / Impersonation

Miss. L who was working in the private banking department of bank L. was giving oral instructions purportedly from the customers and with that she was able to draw millions of naira fraudulently from customers account without their authority or mandate.

Her approach was simple. She calls the branch manager or treasury department and requests that a customer's investment should be debited with N1 million and made available to her in cash for onward delivery to the customer who is too busy to come to the bank. Several of these types of instructions were received and complied with.

Before the customers knew what was happening, a total of N18 million had been siphoned out by this lady who was liked by all because of her good looks and manner of approach. Meanwhile, the customers denied giving any such instruction to her. Some of them engaged the services of lawyers to sue the bank if their money was not given to them.

Eventually the bank paid them but shared the loss among all the staff whose signature appeared on the unauthorized withdrawal instruments while the lady was handed over to the police. She later confessed, attributing her action to satanic attack.

Lesson:
This is a breach of elementary controls. How can an oral instruction be carried out without a written document either before or after the transaction? It is also a case of breach of trust by Miss L; trust is a major ingredient in banking.

CASE 18

Amount: N400,000.00 -Summary of Facts: Forgery

Customer C in bank C issued his cheque to a third party for household items supplied to him. Although the payee did not intend to lodge the instrument into his account in another bank until a much later date, this fact was not made known to Mr. C.

However, a parallel cheque (forged) of the same amount and date but made payable to a different payee came through clearing. In their half-hearted effort to confirm the instrument from Mr. C, the officials of bank C simply asked the customer whether he issued any cheque for N400,00.00 to which he replied in the affirmative; the bankers dropped the phone and paid the cheque which turned out to be a forgery. The following two days the genuine instrument arrived and was also paid.

Mr. C declined to accept the debit in respect of the forged cheque that came earlier as he was not given enough information to enable him confirm or reject it. Eventually, the loss was shared equally between customer C and bank C.

Lesson:
Telephone confirmation is ineffective if the customer is not given complete information concerning the instrument to enable him determine its fate or authenticity.

CASE 19

Amount involved N8 million - Summary of facts : Forgery

A staff of bank X forged the letter-headed paper of one of the customers as well as the signatures of the authorized signatories of the company which were contained in the mandate cards in his custody.

He also forged a letter of authority from the customers requesting the bank to pay the vendors of generators the sum of N8 million for the acquisition of some sound-proof generating sets.

The bank complied with the directive. However, the staff took delivery of only two generating sets and went behind to collect the remaining amount of N6 million for equipment not delivered.

He was subsequently caught and charged to court for fraud and forgery long after the offence was committed.

Lesson:
It is unbelievable that one individual started this transaction and carried it through successfully. This shows that the internal control system of the bank is very weak or even non-existent . Many more frauds will take place in this bank if the system of internal control is not immediately improved upon through segregation of duties.

CASE 20

Amount N5.2 Million - Summary of Facts: Cash Suppression

Bulk tellers in bank R formed a powerful syndicate and were doing teeming and lading with overnight cash which was always very heavy in that branch. Although customers were given their own copies of pay-in – slip, their accounts were not being created with the amounts on the slip on the days specified. They will use a new deposit to make up an earlier one which

Mr. C declined to accept the debit in respect of the forged cheque that came earlier as he was not given enough information to enable him confirm or reject it. Eventually, the loss was shared equally between customer C and bank C.

is short.

The fraud came to light when one big- time customer made a substantial lodgment for the purpose of Fx transfer which was not effected because the Naira equivalent did not enter the account. He protested. When head office got wind of the issue, investigation commenced.

They later confessed in police custody and some of the money was subsequently recovered. However , because the practice had been going on for over two years, the total amount unaccounted for came to N5.2 million. The predominantly illiterate but wealthy depositors in that metropolis who did not have good accounting or reconciliation systems were enraged with anger and quickly started moving their business transactions to other banks.

Lesson:
This is cash suppression arising from teeming and lading. It is difficult to eliminate but better supervisory controls will reduce it drastically , coupled with proper scrutiny of the type of individuals being employed to handle cash.

CASE 21

Amount: N220 million - Summary of Facts: Fraudulent Diversion of fund

The manager of an up- country branch of bank D (which was experiencing liquidity problems) whose bank was duly approved to collect federal government revenue became a popular center for the payment of tax revenue. Hence, FBIR cheques were pouring into the bank on a daily basis which were being cleared for onward transfer to the federal treasury in line with the guidelines which all approved banks signed.

In the case of bank D, however, this was not happening. Instead, the money was being siphoned out by the manager, in concert with a powerful syndicate outside the bank which was also responsible for the large volume of FBIR instruments entering into this particular branch.

It was not long before the scam leaked. But before security agents could move into the bank, the manager was already overseas with his family. The head office of bank D feigned ignorance of the fraud but nobody believed them.

The banking license of bank D was subsequently withdrawn by the regulatory authorities .

Lesson:
Bank D committed economic crime against the state , hence it deserves the punishment . However , the fraud was predictable since bank D had long been distressed and should have been de-listed from the approved list of revenue collectors which was not done because the ownership of the bank was friendly with some powerful people within the corridors of power.

CASE 22

Amount: N12.5 million - Summary of Facts: Abuse of Lending Process

Mr. P who was a staff of bank P applied and was granted consumer loan under the assets acquisition scheme by several banks on the security of the assets being financed as well as the facts of his being a senior staff in bank P. On approval of a facility by a bank, the usual procedure was to issue the cheque in the name of the vendor who would in turn deliver the leased assets to the lesses (i.e. Mr. P).

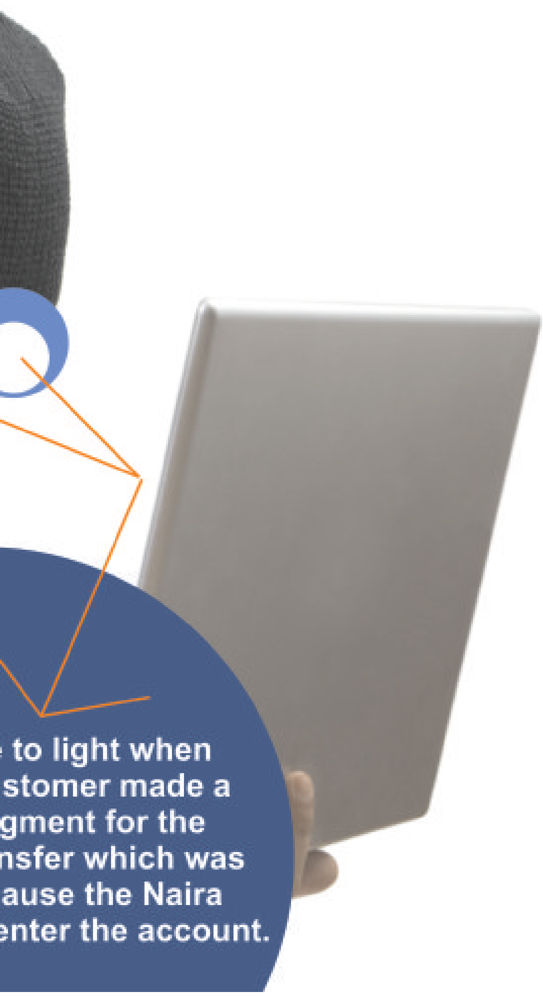
Mr. P was in a hurry to get rich and resign from banking into less stressful and more financially rewarding venture. Hence, he obtained several lease facilities not only in his name but also in the name of some of his colleagues in the office. on a monthly basis he would make the monthly repayment into those accounts in the banks concerned.

At a stage, he needed to take a new facility in order to service the old ones, hence he started defaulting as he had gone round virtually all the banks that were operating the asset acquisition scheme. Remember that Mr. P was not really acquiring the assets; he had a way of going behind to collect back the money from the vendors , while the banks were not doing physical inspection of the assets.

Thus, when the hapless bank moved in to repossess the assets following persistent default, they discovered to their dismay that the "leased" assets were not in existence. Mean while, Mr. P had resigned his appointment from bank P when the pressure from the creditor become unbearable.

Most of the banks have since resorted to the security agencies or those who guaranteed Mr. P on the various facilities for the recovery of same.

Lesson:
This is a case of term loan disguised as a lease contract against the intention of the bank. It is fraudulent because the asset was not actually acquired, but the fraud would



caradvice.com.au

not have been discovered had Mr. P not defaulted. The banks should have supervised the delivery and installation of the assets through physical inspection.

CASE 23

Amount involved N5,000 - Summary of Facts: false shortages

A customer of an up-country branch of bank P did not like coming to witness the counting of his overnight cash. He brought in bags of money from his shop in the evening and could not afford to return to the bank in the morning for cash counting since he must be in his shop.

As is customary, he executed an indemnity for the bank. But in addition, he volunteered to be dropping the sum of N5,000 .000 on each occasion which should be used to make up any shortfall in his cash should the need arise.

Curiously, the teller would always inform him that there was a shortage in his money but that they had made it up with the N5,000 he dropped and this happened on several occasions.

On one particular occasion, however the customer wanted to know how much was the actual shortage which they would not tell him, hence he reported to the manager. Although he confirmed that he has dropped a total of N50,000 in that manner, it was not clear how much shortage had actually taken place, if any. However, when the cashier was changed, he stopped dropping money while no shortage was reported.

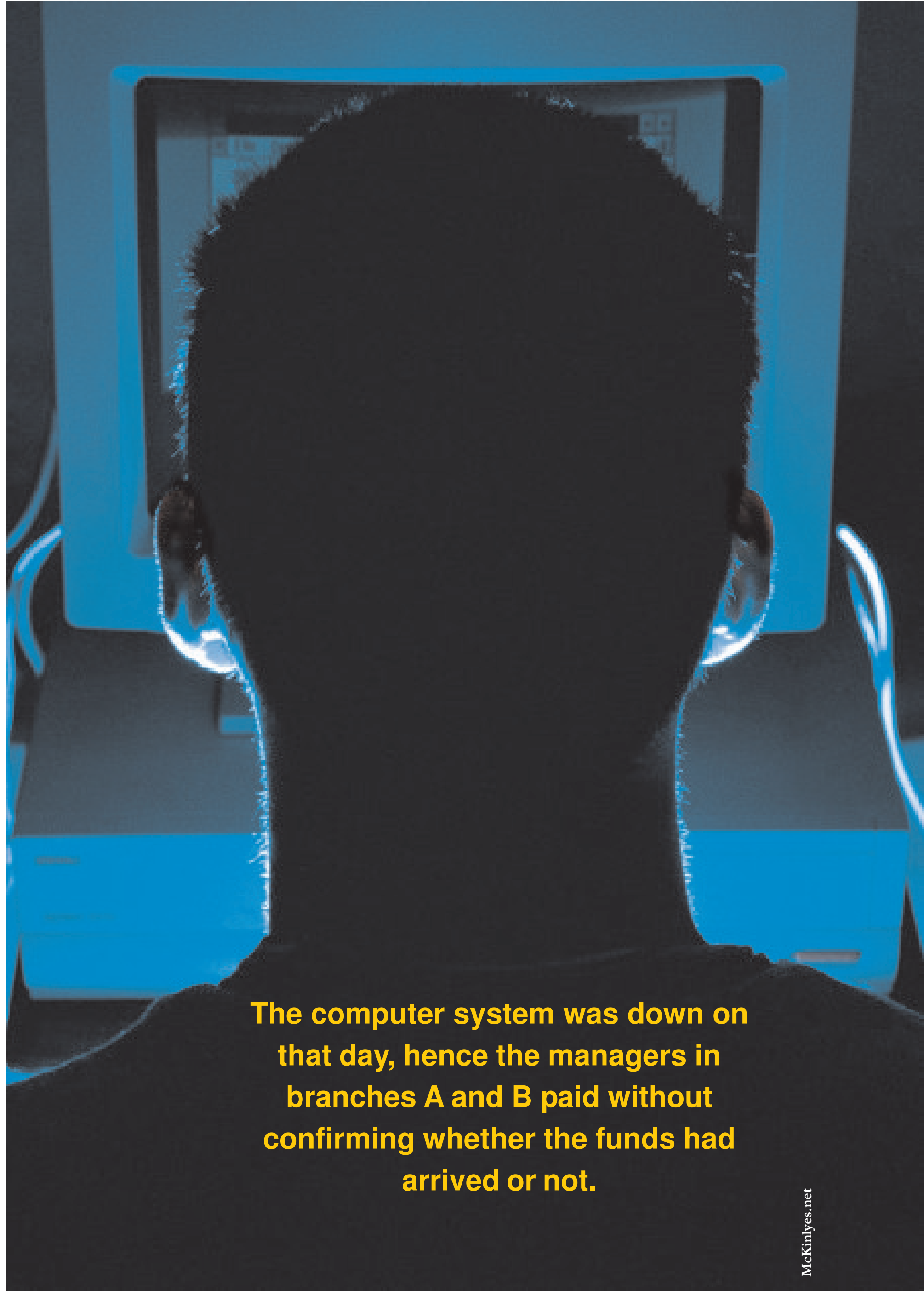
Lesson

In a large number of cases including this one, it is the customer that creates opportunities for staff to commit fraud. If customers can play by the rules of the game, loopholes for fraud will be less and the system will operate better.

CASE 24

Amount N4 Million - Summary of Facts: Syndicate Fraud

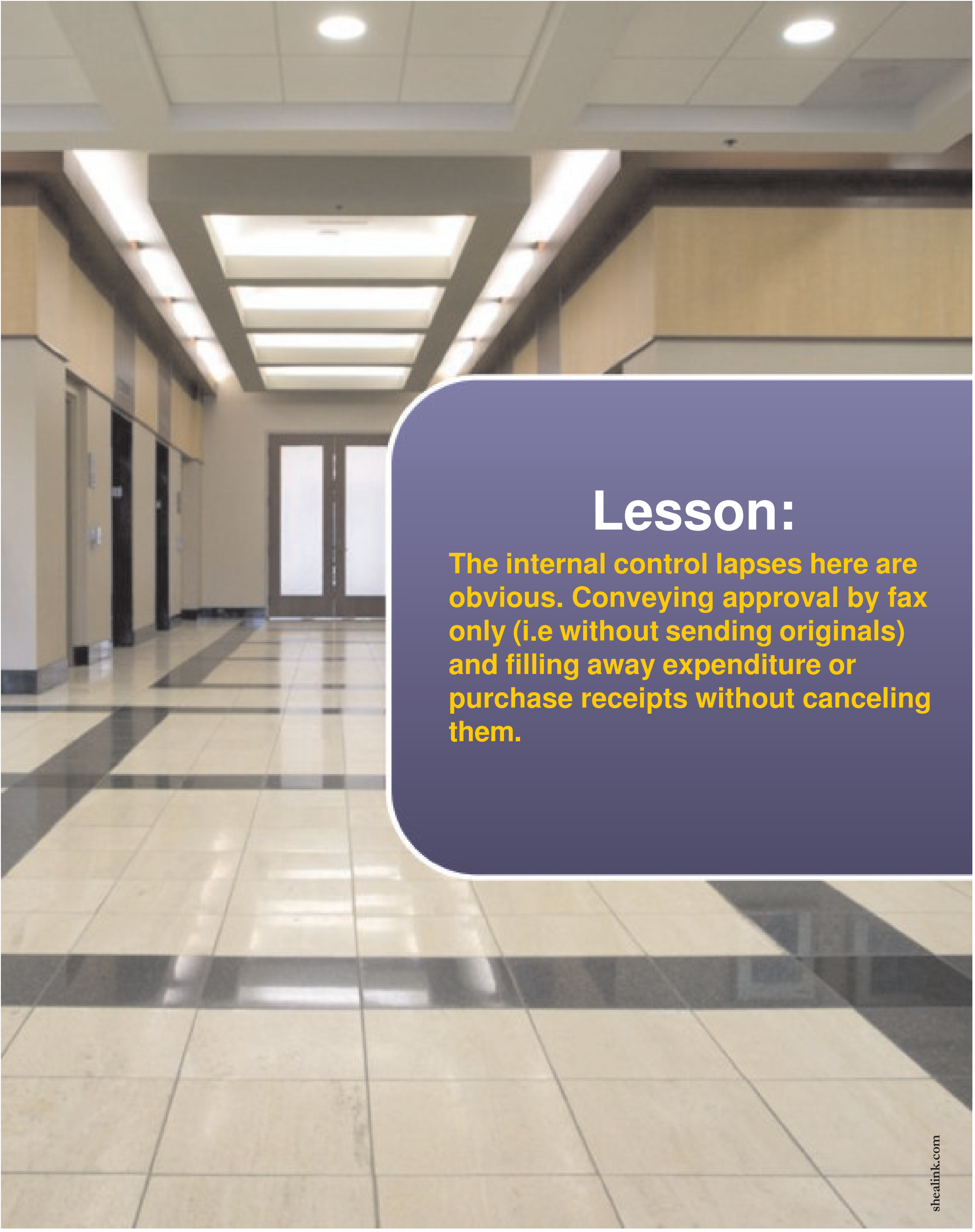
Two members of a fraud syndicate (both are ex-bankers) positioned themselves in branches A and B of a bank



armed with forged international passport for purpose of identification. Their mission was the same: To collect money fraudulently from the internal money remittance system of the bank using account of a well known customer in branch C of the bank.

