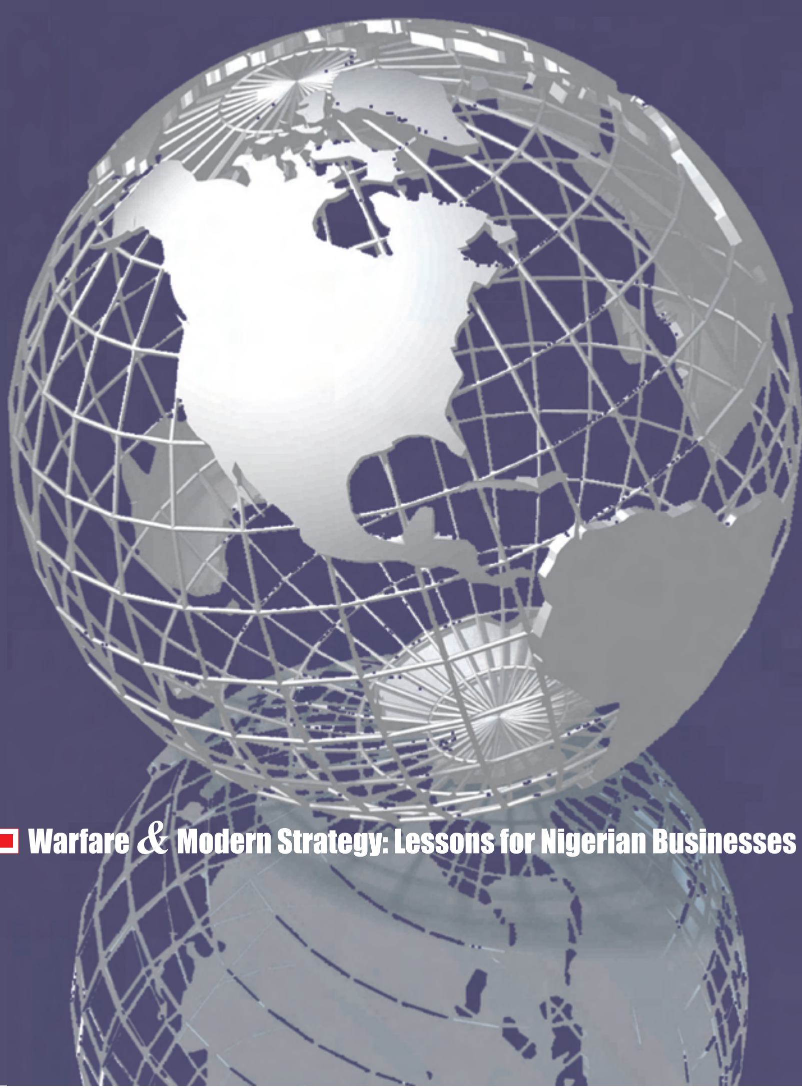
ZENITH

Zenith Economic Quarterly

A Publication of Zenith Bank Plc Vol. 4 No. 4 October, 2008 ISSN: 0189-9732

GLOBAL FINANCIAL CRISES:

Recession, Depression and other Threats



Warfare & Modern Strategy: Lessons for Nigerian Businesses

Zenith Economic Quarterly

C O N T E N T S

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

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

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

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

ZENITH
ZENITH BANK PLC
www.zenithbank.com

Financial Meltdown, Credit Crunch et al

It borders on stating the obvious to say that the phenomenon called financial meltdown, credit crunch or recession that has its roots in the sub-prime episode in the US in 2007 has put not a few economic jurisdictions in a tailspin. From the United States to the United Kingdom; from the Middle East to Asia; and from the Russian Federation to Africa, no economy is really totally immune to the state of flux that became the lot of the global economy by the close of the third quarter 2008.

Since its onset, economy managers, financial experts and economists, especially those in the worst hit climes, have been characterizing the phenomenon in various ways—many, very euphemistically as mere threat of a recession. Yet, others describe it in grimmer terms as something akin to the Great Depression of the late Nineteen Twenties—with a portent of even more far-reaching consequences. The argument has even commenced among scholars, public policy analysts and financial experts of various hues as to which, between the industrialized nations and the emerging/developing economies, will bear the brunt of the global phenomenon.

> *The argument has even commenced among scholars, public policy analysts and financial experts of various hues as to which, between the industrialized nations and the emerging/developing economies, will bear the brunt of the global phenomenon.*

In the face of the yet unfolding scenarios, we peeped into the genesis of the 'financial tsunami', reviewed the characterizations in various economies and captured it all for your update in our ***Global Watch*** under the rubric: "Global Financial Crises: Recession, Depression and Other Threats". From this treatise emerges the intriguing fact that world leaders, scholars and other stakeholders are not agreed, either in the typology or bouquet of solutions to this huge global challenge.

Cognizant of the fact that at the core of the subsisting global credit crunch is the 'corporate failure' of some giant financial institutions, our piece titled: "Warfare & Modern Strategy: Lessons for Nigerian Businesses" digs into the origins and applications of strategy in warfare—linking it with the business survival of today. The author sums up that "while Nigeria's future businessmen and women have much to gain by examining the traditional theories and practices of strategy, their success or otherwise will be defined by their flexibility of mind and ability to 'think out- side the box' in crafting strategies for the companies that will define Nigeria's future".

And from the Ivory Tower, two dons penned the piece: "Nigeria and the Millennium Development Goals: An Update", drawing links between the nation's economic development and efforts at meeting the MDGs. Also under our ***Issues*** section, the nagging issue of electronic banking fraud is expertly examined, with explanatory notes on the buzzwords of the crooks.

In ***Foreign Insights***, the burning issue of corporate governance in the African context is analyzed in-depth; plus an expose on Nigeria-Israel relations and the mutual benefits therein.

The other usually exciting and informative sections of the journal namely ***Policy, Facts & Figures*** and ***Periscope*** make up this edition that carries our imprimatur of quality and style. All for you!

Marcel Okeke

I have been directed by the Honourable, The Chief Justice of Nigeria, to acknowledge with thanks, receipt of your letter dated Tuesday, 02 September, 2008, and also copy of your July 2008 quarterly edition forwarded to His Lordship as mentioned above.
Please accept the assurances of His Lordship's esteemed regards.
- Mrs. M.A. Okpala
For: Chief Justice of Nigeria.

On behalf of the Director-General, Voice of Nigeria (VON), Mallam Abubakar B. Jijiwa, I write to acknowledge with thanks the receipt of one copy of your Zenith Economic Quarterly (ZEQ), July 2008 edition sent to the Corporation. Consequently, the Corporation found your magazine incisive. We will be pleased if you can send us five (5) copies from your subsequent editions. Please accept the DG's compliments and best wishes.
- Theodora N. Okonko
For: Director-General
Voice of Nigeria

This is to acknowledge with thanks the receipt of your letter and magazine dated 2nd September, 2008 on the ZEQ. There is no doubt that the magazine will be most useful to our Chamber members. The value of the highly educative economic journal cannot be overemphasized as it could assist members in the pursuit of their interest in the national economy. On behalf of the President and the Executive Council members of the Chamber, kindly accept our appreciation while we look forward to receiving more copies in the future.
Thank you
- Mr. Joseph O Oladele
Asst. Executive Secretary
Oyo State Chamber of Commerce

We write to acknowledge the receipt of your publication: "The Zenith Economic Quarterly"- July 2008 Edition. We find it a very resourceful material for our Library users. Thank you for your contribution to the development of the Institute's library.
Yours faithfully,
- Emeka Emmanuel
Manger (Library)
The institute of Chartered Accountants of Nigeria

I am directed to acknowledge, with thanks, the receipt of issues of your very rich and informative publication, Zenith Economic Quarterly (ZEQ). The publication is an invaluable addition to our Library's holdings and has since become one of the Library's most highly sought materials.
Once more, thank you for including us in the mailing list for the distribution of this quarterly. We look forward to the sustenance of this relationship. Please accept the assurances of the Director-General's highest regards.
Thank you.
- Peter O. Oparah
Deputy Director-Library Services
For: Director-General
Institute for Peace & Conflict Resolution

I am directed by the Vice-Chancellor to acknowledge with thanks, receipt of a copy of the July 2008 edition of Zenith Economic Quarterly. The Administration wishes Zenith Bank Plc, Nigeria, greater achievements in all its endeavours. With the Vice-Chancellor's warmest regards.
Thank you.
Yours sincerely
- Margaret I. Aziba (Mrs.)
Principal Assistant Registrar
For: Deputy Registrar (Vice-Chancellor's Office)
University of Ibadan

I write to acknowledge receipt of January and April, 2008 editions of your very rich publication, "Zenith Economic Quarterly". The publication is rich with topical issues on the Nigerian economy and is very useful to our office. The quality, both in content and printing, is excellent. We urge you to sustain the high standard and do hope also that you will keep us in your mailing list in your subsequent editions. Congratulation!!!
- A.S. Ayine
Auditor General for Local Governments
Cross River State

I wish to acknowledge with gratitude the receipt of Zenith Economic Quarterly, Vol.3, No.3 July, 2008. Issues of the Zenith Economic Quarterly are heavily used by both staff and students of our institution. We look forward to receiving more issues of the Quarterly in future.
Thank you.
Yours faithfully,
- E N Haameen
Head, Collection Development Division
For: University Librarian.
University of Maiduguri

I write at the instance of the Executive Secretary to acknowledge with thanks, your letter of 2 September 2008 and a complimentary copy of the July 2008 edition of Zenith Economic Quarterly. Please accept the assurances of the Executive Secretary's best wishes.
- Adewale Bakare
Personal Assistant to the Executive Secretary
For: Executive Secretary.
National Universities Commission

Economy:
Still Weathering the Tide

*** By Marcel Okeke**

The Nigerian economy has again shown its resilience in the face of a mixed grill of internal and external developments (some adverse; some wholesome) during the third quarter 2008. Essentially, the economy was shaped during the period by such factors as rising crude oil prices which began a plunge by the close of the quarter; lingering bearish trend in the capital market and the efforts of the regulatory authorities to turn the tide; some government policies, including the rescinding of the ban on the importation of items like rice and cement, among others.

Favourable reports and ratings of Nigeria by a number of global agencies and institutions also robbed off on the economy during the period under review. Transparency International (TI), the International Monetary Fund (IMF), the World Bank and Business Monitor International (BMI), among others, rated Nigeria highly in their various re-

Economic Outlook of African Countries

	Short Term Economic Risk	Global Rank	Long Term Economic Risk	Global Rank
Nigeria	78.8	22	59.1	63
Botswana	74.4	41	58.2	46
Morocco	70.8	54	62.8	31
Libya	67.9	64	61.5	36
Namibia	66.0	67	72.3	12
Algeria	64.6	72	53.1	61
Angola	64.6	72	46.7	77
Tunisia	60.4	77	56.8	49
Cote D'Ivoire	57.7	82	45.5	83
South Africa	56.5	87	60.2	40
Tanzania	52.5	109	45.2	84
Ghana	43.5	119	48.8	73
Kenya	37.3	126	46.2	79
DRC	26.0	132	28.6	97
Zimbabwe	1.0	133	18.1	121

Source: BMI

NOTE: SHORT TERM RISK: REGIONAL AVERAGE = 51.1; GLOBAL AVERAGE = 62.7
LONG TERM RISK: REGIONAL AVERAGE = 47.9; GLOBAL AVERAGE = 59.3

ports.

The Central Bank of Nigeria on its part, announced the postponement of the commencement of the uniform accounting year-end policy in the banking industry, from December 2008 to December 2009—and later announced its outright cancellation. It also introduced the 'Resident Examiners' Programme (REP)'—with effect from January 2009, under which the apex bank will post its staff to each of the banks to "supervise and monitor" their activities on a daily basis and report to it. In jettisoning the proposed common year-end for banks, the CBN said it was "in response to the observed desperate behaviour of some banks in deposit mobilization and hiking interest rates at levels that cannot be justified by the fundamentals". The apex bank also during the quarter, unlike in the previous ones, held its Monetary Policy Committee (MPC) meetings twice (August and September) during which it adjusted a number of monetary variables.

These measures, in various and varied ways, impacted on the economy during the quarter under review—leading to mixed outcomes that attest to the resilience of the economy. Specifically, inflation rate trended upwards, just as the external reserves also grew—although marginally. The Naira exchange rate against the dollar remained generally stable, while interest rates moved up. Inflation rate (year-on-year) which stood mid-year at 12 per cent, rose further by 200 basis points to hit 14 per cent in July, dropping to 12.4 per cent in August. It rose to 13.0 per cent in September; representing some 60 basis points increase over the level in August. This trend was due to a number of factors namely, increase in the prices of some staple food items, diesel, kerosene, gas, building materials and household goods. The 2008 Federal budget is couched on a target inflation rate of 8.50 per cent—which is now exceeded by about 4.50 per cent.

As in the previous quarters, the exchange rate of the Naira against the US dollar remained stable during the period under review—with the local currency recording some appreciation against the dollar. The average exchange rate of the Naira to the dollar stood at about N117.65/ US$1. This consistency in the strength of the Naira, like in the previous quarters, was underpinned largely by improved foreign exchange earnings from oil. This also accounted for the continued accretion to the stock of the nation's gross external reserves, which again increased from US$60 billion at end-June to about US$63 billion by the close of the third quarter.