With the assistance of their internal collaborator all the transfer documents and details were completed apart from the fund itself that could not be fraudulently transferred from the customer's account from branch C because the senior officers in charge of the authorization could not be recruited into the syndicate.

The computer system was down on that day, hence the managers in branches A and B paid without confirming whether the funds had arrived or not. Manager A 'spoke' with manager C who gave him the go ahead to release the fund (this was denied by



Lesson:
The internal control lapses here are obvious. Conveying approval by fax only (i.e without sending originals) and filling away expenditure or purchase receipts without canceling them.

Manager C) while manager B relied on the transfer documents and paid since the telephone lines in branch C did not work that day.

Everything turned out to have been fraudulently done, including tossing the telephone lines in branch C. None of the syndicate members was caught. The managers in branches A and B were asked to refund the N4million released to the fraudsters.

Lesson
This was a large syndicate which included telephone operators as well as insiders in the bank in question who cashed in on the system down time to strike. This level of coordination is unusual and difficult to anticipate. The manager in branches A and B should have erred on the side of caution by refusing to pay this amount of money during the uncertainty occasioned by system down-time.

CASE 25

Amount N1.6million - Summary of facts: Imprest Racketeering

The officer in charge of imprest in branch K of a bank was involved in the recycling of invoices in respect of stationery and other items which had already been purchased in the past and was using it to collect money for his pocket. He was duplicating imprest approvals.

In that bank, the branches must seek approval for replenishment of their imprest on a regular basis and these approvals were usually communicated to them through fax. He would make a photocopy of the approval and use both original fax and the photocopy to collect cash at different times. To retire the expenses, he recycled used LPOs and other receipts that were not cancelled.

The scam was discovered when a new internal auditor was assigned to the branch and he decided to look into expenses incurred as well as the backing documents. Investigation revealed that a total of N1.6 million had been fraudulently collected in this manner by the officer.

Lesson:
The internal control lapses here are obvious: conveying approval by fax only (i.e without sending originals) and filling away expenditure or purchase receipts without canceling them. The loopholes were simply too many, it was only a matter of time for it to be capitalized upon by a fraudulent operator.

(* Chuks Nwaze is a Managing Consultant /CEO, Control & surveillance Associates Ltd)

Yankari Game Reserve, Bauchi, Nigeria
source: skyscrapercity.com

Tourism in Nigeria: From Backwater to The Front Burner

* Sunday Enebeli-Uzor

It is widely acknowledged that Nigeria is endowed with enormous tourism resources. The industry which presently contributes less than three percent to the nation's Gross Domestic Product (GDP) has the potential to become a major source of foreign exchange in the economy, second only to petroleum. In a bid to harness the industry's vast potential, the federal government has set out to make Nigeria the preferred destination in Africa and among the top 20 in the world. According to the World Travel and Tourism Council, the industry presently accounts for 0.5 percent of total employment in the country, and can significantly impact on the economy through its linkages with infrastructure services – airports, roads, rails and ports, as well as basic infrastructure services required by hotels, restaurants, shops, and recreation facilities.

The World Travel and Tourism Council ranks Nigeria's tourism industry 62 in absolute size worldwide, ahead of Kenya which ranks 84. Presently, tourism is Kenya's largest foreign exchange earning sector and contributes nine percent of its GDP. The industry contributed 7.4 percent to South Africa's economy in 2009 with more than 9.9 million foreign arrivals to the country. Recent statistics show that the tourism industry in Nigeria is growing at six percent with international arrivals up by 17.5 percent. The federal government has renewed its commitment to the industry's development through the re-branding campaign and the strategic

source: cometonigeria.com

plan for the industry in the Vision 20: 2020. These programmes are beginning to yield positive results and in the near to medium term, the tourism industry is set to be the preferred hotspot for investment in Nigeria.

With excellent climatic conditions, year round sunshine, vast waterfalls, unique wildlife, gorgeous and roomy rivers and beaches, rocky hills, awesome natural environment, splendid parks, and protected areas, Nigeria is a tourism haven and an ideal destination for holidaying. The country also has exquisite cultural attractions which include ancient slave sites and routes, museums and monuments, palaces and shrines, works of art and craft, and interesting local customs, festivals and carnivals. As Africa's largest country with a population of over 140 million people, Nigeria constitutes one-seventh of the continent's population and nearly one-quarter of sub-Saharan Africa's population. Estimates have it that one in every six black people in the world is a Nigerian. Spanning an area of

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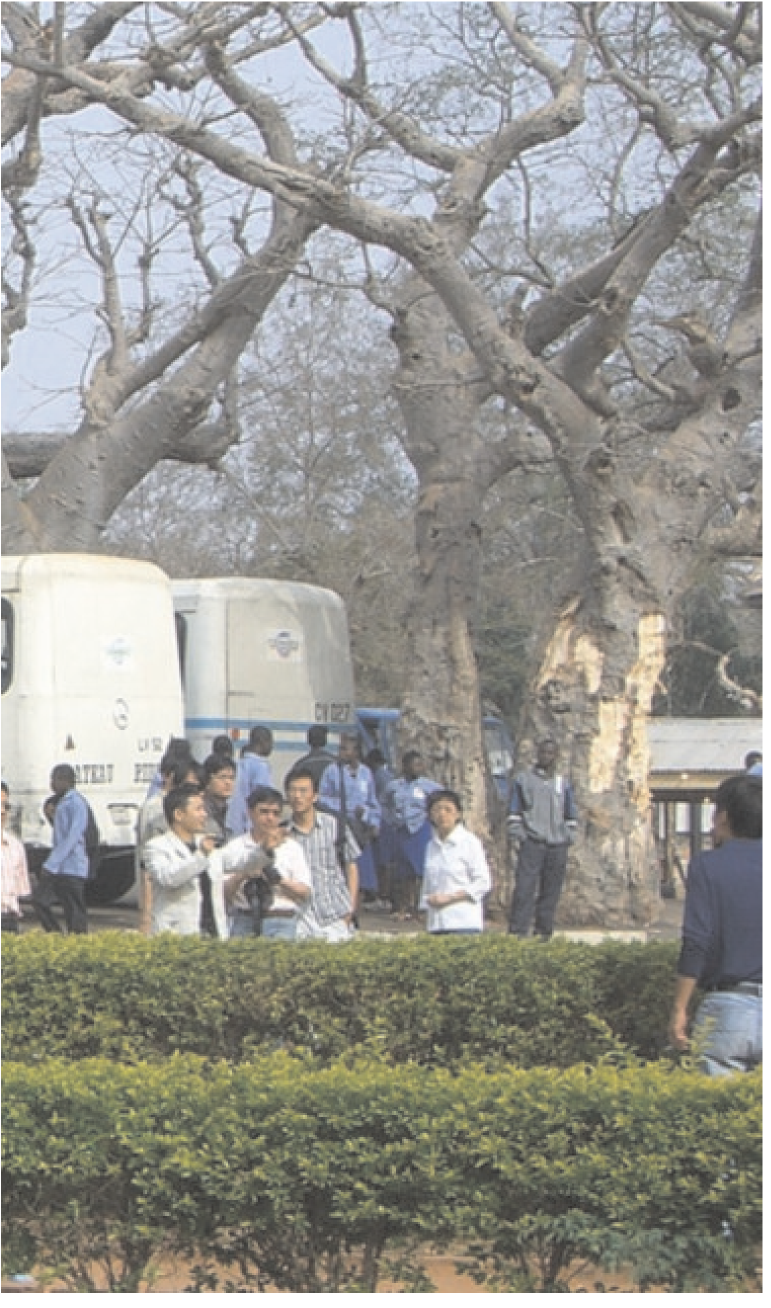


Tourists at Yankari Game Reserve, Bauchi

924,000 square kilometres, bordered by the Gulf of Guinea, Cameroon, Benin, Niger, and Chad, Nigeria is home to over 250 ethnic groups speaking more than 500 indigenous languages and dialects. With a topography ranging from mangrove swampland along the coast to tropical primary rain forest, guinea savannah grasslands, and the Sahel savannah to the north near the Sahara desert, the country is rich in ecological and cultural tourism resources.

Tourism has become one of the world's largest industries and one of its fastest growing economic sectors. It is a leading industry in the service sector as well as a major provider of employment and a significant source of foreign exchange. For many countries, tourism is an instrument for regional development as it stimulates new economic activities. The industry has positive economic impact on a country's balance of payments, employment, gross income and production. Tourism plays a catalytic role in economic development by jumpstarting other sectors through its multifarious linkages. Various key indicators are used to determine the contribution of tourism to the economy since its contribution is not measured in terms of goods produced. It stimulates the exchange of educational, recreational and cultural values. As people move around and interrelate with others, they bring with them their own value system and learn the ways of life of others. This goes a long way to foster a better relationship amongst people and contribute to global partnership in economic activities and engender international goodwill, friendship and world peace.

According to the World Travel and Tourism Organization and International Hotel and Restaurant Association, travel & tourism is the world's largest industry and creator of jobs across national and regional economies. The industry is estimated to directly and indirectly contribute 11.7 percent to global GDP and will create 255 million jobs in the global economy this year. These jobs are spread across the economy – in retail, construction, manufacturing and telecommunications, as well as directly in travel & tourism companies. Travel & tourism engages a large proportion of women, minorities and young people in small and medium sized companies in both developed and emerging economies.

The 1992 United Nations Conference on Environment and Development (UNCED), the Rio Earth Summit, identified travel & tourism as one of the key sectors of the economy which could make a positive contribution to achieving sustainable development. The Earth Summit led to the emergence of Agenda 21, a comprehensive programme of action adopted by 182 governments to provide a global blueprint for achieving sustainable development. The industry contributes to development that is economically, ecologically and socially sustainable, because it has less impact on natural resources and the environment than most other industries. It is based on leisure and an appreciation of local culture, built heritage, and natural environment. The tourism industry provides an economic incentive to conserve natural environments and habitats which might otherwise be allocated to more environmentally damaging uses, thereby helping to maintain biodiversity.

The main game-viewing area of the reserve is open all year round and has attracted Japanese, Western Europeans, Americans and Southeast Asian tourists over the years.

source: cometonigeria.com

Tourists at Yankari Game Reserve, Bauchi

Institutional Regulation of Tourism in Nigeria

The tourism industry is properly regulated at the tiers of government in Nigeria. The Federal Ministry of Culture and Tourism is the apex regulatory authority in the industry. The Ministry was established in June 1999, following the harmonisation of Culture and Tourism as a Ministry from Federal Ministry of Information and Culture and Federal Ministry of Commerce and Tourism. It is responsible for the overall promotion of the nation's immense rich cultural heritage and initiation of policies to position Culture and Tourism as leverage for economic growth and development. The Ministry formulates and implements policies aimed at diversifying the economy through tourism. Its core mandate is to promote culture and tourism as a foreign exchange earner, income distributor, and major employer of labour, a catalyst for rural development/poverty reduction and fostering peace.

In order to effectively deliver on its mandate, the Ministry runs eight parastatals namely: National Commission for Museums and Monuments (NCMM); National Council for Arts and Culture (NCAC); Nigerian Tourism Development Corporation (NTDC); National Gallery of Art (NGA); National Institute for Cultural Orientation (NICO); Centre for Black and African Arts and Civilization (CBAAC); National Troupe/National Theatre of Nigeria (NT/NTN); and National Institute for Hospitality and Tourism (NIHOTOUR). The National Commission for Museums and Monuments is responsible for the administration of national museums, antiquities and monuments throughout the country. It also constructs, maintains and manages national museums/outlets. On its part, the Nigerian Tourism Development Corporation has the mandate to standardise and sensitise the tourism industry through registration, inspection, classification and grading of the hospitality and tourism enterprises. It identifies, assesses and documents tourism sites and attractions for development/investment and promotion purposes, and provides tech-

source: cometonigeria.com

Animals at Yankari Game Reserve, Bauchi

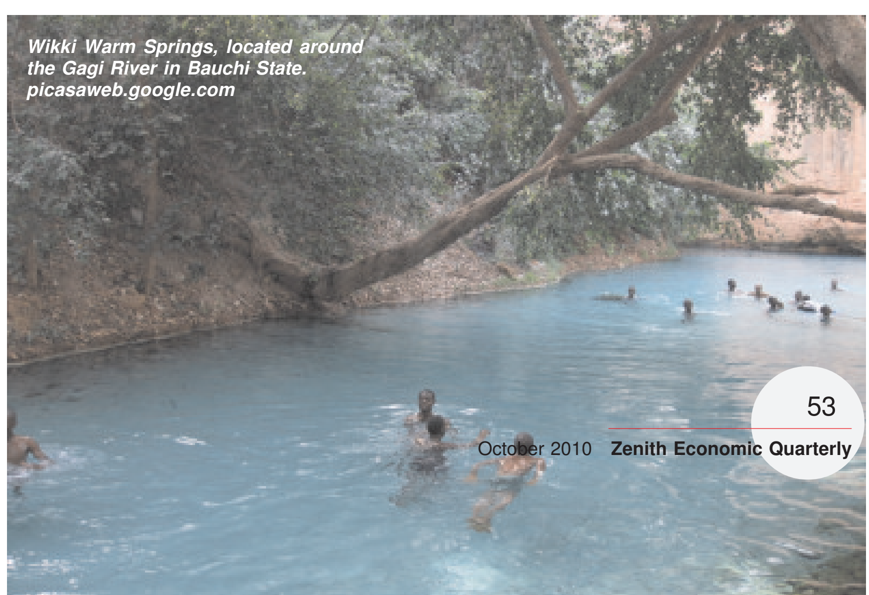
nical and advisory services to the public.