One other key development during the period under review was the concurrent improvement in Nigeria's ranking on the Corruption Index by the Transparency International (TI) and Business Monitor International (BMI's) economy outlook report. According to TI, Nigeria ranked 121 in the world out of 180 countries; this is as against the country's 147th position last year. There is a perceived link between investor perception and TI ranking; thus, all things being equal, the lower the corruption level, the lower the cost of doing business, among others. BMI on its part said Nigeria had the "best short term economic outlook in Africa for the rest of 2008". In fact, the country is ranked first on the African continent and also 22nd globally in the BMI report which identified large oil reserves, pro-reform government, major oil producer, very low external debt as some of the

One other key development during the period under review was the concurrent improvement in Nigeria's ranking on the Corruption Index by the Transparency International (TI) and Business Monitor International (BMI's) economy outlook report.

strengths of the economy.

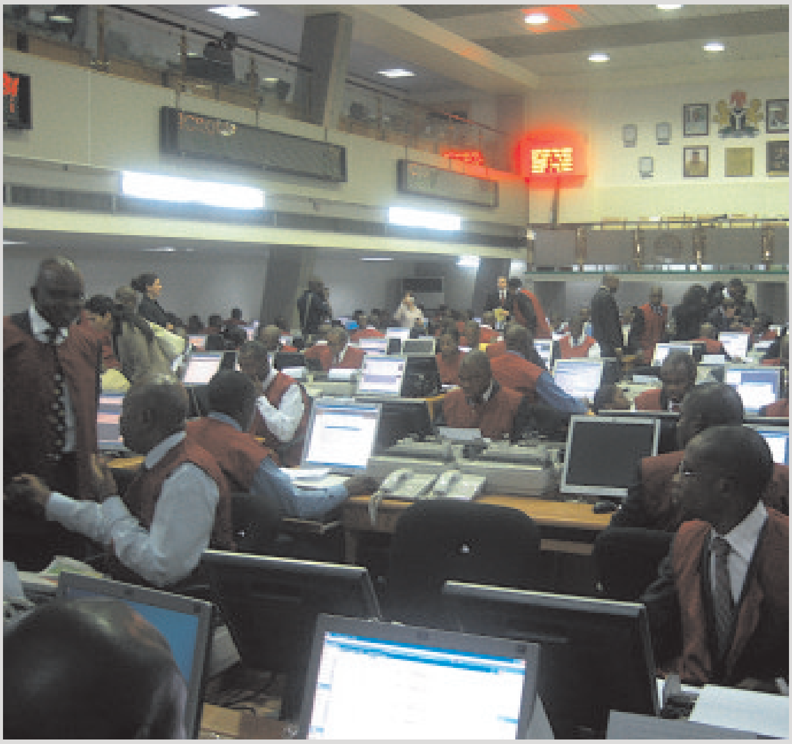
In tandem with the TI and BMI reports was another by the International Monetary Fund (IMF) which ranked Nigeria among the eight economies heading towards the status of "the next generation emerging markets". According to the report tagged "The Rise of Africa's Frontier Markets" and which was released in August 2008, the IMF said in 2007, Nigeria, Ghana, Kenya, Mozambique, Tanzania, Uganda, Zambia and Botswana performed better than the first generation emerging markets of South East Asia in 1980 when these countries were first rated as emerging markets. These sub-Saharan African countries, the IMF says, currently exhibit strong growth, investible markets and private sector-led growth, among others.

One feature of the quarter under review was the significant volatility of the oil market—a situation which saw the price of the commodity hitting the all-time high of US$147.47 per barrel in July, but dropped by close to 50 per cent to below US$80 per barrel by end-September. In fact, according to the Oil Market Report of the Organization of Petroleum Exporting Countries (OPEC), October 2008 edition, OPEC Reference Basket (ORB) price fell US$15.56/b or nearly 14 per cent in September to stand at eight-month low of US$96.86/b. The basket continued to trend sharply lower in October as the evolving crisis in the financial sector indicated an increasingly weaker outlook for the world economy and hence growth. The basket reached a twelve-month low of US$72/b on October 13, 2008, representing a decline of almost US$69/b within three months. Specifically for Nigeria, the import of this scenario has further exacerbated by the number of barrels produced per day which, during the third quarter, dropped to 2.1 million—as against the 2008 budget provision of 2.8 million barrels/day.

THE CAPITAL MARKET

This downward trend was also replicated in the capital market during the quarter under review, with all indicators recording some decline in relation to previous quarter positions. For instance, in the primary segment of the market, the number of companies approaching the market for fund-raising by public offers and private placements dropped, just as the actual amount raised from the market also declined markedly. While companies came to raise an estimated N180 billion from the market in the third quarter, over N300 billion was raised in the previous quarter—a decline of more than 40 per cent. The Nigerian Stock Exchange All-share Index (ASI) also dropped between the two periods, by about 17.5 per cent. The NSE market capitalization also declined during the quarter, by 8.20 per cent, and by 3.4 per cent when compared to the position at the beginning of the year.

This lingering bearish trend in the market attracted the attention of all stakeholders (including the Federal Government)—

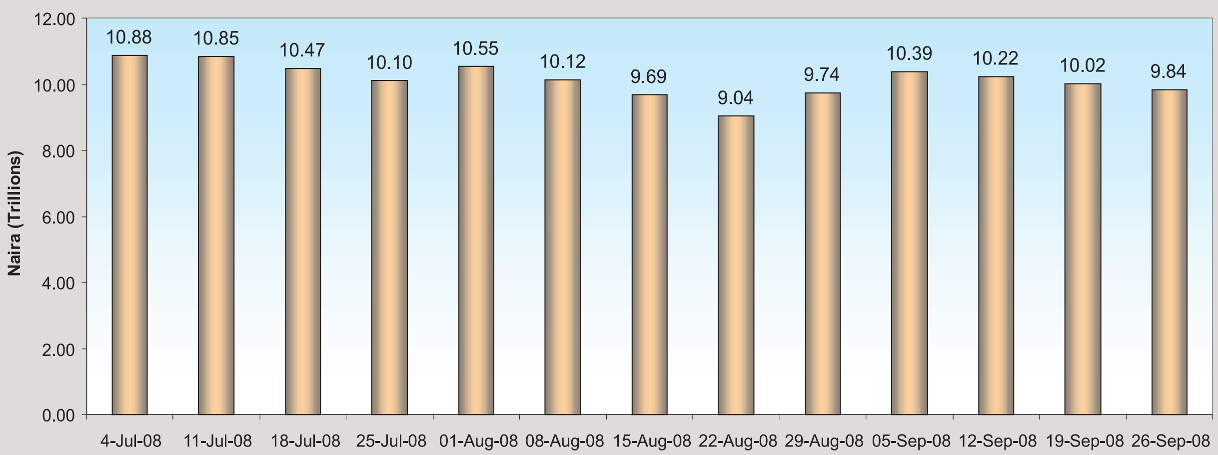


who met in Abuja in August to map out the ways forward to stem the fast sliding fortunes of the equity market. Thus, a number of measures were adopted to: create liquidity in the system; make the capital market more competitive by way of cost reduction; and strengthen the process of policy formulation and implementation in order to bring about improved transparency and efficiency, among others. Some of the measures /decisions taken at the stakeholders' meeting include: (1) the setting up of a Presidential Advisory Team on the Nigerian Capital Market; (2) reduction of burden on investors by way of cutting fees by all regulators and operators; (3) commercial banks to restructure existing facilities to aid operations of licensed stockbrokers, institutional and individual investors on longer repayment terms. Other decisions include: quoted companies to be permitted to buy-back up to 20 per cent of their shares; guidelines to ensure strict enforcement of NSE's listing requirements, with zero tolerance for infractions; administrative actions to be taken to stem the rate of new listings until the market stabilizes; de-listing of moribund companies; and the setting up of a Capital Market Stabilization Fund, etc. A number of these measures have since been implemented. For instance, the Presidential Advisory Committee on the Nigerian Capital Market has since been constituted and, on September 18, 2008, gave an update on the market, in which it demonstrated that relative to the G-7 economies and some emerging markets, the capital market was still healthy.

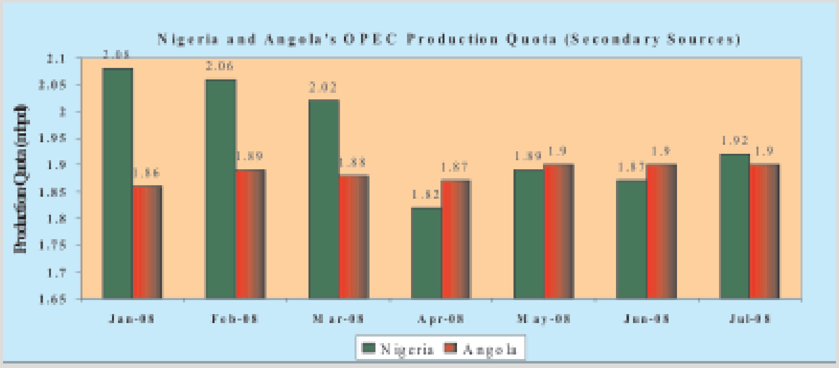
One major development in the market during the quarter was the listing of a huge volume of supplementary shares by a number of companies. Some of these include FTN Cocoa Processors Plc, Japaul Oil and Maritime Services Plc, Costain (WA) Plc, Capital Hotel Plc. Also, a new sector was created in the market, following the admission of 6.8 billion shares of Starcomms Plc to the daily official list at a price of N13.65 per share. The NSE also during the quarter de-listed about ten companies from the daily official list of the market for being "dormant". This means that the affected companies breached the NSE post-listing requirements, especially regarding the submission of their quarterly and annual reports over time. The companies include ACEN Insurance Plc, Amicable Assurance Plc, BAICO Insurance Plc, Atlas Nigeria Plc, Ceramics Manufacturing Plc, Beverages (WA) Nigeria Plc, Enpee Plc. Others are: Tate Industries Plc, Maureen Laboratories Plc and Rietzcot Nigeria Plc.

One feature of the quarter under review was the significant volatility of the oil market—a situation which saw the price of the commodity hitting the all-time high of US$147.47 per barrel in July, but dropped by close to 50 per cent to below US$80 per barrel by end-September.

MARKET CAPITALISATION: End Week (Jul'08 - Sept'08)



Source: The Nigerian Stock Exchange



Source: OPEC

BANKING AND FINANCE

Competition among the operating banks in country continued during the third quarter, with a number of them raising more funds from the capital market and/or pushing for greater offshore presence and further consolidation through mergers and acquisitions. The same tendency also prevailed in the insurance industry. Thus, the merger arrangement between Platinum Habib Bank (Bank PHB) and Sterling Bank progressed. Crusader Insurance Plc and Equity Assurance Plc entered the capital market with a rights issue and a combination of a rights issue and offer for subscription respectively to raise more money. Ecobank Transnational Incorporated also came to the market for about N297 billion through a combination of a rights issue and offer for subscription.

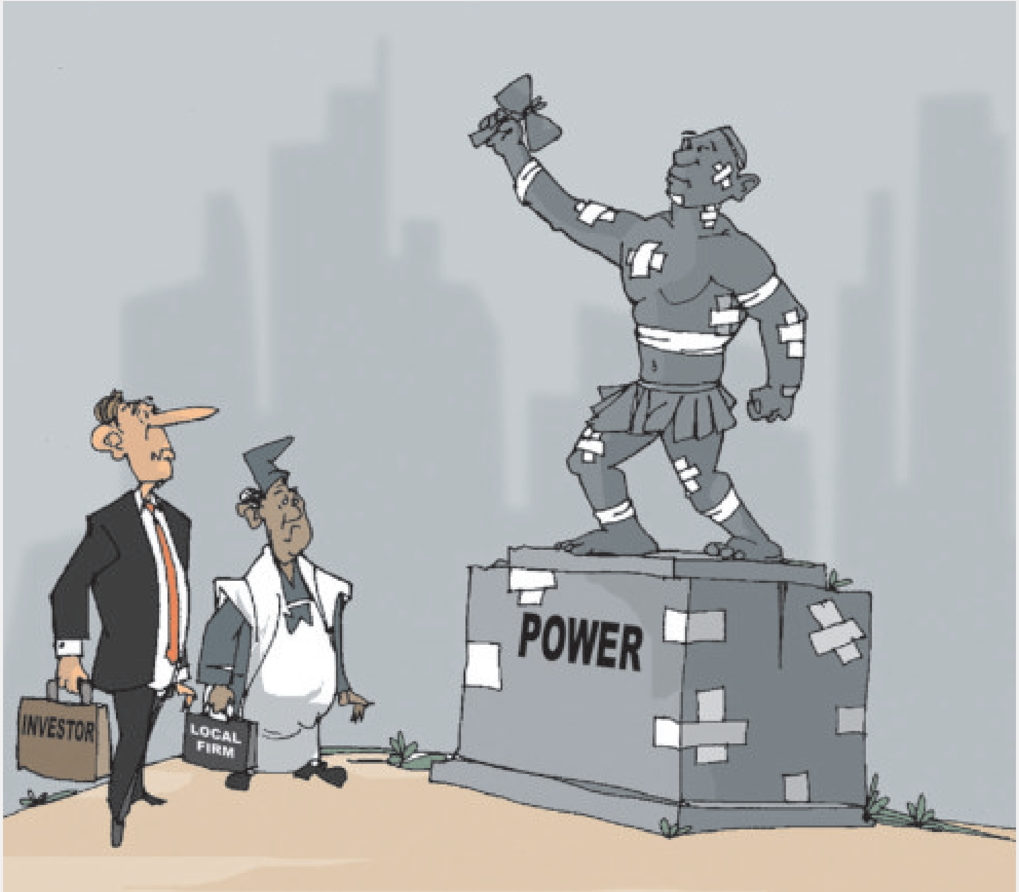
Supplementary shares were also added to some of the banks during the period under review. More than 223 million shares were added to the shares outstanding of Access Bank Plc, following the conversion of part of its N13.5 billion redeemable bond 2010 series. Similarly, about 12.5billion shares were added to the shares outstanding in the name of Fidelity Bank Plc following the conclusion of its hybrid offer. About four billion shares each were added to those of Afribank Plc and Skye Bank Plc respectively, just as some five billion shares were added to the shares outstanding of Bank PHB—all during the period under review. Two insurance companies also had new shares added to their shares outstanding: some 750 million shares were added to Custodian and Allied Insurance Plc, while over 723 million shares were added to those of AIICO Insurance Plc.