The National Gallery of Art is responsible for building different kinds of galleries. For example, Portrait Galleries, Galleries of Modern Arts, The National Hall of Fame, Galleries of Contemporary Islamic Arts, Galleries of Contemporary Christian Arts, National Photographic Gallery, National Gallery of Architecture and Designs, and Special Workshop/Studios Project. The National Institute for Cultural Orientation is responsible for the building up of personnel and materials for innovative study and development of Nigeria's history while the Centre for Black and African Arts and Civilization (CBAAC) deals with preserving the legacies arising from FESTAC '77 through public lectures, discussions, symposia and performances. On its part, the National Theatre/National Troupe of Nigeria encourages the discovery and development of talents in the arts, and promotes healthy cultural activities and habits in the society. The Nigerian Institute for Hospitality and Tourism provides supervisory management courses for middle and managerial cadres as well as upgrading courses for junior and middle level cadre personnel in the tourism industry.

At the sub-national levels, there are also government agencies responsible for the coordination and implementation of tourism policies. Each state of the federation has a Ministry of Culture and Tourism that implements policies from the Federal Ministry of Culture and Tourism. They also initiate projects and control land allocation and development of tourism in their respective states. They regulate the operations of hotels and catering institutions in line with the policies of the federal government. Local Government Tourism Boards were established at the local government level to locate and identify potential tourist attractions in their respective areas. They serve as information centres and provide tourist guides. They also preserve and maintain monuments as well as museums in their areas of jurisdiction.

Some Ecological Tourism Attractions in Nigeria

Nigeria is endowed with a plethora of ecological tourism sites that have attracted tourists from within and outside the country. The Yankari National Park is the premier game reserve in Nigeria. The Yankari Park and Wikki Warm Springs, located around the Gagi River in Bauchi State is one of the most popular and beautiful game reserves in Nigeria. The main game-viewing area of the reserve is open all year round and has attracted Japanese, Western Europeans, Americans and Southeast Asian tourists over the years. The reserve covers 2,058 sq. km. of savanna wood-land stocked with elephants, baboons, waterbucks, bushbucks, oribi, crocodile, hippopotamus, roan ante-



Wikki Warm Springs, located around the Gagi River in Bauchi State.
picasaweb.google.com

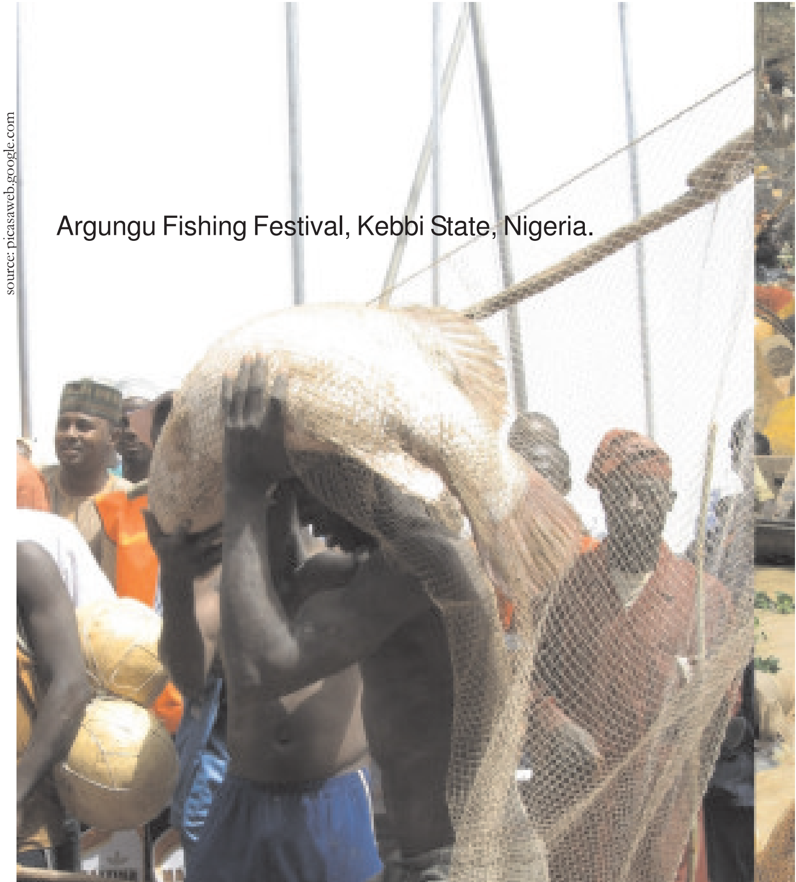
lope, buffalo and various types of monkeys. Lions are also occasionally spotted in the reserve. The Wikki Warm Springs is one of the outstanding features of the game reserve. The spring which gushes out from under a cliff where the water is 6 ft. deep, has a bathing area that extends for 600 ft. to an open area. The park has a variety of birds, including the huge saddlebill stork, goliath heron, bateleur eagle, vultures, kingflshers, and bee-eaters.

The scenic and cool high grassland Mambilla Plateau which averages about 1,800 meters in Taraba State, shares border with Cameroon. It has cattle ranches, tea plantations and rolling, grassy hills. It is a unique plateau in Nigeria that is rich with flora and fauna, and is home to some rare species of birds and animals. The Gashaka-Gumti National Park is a vast land of spectacular wilderness in Taraba State, adjoining the Mambilla Plateau. Mostly mountainous, from 457 to 2,407 meters, it contains Nigeria's highest mountain, Chapal Waddi (2,409m). It is the most ecologically diverse conservation area in the country and contains swaths of guinea savanna, gallery forest, moist forest, mountain forest and grassland. A wide variety of animal life including buffalo, roan antelope, chimpanzee, colobus monkey, hippopotamus, hyena, giant forest hog, lion and leopard are found in the park. The park is a birdwatcher's paradise with a wide variety of species, and there is excellent fishing in the River Kam.

Another important ecological tourism attraction in Nigeria is the Cross River National Park. The park was created from two existing forest reserves of Bashi-Okwango and Oban Forest Reserves, and is famous for its unique rain forest vegetation believed to be some of the richest in Africa. The Cross River National Park contains the last remaining rain forest in Nigeria and is being preserved by the Nigerian Conservation Foundation. It has a herd of forest elephants, the white-faced monkey (indigenous to Nigeria only), buffalo, leopards and lowland gorillas, besides over a thousand other animal species. The park has a tropical climate characterised by a rainy season between April and October and a dry season between November and April. The moist green vegetation cover makes the forest an excellent place to behold birds and butterflies.

The Kainji National Park located in Kwara and Niger States incorporates the Borgu Game Reserve and Zugurma Game Reserve. The Bourgu sector of the park alone covers an area of about of 3,929 sq. km. of savanna woodland, and Zugurma cover an area of about 1,370 sq. km. The Kainji National Park also contains the Kainji Dam, an artificial lake which covers the town of Old Bussa where Mungo Park, the explorer, was said to have come to grief in 1805. The Borgu Sector of Lake Kainji National Park is in the northern guinea vegetation zone which is characterised by tall grasses and savanna woodland. The park has a robust animal population including antelope, lion, hippopotamus, buffalo, roan antelope, jackal, baboon, monkey and crocodile.

source: picasaweb.google.com



Argungu Fishing Festival, Kebbi State, Nigeria.

Atilogwu Dancers

source: goodlife.com.ng

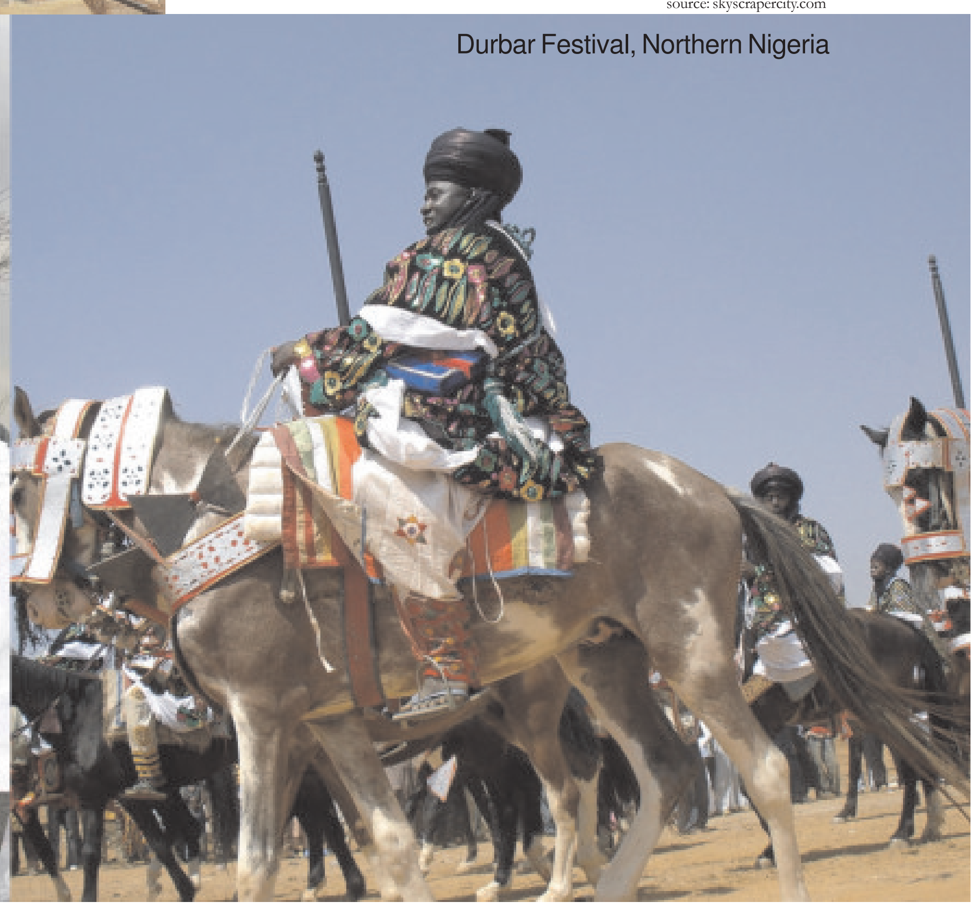
Traditional Cultural Tourism in Nigeria

Nigeria is immensely rich in culture and diversity. The country's cultural heritage is woven from threads of history, legend and conquest. As a nation of over 250 ethnic groups with more than 500 spoken indigenous languages and dialects, the culture of the people is simply awesome. The Durbar festival is a famous cultural festivity of northern Nigeria. The history of the Durbar festival dates back several hundreds of years to the era when the northern emirates used horses in warfare. During this period, each town, district, and noble household contribute a regiment to the defence of the emirate. Once or twice a year, the emirate military chiefs invite the various regiments for a Durbar (military parade) for the emir and his chiefs. At the parade, regiments would display their horsemanship, their prowess and preparedness for war, and their loyalty to the emirate. In modern times however, Durbar has become a festival celebrated in northern Nigeria to commemorate the visits of Heads of State and, during the two Muslim festivals – Id-el Fitri and Ide-el Kabir.

An exciting fishing festival to behold in Nigeria is the Argungu annual fishing festival which takes place in

source: skyscrapercity.com

source: nigerianembassy.nl



Durbar Festival, Northern Nigeria

Calabar Carnival, Calabar, Cross River State, Nigeria

source: cometonigeria.com

Argungu, a riverside settlement in Kebbi State. The origin of the festival dates back to August 1934, when the late Sultan Dan Mu'azu made a historic visit to Argungu. As a tribute, a grand fishing festival was organised in his honour and ever since then it has become a yearly celebrated event held between February and March and has attracted tourists from all over the world. During the festival, hundreds of local men and boys use large fishnet to scoop fish from the water. They are joined by canoes filled with drummers and men rattling huge seed-filled gourds to drive fishes to shallow waters. There is also canoe racing, wild duck hunting, bare-handed fishing, diving competitions and swimming.

The Eyo Festival is unique to Lagos, and is widely believed to be the forerunner of the mod-ern day carnival in Brazil. On Eyo Day, the main highway in the heart of the city is closed to traffic, allowing for procession from Idumota to Iga Idunganran where the participants pay homage to the Oba of Lagos. The Eyo festival has attracted a lot of attention in recent time as Lagos is the nation's commercial nerve centre.

A spectacular cultural dance which has become a celebrated signature of Nigerian culture around the world is the Atilogwu dance. The dance is a dazzling art form of eastern Nigeria, especially Anambra State. Atilogwu is a vigorous and energetic dance that combines rudiments of gymnastics and aerobics with foot-stomping rhythms and luminous colours. It is performed by young men and women who undergo rigorous training to master the dance steps. The dance is usually performed during important festivals and great social events, and Nigerians in the Diaspora of eastern extraction have performed the dance around the world.

The Iwaji (new yam festival) is a celebration depicting the prominence of yam in the social-cultural life of the Igbo people of eastern Nigeria. The festival is essentially to thank God for the arrival of the new yams and perform traditional rites to declare the yam fit for consumption.

source: skyscrapercity.com

Calabar Carnival, Calabar, Cross River State, Nigeria

source: skyscrapercity.com

Iwaji is an important event in the traditional calendar of Igbo people all over the world because they are traditionally agrarian and yam is Igboland's most significant crop. The festival which takes place late July/early August also marks the end of an annual work cycle and the beginning of a new one. The new yam festival has become very popular and attracts a lot of tourists from within and outside the country. The festival is also celebrated around the world by Igbos in the Diaspora.

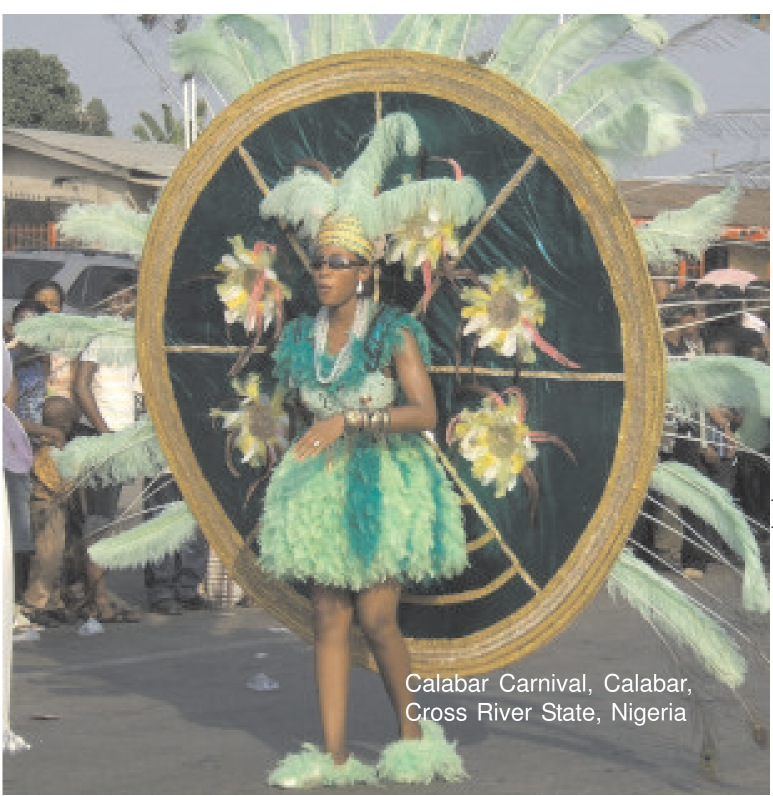
Another cultural tourism attraction is the Igue festival celebrated by the Benin people of Edo State. Its origin dates back to the era of Oba Ewuare the Great who reigned over Benin in the 15th century. It is a festival heralding good luck in the traditional belief of the Benin people. Over the years, the festival which is celebrated annually in late December has become a major tourism attraction. The Igue Festival is a weeklong event that features a variety of traditional dances, music and parades and is extremely spiritually focused as prayers are offered for peace and prosperity in the New Year.