> **The apex bank directed all the banks to determine the status of investors' funds deposited with about 35 unregistered finance companies (otherwise called 'wonder banks') which were lodged with them (banks) and release such funds to the Securities and Exchange Commission (SEC).**

Regarding offshore expansion, Zenith Bank Plc opened a wholly owned subsidiary in Sierra Leone; Access Bank and Intercontinental Bank each commenced operations in London; First Bank opened a branch in Paris, France, while Oceanic Bank commenced business in The Gambia and the Sao Tome and Principe Islands. Skye Bank and United Bank for Africa also commenced operations in Sierra Leone. On its part, Guaranty Trust Bank (UK) commenced the branding of Terminal 5 of the Heathrow Airport, London, taxi cabs and commuter buses. Industrial and General Insurance Company Plc (IGI), during the quarter, commenced the setting up of a bank in Uganda—Global Trust Bank. This is sequel to its successful acquisition of 60 per cent stake in the National Insurance Corporation of Uganda. The Reserve Bank of South Africa has also given three Nigerian banks (First Bank, Union Bank and UBA) necessary approval to commence retail banking in the country.

During the quarter under review, the Central Bank of Nigeria also took a number of regulatory measures. Specifically, the apex bank directed all the banks to determine the status of investors' funds deposited with about 35 unregistered finance companies (otherwise called 'wonder banks') which were lodged with them (banks) and release such funds to the Securities and Exchange Commission (SEC). This directive came as sequel to a request by the SEC, seeking authorization from the Investments and Securities Tribunal (IST) to shut down about 37 'wonder banks' which had no SEC approval to operate.

The CBN also reviewed its monetary policy twice during the quarter: the first, in August and the second in September. In August, the apex bank retained the Monetary Policy Rate (MPR) at 10.25 per cent but directed the banks to "fully disclose to the public, their deposit rates as well as base lending rates and other charges for all the sectors of the economy". These rates, the



CBN said, should also be reported to it as well as be published on the respective websites of the banks. And pursuant to this directive, the CBN had published 'Banks' Interest Rates and Charges on Loans/Deposits' for the month of September on its website.

In September however, the apex bank reviewed the MPR, reducing it by 50 basis points, from 10.25 per cent to 9.75 per cent. It similarly reduced the Cash Reserve Ratio (CRR) from four per cent to two per cent and the liquidity ratio, from 40 per cent to 30 per cent, among other measures. In taking these steps, the CBN said it was doing so "in the light of the evolving economic and financial developments in the domestic and international economies", adding that it "will continue to monitor developments…and will be ready to take appropriate actions to ensure the smooth functioning of the financial markets and the economy in general".

OIL, GAS AND POWER

Nigeria during the quarter under review regained its prime place as the leading oil producing nation in Africa—a position which it lost to Angola earlier in the year due to exploration and production challenges in the Niger Delta region. The country raised its daily production total above the two million barrels mark in July; thus, placing it above Angola which produces 2.0 million barrels per day. Prior to the drop in production, Nigeria produced between 2.5 and 2.6 million barrels of crude oil per day. However, the current production level is still less than the 2008 budget assumption of 2.45 million barrels per day.

Meanwhile, the Nigerian National Petroleum Corporation (NNPC) and Gazprom of Russia have signed a memorandum of understanding (MoU) for joint venture projects in petroleum and gas production. Under the arrangement, both partners plan to invest altogether about US$2.5 billion in gas development in Nigeria. Similarly, the NNPC, Mobil Producing Nigeria and a consortium of banks have also signed a US$220 million financing agreement to complete the Escravos Gas-To-Liquid (EGTL) project. The NNPC holds 49 per cent equity in the project tagged 'NGL11' while MPN has 51 per cent holding.

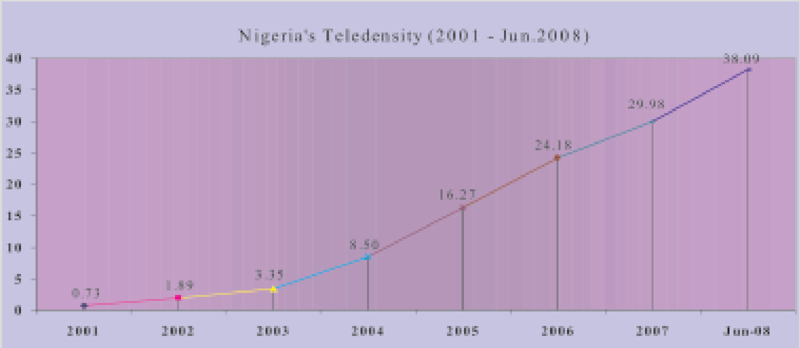
The Federal Government, in its drive to develop the gas sector, has set a new target of 300 trillion cubic feet as its natural gas reserves by 2018, from the present 187 trillion cubic feet. Sequel to this development, Government also gave an approval for the commencement of the selection process for investors who are interested in building new gas infrastructure in the country. This is in line with Nigeria's gas master-plan that was approved earlier in the year.

In the power sector, as the Federal Government was getting set to declare a 'state of emergency', the Federal House of Representatives carried out a comprehensive probe of past activities in the sector—specifically looking into contracts awarded

In the power sector, as the Federal Government was getting set to declare a 'state of emergency', the Federal House of Representatives carried out a comprehensive probe of past activities in the sector—specifically looking into contracts awarded for various power projects.

for various power projects. While the outcome of the report of the probe was being awaited, the Federal Government commenced the building of a US$163 million hydro-power plant near the Gotowa Dam in Zamfara state. The 100 MW plant which has a capacity of two billion cubic metres of water a year, is also expected to provide irrigation for 10,000 hectares of land. Contract for the plant was awarded to China Geo-Engineering Limited and is being financed by China Import/Export Bank—with guarantees from Sofitel Capital Corporation of the US and a Nigerian bank. The plant is due to be completed in 30 months.

In August, Nigeria and Germany signed an agreement on the injection of about 6,500 megawatts of electricity into the national grid within the next 12 years. Tagged the Nigeria-German Energy Partnership Memorandum of Understanding, the pact allows German companies to play prime roles in the power supply chain in Nigeria. They will participate in the construction of power projects in the areas of hydro, gas, thermal, solar, coal, wind, and waste-to-energy plants. Germany will also help Nigeria to expand its existing dam systems and to upgrade existing power stations to improve output. Five German companies are involved in the pact, with Siemens expected to participate in a raft of projects in the country. Among the cities and towns expected to benefit from the locations of the power facilities through the deal are Ikot Abasi (Akwa Ibom), Kainji (Niger); Kaduna; Obubra (Cross River); Sokoto; Katsina; Gombe; Kano; Maiduguri; Egbin (Lagos); Sapele (Delta), and Afam (Rivers).



Source: NCC

TELECOMMUNICATIONS

During the quarter under review, a fifth GSM operator, Etisalat, rolled out its services into the competitive telecom market. It commenced commercial services in six cities across the country: Lagos, Ibadan, Abuja, Kano, Port-Harcort and Kaduna. Etisalat is the majority shareholder and operator of the Unified Access License won and paid for recently by Mubadala Development Company. Mubadala is a wholly owned investment vehicle of the Government of the Emirate of Abu Dhabi. Etisalat holds 40 per cent stake in the telecom venture; Mubadala 30 per cent, and the remaining shares are held by Nigerian investors.

Celtel Nigeria also during the quarter under review, changed its brand name—the fourth since it commenced operations in the country—to Zain. This is sequel to its acquisition by the Zain Group. Celtel started offering GSM services in Nigeria seven years ago as Econet Wireless. The re-branding to Zain took place in Celtel's 14 countries of operation across Africa. Zain itself operates in 22countries (7 Middle Eastern and 15 sub-Saharan African countries).

Also during the quarter, Visafone Communications Limited crossed the one million subscriber threshold—six months after roll-out. The company was also voted the "Best Telecom Brand" during the 2008 edition of the Nigeria Telecoms Award—even as it continued to spread its services to more towns and cities across the country.

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

NIGERIA:

MEDIUM-TERM PUBLIC DEBT STRATEGIES (2008-2012)

BY DEBT MANAGEMENT OFFICE, ABUJA

6. MEDIUM-TERM PUBLIC DEBT STRATEGIES (2008-2012)

International best practice posits that the objective of public debt man agement is to ensure that the government financing needs and obligations are met at the lowest possible cost, consistent with a prudent level of risk.

6.1 Broad Policy Objectives

In addition to the standard debt management objective outlined above, DMO has identified a number of objectives, which more closely apply to the Nigerian case and are encompassed in its "new strategic plan", to be achieved in the 2008-2012 period. These aim to tackle the problems that have become evident from the review of the debt portfolio and the current institutional and legal structure in place for debt management, as outlined in the preceding sections of this document.

The broad policy objectives that DMO shall work towards achieving over the period 2008-2012 are the following:

a) Making public debt become a viable instrument for growth, development and poverty reduction;
b) Maintaining debt sustainability;
c) Strengthening existing legal, institutional and policy frameworks for efficient debt management;
d) Adopting a holistic view of debt as composed of both public and private debt to keep track of the evolution of both components, as well as

identifying and managing contingent liabilities;

e) Institutionalising debt management best practices at both the national and sub-national levels of government;

f) Maintaining a comprehensive, reliable and efficient national and sub-national debt database, and to ensure prompt and accurate settlement of debt service obligations;

g) Integrating cash management with debt management to reduce the cost of funding to government;

h) Mobilising additional financing such as grants and concessional loans to accelerate growth and poverty reduction and meeting other MDG-related targets;

i) Borrowing from concessional sources in the short to medium term, while working towards establishing a viable and competitive presence in the international capital market (ICM) in the medium to long term, in order to finance key infrastructure projects;

j) Developing a multi-instrument domestic debt market with deepened participation to support private sector-led growth through enhanced access to credit;

k) Widening the scope of the financial and capital markets in line with the Financial System Strategy 2020 through the use of derivatives and other instruments;

l) Developing Debt Management Departments in all the States of the federation and building capacity in debt management through, among other approaches, attachment programmes at the DMO;

m) Developing a debt market for State Governments that will allow them to have access to borrowing through the issuance of State bonds;

n) Creatively using FGN guarantees to support the financing of projects under public-privatepartnership initiatives (PPPs), Joint Venture Schemes and on-lending to sub-national entities;

o) Increase public awareness of debt issues and engage in public debt education via the establishment of a Public Debt Management Institute and the enhancement of communication of debt issues to the wider public;

p) Making Nigeria an exporter of debt management skills and major destination for outsourced debt management services; and,

q) Modelling and implementing effective risk management strategies.

6.2 Public Debt Management Framework

In compliance with the DMO Act of 2003, this framework shall guide borrowing by all tiers of government for the period 2008-2012. While maintaining a holistic view of debt, to achieve effec tive public debt management, Nigeria's debt strategy for this period is categorized into external, domestic and sub-national debt.

To ensure this strategy is internalised and complied with, DMO will continue to engage in wide stakeholder consultations.

External Debt Management Strategy:

To prudently access concessionary financing needed to fund growth and development within a sustainable debt profile, while facilitating private sector participation in the funding of critical infrastructure, in particular, and the real sector in general.

6.2.1 External Debt Strategy

6.2.1.1 **Introduction**

With an external debt stock of around US$3 billion as at 31 Dec 2007, composed predominantly of 85 percent multilateral loans on concessional terms, Nigeria's external debt portfolio is sus tainable. The strategic analysis conducted by DMO, comple mented with the experience and lessons learnt in managing ex ternal debt over the past few years, has allowed DMO to put together the following strategies and objectives which now form the basis for effective external debt management in Nigeria.

6.2.1.2Objectives

Following the Paris and London Clubs debt exit, three main ob jectives inform Nigeria's external debt strategy, namely:

a) The need to avoid a relapse into an unsustainable debt position by instilling fiscal discipline at all tiers of government, particularly by extending the Fiscal Responsibility Act at the Sub-national level;

b) The need for new financing to be on concessional terms in order to minimize the cost of foreign currency funding of the government's financing gap, while providing additional resources to accelerate growth, development and poverty reduction, as well as meeting other MDG-related targets; and,

c) The need to facilitate private sector participation in the funding of critical infrastructure, in particular, and the real sector in general, using various methods including Public Private Partnership (PPP) models.

6.2.1.3Guidelines for External Borrowing

International best practice for overall debt sustainability in low income countries (LIC), recommends external debt stock to GDP ratio of not more than 30 percent. Given Nigeria's economic conditions, the need to avoid a relapse into debt unsustainability, as well as the country's increasing emphasis on domestic bor rowing and the development of the domestic debt market, an external debt stock GDP ratio of 20 percent is recommended. (It should be noted that according to DRI recommendation, the domestic debt stock – GDP ratio for Nigeria would range be tween 20 – 25 percent and the upper limit of 25 percent is con sidered appropriate for Nigeria given the emphasis on domestic borrowing. Therefore, the recommended total public debt/GDP ratio for the medium term, i.e. 3 – 5 years is 45 percent). Accord ingly, the following general guidelines will apply with regard to external borrowing by the Federal Government, State Govern ments or their agencies, for the fiscal years 2008 up to 2012, subject to modifications from time to time.

a) **Purpose of External Borrowing:**

i. Any Government in the Federation or its agencies and parastatals desirous of borrowing shall specify the purpose for which the borrowing is intended, demonstrate how this purpose is linked to the developmental objectives embodied in NEEDS II and the Seven-Point Agenda and undertake a cost-benefit analysis, detailing the economic and social benefits of the purpose to which the intended borrowing is to be applied; and, ii. Sectors considered under NEEDS II and the Seven-Point Agenda include health, education, rural development, environment, housing development, employment and youth development, gender balance, infrastructure, public sector reforms, privatization, governance, transparency, anti-corruption, service delivery and expenditure reforms, amongst others.

iii. Government will express preference towards creditors that provide programme support, on-budget support, un-tied and multi-year predictable financing, and encourages creditors to maintain a constant policy dialogue with the Federal Government, including the Debt Management Office.

b) **Approval/Approval-in-Principle:**

i. Any Government in the Federation, or its agencies and parastatals can only obtain external loans through the Federal Government. The Federal Government negotiates and signs any external loans and then on-lends the funds.

ii. Federal and, State Governments and their agencies and parastatals wishing to obtain external loans shall obtain Federal Government's approval-in-principle from the Federal Ministry Finance, prior to full scale negotiations for such loans;

iii. To receive approval-in-principle, the applicant governments or agencies must provide evidence that they have not over-borrowed externally. In this regard, State Governments must demonstrate that the ratio of their projected external debt service plus all other deduction obligations for the next twelve months (inclusive of the new loan under consideration) to their total Federation Accounts Allocation over the preceding twelve months will not exceed 40%. This rule will be applied on a case-bycase basis and may take into account other sources of revenue, as appropriate.

Agencies will be required to provide cash flow statements that will enable the appropriate authority to determine the viability and sustainability of their external borrowing;

iv. Every State shall execute a Subsidiary Loan Agreement with the Federal Government which may include an Irrevocable Standing Payment Order (ISPO) that allows the Office of the Accountant General of the Federation (OAGF) to deduct monthly, money from the State's gross allocation to pay back the loan contracted to the lending institution;

v. No external loan will be approved without evidence that appropriate cost-benefit analysis and feasibility studies have been carried out and prioritisation as well as due process procedures have been followed;

vi. All external borrowing proposals of the Federal Government and its agencies and parastatals, State Governments, their agencies and parastatals and Local Governments for the next fiscal year should be submitted not later than 180 days preceding that year to the Minister of Finance for incorporation into the public sector external borrowing programme for the coming year; and,

vii. All external loans must be supported by Federal Government guarantee before final approval. In the case of a State Government wishing to contract external borrowing, the State Executive Council must approve the loan proposal, and this will be followed by a resolution of the State House of Assembly. Thereafter all (Federal and State Governments and their agencies) proposals should be submitted to the Federal Ministry of Finance and the Debt Management Office for consideration, before being passed to the Ministry of Justice for clearance and to the Federal Executive Council for approval (subject to being contained within the Annual Budget approved by the National Assembly).

c) Terms of New External Borrowing:

In line with the government's commitment to maintain debt sustainability, new borrowing will only be considered on concessional terms as evaluated by the DMO. New loans must have a grant element of at least 35 percent when calculated with an appropriate discount rate. Analysis conducted on total expected disbursements of concessional external funds for 2008 indicates a figure of US$193.6 million. The 2008 budget deficit is to be financed by a mixture of signature bonuses, sales of government properties, privatisation proceeds and domestic borrowing. The latter will finance the bulk of it with around N200 billion of FGN Bonds issuance. However, none of this is earmarked to fund the massive infrastructure investment needed to achieve the new growth target of the government.

d) **Non-Concessional Borrowing:**

i. Where a commercially-oriented project with self-repaying capacity must be undertaken by any government or any government agency (perhaps because such a project also has compelling public interest) and where such a project requires an external loan, funding and project development options that do not commit the Federal Government in terms of guarantee or counterpart fund ing should be pursued. Such options include PPPs, the "Build, Operate, Recover and Transfer" arrangement, conceding to the external financier a lien on the products and other assets of the project under a hands-on management, which would subsist until the external loan is fully recovered from the profits of such a project. The acceptance of these options by the project pro moters and the external financier/technical partner, would serve as an implicit test of the level of confidence to be attached to the claim of the two parties (promoter and financier/technical partner) that the project is commercially viable.

6.2.2 Domestic Debt Strategy

6.2.2.1 Introduction

In line with the practice of many governments, funding the fi nancing gap may be from the domestic market. In order to maintain a viable domestic market and keep borrowing costs low, the DMO focuses on the key aspects of transparency, liquidity and regularity. For this reason, DMO issues bonds on a regular, pre-announced basis in order to build benchmarks for fixed-income securities.

The DMO Act empowers the DMO in collaboration with the CBN and OAGF to determine, among others, the floatation of Federal Government long-term securities to raise funds in the Capital Market; the type of securities that may be created, issued or floated to achieve the domestic debt management objectives of the Federal Government; the payment of interest; the mainte nance of a register of holders; the redemption of securities at maturity; and the creation and management of sinking funds to provide for redemption of securities at maturity.

The Minister of Finance shall specify by directions published in the Federal Gazette, the mode of raising the loans, the sum of money to be raised by that loan and other particulars. Sovereign public issues usually contain the following information:
a) Issuer; ii) The Issue; iii) Units of Sale; iv) Purpose; v) Tenor; vi) Sinking Fund; vii) Coupon; viii) Status; ix) Security; x) Payment terms; xi) Opening date; xii) Closing date.

Sub-national Governments and their agencies may from time to time source for funds in the capital market to finance a specific project in the course of governance. Sections 222 to 273 of Part XV of ISA 2007 govern such borrowing. Section 223 of ISA enables any such borrower to do so either:

i. By the issue of securities in the form of Registered Bonds; or

ii. By the issue of securities in the form of Promissory Notes. However as a check on possible excesses, a limit on amount of loans outstanding at any particular time including the proposed loans shall not exceed 50% of the actual revenue of the body concerned for the preceding 12 months.

Sub-national Governments and their agencies that want to issue bonds in the capital market are required by SEC to do so by way of prospectus inviting the general public to treat. The prospec tus is expected to contain, among others, 5 years audited ac counts of the State or the Local Government. The funds to be raised are to be tied to a specific project. The latest account may be such that accounts for operations over the past 1 year may not be available already audited to assist informed judg ment. Such a situation might conceal the actual latest perfor mance of the issuer. Accounts, though audited, but which are more than nine months old are regarded as stale for the purpose of a public issue. In such cases, a compulsory preparation and auditing of accounts within 9 months of an issue to guide the investing public on the latest operational status of the issuer is demanded. The Attorney General is also required to sign the offer documents stating that the statements contained therein are the true position of the affairs of the State.

As a measure of ensuring due repayment of the loan, an Irrevo cable Letter of Authority to the Accountant General of the Fed eration to deduct the relevant sum at source from the statutory

Domestic Debt Management Strategy:

To further broaden and deepen the domestic bond market through: the introduction of a variety of government securities; the use of appropriate technology to aid effective and efficient issuance and trading; the improvement of the regulatory framework; and,the facilitation of the issuance of corporate bonds by the private sector for the development of the real sector of the economy.

allocation due to the issuer, in the event of default by the issuer, must be sent by the issuer in order to meet its payment obliga tions arising from the loan. Section 251 ISA 2007 stipulates that a sinking fund be established to guarantee the liquidation of the loan as and when due. Installments due and not paid could there fore be deducted at source under the arrangement, and paid to the sinking fund.

6.2.2.2 Objectives

The main objectives of the domestic debt strategy include:

a) Raising finance in the domestic market to cover the government's borrowing needs;
b) Funding the nation's debt in a non-inflationary manner, without recourse to monetary financing;
c) Minimizing the cost of government's debt over the long term, while taking risk into account;
d) Promoting the development of the domestic capital market;
d) Developing mechanisms for accessing the International Capital Market, including for Naira denominated debts;
e) Developing mechanisms for Sub-national and Agency Bond Markets;
f) Developing various innovative instruments such as derivatives and mortgage-backed securities to meet the various needs of the market; and,
h) Ensuring proper coordination between debt management and monetary policy.

6.2.2.3 Bond Market Development and Issuance in 2008-2012

The strategy for the development of Nigeria's bond market is organized on a medium term basis with an annual securities issu ance work plan. In developing this work plan, the Federal Gov ernment conducts wide consultations with market participants through regular monthly meetings held with Primary Dealer Mar ket Makers (PDMMs), usually before each FGN Bonds auctions. The PDMM system was established in 2006 to facilitate the emer gence of a liquid and vibrant secondary market for government securities. Since its inception, there has been a steady rise in public subscription and strong foreign investor participation in FGN Bonds auctions. Bond issuance in 2008-2012 will continue to aim at developing the bond market and creating a benchmark for the issuance of other instruments. This will be achieved through the issuance of longer-tenored instruments. Currently the FGN Bond Issuance Programme has been extended to include ten-year bonds and fifteen-year bonds are being planned for issu ance in 2008.

The Bond Issuance Programme for 2008-2012 will aim at provid ing low cost funding for the FGN, subject to the control of risks within acceptable limits, and developing the market for long-term debt instruments, thereby creating a benchmark yield curve for other financial instruments in Nigeria.

The Work Plan for the bond issuance programme in 2008-2012 will include advertisement of Offer Circulars, conduct of auctions, post allotment activities and development of indicators for do mestic debt sustainability.

The 2008-2012 Bond Issuance will include the following features:

- Following the continued sophistication of the appetite of the market, a variety of instruments such as floating rate and index-linked securities may be introduced;
- With growing sophistication and capacity in the market and also in order to optimally allocate government resources, the multiple pricing auction system may be introduced;
- The FGN Bonds auctions, which are presently conducted monthly, may be made more frequent as demand for the bonds continues to soar, particularly with limitations on reopenings; and
- The submission of bids will be done on the day and within a specified timeline or duration while settlement takes place on T+2.
- The restructuring of short-term debt instruments to long-term will continue until the ratio of 25:75 short-term to long-term debt ratio is achieved.

6.2.3 Sub-National Debt Strategy

6.2.3.1 **Introduction**

Until recently, there was no comprehensive sub-national debt strategy in place in Nigeria. The lack of coordination and regula tion of sub-national borrowing has often resulted in excessive fiscal expansion, thereby creating problems for overall macro economic stability. This has been caused by the peculiar fiscal federalism of Nigeria, which often emphasizes fiscal autonomy at the expense of fiscal responsibility. Added to this, because of the lack of a reliable database for States' debts, as well as the lack of appreciation by certain stakeholders of key debt man agement issues, there was a pressing need to tackle the issue of subnational debt management. The following guidelines have been produced to address the deficiencies.

Sub-National Debt Strategy

To facilitate the development of capacity and competence for effective public debt management at the sub-national level, through the provision of support for the establishment and operation of Debt Management Departments in the States.

DMO, in order to ensure an effective on- lending policy, will establish measures for the thorough assessment of projects and programs for which funds are requested, to ensure the rejection of all those projects that are judged non-viable.

6.2.3.2 Objectives

The broad objective of sub-national debt management is to en sure that Sub-national Governments subscribe to the principle of prudent and sustainable borrowing and effective utilization of resources. Other objectives include the following:

a) Strengthening existing legal, institutional and policy frameworks for efficient debt management;
b) Developing Debt Management Departments in all the States of the Federation and building capacity in debt management through, among other approaches, attachment programmes at the DMO;
c) Maintaining a comprehensive, reliable and efficient sub-national debt data base and to ensure prompt and accurate settlement of debt service obligations;
d) Building a viable sub-national bond market;
e) Maintaining debt sustainability;
f) Creatively using FGN guarantees to support the financing of projects under Public-Private-Partnership initiatives (PPPs), Joint Venture Schemes and on-lending to subnational entities;
g) Adopting fiscal responsibility laws with regards to public finance management; and,
h) Establishment of a disciplined and well –focused public finance policy, and especially a well rationalized government borrowing policy. These guidelines fit into the aforementioned objectives, by providing a strong structure for Sub-national Governments to rely on and follow, in order to increase sources of funding at affordable terms. This will enable Sub-nationals to pursue their economic development strategies, without compromising debt sustainability and macroeconomic stability. The guidelines touch on various aspects of sub-national domestic debt management, from on-lending and guarantees, to borrowing from the capital market and from commercial banks.

The rationale for the guidelines is to avoid undue additional build-up of external debt which could cause debt servicing problems to Nigeria and to ensure that maximum benefits are derived from external borrowing. The guidelines are also to ensure that con tingent liabilities emanating from sub-national fiscal operations do not crystallize into liabilities that impact on national debt sustainability.

6.2.3.3 Guidelines for Domestic Borrowing by States and for Federal Government On-Lending/Guarantees to States and their Agencies

6.2.3.3.1 Introduction

An important issue regarding guidelines for domestic borrowing (and also external borrowing) is what should be the appropriate ratio between the debt stock and the GDP. For domestic debt, there are no internationally established standard yet. But the DRI has recommended a domestic debt stock to GDP ratio of 20-25 percent. Given Nigeria's economic conditions, the need to avoid a relapse into debt unsustainability, as well as the empha sis on domestic borrowing and the development of the domestic debt market, a domestic debt stock to GDP ratio of 25 percent is recommended. (It should be noted that international best prac tice recommends a maximum of 30 percent ratio of external debt stock to GDP. However, Nigeria's emphasis on domestic rather than external debt puts external debt stock ratio to GDP at 20 percent, bringing it to a total of 45 percent ratio of total public debt stock to GDP).