The Osun Oshogbo Sacred Grove festival is a grand and colourful cultural festival organised at the Osun sacred groves in Osogbo, South West of Nigeria. The annual festival attracts tens of thousands of adherents and tourists from both within and outside the country. The festival is believed to have started in the 18th Century and its popularity has soared dramatically over the last 30 years, mostly due to the dedication of the late Austrian-born artist – Susanne Wenger, who rebuilt the shrines and worked to get the grove protected. She was until her death the custodian and priestess of the groves, and was popularly called Adunni Olorisa. The festival is associated with offering of sacrifices at the Osun shrine, drumming and dancing, feasting and other merry-making. In recognition of its global significance and its cultural value, the Osun Oshogbo Sacred Grove was recognized as a UNESCO World Heritage Site in 2005.

Some Carnival Attractions in Nigeria

There are a number of famous carnivals in Nigeria amongst which the Calabar and Abuja Carnivals have grown to be the most trendy and magnificent. The Calabar Carnival which has been dubbed Africa's Biggest Street Party started in 2004 and has become the number one destination for tourists during the yuletide season. The Carnival runs throughout the month of December with the peak being the 26th and 27th. Calabar, the capital of Cross River State in the South-South of Nigeria is renowned for its friendly people, hospitality, culinary skills and delectable local delicacies, beautiful women and ecologically friendly and clean environment. The carnival was conceived to bring to limelight the local heritage and culture of the Calabar people. It features traditional dances, fashion shows, boat regatta, Christmas village, Ekpe festival and music performances by local and international artistes. In 2009, the Cross River State Tourism Board and the state Carnival Commission estimated about 3 million participants. Since its commencement, it has boosted the cultural mosaic of Nigeria while entertaining millions of spectators.

The Abuja Carnival was started in 2005 as an intra and inter cultural link to serve as a fountain of knowledge and a reference point for the historical and cultural experience of the black people all over the world. The idea of the Abuja Carnival was muted by former President Olusegun Obasanjo, having been invited to attend the carnivals of other countries. The carnival is an assemblage of contin-



source: gatewaynigeria.tv

Gurara Falls, Niger State, Nigeria

source: texasliberal.wordpress.com

Lekki Beach Resort, Lagos.

source: happylagosian.blogspot.com

gents from the 36 states of the federation and the Federal Capital Territory. The northern states showcase thousands of horses for Durbar, while the southern states flaunt their aquatic prowess. The carnival is also packaged alongside notable historical discoveries in the country, such as NOK sculpture and the Sukur World Heritage Site. States of the federation also exhibit and sell souvenirs and memorabilia, such as raffia, brass, leatherworks, woodcarvings, beads and other handicrafts during the carnival.

Nigeria's Beach Attractions

Nigeria has over 700km of unpolluted sandy beaches in the coastal regions of the country that are ideal for swimming and other water sports for relaxation and calmness. Amongst the country's gorgeous beaches is the beautiful Coconut Beach in the coastal town of Badagry, west of Lagos, and about 20 miles towards the border of Nigeria and the Republic of Benin. The beach is encircled with coconut plantations full of cool shady places for relaxation. Another famous beach is the Calabar Beach situated at the mouth of the Calabar River which is about two miles long and 500 feet wide. The enchanting beach is flanked by a swamp and is one of the most sparsely inhabited beaches in Nigeria. Bar Beach, also known as Victoria Beach, is the most popular beach among Nigerians. The main beach on Victoria Island is located along Ahmadu Bello Way in the heart of Lagos. The beach is usually a beehive of activities on public holidays in Nigeria.

Tarkwa Bay is a crescent-shaped sheltered beach along the Lagos harbour. The beach provides a pleasant outing with safe swimming conditions, even for children. Tarkwa Bay is an ideal destination for a relaxing day out with deckchairs, tents and canopies. The beach is also famous for delicious pineapples, coconuts and variety of other delightful treats. One of the sprawling beaches in the Lagos metropolis is Lekki Beach located a few miles from the Lagos city centre along the Lekki Peninsula. It is one of Nigeria's popular beaches and has attracted foreign tourists. Eleko Beach is perhaps the newest of beaches in Lagos and is located down the Lekki Peninsula, about 30 miles from Lagos. The beach is known for its tranquility and is ideal for those seeking privacy for relaxation.

Nigeria has over 700km of unpolluted sandy beaches in the coastal regions of the country that are ideal for swimming and other water sports for relaxation and calmness. Amongst the country's gorgeous beaches is the beautiful Coconut Beach in the coastal town of Badagry, west of Lagos, and about 20 miles towards the border of Nigeria and the Republic of Benin.

An Investment Haven

As a pioneer industry, tourism in Nigeria qualifies for a wide range of incentives such as tax holidays, import duty exemption on equipment and the easing of land acquisition requirements, thus making Nigeria a haven for investment in tourism. Investment opportunities abound in beach and coastal resort development. The mangrove swamplands, tropical primary rain forests, guinea savannah grasslands, and the Sahel savannah are rich in natural and cultural tourism attraction that require development to conform to global standards. Several heritage/cultural sites, and relics and routes of slave trade are still underdeveloped. Wildlife tourism and hiking trails in the parks including picnic and camping sites in the national parks are good investment outlets. Tourist lodges, hotels and resorts near waterfalls, springs, caves and temperate climate areas are opportunities for investment. Beach tourism and established boating and sport fishing facilities along the waterways are also potential investment windows in the industry. The richness and diversity of Nigeria's tourism resources in addition to liberal economic policies provide ample investment opportunities.

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Entrepreneurship has been the backbone of growing economies in the 21st century. Any country that refuses to unleash and enhance entrepreneurial initiatives will be left behind. Empowering people so that they can build formidable businesses has been one of the most effective ways of reducing poverty and putting people's lives in their own hands.

Entrepreneurship in Ghana

Establishing a stable business environment

Businesses thrive in politically stable environments and the Ghanaian economy is one of the most fertile economies in West Africa. Ghana has maintained a peaceful atmosphere since the country entered into constitutional rule in 1992; however, in the 1970s and 1980s political instability upset the business climate and drove out many local and foreign entrepreneurs[1]. Since 1992, however, administrations have successfully handed power to subsequent administrations without any instability, hence providing entrepreneurs enough confidence to operate without fear of interruptions to their businesses. A politically stable environment paves the way for a good business environment. The term "business environment" refers to a set of laws and regulations as

Promoting Youth-led Entrepreneurship in Ghana

* By Julius Agyemang

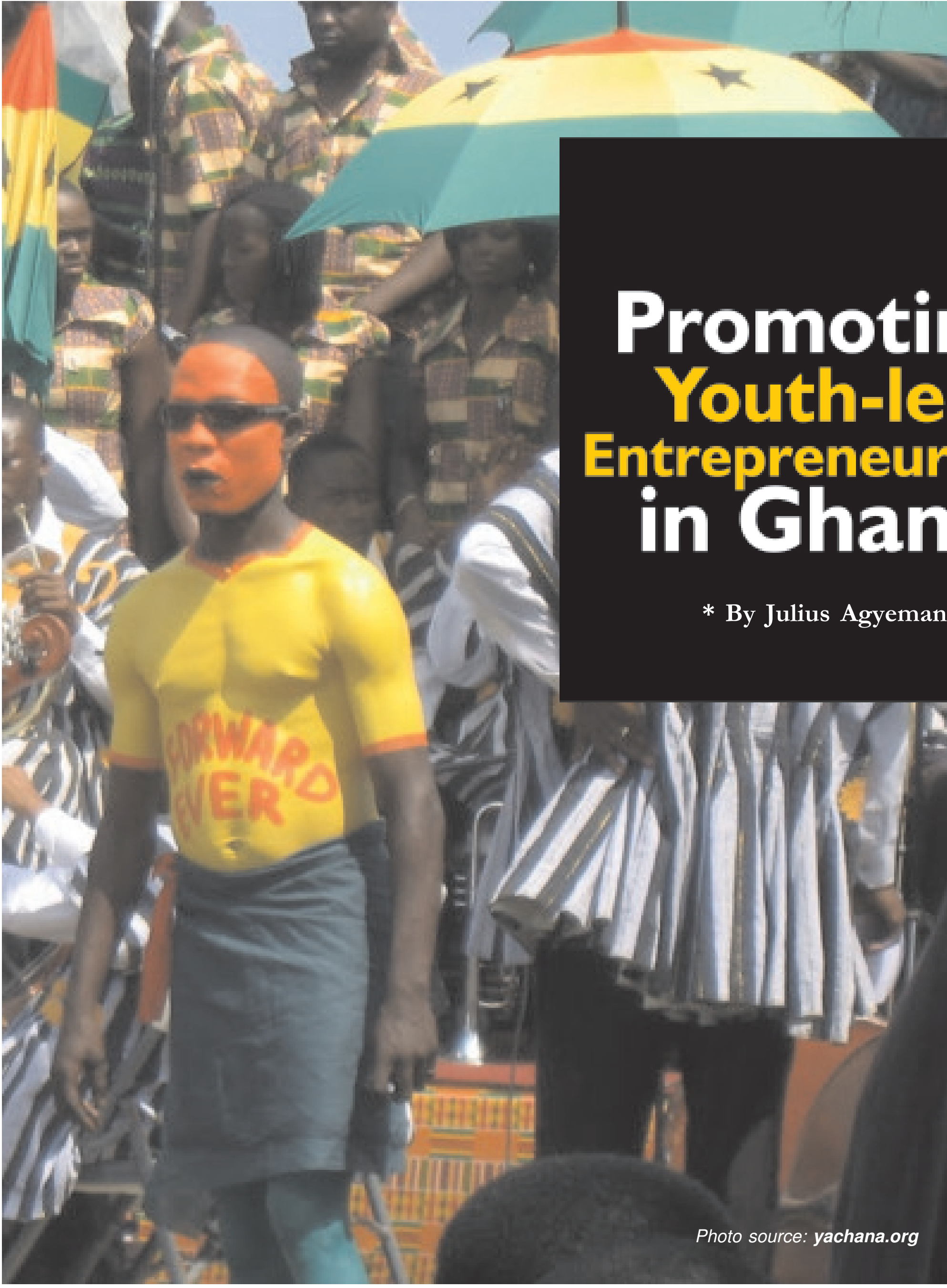


Photo source: ***yachana.org***

well as opportunities and incentives for entrepreneurs to do business. The business environment informs the decisions that the private sector makes on daily basis.[2] In the past few years, Ghana has made progress by improving its business environment. Ghana's aggregate rank in the World Bank's 2007 *Doing Business* report was 94th, improving from 102nd in 2005.[3] In 1999, interest rates for loans were between 35 percent to 40 percent. Currently, commercial banks' interest rates hover around 40 percent.[4]

Small businesses now have access to micro-credit loans as well. For instance, since October 2007 the Microfinance and Small Scale Loan Centre (MASLOC) has made a total of Ghanaian cedi (GH¢) 18.3 million in direct disbursements of microcredit and small scale loans to 30,000 beneficiaries across the country. Furthermore, GH¢ 37 million has been approved pending disbursement to more than 127,000 beneficiaries.[5]

Entrepreneurs stuck at the micro level

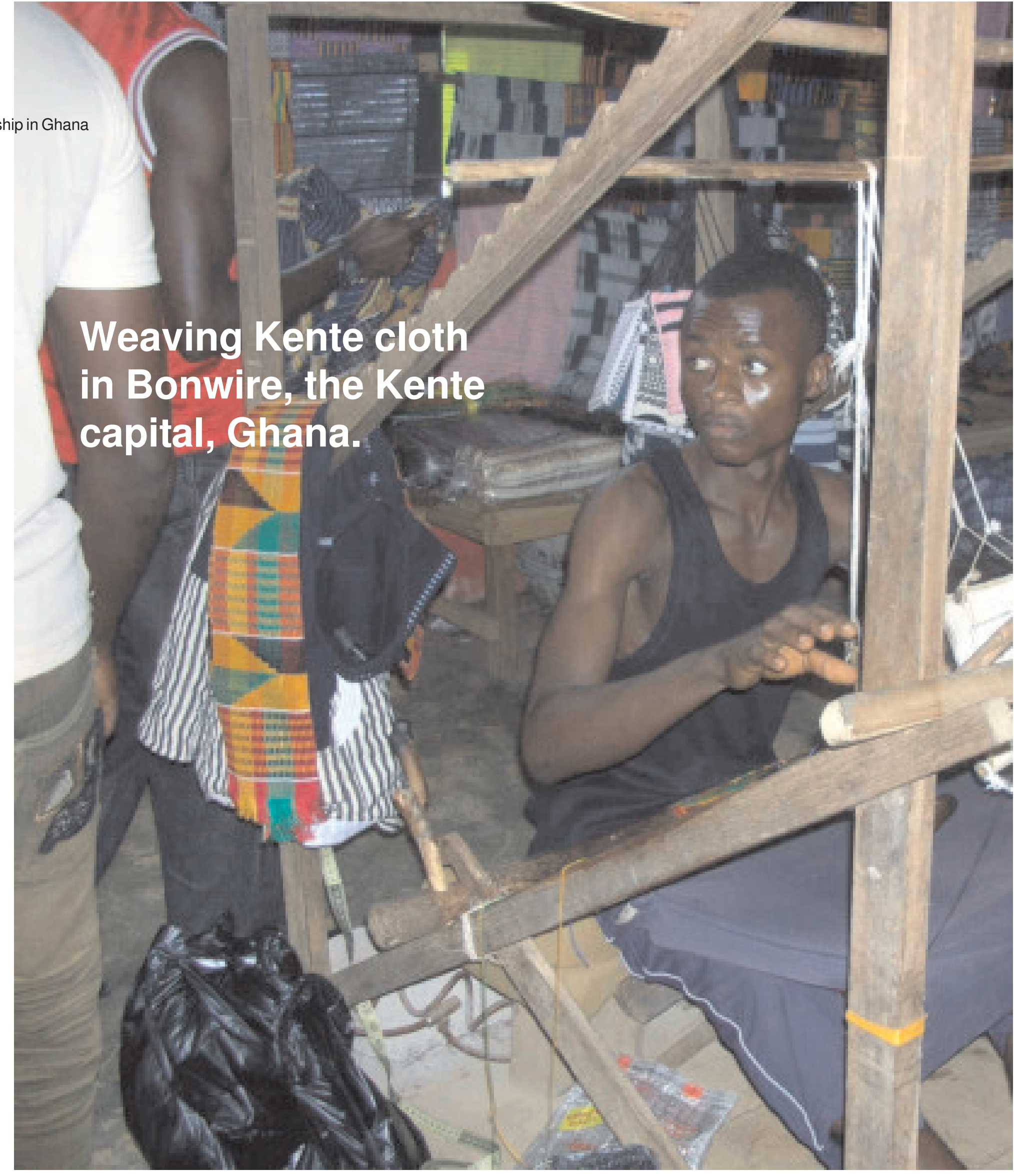
Despite these trends in Ghana's business environment, most entrepreneurs cannot scale their businesses. According to World Bank estimates, most businesses in Ghana, which account for 70 percent of employment in the country, fall within the categories of micro-, small-, or medium-sized entrepreneurs. The industries of these smaller businesses range from farming, agribusiness, and light manufacturing such as textiles or other crafts. Access to capital, high interest rates, and difficulties associated with registering businesses have prevented many businesses from growing their activities. It is also interesting to note that less than 5 percent of large businesses are Ghanaian-owned.[6]

The alarming preponderance of entrepreneurs in the informal sector

Another characteristic of Ghana's economy is the alarming number of entrepreneurs in the informal sector, which includes about 90 percent of the working population.[7] These entrepreneurs remain informal because of the ease of entry for small-scale operations and the lack of regulation in the informal sector. However, they also often use outdated technology, depend on family ownership or self-employment, suffer from a lack of access to credit, and exhibit low productivity.[8]

Lack of role models and business mentors for entrepreneurs
Additionally, most of the problems facing entrepreneurs stem from their inexperience in business. Furthermore, most young proprietors in Africa do not have mentor support for their operations. When available, mentorship can be a source of informal advice and guidance from someone who has solid business experience and established business networks.[9] Mentors also serve as role models, providing inspiration and motivation for young people exploring self-employment and enterprise as a viable career option.

In Ghana, there are very few genuine role models and mentors who express interest in helping young entrepreneurs. Furthermore, in some African countries many older entrepreneurs became millionaires by selling resources that they obtained unfairly. Therefore, it is not surprising that those entrepreneurs do not want to share their experiences or help future businesspeople.



Weaving Kente cloth in Bonwire, the Kente capital, Ghana.

Youth and entrepreneurship

Policymakers should pay more attention to the role of youths in accelerating economic growth in developing countries. In Ghana, about 48 percent of the population is between 15 to 35 years of age, and a survey conducted among small scale enterprises revealed that young people owned nearly 40 percent of those businesses.[10] Entrepreneurship helps young men and women develop new skills and experiences that they can apply to other life challenges. The *Oxford English Dictionary* defines enterprise as "resourcefulness, initiative, drive, imagination, enthusiasm, zest, dash, ambition, energy, vitality, boldness, daring, audacity, courage, get up and go…" It is worth noting that these attributes are generally associated with the youth.[11] Therefore, governments could turn a country's resources into prosperity by improving available skills, training and opportunities for the youth.

Presently, however, there is a general lack of accurate and systematic data on youths and youth entrepreneurship.[12] This paper seeks to examine the skills young people would need in order to start successful businesses; barriers preventing them from starting these businesses; as well as potential programs and policies that could leverage youths' influence in society.

The need for an entrepreneurship culture
Over the years, people have formed perceptions about business in Africa, which has invariably contributed to Africans' attitude towards creating enterprises. This applies in Ghana, too, and many factors have stifled Ghanaian entrepreneurship. For example, most young people in Ghana graduate from school and seek white-collar jobs, which they do not get. Despite that, the education system does not teach students how to start their own businesses and classes in finance and technology are

not available.

Furthermore, young people's initiatives are exterminated at home because of a culture that is pessimistic about their entrepreneurial abilities. Start-up businesses that do emerge remain at the micro-level because of a culture of subsistence, and a culture of mistrust which makes Ghanaians unwilling and reluctant to pool resources and form partnerships.[13]

A culture of entrepreneurship among young people must start at home. Young people need financial and moral support in order to undertake entrepreneurial initiatives. Reforms in the educational system should also inculcate a spirit of entrepreneurship amongst young people because youth employment and entrepreneurship policies are more likely to be effective if they are integrated with the structure and content of school curricula, extra-curricula activities, and after-school programs.[14]

Motivation

Motivation is important for young people to achieve success, and young Ghanaians must rise up and make an impact as their counterparts in other parts of the world are doing. Motivation and encouragement would propel youths to engage in entrepreneurial ventures, which is particularly necessary in a place where young people are demoralized at home. Sayings like, "You are too young" and "You cannot do it" suggest to the youth that they are too immature to take part in decision making or undertake a venture on their own. Youth need motivation seminars and coaching from private organizations to develop their entrepreneurial abilities.

One such program in Ghana is Legacy and Legacy, run by a self-development organization.

This program, organized at the beginning of every year, ignites the visions of young people in various parts of Ghana. The government should also sensitize parents on the need for encouraging and motivating young people through civic education programs.

Business management skills

Entrepreneurs also need business management skills and literacy. Sometimes illiteracy limits entrepreneurs to only operating small businesses because they cannot operate larger enterprises.[15] Business is a profession and as such needs adequate training before practice. Young people who want to start their own businesses need advice from highly trained people on how to plan, keep books, and understand the intricacies of modern businesses. This skill is particularly necessary in situations where entrepreneurship is mostly found in the informal sector.

Financial management skills

Again, young people need financial management skills in order to start their own businesses. Analysts say that one of the biggest problems facing entrepreneurship in the developing world is financial management.[16] Research indicates that people who work in the informal sector have limited access to formal education, and profiles of those who have some education still suggest low levels of training.[17]

In 1995, World Bank statistics for the informal sector in Ghana indicated that 36 percent of informal sector workers had completed the 10^{th} grade and 10 percent had some tertiary education. This lack of formal education can affect the way informal businesses manage their finances. Youth should therefore learn skills such as record keeping, managing savings, opening bank accounts, overseeing cash flows, establishing budgets, as well as writing business proposals. This would enable them to manage their finances as well as grow their enterprises from micro- to mid-sized companies.

Computer and information technology skills

Furthermore, the spate of technological advancement makes it very pertinent for young people to possess computer and information technology skills. Youth need computer skills in order to process information as well as formally present activities according to global business standards. Any businessman still documenting information manually will not be taken seriously. Young entrepreneurs should be able to use the internet to communicate with their suppliers and customers.

Barriers

The entrepreneurial situation, nevertheless, faces many barriers. First among them is: Cumbersome business registration procedures

According to the World Bank's 2007 *Doing Business* report, it takes 12 procedures and 81 days to start a business in Ghana. In practice, business registration processes are cumbersome and need to be streamlined. Registration centers are predominantly in major towns but their only purpose is to provide business registration forms. The actual registration of businesses is done in Ghana's capital, which delays registration. Potential registrants also have to rely on middlemen, which then increases the cost of registration. For example, although the normal cost of registration is GH¢ 220,000 and yearly renewal costs GH¢ 100,000, it usually costs much more to register a business due to the cumbersome procedures involved.[18] of savings culture. For instance, in 2003 it was recorded that informal sector entrepreneurs in Ghana relied on their savings or borrowed money from friends and relatives as their main source of finance because they lacked access to credit from the formal banking system.

The October/November 2008 edition of the Africa Report recorded that only a small percentage of Ghanaians have access to credit services. If young people try to get finance, factors such as their lack of collateral or experience may deny their access. Young people may have brilliant ideas but these entrepreneurial ideas are stifled without funds for start-up ventures.

Furthermore, young people do not know about different sources of finance. There are a number of various micro- and small-scale finance organizations to provide substantial financial schemes to young people who want to start their own enterprises. However, in order for young people to channel these funds to their businesses, standards must be set for them.

Potential policies and programs

Creating a youth business fund
The government can also provide a youth business fund for young entrepreneurs who want to establish their own businesses. For instance, the Vietnamese government has an enterprise law that has provided services to around one million entrepreneurs. Specifically, the government could also subsidize technological facilities so that entrepreneurs would have access to computers.

Furthermore, the government could decide to fund 100 new businesses annually, though good business proposals should be evaluated before they are funded. Young people should also be encouraged to go into other sectors of the economy besides agriculture.

photo: adanwomase.tk

Difficulty in assessing finance
Another major barrier that prevents young people from starting businesses is the difficulty in assessing start-up finance. The problem with access to financial capital is longstanding, yet there has been little improvement. Though some entrepreneurs may simply lack start-up capital, there are other contributing factors such as an ignorance of sources of finance as well as a lack

financial facilities available to micro-, small-,and medium-sized enterprises, but potential entrepreneurs or manufacturers may not be aware of available financial support, both locally and internationally.[19] Also, young people dream of huge financial support but lack the culture of saving to finance their enterprises.

To help young people to start formidable enterprises, the government can liaise with banks and

Tax relief
The government of Ghana could also relieve taxes and provide tax vacations for young enterprises, rather than only give tax relief to foreigners and multi-nationals who take their profits out of the country. Also, tax reliefs and tax vacations for entrepreneurs would inspire more young people to start businesses since currently many are afraid that taxes on their businesses would prevent them from being successful.

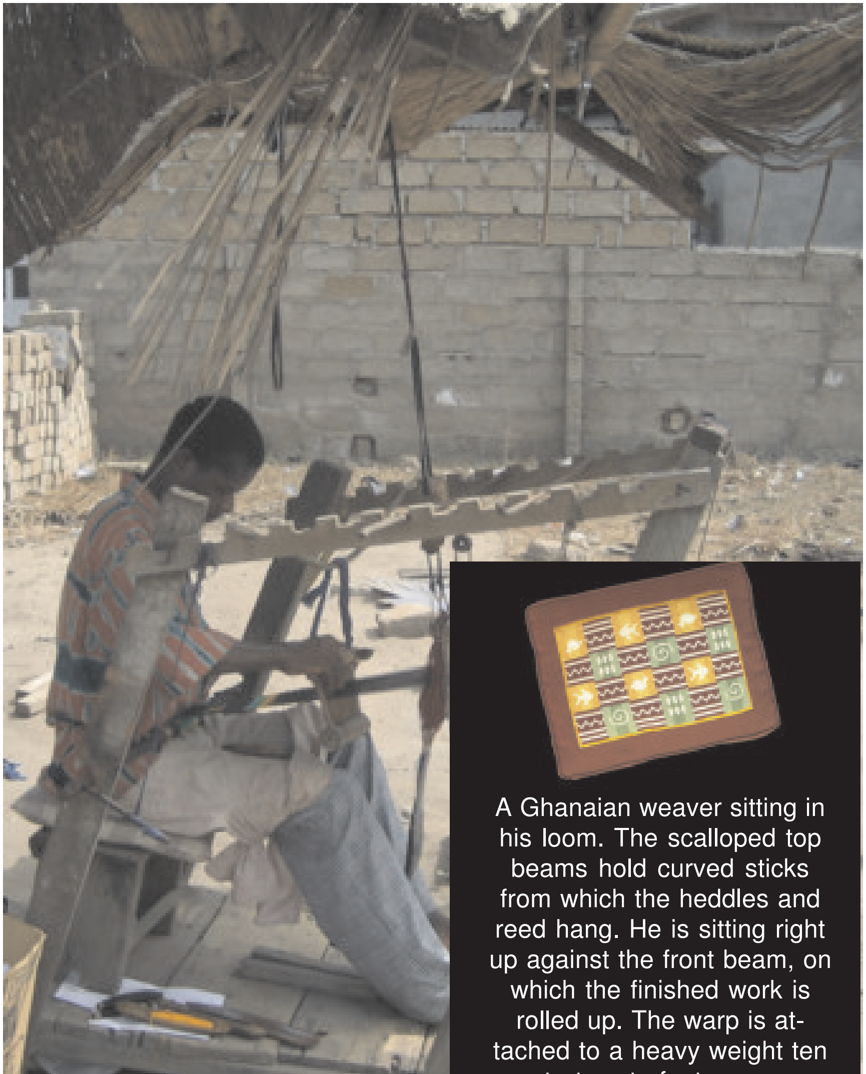
Setting up business villages and incubators
Now more so than ever, business villages and incubators could help young people start and grow businesses. Governments, in conjunction with private organizations and non-government organizations, can help establish business and technological villages in every region in Ghana. That, however, requires infrastructure such as electricity, water, and buildings, as well as governmental agencies such as an internal revenue service, national board for small-scale industries, valued added tax, training centers, and microfinance companies.

Business incubators that nurture entrepreneurship and specifically provide advisory services to young entrepreneurs should be emphasized. That would speed up business operations and encourage more young entrepreneurs.

Mentorship and role model programs
Many successful entrepreneurs started out with support from mentors in cooperative settings. D.J. Penwill, a civil servant in Kenya, once said, "The African capital without the ability to use it properly can achieve no improvement – it can merely lead to disaster on a grander scale."[20] Young people may not necessarily need huge financial resources, but they need mentors to direct them and monitor their improvements. Role models can motivate and encourage young people so that they believe it is possible to become successful businesspeople in Ghana.

For example, in 1944 through 1963 the government of Kenya initiated the Jean Schools at Kabete (Central) and Masero (Nyanza Province), which instituted tailor-made educational packages for entrepreneurs.[21] They developed role model programs that provided entrepreneurs with lectures from businessmen and visits to factories and commercial establishments. Likewise, the government of Ghana could institute a national mentoring program for young businesses to groom and motivate young entrepreneurs. This program could bring together successful businessmen who desire to share their experiences with young people and link them to other business networks. The program would also ensure that young entrepreneurs are taken through the various rudiments of business management, processes and procedures to avoid pitfalls, and tools necessary to build formidable business foundations. This could be done by aligning young entrepreneurs with older entrepreneurs in similar fields.

Finally, it is necessary to bring more informal businesses into the formal sector. James Surowiecki pointed out in *The New Yorker* magazine that development does not need more micro-enterprise but rather needs more mid-level companies to provide jobs.[22] This can be done by helping to raise the educational level of most young entrepreneurs in the informal sector. The government could do this by initiat-



A Ghanaian weaver sitting in his loom. The scalloped top beams hold curved sticks from which the heddles and reed hang. He is sitting right up against the front beam, on which the finished work is rolled up. The warp is attached to a heavy weight ten to twenty feet away.

photo: tienchiu.com

ing an enterprise training and development program for the informal sector. The objective of this program would be to help young uneducated entrepreneurs in the informal sector enroll in short-term module courses at moderate and subsidized prices for employable skills. Through this program, young people would learn the value of team work, cooperative entrepreneurship, and healthy joint ventures instead of each trying to be a sole entrepreneur, which impedes collective growth due to lack of capital. Young people would also be more empowered to start mid-level enterprises. This program would not only help young people but it would also enable the government to eventually generate revenue from successful businesses later on.

Conclusion

This paper has argued for the need to empower young people to create wealth for themselves as well as propel economic development using their full energies and exuberance. It is also necessary to create an entrepreneurship culture and provide institutions to accommodate young people's visions and aspirations. However, young people will remain handicapped without the necessary skills outlined above. The government should also endeavor to create the right economic atmosphere as well as programs to develop the capabilities of young people.