Accordingly, the following appropriate guidelines have been de veloped:

a) Domestic Borrowing:

The following general provisions will apply to all categories of loans to be contracted by the Sub-nationals:

- Any borrowing by a Sub-national shall be the obligation solely of that particular Subnational unless explicitly guaranteed by the sovereign;
- The obligations of the Sub-national in any contractual loan shall be as stipulated in any agreement in respect of the loan;
- All Sub-national borrowings shall be subject to public disclosure and periodic updates to any original disclosure and the disclosure of material facts shall be the affirmative duty and specifically assigned function of appointed officials, lenders and lenders' representatives, issuing houses, underwriters and other market participants;
- Sub-nationals shall devise or put in place a collateral arrangement such as a sinking fund to hedge against potential default to protect investors; and,

- All Sub-nationals shall be subject to the rulings of a court of competent jurisdiction in the event of a violation or default in part or whole of the agreement governing any loan obligation of the sub-national.

The various categories of Sub-national domestic debt will include the following:

b) Domestic On-lending from the FGN:
The Treasury Bills Act, the Treasury Certificates Act and the Local Loans (Registered Stock and Securities) Act empower the Minister of Finance to raise money through the issuance of debt instruments and on-lend all or part to the States, subject to the satisfaction of conditions precedent prescribed by the Minister of Finance. The following guidelines apply to on-lending by the Federal Government of Nigeria (FGN):

- The FGN, either from its internal sources or by borrowing from the market (either domestic or external) can on-lend funds to the Sub-nationals.
- On-lending is a direct responsibility of the Federal Government and all the projects and programs financed under this modality will be properly monitored by the Federal Government through the DMO in collaboration with MoF, to avoid fiscal and other imbalances.
- DMO, in order to ensure an effective on- lending policy, will establish measures for the thorough assessment of projects and programs for which funds are requested, to ensure the rejection of all those projects that are judged non-viable.
- DMO would undertake a project assessment prior to processing the on-lending loan request and at regular intervals, thereafter. The main purpose of such assessment is to evaluate the prospects of the borrower (the Sub-national) to generate sufficient income to repay the loan. Should a project be considered critical for social development purposes, it shall be financed from concessional sources of funding and shall not need to be revenue generating.
- The following risks associated with the level and nature of on-lending must be evaluated by the DMO:
  - credit risk - the debtor may not have sufficient funds to meet its obligations.
  - legal risk - it may not be possible to enforce the right of recourse against the debtor.
  - market risk - changes in interest rates that will result in losses if loans have to be refinanced at higher rates in the future.
  - operational risk - due to inadequate internal control systems, human error, management failure or fraud.
  - Research and information is needed regarding the extent, if any, of contingent liabilities of the States.

c) Guarantees by the FGN:

The government would normally extend guarantees to financially promote projects that are deemed to be in the public interest. This serves as an economic incentive for the capital markets and other lenders to finance the projects. Loans guaranteed by the government constitute contingent liabilities and are, therefore, a potential source of credit risk, if those obligations enter into default by the final recipients of the loans.

In the Nigerian context, there are two important factors that guide the management of guarantees at the Federal and Sub-national levels:

i. In the DMO Act, all external loans will either be contracted directly by the Federal Government or by Sub-Nationals through the Federal Government which must guarantee such loans. Therefore, the limit for guarantees is the total amount of foreign debt to be contracted, which is included in the budget approved by the National Assembly. Consequently, the legislation and Guidelines for External Borrowing are particularly relevant.

ii. All FGN guaranteed loans to public corporations (Parastatals, Agencies and Departments) would require them to issue Irrevocable Standing Payment Orders (ISPOs) tied to the allocations to their supervisory ministries, and in the case of Subnational Governments to their Federation Account allocations. The ISPO will be for servicing both the principal amount and interest on the loans.

The following guidelines would therefore, apply to FGN Guarantees:

- The Federal Ministry of Finance would be responsible for issuing guarantees on behalf of the FGN;
- DMO will from time to time establish limits on borrowings with official guarantee, i.e. establish limits or benchmarks for external indebtedness and guaranteed domestic loans;

Nigeria's emphasis on domestic rather than external debt puts external debt stock ratio to GDP at 20 percent, bringing it to a total of 45 percent ratio of total public debt stock to GDP).

> **All applications to raise funds from the Capital Market shall, amongst other documents, be accompanied by an original copy of an Irrevocable Letter of Authority giving the Accountant General of the Federation the authority to deduct at source from the statutory allocation due to the body, in the event of default by the body in meeting its payment obligations under the terms of the loan and the relevant Trust Deed.**

- DMO will from time to time set portfolio limits, single obligor limits, sector limits, etc, for guarantees to Sub-national Governments and public enterprises;
- DMO will compare costs and risks of issuing a guarantee vis-à-vis on-lending and advise on the preferred option;
- Guarantees would be treated as on-lending as they become instant credit upon crystallization;
- DMO would manage each guarantee from the time it is issued until it is extinguished and would advise and ensure that the beneficiary applies proper management, accounting and administration practices in managing the guarantee;
- A Sub-national requesting for guarantees will provide Approved Resolutions from its State House of Assembly and the State Executive Council;
- Beneficiaries will provide audited annual financial statements for the past five (5) years, financial forecasts for the tenor of the loan for which the guarantee is being sought and a feasibility study on the project to be funded with the loan for which the guarantee is being sought;
- Beneficiaries would provide relevant financial information on use of funds, disbursements, accounting, and degree of implementation of the project financed, and conduct regular consultations with DMO;
- The DMO will determine and charge a guarantee fee, as approved by the Board;
- The DMO would monitor the use of the loan to ensure that it serves the intended purpose and is repaid in accordance with the loan agreement; and,
- The DMO would ensure that the loan and guarantee documentation are clear and unambiguous.

Required agreements would have to be executed for govern ment guarantees to be issued.
They include:
- the loan agreement between the lender and the borrower;
- the guarantee agreement between the lender and the Federal Government; and,
- the agreement between the FGN and the borrower, which sets out the conditions under which the guarantee is issued.

d) Borrowings from the Capital Market:
The Investments and Securities Act No.29 2007 (ISA) provides for borrowing by raising of internal loans through issue of secu rities in the form of Registered Bonds or Promissory Notes by States, Local Governments and other Government Agencies. Section 222 of ISA defines the bodies to which ISA provisions apply, to include:
- State Governments and the Federal Capital Territory, Abuja
- Local Governments
- Any statutory body established by the Law of a State or Local Government
- Any company which is wholly or partly owned by a State or Local Government

The provisions of the Act include the following:
- The total amount of loans outstanding at any particular time including the proposed loan shall not exceed 50% of the actual revenue of the body concerned for the preceding 12 months;
- Any internal loan to be raised from the Capital Market must conform to the requirements of ISA and as may from time to time be directed by the Securities and Exchange Commission (SEC);
- Before any application is made for contracting a loan from the Capital Market, such a body making the application must obtain the Approved Resolution of the State House of Assembly and the State Executive Council in the case of States and Local Governments; and,
- All applications to raise funds from the Capital Market shall, amongst other documents, be accompanied by an original copy of an Irrevocable Letter of Authority giving the Accountant General of the Federation the authority to deduct at source from the statutory allocation due to the body, in the event of default by the body in meeting its payment obligations under the terms of the loan and the relevant Trust Deed.

Other required documentations under the ISA include:
- Duly completed Form SEC 6;

- Copies of resolution of the State Legislative Assembly a u - thorizing the Issue;
- A resolution on and gazette by the State Executive Council containing particulars of the proposed Issue;
- Audited accounts of the State for the preceding five (5) years;
- Draft prospectus, abridged particulars of the prospectus and the Trust Deed;
- Vending Agreement, i.e. mandate/engagement letter, appointing the Issuing House/Underwriter to the Issue;
- Underwriting Agreement between the State and the Issuing House;
- Reporting Accountant's report on the audited financial statements and the financial forecast;
- Schedule of claims and litigations involving the State;
- Bridging loan agreement (if any);
- Material contracts of the State;
- Letters of consent of all the professional parties to the Issue;
- Letter of confirmation from the Accountant General of the Federation of receipt of the Irrevocable Letter of Authority to deduct the principal and interest from the statutory allocation of the State;
- Feasibility report on the proposed project to be financed with the loan;
- Brief profile of key personnel of the issuer including members of the Executive arm of the issuer, Accountant-General, Auditor-General, Permanent Secretaries etc.;
- Any other document/information as may be required; and,
- The particulars of each loan to be raised pursuant to this Act shall be published in the Gazette or any other official document by the body raising the loan and shall include all the terms of the security.

e) Borrowing from Commercial Banks:
As part of their domestic capital raising options, the Sub-nation als may borrow from commercial banks. Such borrowing should be in line with the following:

- Without prejudice to the provisions of the Nigerian Constitution "All banks and financial institutions requiring to lend money to the Federal, State and Local Governments or any of their agencies, shall obtain the prior approval of the Minister of Finance" in accordance with Section 24 of the DMO Act, 2003, and the Fiscal Responsibility Act,
  and shall state the purpose of borrowing and the tenor. The monthly debt service ratio of a sub-national, which includes the commercial bank loan being contemplated, should not exceed 40% of its monthly Federation Allocation of the preceding 12 months .
- All commercial banks lending to a sub-national must make a provision (currently 50%) on all such loans in line with the Prudential Guidelines of the CBN.
- Sub-nationals should immediately, upon contracting of a commercial bank loan, furnish the DMO with details of the loan. The lending bank should furnish DMO and the borrowing Sub-national's DMD, where in existence, on a periodic basis with reports on various stages of drawdown on the facility and utilization of same by the borrower.

6.2.3.4 Other Sub-national Indebtedness
Despite the aforementioned borrowing options, the following are types of indebtedness Subnational Governments could incur:

a) Local Contractors and Suppliers Debt As part of their operations, Sub-nationals could contract debt in the form of local contractors and suppliers liabilities. To engender prudent, cost-effective and sustainable debt management at the sub-national level, local contractors and suppliers' credit must

be properly contracted, documented, disclosed, serviced and redeemed. All such obligations must have the Approved Resolution of the State House of Assembly and Executive Council or any such bodies that serve the same function. All due process must also be strictly adhered to for such obligations to be contracted.

As soon as such obligations are contracted, the relevant depart ment/unit of the sub-national responsible for debt management should be supplied with all the details on the obligations. Also, before such obligations are contracted, they must be included in the annual budget, to be submitted at least 180 days before the commencement of the budget year within which it will be opera tional. This is to ensure that such obligations are fully funded as and when due. The debt management department/unit must en sure that the annual budget put in place for such obligations is strictly followed and adhered to.

b) **Pension Obligations**
Pension obligations could also form a substantial part of a sub-national's debt portfolio if not properly managed. In order to avoid accumulated pension obligations, sub-nationals should adopt the Contributory and Fully Funded Pension Scheme as currently applies in the Federal Service and private sector for any organization with five (5) employees or more.

Build your
communications across
GENERATIONS
now.

Huawei invests in Nigeria.

Huawei has big dreams for Nigeria, the company has signed memorandum of understanding (MOU) with the Federal Ministry of Communications to introduce next generation telecommunication technology to Nigeria. According to the MOU, Huawei will bring its most advanced technology to Nigeria for mobile network, fixed network, data communications, optical network, software and services terminals(handsets). This would keep Nigeria on the same level with other technologically advanced parts of the world thus positioning the country's telecom market to lead in Africa. The Nigerian training center was built at the cost of over $7 million in Abuja (the Nation's capital), and strategically located to serve the training needs of Nigerian and indeed Africa .

Africa operations

Huawei's strong presence in Nigeria is reflective of its equally strong presence in Africa. In the last three years alone, Huawei's products have been applied nearly in 40 countries across the continent. These include Algeria, Tunisia, Libya, Egypt, Mauritania, Chad, Sierra Leone, Liberia, Nigeria, Togo, Cote D' Ivories and Central African Republic, etc...

Huawei technology

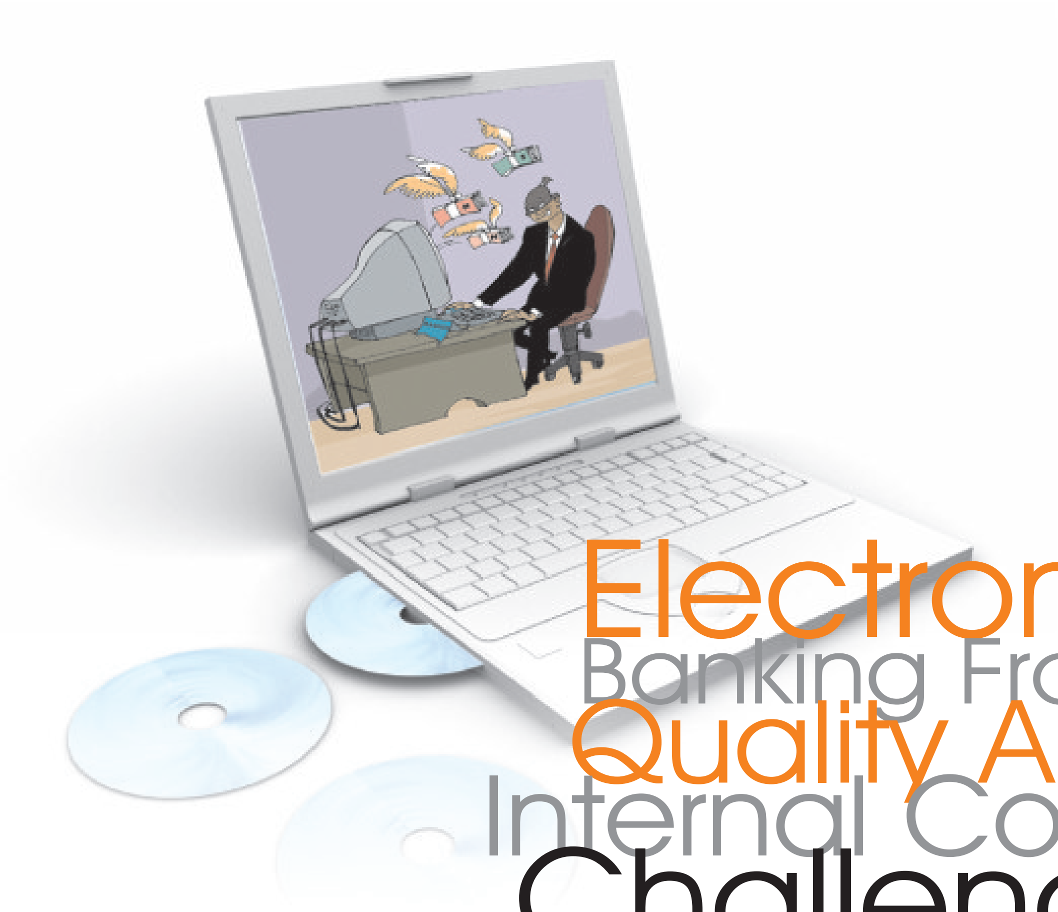
Incorporated in 1988 and headquartered in Shenzhen, China, Huawei Technologies specializes in the R&D, production and marketing of telecoms equipment, providing customized network solutions in fixed, mobile, optical, data communications networks, software & services and terminals. Huawei is now the largest telecom vendor in China's telecom market, also one of the largest vendor in Nigeria and quickly becoming a leading player in the global telecom market. Currently Huawei has 24,000 employees and sales in 2004 reached US$5.58 billion.
For more information, please visit http://www.huawei.com

Huawei Technologies Co., Ltd
South Atlantic Towers
Plot 98 Adeola Odeku; Victoria Island Lagos
Tel:01-3630000

Huawei Technologies

www.huawei.com

Partners of Telecommunications in Nigeria



Electronic Banking Fraud: Quality And Internal Control Challenges

* By Chuks Nwaze

In the last part of this serial; we looked at the issue of service failure from the point of view of conventional fraud in the banking environment. In the current edition, we are going to approach the matter from the perspective of Information Technology and electronic banking fraud which is now a source of worry, not only to the banking public but also to all stakeholders in the financial system.

Surely, this is a bumper edition to assist the banking public and financial institutions protect their hard-earned deposits from sophisticated fraudsters during this festival period.

COMPUTER FRAUD:

There is no denying the fact that technology has changed the way we do things and by extension our lives. Although advancement in technology has brought about considerable improvement in efficiency and business processes in the banking sector which is the one under consideration, it is equally true that it has brought about occasional sadness and anguish due to abuse, misuse and subversion.

We shall now proceed to look at the causes of computer fraud, specific examples of computer fraud as well as preventive mechanisms. The technical depth has been reduced to the barest reader-friendly minimum.

Causes of Computer Fraud

Basically, it is true to say that computer fraud result from unsatisfactory controls in specific areas of business data processing activity. Although a few system fraud might have been "engineered" from outside, experience has shown that the vast majority of InfoTech fraud are plotted and executed from within the organization mostly by professionals working in that department with or without collaborators in other departments, branches or outside the organization.

However, the fraudsters are able to achieve their devilish agenda due to control failure which result in the following:

- Incomplete segregation of duties
- Ineffective system design
- Abandonment of responsibility
- Poor library and documentation
- Inadequate controls at the installation stage
- Impersonation of user
- Inaccurate computer programming
- Inadequate operational controls
- Non-implementation of business ethics
- Non-existent terminal procedures
- Lack of custodial controls
- Weak logical access controls
- Lack of manual input-output controls
- Failure of physical access controls
- Absence of password control measures
- Poor guidelines on recruitment of computer staff

Although we shall not venture into a detailed explanation of the above technical issues, we shall use the following examples of computer fraud to illustrate the unfortunate advancements in the subversion of technological interface by fraudsters.

Examples of Computer Fraud

The following are examples of computer fraud that are perpetrated in the banking system on a regular basis:

E-BANKING TERMINOLOGIES (A-C)

Automatic Teller Machine (ATM): A banking terminal that accepts deposits and dispenses cash. ATMs are activated by inscription; cash or credit card that contains the user's account number" and PIN on a magnetic stripe. The ATM calls up the bank's computers to verify the balance, dispenses the cash and transmits a completed transaction notice.

ATM Acquirer: A financial institution which acquires transaction data from a card acceptor and enters the transaction data from a card acceptor and enters the transaction into the relevant payment system.

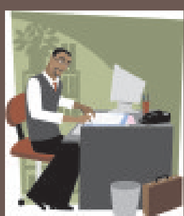
ATM Issuer: The institution identified on the card issued to the cardholder.

Cloned Cards: Forged / counterfeit versions of legitimate ATM cards.

Crypto-System: A system comprising of encryption algorithms, keys, codes, etc.

Cyber-fraud: Fraud committed over the internet or computer Wide Area Network.

Cyber-terrorism: Acts of premeditated, politically motivated attack committed over the internet or computer Wide Area Network against information, computer systems, computer programmes, and data which results in violence against non-combatant targets by sub-national groups or clandestine agents.



enter the system and carry out unauthorized transactions.

• Creating fictitious account and programming the calculation logic to round-off amounts to the nearest kobo or naira and putting them into the said account opened for that purpose. This is popularly called "Salami Technique".

Prevention Of Computer Fraud.

Just like conventional or manual fraud whose preventive approach will be discussed later, it is almost a misnomer to talk of 100% elimination of computer fraud not only in our own environment but even in other climes. We talk in terms of minimizing, reducing or controlling them.

The way out is for modern day organizations to establish an independent unit which will act as a watchdog to the computer department just as we have inspection and internal audit units to exercise surveillance over manual processes. This is probably the most important management decision in this regard in addition to giving the unit full support, not only in terms of working tools but also by implementing their recommendations.

Computer Audit Unit:

• Tampering with computer files through terminals to manipulate accounts or move funds.

• Manipulation of input data prior to terminal entry and subsequent fraudulent withdrawal of funds either manually or electronically

• Tampering with dormant accounts and withdrawal of funds. Normally this would take a while before being detected as customer may not be receiving statement of accounts

• Using the computer to create fictitious customer accounts and using same to receive fraudulently created loans or overdrafts which are eventually withdrawn with the connivance of staff working in the branches and other units.

• Using master passwords to gain unauthorized access to computer files and fraudulently withdrawing funds in the process.

• Fixing of dummy applications on the system with the sole objective to commit fraud. This is called "Masquerading"

• Using the password belonging to another staff to

The work of this unit usually includes, but certainly not limited to ensuring that the following actions are taken;

• Rotation and notation of duties

• Internal controls in the areas of input data, completeness and accuracy of processing, prevention and detection of processing errors to safeguard assets and ensure the reliability of financial records.

If e-business is to survive, e-fraud and theft must be contained through comprehensive surveillance and information sharing.

- Identification of system risks and investigation of same where evident
- Exercise of over-sight functions in the following areas:
- Suspense Accounts
- Non reconciled control accounts
- General ledger differences
- Write-offs, adjustments, etc
- Warnings and exception reports
- System and data mismatches
- Custody, proper usage and disposal of computer reports

ELECTRONIC BANKING FRAUD:

Introduction To E-Banking Fraud: E-banking may be revolutionizing the banking business and industry but with a tremendous impact on transaction and resource security and control. Transactions that hitherto were manually processed and transported to accounts are now electronically processed and posted in seconds to accounts in far-removed bank branches

The one-branch banking concept now allows multi-branch banks to render cash and cheque-based transactions to customers from any branch, thanks to the networking of branches through robust communication technologies and the availability of mega-sized enterprise databases that can conveniently store and process very large accounts information. These call for extra controls that will ensure that customer identity and cheque- related fraud are checked.

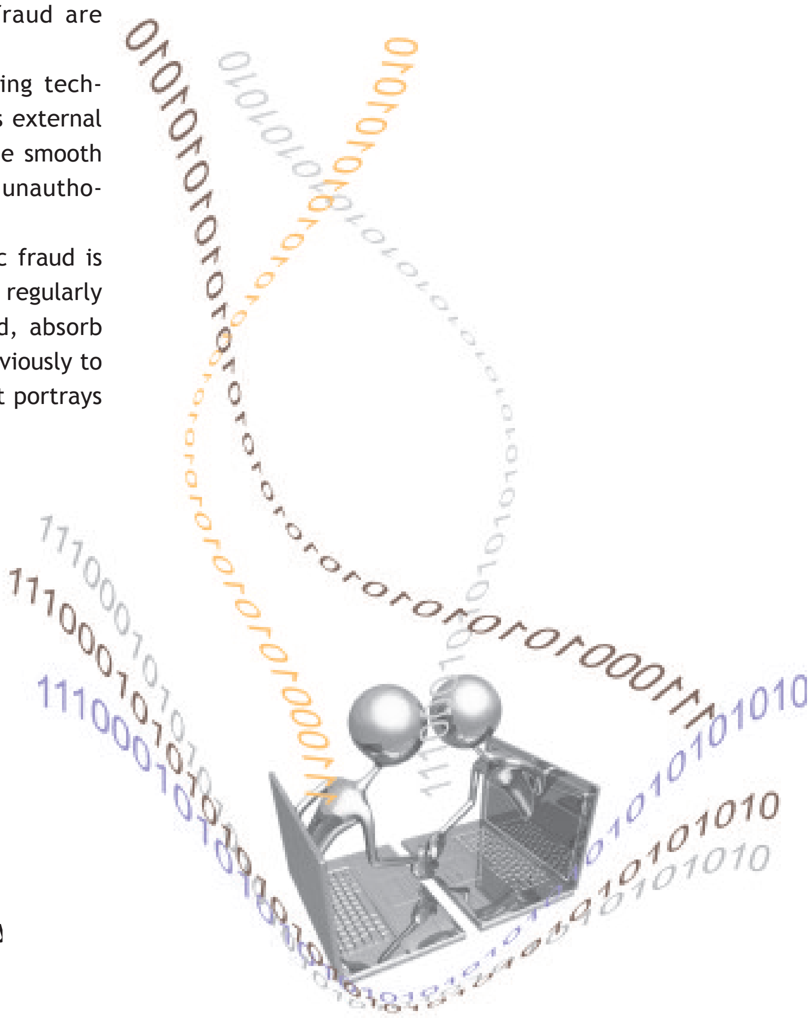
As businesses become more dependent on networking technology, they undoubtedly become the target of malicious external attacks. Trusted employees and partners can also put the smooth operation of corporate networks in jeopardy through unauthorized activity, accidental corruption or simple misuse.

As is the case in the other types of fraud, electronic fraud is one of the best secrets of modern business. While it is regularly occurring, most organizations cover up electronic fraud, absorb the loss as cost of doing business, and move on. This is obviously to avoid a "run" on the bank when the public is aware, as it portrays the bank as being weak control -wise. This not only increases the cost of doing business, but it ensures that the perpetrators can continue their activities, moving from one target to the next without fear of being apprehended, let alone being convicted. If e-business is to survive, e-fraud and theft must be contained through comprehensive surveillance and information sharing.

E-Banking Applications:

For many bank customers, electronic banking means being able to operate current and savings accounts from any point of their bank's branch network, or 24

It is almost a misnomer to talk of 100% elimination of computer fraud not only in our own environment but even in other climes.



hour access to cash through an automated teller machine (ATM). However, e-banking now involves much more.

Today, e-banking also known as electronic fund transfer (EFT), uses computer and electronic technology as a substitute for cheque and other paper transactions. EFTs are initiated through devices like cards or codes that let you, or those you authorize, access your account.

E-banking offers several services as follows.

• **Fund Transfer Messaging Systems:** Allows the use of secure financial messages to effect transfers between banks, e.g. **SWIFT**.

• **Prepaid value Card:** This acts as an electronic purse to the cardholder. Money that is preloaded on chip based cards, is spent at merchant and point-of-sale (POS) location. These cards are reloaded with cash by the cardholder when necessary.

• **Debit/credit chip based cards:** Used for the operation of accounts through the credit card scheme.

• **Direct Deposit:** Lets you authorize specific online deposits, such as pay cheque to your account on a regular basis. You also may pre-authorize direct withdrawals so that recurring bills, such as insurance premiums, mortgages, and utility bills, are paid automatically.

The nature of perpetration is often over the network, internet or electronic card products -hence the term e-banking frauds or cyber-frauds.

• **Automated Teller Machine (ATM):** These are electronic terminals that let you bank almost any time. To withdraw cash, make deposits, or transfer funds between accounts, you generally insert an ATM card and enter your PIN.

• **Pay-by Phone Systems:** Lets you call your financial institution with instructions to pay certain bills or to transfer funds between accounts.

• **Personal Computer Banking:** Lets you handle many banking transactions via your personal computer. For instance, you may use computer to view your account balance, request transfers between accounts, and pay bills electronically

• **Point-of-sale Transfers:** Lets you pay for purchases with a debit card. The process is fast and easy, a debit card purchase transfers money - fairly quickly - from your bank account to the store's account.

• **Internet Banking:** Enables the transfer of funds between accounts and banks, through internet based banking networks.

• **Automated Cheque Clearing System -** (ACCS): Allows the automated internet based banking networks.

• **Telephone banking system:** Allows bank cus-

E-BANKING TERMINOLOGIES (E-I)

E-banking: Banking transaction conducted through, and with the aid of computer, value cards, computer networks, Internet and telecommunications infrastructure.

E-business: Businesses conducted through, and with the aid of computer, value cards, computer networks, Internet and telecommunications infrastructure.

E-money: It is 'monetary value stored on an electronic device, issued on receipt of funds, and accepted as a means of payment by persons other than the issuer.