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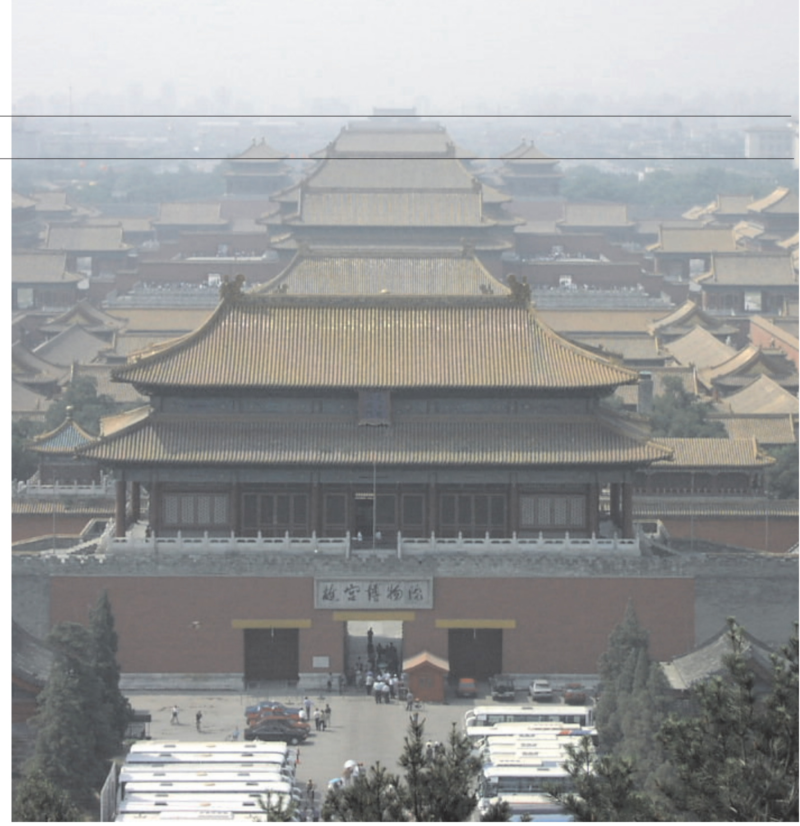
Nigeria-China
Economic Relations

* By E. Olawale Ogunkola, Abiodun S. Bankole and Adeolu Adewuyi.

General Economic Background



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Nigeria's quest for development which has spanned some decades is yet to deliver on the ultimate goal of poverty reduction, despite various plans, programmes, and projects. Analysis of performance on poverty reduction strategy necessarily examines issues in growth and equity simply because growth may be recorded without impacting on the poor. Indeed it is not impossible for growth to have occurred at the expense of equity. Analysis of growth drivers on one hand has identified several factors including macroeconomic environment, political and social environment and investment gap. Some policies are required to attract foreign direct investment and to direct such investment into appropriate sectors.

As a resource-rich country, Nigeria's economic performance has been unfortunately driven by the oil and gas sector to the extent that even progress recorded towards genuine economic development prior to the discovery of oil in commercial quantity has been virtually eroded. In recent time (2000-2005), the GDP growth was about 5.7% and the growth in the non-oil sector which contributed about 5.9% of the GDP. However, the sector dominates the supply of foreign exchange and given that the political economy of the country vested this important resource in the hand of the government it also contributes a large chunk of government revenue.

The decline in the agricultural sector performance has been dramatic since the discovery of oil. The manufacturing sector has not performed even better. A few statistics illustrate the poor performance of the non-oil sector. The share of non-oil sector decreased from about 94% in 1970 to about 52% in 2004. The decrease affected all the sectors (agriculture, industry, and services) but in different magnitude. Agriculture GDP declined from about 41% to about 17% over the same period. The decline in the services sector was from about 45% to about 27% during the period under review. Nigeria's non-oil sector is inefficiently servicing the domestic market as non-oil export is negligible (about 1% of the GDP in 2005).

Table 1.1:

Structure of the Nigerian Economy, 1974-2004 (percent of GDP at current factor costs)

	1970	1980	1990	2000	2003	2004
Oil sector GDP	6.0	29.1	39.3	48.2	44.6	48.2
Non-oil sector GDP	94.0	70.9	60.7	51.8	55.4	51.8
Agriculture	41.3	20.6	29.7	26.3	26.4	16.6
Industry	7.8	16.4	7.4	4.5	4.8	8.7
Services	45.0	33.8	23.6	21.0	24.2	26.5

Source: World Bank (2007)

It has also been recognized that sustainable development of the Nigerian economy rests the diversification of the economy away from oil and gas to non-oil sector and this should be based on the country's abundant resources and comparative advantage. An analysis of constraints to the high performance of the non-oil sectors identifies low productivity as a precursor to low private returns and which in turn lead to low investment. Weak and unreliable infrastructure, macroeconomic instability, microeconomic risks from corruption and weakness of institutions and regulations to guide investment behaviour are the main constraints to high performance of the economy (World Bank, 2007).

Nigeria's domestic market is vast but very small for modern day technology. Thus, there is the need for seeking favourable external market at regional as well as at global level. Negotiations of the trade agreements are expected to take these constraints into consideration. Indeed, for Nigeria within-the border issues are relatively more important than seeking for more favourable market access conditions. It is in this vein that aid-for-trade concept is more relevant to the country. A critical element in enhancing the performance of non-oil sector as well as ensuring effective supply response to market opening is investment in infrastructure which also in turn enhances private investment. Thus, private investment and investment in the public sector of the economy is one of the factors for ensuring sustainable development.

Hitherto, traditional development partners mainly from Europe and the Americas (U.S. A. and Canada) have dominated trade, investment (in terms of foreign direct investment (FDI)) and grants and financial as well as technical aid to the country. These are governed by various bilateral and regional agreements that exist between these countries and Nigeria. Although Nigeria and these countries have come a long way in their relationship, it is debateable if such has in any significant way assisted the country in its quest for development. The relationship appears to be exploitative at least from the trend in the structure and pattern of trade and FDI inflow to the country. This is based on the fact that oil and gas sector dominates the country's exports to the tune of about 98% and FDI inflows to the oil and gas sector accounted for about 40%.

Although Sino-Nigeria relationship dates back to more than three decades, recent developments call for a careful and detailed analysis of this relationship and to this end, we seek to provide analysis of the relationship with respect to investment, trade and aid: To what extent is China different from other exploitative practices? What lessons can we learn from the past in order to make the blossoming relationship produce win-win outcome?

In order to put the study in its proper perspective, Section II examines the cooperation arrangements between Nigeria and China with specific focus on the diplomatic tie, technical assistance, scientific cooperation, economic cooperation and cultural cooperation. Section III presents an overview of investment relations with a view to determining its size, composition and significance. Section IV is on trade relations. Export and import structures as well as the bilateral balance of trade are examined. Section v is an attempt at presenting information on aid flow from China to Nigeria and Section VI concludes the report by revisiting the questions raised above.

II Cooperation arrangements

Recent developments in China and Nigeria relationship are not unconnected with the renewed ties between the two giants. Although, China and Nigeria established diplomatic tie in 1972, the last decade has witnessed unprecedented renewed positive and mutually beneficial developments. Indeed between 1999 and 2006 diplomatic visits at the highest level were recorded: two visits in each direction2 and various visits at other levels. All these visits, no doubt, are precursors to developments in other facets of the relationship. Bilateral agreements are entered into in the process some of which are listed in Table 1.2

On diplomatic relations, various exchanges of visits and signed agreements and many Memoranda of Understanding (MOUs) are indicative of the cordial relationship. Besides agreement on consular affairs and strategic partnership agreement featuring mutual political trust, mutual economic benefit and mutual support in international affairs have been signed. Various technical assistance in the military, education and health, and technology have been received from Nigeria. For example an aid of 46 million Yuan to Nigeria for the purpose of purchases of anti-malaria medicines and for training of Nigerian health personnel on malaria control and prevention was granted by China.

Scientific cooperation between the two countries is also experiencing a boom. The relationship in this area has witnessed the launching of NIGERCOMSTAT 1, Nigeria's first communication satellite in early 2007. An MOU on the Provision of National Information Communication Technology Infrastructure Backbone between the Federal Ministry of Science and Technology and Huawei Technologies was signed. Increase in economic cooperation is noticed both in trade and investment both at public and private levels. Renewed cultural cooperation also manifests in various areas. For example, some institutions of higher learning in Nigeria3 are collaborating with their Chinese counterparts in the area of Chinese culture, innovation, while cultural troupes and students are being exchanged.

The cooperation arrangements between China and Nigeria on different fronts are briefly examined. Apart from providing alternatives to the traditional focus of government such arrangements

Table1.2: Selected Agreements between Nigeria and China, 2001 to 2006

Type of Agreements	Year
Agreement on Trade, Investment Promotion and Protection	2001
Agreement for the avoidance of double Taxation and Prevention of Fiscal Evasion with respect to Tax and Income	2002
Agreement on Consular Affairs	2002
Agreement on Cooperation on Strengthening Management of narcotic Drugs, Psychotropic Substances and diversion of Precursor Chemical	2002
Agreement on Tourist Cooperation	2002
Strategic Partnership Agreement	2005
A memorandum of Understanding on Investment Cooperation between the Federal Ministry of Commerce of Nigeria and Ministry of Commerce of India	2006
Economic Cooperation Agreement between Nigeria and Xinguang International Group of China	2006

Source: Authors' compilation

opened a new vista for other stakeholders. The recent waves of diplomatic relations appear to a reasonable extent mutually beneficial. The Nigerian was indeed on an aggressive campaign for FDI and Chinese government was also seeking for markets for inputs especially raw materials as well as markets for finished products. While the diplomatic relationship provides and generates general guidelines in terms of agreements, protocols and Memorandum of Understanding; the cost-benefit analysis of the cooperation arrangements depend on several factors including the level of implementation, domestic rules, regulations and institutional arrangements.

Nigeria stands to gain from technical assistance and scientific cooperation given China's advancement in these areas. A well known fact is that Nigerian military have benefited from China's technical assistance form of military training and even supply of military hardware. Health personnel and different categories of patients patronizing public health providers are the main beneficiaries of technical assistance offered by China mainly in the roll-back malaria programme. Nigerian academia have also benefited from the cooperation arrangement between Nigeria and China especially in the area of exchange programmes and promotion of the different culture.

III. Investment Relations

Positive developments have been recently recorded in the net FDI as it has doubled from US$3 billion in 2003 to more than US$6 billion in 2005. The share of the oil and gas sector was about 75 percent. The developments in the non-oil FDI is also significant as this component increased from about $0.3 billion in 2003 to about $1.7 billion in 2005. Three related types of efforts explain the observed positive developments: change in FDI regime; second, privatization programme of the government; and third, the aggressive drive of government in attracting FDI into the country. The recent developments notwithstanding, there is a huge investment gap in the development of the Nigerian economy and the required investment can only be expected after the investment climate has improved.

Table 2.1: Foreign Direct Investment in Nigeria, 1999-2006, $ Million

Region/Country	1999	2000	2001	2002	2003	2004	2005	2006
North America	7.35	9.84	12.10	36.16	40.34	4354.14	5166.32	1601.28
South America	1.15	2.96	0.39	0.05	7.14	60.04	24.56	11.76
Asia/Pacific	2.94	5.93	4.45	5.17	1.54	32.12	47.29	39.63
China	**0.02**	**1.08**	**2.39**	**0.0**	**0.05**	**0.51**	**1.88**	**5.50**
Middle/Far East	7.41	2.75	10.92	5.30	6.74	23.27	21.22	13.39
Europe	164.95	136.46	98.86	200.24	293.66	2624.30	3084.68	2441.52
Africa	6.79	9.45	8.24	24.30	91.41	173.62	169.04	56.06
	190.61	168.47	137.35	271.22	440.88	7268.00	8514.99	4169.14

Source: Based on data from Nigerian Investment Promotion Commission (NIPC)

Our approach in this section is to review Chinese investment in Nigeria with a view to describing its size, composition and significance. Data permitting the analysis would cover the relative size of Chinese FDI compared to other sources of FDI, and the composition of the Chinese FDI with a view to revealing relative sectoral preferences. This is necessary in order to characterize the nature of investment and consequently assist in drawing inferences on the possible benefits of such activities to the host country: Nigeria.

Trend in Chinese FDI inflow to Nigeria

Available information points to a general upward trend in the inflow of FDI from China to Nigeria. Table 2.1 presents a global picture of FDI inflow to Nigeria from different regions and China from 1999 to 2006. All the regions showed significant increase in FDI inflow from the 1999 level. Thus, the upward increase in the aggregate FDI flows to Nigeria from about $190.61 million in 1999 to about $4169.14 million in 2006 is a joint increase in the levels of FDI by all the regions.

Relative to other regions, South American region contributed the least to the level of FDI inflow to Nigeria. This was followed by the Asia-Pacific region. By 2006, though the relative positions remained unchanged as the South America maintained its position, FDI inflows from Asia Pacific region have surpassed the inflows from the Middle and Far East region. Thus, between 1999 and 2006, FDI inflows from Asia- Pacific region to Nigeria increased at a higher rate than their similar inflows from the Middle and Far East region. This suggests increasing importance of China in the observed trend. A further analysis of inflow of FDI from this region revealed that although China ranked 5th in the magnitude of FDI in flows from the region to Nigeria behind India, Singapore, Hong Kong, and Japan in that order, the country seems set to overtake these leading countries. This is not far-fetched given that Chinese FDI inflows to Nigeria increased from an average of $0.55 million in 1999-2000 to about $5.5 million in 2006. This is a tenfold increase compared to 9-fold increase by the region as a whole.

Composition of Chinese FDI in Nigeria

Although, information about Chinese activities in the country points to increasing economic (trade, commerce and investment), social (health and education) and technical relation, the composition of Chinese FDI into Nigeria is fragmented. According to a source: China has set up over 30 solely owned companies or joint venture in Nigeria actively involved in the construction, oil and gas, technology, services and education sectors of the Nigerian economy. Indeed the increased Chinese economic interests in Nigeria can be broadly classified into two: private and public. According to information obtained from the Nigerian Investment Promotion Commission (NIPC), Chinese private FDI is composed of agro-al-

Table 2.2: Some Characteristics of Chinese Companies listed in 2005

Company Name	Origin	Nature of Business	Nature of Investment	Level of Investment	Employment Generation
Happy Chef Restaurant Ltd	Chinese & Nigerians	Foods and Restaurant Business	JV	N20million	35
Plas Alliance Company Ltd.	Chinese	Manufacturing of Rubber Bags & Shoes	WFO	N75million	170
Royal Motors Company Ltd	Chinese	Assembling of Motorcycles	WFO	N10 million	1000
Sun Lung Industries (Nigeria) Ltd	Chinese	Manufacture, import, and distribution of all types of telecommunication, electronic goods, telecomm materials, instrument, musical instruments,	WFO	N20 Million	75
ZTE Nigeria Investment Ltd	1 Chinese 1Australian	Production, Sales, Services, Investment related to Telecommunications	WFO	N5 Million	136

Source: NIPC

lied industry, manufacturing and communications sectors. On one hand, some of these investments are joint venture mainly between Chinese and Nigerian investors4. On the other hand, some are wholly foreign owned either wholly by the Chinese5 or in partnership with other foreign investors.6 Some of the Chinese investments have also benefited from investment incentives in the country such as pioneer status and expatriate quotas have been granted to some of these companies (see Table 2.2).