EFT: Refers to any transfer of funds initiated through an electronic terminal, including credit card, ATM, and point-of-sale (POS) transactions. It is used for both credit transfers, such as payroll payments, and for debit transfers, such as mortgage payments.

Electronic espionage: The act or practice of clandestinely employing electronic and computer infrastructure in spying or obtaining secret information, about another government or a business competitor for the benefit of another.

Encryption: Any procedure used in cryptography to convert plaintext into cipher text in order to prevent any but the intended recipient from reading that data. There are many types of data encryption Standard and public-key encryption.

Firewall: A system designed to prevent unauthorized access to *or* from ;i private network. Firewalls can be implanted in both hardware and software, or a combination of both. Firewalls are frequently used to prevent unauthorized internet users from accessing private networks connected to the internet, especially intranets. All messages entering or leaving the Intranet pass through the firewall, which examines each message and blocks those that do not meet the specified security criteria.

Hacking: Writing computer programmes or stretching the limits of existing programs and/or using a computer to break into other computer systems, often illegally.

Internet: an electronic communications network that connects computer networks and organizational computer facilities around the world.

Internet banking: Online banking (internet banking) is a term used for performing transactions, payments etc. over the internet through a bank's secure website. This can be very useful, especially for banking outside bank hours (which tend to be very short) and banking from anywhere where internet access is available.

tomers to make banking transactions via the telephone (including GSM phones): check account balance, get transaction details, order a cheque book, get account statement by e-mail, make bills payment, check current interest and exchange rates, transfer funds, get information on banks' products and services and change PINs.

Examples Of E-Banking Fraud:

While the development of e-banking has brought with it new products and ways of doing business, it has also spurned a wide variety of fraud and ways of perpetrating them. The nature of perpetration is often over the network, internet or electronic card products -hence the term e-banking fraud or cyber-fraud.

(a) ATM/Card - related Fraud:

• **Skimming (Counterfeit Card Fraud):** Skimming is the replication of electronically transmitted data to allow or enable valid authorization to occur.

• **Lost/Stolen Card Fraud:** Occurs when a card is misplaced, lost or stolen and fraudulently used by a person other than the legitimate authorized cardholder.

• **Fraudulent Applications:** This is an application where false information has been used to illegally obtain an ATM card by using an account information without the consent of the account owner.

• **Never Received Issue:** Occurs when a card is stolen from mail system before the cardholder receives it and it is subsequently used by some other person other than the legitimate cardholder.

• **Card Data Manipulation:** This type of fraud is done by the insider. To manipulate card account mapping for a fraudulent cardholder.

• **ATM Video Fraud:** A tiny camera attached to ATM

E-BANKING TERMINOLOGIES (L-R)

LAN: Acronym for local network, a computer network that spans a relatively small area. Most LANs are confined to a single building or group of buildings. Modem: Short for modulator/demodulator. A communications device that converts one form of a signal to another that is suitable for transmission over communication circuits, typically from digital to analog and then from analog to digital.

Network: A computer network is a data communications system which interconnects computer systems at various different sites. A network may be composed of any combination of LANs, or WANs.

Repudiation: Denial by a system entity that was involved in an association (specially an association that transfers information) or having participated in the relationship.

Online: A general term for when one computer is interacting directly and simultaneously with another computer. Many sources of information are available online.

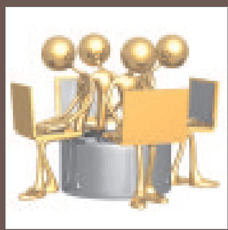
Packet: Unit of data that is routed between an origin and a destination on the Internet or any other packet-switched network. Each packet is separately numbered and includes the Internet address of the destination. The individual packets for a given file may travel different routs through the Internet. When they have all arrived, they are reassembled into the original file.

Pharming: Pharming is the exploitation of vulnerability in the DNS server software that allows a hacker to acquire the domain name for a site, and to redirect traffic from that website to another website. DNS servers are the giant computers that "run" the Internet. **Phishing:** In computing, it is the fraudulent acquisition, through deception, of sensitive personal information such as passwords and credit card details, by masquerading as someone trustworthy with a real need for such information. It is a form of social engineering and identity attack.

PIN:Acronym for Personal Identification Number; a number you choose and use to gain access to various accounts.

POS: The physical location where a sale is completed. Usually used as "PS: terminal" to refer to the credit card terminal (equipment).

Router: An electronic device that connects a local area network (LAN) to wide area network (WAN) and handles the task of routing messages between the two networks.



machine by fraudsters. The camera captures and transmits digital information including the PIN entry to nearby fraudster. Such information is used to produce a copy of the card and subsequently used for fraudulent withdrawal. Hence, it is no longer enough for customers to protect their ATM Cards and PINs.

(b) Spam Mails/Denial of Service: Unsolicited mails are sent in their millions to inundate and overwhelm business and bank systems and websites. This way the services of the systems and sites are denied the bank or business.

(c) Hacking/Unauthorized Access: Hackers gain unauthorized access to bank's enterprise systems for the purpose of either defrauding or causing harm to the business. The banks alert customers about the risk of fraud by posting messages on their websites and cash machines. However, hackers rely on gaps/holes in the security of the bank's network set-up for their activities.

(d) Swift Fraud: Types of fraud here include the fraudulent duplication of financial messages, alteration of beneficiary details, and the forgery of authorizations. SWIFT operators have been known to have connived to transmit and effect huge fraudulent transfers to accomplice beneficiaries. Controls have been largely administrative as the SWIFT system is known to be appreciably technically secure, employing effective encryption systems and trusted message key exchange protocols.

(e) Money Transfer Fraud: The money transfer system has seen a rise in impersonation and identity thefts. Fraudulent money senders have been known for double-dealing. Releasing money transfer information to more than one beneficiary and turning round to accuse the banks of paying wrongly. Others cash in on loop-holes in the money transfer system to view transactions in one bank and collect (through accomplices) in another and turn round to deny or repudiate payments; thereafter, they turn around and ask the bank for reimbursement.

(f) Inter-Bank Clearing Fraud: With the introduction of the Nigeria Automated Clearing System (NACS) to handle

Today, e-banking also known as electronic fund transfer (EFT), uses computer and electronic technology as a substitute for cheque and other paper transactions.

Make sure you know and trust a merchant before you share any bank account or card information or pre-authorize debits to your account

the implementation of the on-line settlement of financial instruments between banks (Nigerian Inter-Bank Settlement System, NIBSS), a higher level of cheque-related fraud has been witnessed. Cheque cloning and suppression have been rampant.

(g) Money Laundering Fraud: Electronic banking and funds transfers have served as a boost to money laundering activities worldwide and Nigeria is not spared.

(h) Scam mails: There are two types of Scam mails:

• **Phishing:** Criminal gangs target customers by sending bogus e-mails - a technique known as "phishing". The e-mails purport to be official bank requests. They ask customers to confirm their online banking details either by e-mail or by entering them into a website. Once phishers obtain customer's PINs and/or passwords, they could create a magnetic stripe card to use at ATMs to drain the customers' accounts.

The e-mails are becoming more sophisticated. The early ones were relatively easy to spot as fakes. These days they often carry a bank logo and a website link. If you click on the link, you seem to go through to the bank's genuine website.

• **Pharming:** While Phisers use bogus e-mails to lure recipients to a fake online banking or merchant sites to steal personal information, Pharming, on the other hand, involves the use of more sophisticated technology that subverts some part of the internet infrastructure. In this scam, malicious code is often placed on a bank's users domain name systems which then direct traffic to fraudulent websites.

These attacks are proving highly effective at stealing people's credit card numbers, PIN numbers, user IDs, passwords and just about any other confidential personal information the thieves want.

Prevention Of E-Banking Fraud:

(a) ATM/EFT Fraud; As the number of cards in issue and the usage of these cards continue to grow, it is vital that fraud prevention methods are continually reviewed and developed. As users of Automated Teller Machine (ATM)/ Electronic Fund Transfer (EFT), you must:

• Before you operate the ATM machine, look out for strange objects and ensure that you are alone within that immediate vicinity to prevent your PIN from being observed or picked.

• Take care of your ATM or debit card. Know where it is at all times; if you lose it, report it as soon as possible.

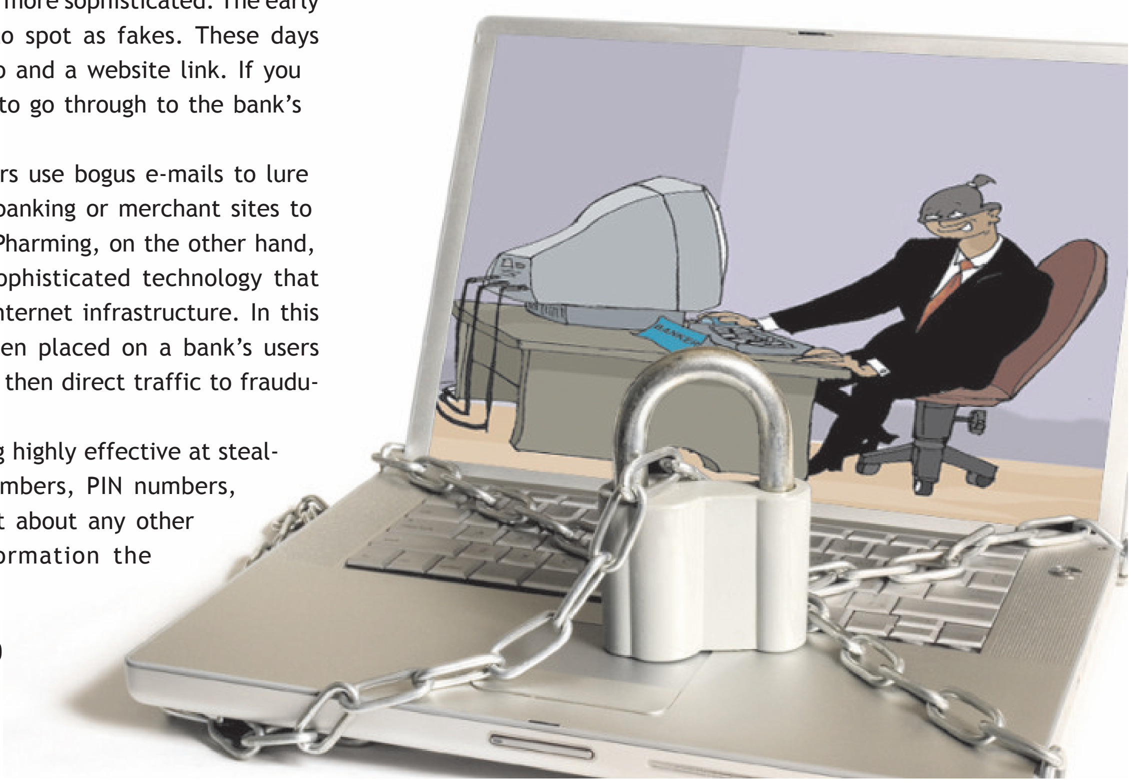
• Never accept "help" from bystanders if you encounter a malfunctioning ATM.

• Choose a PIN for your ATM or debit card that is different from your address, telephone number, or birth date. This will make it more difficult for a thief to use your card through information already known to him.

• Keep and compare your receipts for all types of ATM/ EFT transactions with your periodic statements. That way, you can find errors or unauthorized transfers and report them without delay.

• Make sure you know and trust a merchant before you share any bank account or card information or pre-authorize debits to your account

(b) Other Security and Control Challenges: We are all familiar with the various security issues that banks are facing on a day to day basis, e.g. robberies, thefts of ATM machines, fraud, increased risk of unauthorized access to, and alteration of, information. Accordingly, in the at-



E-BANKING TERMINOLOGIES (S-W)

Smart Card: A smart card is a plastic card about the size of a credit card, with an embedded microchip that can be loaded with data, used for telephone calling, electronic cash payments, and other applications, and then periodically refreshed for additional use.

Sniffers: A programme to capture data across a computer network Used by hackers to capture user id names and passwords. Software tool that audits and identifies network traffic packets. It is also used legitimately by network operations and maintenance personnel to troubleshoot network problems.

Spam: Spam is unsolicited e-mail on the internet. Refers to the practice of blindly posting commercial messages or advertisements to a large number of unrelated and uninterested newsgroups.

Spoofing: The disreputable and often illegal act of falsifying the sender e-mail address to make it appear as it an e-mail message came from somewhere else. Impersonating, masquerading, and mimicking are forms of spooling.

Spyware: Secret code hidden in an otherwise harmless programme. Spyware permits unauthorized access to a computer, allowing someone else to observe the user, read data, or even control the computer.

Trojan: A programme that appears desirable but actually contains something harmful; "the contents of a Trojan can be a virus or a worm", "When he downloaded the free game it turned out to be Trojan horse"'

Virus: A software programme capable of reproducing itself and usually capable of causing great harm to files or other pogrammes on the same computer.

VPN: Short for virtual private network, a network that is constructed by using public wires to connect nodes. For example, there are a number of systems that enable you to create networks using the internet as the medium for transporting data. These systems use encryption and other security mechanisms to ensure that only authorized users can access the network and that the data cannot be intercepted.

WAN: A wide area network or WAN is a computer network covering a wide geographical area, involving vast array of computers. This is different from persona! area networks (PANs), metropolitan area networks (MANs) or local area networks (LANs) that are usually limited to a room or building. The best example of a WAN is the internet.

Web: World Wide Web. Computer network consisting of a collection of internet sites that offer text and graphics, sound and animation resources through the hypertext transfer protocol.

Website: A location on the Internet accessible by inputting a unique address that provides information on a subject, person or organization.