Thus in 2005, the official record by Nigeria was $1.88 million FDI inflow from China. This seems to be at variance with the impression created in the media. Various explanations can be adduced for the seemingly paucity of observed figure: First, the upsurge in Chinese FDI inflow to Nigeria occurred only in the recent time i.e. between 2006 and 2008, a period that is not covered by the available data. Second, there is also the possibility that the promises and declarations captured by the media did not eventually materialise. A case in point is the sales of Kaduna Refinery that was announced in January 2006. It was meant to be a $2.3 billion worth of investment by the Chinese state controlled energy company, CNOOC. By March 2007, the government was considering a review of the deal.

The "public" investment and economic activities of Chinese in Nigeria have also gained prominence in recent time. This is not unexpected given the high profile witnessed at the political level (see the introduction to this study). This type of investment spanned different areas of the Nigerian economy and prominent among them are those in oil and gas, construction especially building of infrastructure. Table 2.3 lists some of the Chinese investments and projects in Nigeria. There is the need to distinguish between investment, loan and contracts. This, however, requires further insight to data. Currently available data do not offer sufficient information. For example, a further probing of the deal to refurbish the Nigerian railways by the Chinese reveals that it has a soft loan component.

FDI has a host of advantages including augmentation of domestic capital; transfer of technology, knowledge and skills; promotion of competition and innovation; and enhancing export performance. These must be weighed against other issues such as anti-competitive and restrictive business practices; tax avoidance and abusive transfer pricing; volatile flows of investment and related payments deleterious for balance of payments; transfer of polluting activities and technologies; and excessive influence on economic affairs with possible negative effects on industrial development and national security.

A country desirous of hosting FDI must of necessity institute policies aimed at maximizing the direct and indirect benefits as well as in minimizing the possible negative impacts. A litmus test for gauging the motive of FDI is to classify such investments into resource-seeking, market-seeking or efficiency-seeking. Efficiency-seeking FDI is preferred to other forms at least from the perspective of the host country. However, for a country to attract efficiency-seeking type of FDI macroeconomic stability must be ensured and distinct, predictable and easy-to-access policy environment including incentives must be instituted.

Given the list of private FDI and the sectoral concentration, efficiency motive may not be the driving force of inflow of Chinese FDI in the Nigerian economy. From the list of public FDI, resource-seeking motive cannot be ruled out. However, there are other categories of FDI that cannot neatly fit into resource-seeking class. These include those in the area of building infrastructure.

A veritable channel for optimal benefit is in the involvement of indigenous entrepreneurs in the affairs of the particular firm. A joint venture has higher potential of positive impact in the host economy. Beyond, the involvement of indigenous en-

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trepreneurs at the management level, local expertise and other work force are the channels through which technology is transferred and technological capacity is developed.

Chinese firms in Nigeria have been criticized for being "closed" as they hardly employ local experts. There are even submission that they mal-treat their workers. According to a report, the conditions of employment of Nigerians in Chinese firms neither conform with the Nigeria Labour Laws nor to that of the International Labour Organisation (ILO). The Report also alleged that technology transfer from Chinese FDI is insignificant because most of the Chinese firms bring into the country finished products and complete equipment with Chinese technicians. In a nutshell the expected benefits may not be realized. The lesson is for the country not only to design appropriate policies and regulations but also to ensure that these are implemented.

Although some of the Chinese investments are in critical areas of the Nigerian economy especially in infrastructure (telecommunications, water, electricity, housing, etc.) hence they have high social contents. However, there are reservations about the activities of Chinese investors especially those who are engaged in manufacturing. Such complaints include sharp practices such as importation and production of sub standard products, and lack of respect for their workers.

However, the quest for oil and gas by the Chinese seems to be of importance in the resurgence of the current wave of relations. Consequently, Chinese nationals are not immune from the spate of social unrest in the Niger Delta (the area where oil and gas are located in Nigeria). Some of the Chinese oil workers were recently abducted by militants who are agitating for a more equitable distribution of resources in the country.

IV. Trade Relations

Size, Composition and Significance of Exports to China

Nigeria's exports to China are spread over many and varied products which have been classified according to the Standard International Trade Classification Revision 3 (SITC Rev. 3) shown on Table 3.1. These products include food, animals, crude materials, oils, chemical products, and manufactured products. Though the source of data did not show data on Nigeria's exports to China in 1995, data were recorded for 2000 and 2005. In 2000, four broad commodities were exported totaling US$307.3 million, with the main export commodity being Mineral fuel and lubricants which represented US$273.7 million. The next important export in 2000 was crude materials excluding food and fuel which totaled US$33.3 million. The remaining two broad com-

Table 2.3: Some of the Chinese Invstment and Projects in Nigeria

Description	Value
China National Overseas Oil Company Limited8 (CNOOC) 45% stake in OPL 246 in Offshore deepwater oil field	$2.7 billion
Controlling shares in Kaduna Refinery	
Modernisation of Nigeria's one-track rail to standard gauge rail (Note: China has loaned Nigeria $2.5 billion to finance the refurbishment of the railway system	$8.3 billion (1ST phase)
Financial support to Reliance Telecommunications Ltd. (RelTel) by China's Development Bank facilitated by Huawei Technologies	$20 million
Huawei equipment agreement with GV Telecoms/Prestel	$250 million

modities exported to China were quite insignificant with values between US$0.1 million and US$0.2 million. Thus, in terms of Nigeria's exports to China, Mineral fuel and lubricants ranked first, followed by crude materials excluding food and fuel. Beverages and live animals exports rank third while manufactured goods rank fourth. In terms of significance of Nigeria's exports to China relative to the world, Nigeria exported more crude materials excluding food and fuel to China as this constituted 61.1%. Mineral Fuel and lubricants which constituted the main exports of Nigeria to China in 2000 was a paltry 1.4% of Nigeria's total world exports. In effect, out of US$20.3 billion total Nigeria's exports, only 1.5% was exported to China.

Nigeria's exports position was more impressive in 2005. The country's exports more than doubled the value in 2000; this accounted for by all the products, from US$20.3 billion in 2000 to US$44.4billion in 2005. In contrast, though exports to China increased to US$526.9 million in 2005, the increase was not as much as that of Nigeria's total exports. The composition of exports to China in 2005 was not very different from that of 2000 but experienced some repositioning of certain broad products. Thus, mineral fuel and lubricants still ranked first followed in ranking by crude materials excluding food and fuel. However, manufactured goods, which ranked last in 2000, displaced food and live animals while two broad products; chemicals, and miscellaneous manufactures, featured in 2005. Also, exports of crude materials excluding food and fuel reduced between 2000 and 2005. The proportion of Nigeria's exports destined for China reduced in 2005 even when the absolute value showed an increase. Nigeria's export to China in 2005 was 1.2% of its total exports which represented a reduction compared to 2000. The export destinations appeared to have been more fairly diversified in 2005, as areas where exports to China was dominant, such as crude materials excluding food and fuel, became insignificant while China gained positions in such other areas as food and live animals, chemicals, manufactured goods and miscellaneous manufactures. In other words, even though Nigeria's exports to China relative to the rest of the world dwindled in 2005, Nigeria exported more varieties of products to China compared to earlier periods.

In effect, producers and exporters of those broad categories of products whose exports increased between 2000 and 2005 are better off as they earned additional incomes. These include producers and exporters of food and live animals, mineral fuel/lubricants, chemicals, manufactured goods, and miscellaneous manufactures. Nigerian producers and exporters of crude materials excluding food and fuel lost export market share in China and thus were worse off in 2005.

Table 3.1: China's Share of Nigeria's Exports (US$ million)

		1995		2000		2005		1995	2000	2005
Rev. 3		**World**	**China**	**World**	**China**	**World**	**China**	**China's Share of Nigeria's Imports**		
0	Food & live animals	293.9	0.0	205.4	0.2	592.6	1.8	0.0	0.1	0.3
1	Beverages and tobacco	1.7	0.0	1.3	0.0	3.9	0.0	0.0	0.0	0.0
2	Crude mater.ex food/fuel	262.4	0.0	54.5	33.3	304.0	12.6	0.0	61.1	4.1
3	Mineral fuel/lubricants	11189.8	0.0	19950.5	273.7	43054.7	503.9	0.0	1.4	1.2
4	Animal/veg oil/fat/wax	0.1	0.0	2.6	0.0	1.0	0.0	0.0	0.0	0.0
5	Chemicals/products n.e.s	38.6	0.0	8.6	0.0	15.6	0.2	0.0	0.0	1.5
6	Manufactured goods	347.3	0.0	10.0	0.1	255.4	8.2	0.0	0.6	3.2
7	Machinery/transp equipmt	185.9	0.0	70.3	0.0	114.7	0.0	0.0	0.0	0.0
8	Miscellaneous manuf arts	15.7	0.0	9.1	0.0	26.9	0.2	0.0	0.0	0.6
9	Commodities nes	4.4	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0
	Total Export	12339.7	0.0	20312.3	307.3	44369.6	526.9	0.0	1.5	1.2

Source: World Integrated Trade Solution (WITS) database, 2007

Size, Composition and Significance of Imports from China

Nigeria's total imports increased from US$5.3 billion in 1996 through US$5.8billion in 2000 to US$17.7billion in 2005 (Table 3.2). The dramatic increase of Nigeria's total imports between 2000 and 2005 was also reflected in the country's imports from China which rose phenomenally from as little as US$252million in 2000 to US$2.3billion in 2005. Nigeria imports almost all of the broad categories of products from China. In 2005, imports of machinery and transport equipment ranked first followed by manufactured goods, miscellaneous manufactures, chemicals and food and live animals. In trend terms, the composition of Nigeria's imports has changed quite a bit. In 1996 for example, chemical products imports ranked second only to machinery and transport equipment while in 2000, manufactured products replaced chemicals in second place. Machinery and transport equipment imports thus ranked highest in all the reference years.

This picture altered when China's share of Nigeria's total import is considered. While that share rose successively from 1996 to 2005 from 3.5% to 13%, not all broad categories of goods imported from China maintained such consistent increase. This is especially the case of mineral fuels/lubricants, and animal/ vegetable oil/fat/wax. Furthermore, when the broad categories are considered, Nigeria imported more of miscellaneous manufactures from China relative to the rest of the world. This rose from 7.8% in 1996 to 30.6% in 2005. China's share of Nigeria's imports also rose consecutively in food and live animals, as well as beverages and tobacco (both minimally); crude materials excluding food and fuel, manufactured goods, machinery and transport equipment, and miscellaneous manufactures (all four substantially). Thus, in terms of stakeholders' analysis, countries which hitherto exported these products to Nigeria have lost their market share in Nigeria to China as Nigeria increasingly look towards China for the importation of these products.

Table 3.2: China's Share of Nigeria's Imports (US$ million)

		1996		2000		2005		1996	2000	2005
SITC R. 3	**Product Name**	**China**	**World**	**China**	**World**	**China**	**World**	**China's share of Nigeria's imports**		
0	Food & live animals	885.9	3.5	1098.0	12.7	2140.6	29.8	0.4	1.2	1.4
1	Beverages and tobacco	10.8	0.0	34.2	0.3	69.4	0.7	0.0	0.9	1.0
2	Crude mater.ex food/fuel	121.9	1.8	94.0	1.8	120.4	8.9	1.5	1.9	7.4
3	Mineral fuel/lubricants	70.9	0.0	100.8	0.3	2396.7	1.0	0.0	0.3	0.04
4	Animal/veg oil/fat/wax	37.2	0.0	23.3	0.05	64.4	0.04	0.1	0.2	0.1
5	Chemicals/products n.e.s	981.3	59.6	1176.5	46.3	2085.5	174.6	6.1	3.9	8.4
6	Manufactured goods	1031.5	30.7	1095.5	53.8	3297.8	566.0	3.0	4.9	17.2
7	Machinery/transp equipmt	1876.7	66.2	1955.1	98.1	6600.0	1229.7	3.5	5.0	18.6
8	Miscellaneous manuf arts	296.1	23.2	238.4	39.4	948.7	290.1	7.8	16.5	30.6
9	Commodities nes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Total Imports	5312.1	185.1	5815.8	252.7	17723.5	2300.8	3.5	4.3	13.0

Source: World Integrated Trade Solution (WITS) database, 2007

Top 10 Export and Import Commodities

The top 10 export and import commodities are indicated on Tables 3.3 and 3.4. Mineral fuels, oils and related products top the list of top 10 exports followed with substantial distance by ores, slag and ash, as well as copper and articles thereof. In effect, mineral products constitute the first three export products of Nigeria to China. Cocoa and cocoa preparations was a distant fourth followed by cotton (5th rank), and oil seed etc (sixth). The top six export products are primary commodities made up of mineral and agricultural products. The last four commodities in the top ten list are agroallied manufactured goods whose individual export values are less than $1 million dollars.

Table 3.3: Top 10 Export Commodities (2005)

Product Name	Simple Average Tariff	($ million)	Share (%)	Ranking
Total Trade	9.3	526.9	100.0	
Mineral fuels, oils & product of their distillati	2.5	503.9	95.64	1
Ores, slag and ash.	0.2	7.4	1.41	2
Copper and articles thereof.	3.7	1.9	0.35	3
Cocoa and cocoa preparations.	8.0	1.6	0.31	4
Cotton.	11.4	1.5	0.28	5
Oil seed, oleagi fruits; miscell grain, seed, fru	5.0	1.1	0.22	6
Lac; gums, resins & other vegetable saps & extrac	15.0	0.4	0.08	7
Prepr feathers & down; arti flower; articles huma	17.5	0.2	0.03	8
Tanning/dyeing extract; tannins & derivs; pigm et	8.3	0.2	0.03	9
Pulp of wood/of other fibrous cellulosic mat; was	0.0	0.1	0.03	10

Source: Appendix Table 3.1

In contrast to the nature of Nigeria's top 10 export commodities, the top 10 import commodities from China are all manufactured goods. Top on the list are electrical machinery equipment parts, sound records followed closely by vehicles, etc, as well as nuclear reactors, boilers, machinery and mechanical appliances. Coming at a distant fourth are articles of iron or steel followed by plastics and articles thereof. Organic chemicals and articles of apparel and clothing accessories almost have equal ranking. Included in the lower part of the list are ceramic products as well as inorganic chemicals and radioactive elements.

V. Aid and other relations

Economic relations between Nigeria and China date back to 1971 when the two countries signed the Joint Communiqué on the Establishment of Diplomatic Relations. Currently, China requires Nigeria's oil to fuel its economic expansion while Nigeria seeks Chinese expertise, finance, technology and industrial goods as well as market for its non-oil export. Some technical and financial assistance have been rendered by the two countries to support each other. For instance, during the visit of China President (President Hu Jintao) visit to Nigeria in April 2006, Nigeria and China signed four Agreements and three Memoranda of understanding (MOUs) on a range of programmes to enhance their economic ties.

Available data show that some of the technical and financial assistance provided by China for Nigeria in recent times are in the areas of health, education, communication and infrastructural development. In the area of health, China supported Nigeria's Rollback malaria programme with anti-malarial drugs and treated mosquito nets worth about N400 million in 2002. In an attempt to further support the programme in 2006, China signed an MOU with governNigeria's oil and gas and other raw materials.

In the area of trade relations, similar recent upsurge was

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captured by the available data and pieces of information. Nigeria's export to China is dominated by crude oil to the tune of about 95%. In terms of relative share of market, China constitutes only about 1.5% of the value of Nigeria's exports in 2000 and 2005. Nigeria's import from China is more diversified than the exports. Three product groups: electrical machinery equipment; vehicles and nuclear reactors, boilers machinery and mechanical appliances jointly accounted for over 50% of Nigeria's imports from China. The observed structure of trade pattern is inconsistent with the Nigeria's quest to export manufactured or processed products. The need to diversify export products may be an uphill task given China's preference for raw materials and fuel and gas. More worrisome is skewed balance of payments position which has consistently been in favour of China. This suggests the need to examine the structure of tariff and non-tariff barriers facing Nigeria's exports to China. Perhaps more importantly is an analysis of constraints facing producers and exporters in responding fully to market openings.

Table 3.4: Top 10 Import Commodities (2005)

HS Chpt	Product Name	Simple Average tariff	$ million	Share (%)	Ranking
Total	Total Trade 12 2301 100				
85	Electrical mchy equip parts thereof; sound record	11	551	24.0	1
87	Vehicles o/t railw/tramw roll-stock, pts & access	10 7	43	19.0	2
84	Nuclear reactors, boilers, mchy & mech appliance;	3	257	11.2	3
73	Articles of iron or steel.	19	76	3.3	4
39	Plastics and articles thereof.	13	51	2.2	5
29	Organic chemicals.	5	40	1.7	6
62	Art of apparel & clothing access, not knitted/cro	20	39	1.7	7
67	Prepr feathers & down; arti flower; articles huma	20	31	1.3	8
69	Ceramic products.	19	31	1.3	9
28	Inorgn chem; compds of prec mtl, radioact element	5	30	1.3	10

Source: Appendix Table 3.2

Although the brief analysis presented in this report points to a similar trend in the general trade and investment patterns with the traditional trade partners there is a strong need to critically examine in details Nigeria-China relationship. The review presented in this paper is general and based on incomplete information. An investigation of some of the issues raised probably by conducting a census of Chinese interest in Nigeria is capable of shedding more light.

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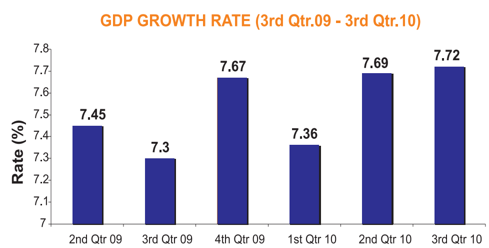
All references are contained in the original copy of the report.

Facts & Figures

Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian economy in the third quarter of 2010, recorded mixed performance in several parameters. Some of the indicators witnessed improvements, while some others experienced a slide. Gross Domestic Product (GDP) grew in the third quarter; while inflation eased downward, missing government's targets. The nation's currency, the naira remained mostly firm against other major currencies despite losing some grounds at the tail end of the quarter. The bears, however, fortified their position in the capital market with investors' 'wait and see' approach determining market trends. The Monetary Policy Rate (MPR) was raised to curb inflation. In the international crude oil market, prices wobbled but ended the period with minor gains.



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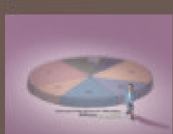

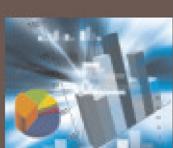

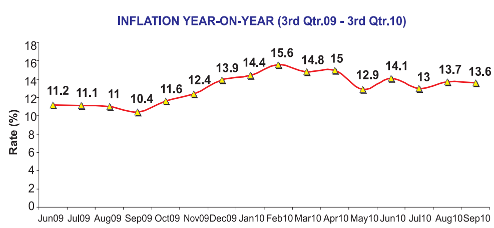

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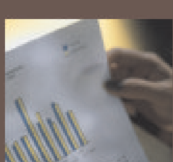


GROSS DOMESTIC PRODUCT

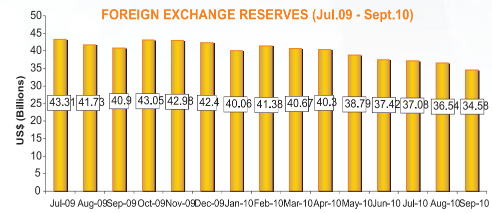
Growth in Gross Domestic Product in the third quarter was estimated at 7.69 percent, up from 7.36 percent in the preceding quarter. The non-oil sector continued to be the main driver of real GDP growth. Despite late planting of crops in the far North and persistent flooding in some Southern regions, favourable weather conditions in most parts of the country allowed agriculture to continue its dominance as the major contributor of GDP. For the oil sector, the continued observance of the Amnesty deal with the Niger Delta militants pushed production up by 5 percent in the third quarter. Real GDP Growth for the upcoming quarter is projected at 8.19 percent which is higher than the revised figure of 7.67 in the corresponding quarter of 2009.

INFLATION

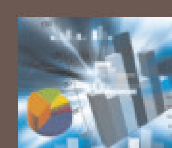
In a move entirely outside of analysts' expectation, inflation outlook was revised up by the National Bureau of Statistics based on the 2003/2004 Nigeria Living Standard Survey (NLSS), using November 2009 as a new base. Although the reweighing churned out higher figures, the Year-on-Year (y-on-y) inflation nevertheless inched down to 13.6 percent in the third quarter 2010, compared to 14.1 percent at the end of the preceding quarter. In fact, the headline rate eased to 13 percent in July as banks restricted lending. Inflationary pressure however resurfaced in August, soaring to 13.7 percent due to higher prices of some staples like yam, potatoes, meat, fish, cooking oil, fruits and vegetables. The authorities intervened to rein in prices by tightening money supply. Inflation decelerated in September due to weaker demand and early harvest in some southern parts of the country. However, inflationary risk remains a threat in the months ahead due to the implementation of the new salary structure in the civil service, the expected spending spree running up to 2011 elections, the huge fiscal injections relating to AMCON's purchase of non-performing loans of deposit money banks, pressure on border markets from food shortages in neighboring Niger Republic and Chad, deregulation of the downstream oil sector and the expected rise in consumer spending due to the festive season.

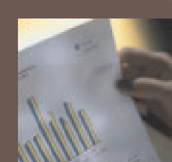
EXTERNAL RESERVES

The nation's external reserves tumbled drastically in the third quarter, hitting fresh new lows despite steep rise in crude oil prices in the international markets. The foreign reserve has dwindled by about 47 percent since brushing an all-time high of $64billion in August 2008. It is the third consecutive quarter of depleted reserves since December 2009. The authorities attributed the drying up of reserves to strong net outflows as a result of higher dollar demand from importers. The stock of external reserves stood at 34.58billion in the third quarter of 2010, capable of financing up to 13 month worth of imports. In the medium term, the apex bank has projected external reserves to improve due to favorable outlook for crude oil prices and output.



source: Central Bank of Nigeria

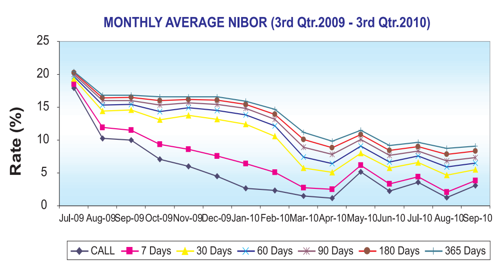




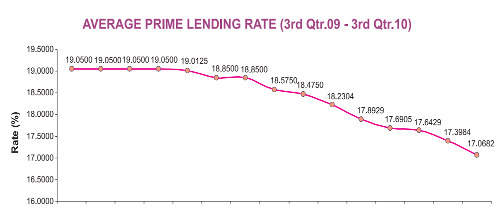
INTEREST RATE

In a surprise move that caught manufacturers off guard, the CBN raised its key interest rate for the first time in over two years during the quarter. The Monetary Policy Rate (MPR) was lifted by 25 basis points to 6.25 percent, in a bid to contain inflation amid concerns of rising liquidity.

The average interbank rate remained broadly low, however, with significant rate swings on certain tenors in July. For instance, rates on the call and 7 Days tenors climbed as high as 8.1 and 8.5 percent, respectively, due to enormous NNPC remittances and higher than expected activities at CBN's Dutch auctions. The sharp upswing in rates was however short-lived as the market was flooded with inflows, including $2billion savings from the Excess Crude Account and N413billion Statutory Revenue Allocation shared among the three tiers of governments. Rates on the call and 7 Days tenor retreated to a year low of 1.1 and 1.5 percent respectively. However, rates climbed back up in September, in response to the apex bank's monetary tightening mea-



source: Financial Markets Dealers Association of Nigeria

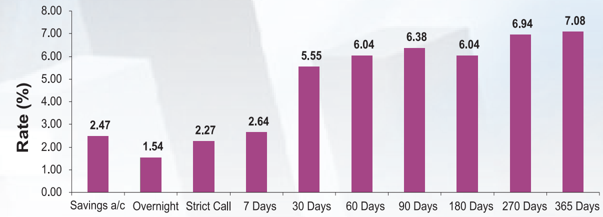


source: Financial Markets Dealers Association of Nigeria sures.

In terms of cost of borrowing, the average Prime Lending Rate (PLR) eased slightly due to improved confidence in the market. Although, lending rates remained on the high side hovering around 17 percent, it has nevertheless fallen lower than in the last three quarters.

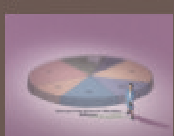
Returns on the average deposit rate slipped across most investment horizons, with higher volatility on the medium term tenors. For instance yields on the 30, 60 and 90 Days tenors declined by 132, 128 and 121 basis points, respectively.

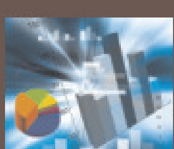
MONTHLY AVERAGE DEPOSIT RATES (3rd QTR.10)

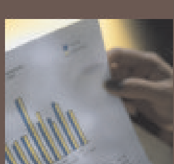


source: Financial Markets Dealers Association of Nigeria

CAPITAL MARKET

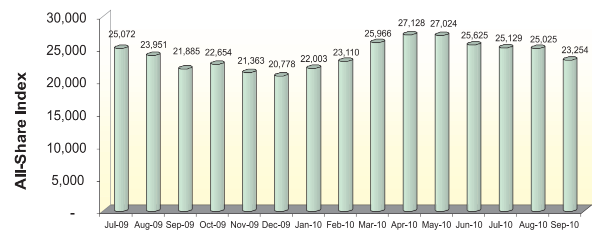






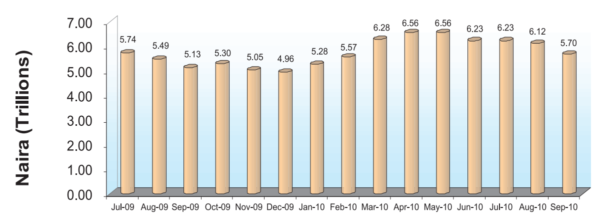
The third quarter did not start well for the capital market as stock prices were somewhat unable to break their losing streak, nursing great loses all through. The All-Share Index and market capitalization continued their downward journey erasing much of their earlier gains to finish disappointingly lower at 23,050.59 and N5.64trillion, respectively, from 25,384.14 and N6.17trillion in the preceding quarter. It was a gloomy quarter that marked the index worse performance since third quarter 2009. Investors remained sceptical with concerns on what may lie ahead owing to ongoing reforms. On the positive side, the signing of the AMCON Bill on July 19 and the planned N2trillion listings/merger of Dangote Cement brightened an otherwise gloomy picture and raised investors' confidence. Also a number of quoted companies such as MRS Oil, Dangote Sugar, Skye Shelter Fund, Flour Mills of Nigeria, 7-Up Bottling Company, National Salt Company of Nigeria, Northern Nigeria Flour Mills among others, paid impressive dividends of N1.25, N1.00, N3.00, N2.00, N1.75, 50kobo and 80kobo per share, respectively. A number of securities also joined the official list of the NSE: N50billion Bayelsa State Government Bond, N57.7billlion Lagos State Bond, as well as the N15billion UACN Property Development Company.

ALL SHARE INDEX (ASI) (3rd Qtr.09 - 3rd Qtr.10)



source: Nigeria Stock Exchange

NSE MARKET CAPITALISATION (3rd Qtr.09 - 3rd Qtr.10)

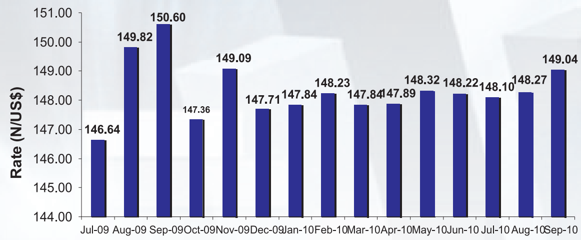


source: Nigeria Stock Exchange

EXCHANGE RATE

The nation's currency, the naira, remained on track around CBN target, despite shedding off some of its gains against other major currencies in the final leg of the third quarter. It finished the period with a mild depreciation at about N149/US$. The naira struggled to retain its footing due to some pressure coming from importers and downstream oil marketers. It fell to its lowest level at the interbank and parallel markets to about N155/US$ and N158/US$, respectively. In its twice weekly auction, the apex bank offered about $6.9billion and sold $6.7billion against $8.6billion demanded. Although, the CBN offers fell short of expectation on several occasions, the gap was nevertheless filled with dollar sales from oil majors, easing pressure on the naira. Also, the relative clarity of expectations has kept the premium low between the official and the interbank rate despite slipping to about 3 percent during the quarter. As at end September 2010, the WDAS and the interbank were at N149.85/US$ and N154.50/US$ respectively.

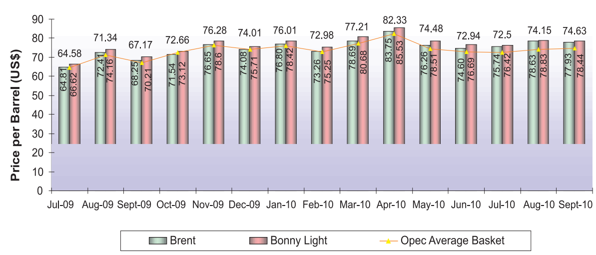
MONTHLY AVERAGE EXCHANGE RATE (N/US$)



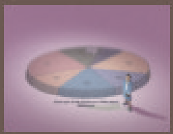
source: Central Bank of Nigeria

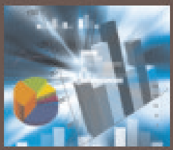
OIL

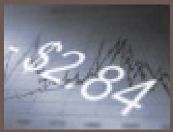
Crude oil prices struggled to gain stability during much of the third quarter, but ended the quarter with some maginal gains. Oil prices tumbled more than 13 percent after hitting about $82 per barrel in August. It however, reversed earlier losses with a strong recovery to hover around $79 per barrel on the last day of the third quarter. Nigeria's brand of crude oil, bonny light, advanced more than $4, its strongest gain since the last quarter of 2009. It traded in a band of $71-$82 per barrel. Industry analysts attributed the rebound in crude oil prices to several reasons such as stronger demand from the world's number two energy consumer - China and the weaker dollar against other major currencies, among others. In marking its 50^{th} year of existence, OPEC announced that it will focus



source: Energy Information Administration





more on the rate and size of the global economic recovery than seasonal factors. Looking ahead, industry analysts expect higher oil prices in the medium term.

source: ship-wrecks.co.uk