Worms: a software programme capable of reproducing itself that can spread from one computer to the next over a network; "worms take advantage of automatic file sending and receiving features found on many computers"'.

tempt to control electronic and internet banking, information security and control, management systems focus on achieving the fundamental objectives of:

Electronic banking and funds transfers have served as a boost to money laundering activities worldwide and Nigeria is not spared.

- **Confidentiality:** Protecting information of a secret or sensitive nature from unauthorized disclosure while it is in passage over the communications network,
- **Integrity:** Safeguarding the accuracy, completeness, and applicability of information from unauthorized, accidental or fraudulent modification or deletion while in passage over the network.
- **Availability:** Ensuring that information and the services that use it are available when and where required.
- **Authenticity:** Ensuring that people, data, software, or equipment that cannot be personally checked, are whom or what they purport to be. This is essentially the enforceability of transactions conducted electronically.
- **Non Repudiation:** Ensuring that the authenticity of message integrity and origin can be satisfactorily demonstrated to satisfy legal or regulatory requirements. This entails that senders and receivers of EFT information cannot deny or repudiate responsibility for their actions.

CONCLUSION

Those who think that it is the sole responsibility of banks to protect the customers from electronic banking fraud should by now be having a rethink after reading this edition. It is clear enough, therefore, that there is need for comprehensive surveillance by all stakeholders to nip this monster in the bud before it grows beyond control.

From the next edition of this serial, we shall turn our attention to the mitigation of service failure as well as remedial measures where one has occurred.

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

Nigeria And The Millennium Development Goals: An Update

* By Profs. J. A. Odebiyi & A. 'Sesan Ayodele

Socio-Economic Status of the Nigerian Economy:

A country's status and position on the global development scale is measured to a very large extent by its economic structure, in line with the sectoral contributions of the primary (agriculture and mining), secondary (manufacturing, utilities and construction) and tertiary (all services activities) sectors respectively to national output, income and employment generation.

Whereas, the primary sector is pre-occupied with extractive activities for the production of primary resources, the secondary sector is engaged in the production of goods and services relying on inputs from the primary sector and itself. The tertiary sector takes care of the distributory aspect of what is produced.

Theoretically, at the initial stage of national development, contributions from the primary sector predominate, creating serious and pressing development problems in the economy and resulting in widespread poverty, unemployment, inflation etc. As the economy grows, however, the contribution from the primary sector is expected to decline steadily, giving way to those of the secondary sector, and providing solutions to problems created by the hitherto predominance of the primary sector.

At the advanced level, contributions from the tertiary sector begin to expand significantly, possibly exceeding those of the other two sectors. At this stage, development problems would be taken as temporary and marginal where they exist.

Ideally, each of the three sectors is expected to grow continuously at varying rates. However, a situation in which any one of the sectors declines in absolute terms would be taken as inimical to smooth and orderly development of the economy, a situation that calls for reform measures to correct. The existence of serious development problems in a sector which otherwise should drive growth also calls for an urgent need for reforms.

Given the foregoing, table 1 below shows the structure of the Nigerian economy which output, income and employment are reflected by the Gross Domestic Product (GDP). The table also gives details on the diversification index and the trends-cum-magnitudes of some socio-economic development indicators in some selected years within the 1995/2005 period.

From the table, we see that, despite more than two decades of reform policies in Nigeria:

i. The primary sector of the economy is not only still dominant in its contributions to the GDP, such contributions tend to increase overtime, averaging about 52% within the period of analysis

ii. The secondary sector distantly lags, with an average of 8.5%.

iii. The tertiary sector is in-between the two sectors with an average of 39.5% contribution to GDP.

iv. The diversification index averages 1.35.

The suggestion of this sectoral contributions, despite the adoption of diverse reform polices since 1986, is that the Nigerian economy:

i. Has not moved beyond the initial stage of economic development

ii. Is more of a trading economy involved in the distribution of goods which it does not produce domestically because it has not been able to transform its primary goods into secondary products

iii. Has not really diversified its productive base

iv. Has inordinately low contribution from the secondary sector; making it impossible to achieve the country's desirable rate of economic transformation

These structural defects manifest in socio-economic

Table 1: Structure of the Nigerian Economy and some Indicators

		1995	1999	2000	2001	2002	2003	2004	2005
Primary sector (%)	Agriculture	38.76	40.64	40.15	42.30	42.14	41.01	40.98	41.21
	Mining	12.93	11.46	11.48	10.32	9.00	10.37	11.14	11.13
	Total	51.69	52.10	51.63	51.62	51.14	51.38	52.12	52.34
Secondary sector (%)		9.23	8.50	8.50	8.72	9.58	7.0	8.12	8.22
Tertiary sector (%)		39.08	39.40	39.87	38.66	39.28	41.62	39.76	39.44
Diversification Index		1.34	1.36	1.36	1.35	1.36	1.36	1.36	1.36
Oil Revenue (₦bn)		78.1	76.3	83.5	83.5	76.5	76.8		75
Non-OilRevenue (₦bn)		21.9	23.7	16.5	16.5	23.5	23.2		25
Capital Utilization (%)		36.5	35.9	36.1	39.6	44.3	46.2		39.1
External Debt ($bn)		27.1	28.1	28.3	28.4	28.4	28.4	35.9	20.5
Inflation rate (%)		29.3	13.0	6.9	18.9	12.9	14.5	15.0	17.9
Exchage (N/$)		81.2	92.3	101.7	111.94	120.97	129.36	133.50	131.66
Savings Rate (%)		10.1	5.3	4.9	5.0	3.7	3.2		
Lending Rate (%)		20.8	27.2	26.4	31.2	25.7	21.6		
Spread (%)		10.7	21.9	21.5	26.2	22.0	22.0	18.4	
BudgetaryBalance (₦bn)			-15.9	-90.4	-221.0	-301.2	-202.8	-172.6	36.6
Reserves ($bn)				9.4	10.4	7.7	7.5	17.0	28.3
GDP (Nbn)					431.8	451.8	495.0	527.6	560.4
Growth Rate (%)				5.6	3.3	1.4	10.9	6.1	6.9

Source: *Estimated from CBN Annual Report and Statement of Account (several series)*

BOX1: THE MILLENNIUM DEVELOPMENT GOALS (MDGS)	
GOALS	TARGETS
1. Eradicate Poverty and Hunger	1. Halve the proportion of people whose income is less than $1 a day: 1990-2015 2. Halve the proportion of people who suffer from hunger 1990-2015
2. Achieve Universal Primary Education	1. Ensure that by 2015 children everywhere, boys and girls alike w ill be able to complete a full course of primary schooling
3. Promote Gender Equality and Empower Women	2. Eliminate gender disparity in primary and secondary education, preferably by 2005 and in all levels of education not later than 2015
4. Reduce Child mortality	5. Reduce by 2/3 (1990-2015), the under-5 mortality rate
5. Improve material mortality	6. Reduce by 2/3(1990 - 2015), the material mortality ratio
6. Combat HIV $ AIDS, Malaria and other Diseases	7. Halve halted and begun to reserve the spread of HIV AIDS 8. Halve halted by 2015 and begun to reverse the incidence of malaria and other major diseases
7. Ensure Environmental Sustainability	9. Integrate The Principles Of Sustainable Development Into Policies And Programmes And Reverse The Loss Of Environment al Resources 10. Halve By 2015, The Proportion Of People Without Sustainable Access To Safe Drinking Water And Basic Sanitation 11. Have achieved by 2020 a significant improvement in the lives of at least 100 million rural dwellers.
8.Develop a Global partnership for Development	12. Development of an open, rule based predictable, non-discretionary trading and financial system 13. Address the special needs of LDCs, (including tariff and quota free access for LDCs exports, enhanced programme of debt relief for highly indebted poor countries (HIPCs) and cancellation of official bilateral debt and more generous official ODA for countries dedicated to poverty reduction) 14. Address the special needs of land locked developing countries and small island developing states (through the programmes of Action for the sustainable development of small island developing states and 22nd general Assembly provisions) 15. Deal comprehensively with the debt problems of developing countries through national and international measures to ensure sustainability in the long term. 16. In cooperation with developing countries, develop and implement strategies for decent and productive work for youths 17. In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries 18. In cooperation with the private sector, make available the benefits of new technologies, especially information and communication technologies.

indications such as poverty, malnutrition, ignorance, poor health, hunger, marginalization, severe environmental degradation and high rates of infant and child mortality, among others. All of these deficiencies require reform policies in one form or the other to ensure adjustments.

From the foregoing, it is plausible to inquire the extent to which the Millennium Development Goals (MDGs) recognize the tackling of these problems as a panacea to rapid economic development.

Tenets, Values and Principles of the MDGs:

The tenets, values and principles of the MDGs are couched on the need to achieve peace, progress, environmental security, equity, development and the upholding of the human rights of all citizens. These represent the appropriate pre-requisites for attainting sustainable growth and development. Against this background are six fundamental principles which also constitute the framework of the MDGs – freedom, equality, solidarity, tolerance, respect for nature and shared responsibility.

The United Nations and global stakeholders have set the 2015 timeframe for these goals to be met. Seven years to the deadline, evaluations show that many Third World nations are at different stages, and with different chances of meeting the goals. Box 2 below captures Nigeria's MDGs status, an assessment of which shows that:

i. The most pressing challenge facing Nigeria is that of the eradication of poverty and hunger

ii. If poverty and hunger could be eradicated through appropriate policy measures, all the other challenges would ease out.

iii. The intensities of poverty and hunger seem to be on the increase because the proportion of the extremely poor compared with moderately poor is higher in the Nigerian economy

iv. In spite of the heightened efforts in health care delivery, the indicators of child and maternal health has worsened overtime

As a confirmation of the above inferences, Ajakaiye and Olomola (2003) in their report based on statistical information, show that from 1985 to the late 1990s, real income per capital, private consumption and the overall welfare of Nigerians remained below the 1980 level.

The fact that the report also shows that the population within the poverty bracket increased dramatically

As the economy grows, however, the contribution from the primary sector is expected to decline steadily, giving way to those of the secondary sector, and providing solutions to problems created by the hitherto predominance of the primary sector.

over the period, is an indication that there is a decline in the class of the non-poor; while the core poor is on the increase. This development explains why the other tenets in the MDGs also suffer as shown in box 2

Also linked to poverty eradication; another aspect of the MDGs that Nigeria would find very challenging is gender equality. An analysis of the country's current MDG status reveals an intra-household male preference whereby educating males is preferred to investing in the education of female children. This translates to disparity in human capital development and subsequently reflects in the disparity in labour force performance and the variations in ability to escape from poverty. Thus, on the basis of deprivation, powerlessness and vulnerability, men and women experience poverty differently.

These arguments suggest that the MDGs (in line with poverty reduction and gender equality) may not be easily achieved in Nigeria at the set date of 2015. What should then be done to remove the bottlenecks and subsequently enable the country achieve the MDG targets?

Apparently, it is to expedite the active implementation of reform policies as embedded in the National Economic Empowerment and Development Strategy (NEEDS II) 2008-2011, in line with the spirit and targets of the MDGs.

To get a clearer picture of Nigeria's status as per the MDG targets, table 2 below shows the country's socio-economic status in comparison with other countries like South Africa, Korea, Japan and the United States.

It is apparent from this table that Nigeria fairs poorly compared with these countries. This explains why the SAP (1986); the Nigerian Vision 2010 (1998; reinforced by the 1999/2003 Nigerian Economic Policy (NEP)); and the NEEDS (2004) documents stress the need to trigger measures that would promote the Secondary Sector and make it play a more dominant, productive role in the economy as earlier discussed.

Therefore, the ideal reform process under the MDG framework would be designed to: *"alter the structure of production and consumption activities so as to diversify the economic base, reduce dependence on crude oil and imports; create wealth and jobs and put the economy on a path of self-sustaining and non-inflationary growth, thereby reducing poverty" (NISER, 2001).*

BOX 2: NIGERIAS MDG STATUS

NO	GOALS AND INDICATORS	1990	2004	2015 (PROJECTION)	PROGRESS TOWARDS TARGET
1	**Eradicate Extreme Poverty and Hunger**				
	• Proportion of household living in relative poverty	42.7% (1992)	54.4%	21.4%	Fair (65% in 1999)
	• Proportion of household living in extreme poverty	13.9%	22.0%	7.0%	Worsening
	• Percentage of under weight children	35.7%	30.7%	17.9%	Fair
2	**Achieve Universal Primary Education**				
	• Primary school enrolment (gross)	67.7%	123.0% (2000)	100%	Good
	• Primary six completion rate	60%	94% (2000)	100%	Good
	• Literacy rate 15-24 years	70.7%	76.4%	100%	Fair
3	**Promote Gender Equality and Empower Women**				
	• Primary education (girls per 100 boys)	82%	79%	100%	Worse
	• Senior secondary education (girls per 100 boys)	105.5%	78.9%	100%	Worse
	• Share of women in wage employment in the non - agricultural sector	66.3% (1991)	79.7%(2003)	100%	Fair
	• Proportion of seats held by women in the National Assembly - senate and House of Representative	1.01% (1991)	3.9%	30%	Fair
4	**Reduce Child Mortality**				
	• Infant mortality (per 1000 live births)	91	100 (2003)	30.3%	Worsening
	• Under 5 mortality rate (per 1000 births)	191	201 (2003)	63.7%	Worsening
	• Proportion of one year old children immunized	46.0%	31.4% (2003)	100%	Worsening
5	**Improve Material Health**				
	• Proportion of births attended by trained health personnel	45%	36.3%	100%	Worsening
6	**Combat HIV/AIDS, Malaria and Other Diseases**				
	• Percentage of population aged 15 - 24 with comprehensive correct knowledge of HIV/AIDS prevention methods	F:40.4%	M:58.4% (2003)	100%	Improving
	• Prevalence and death rates associated with malaria (per 100,000)	1,116.9	1,853.8 (2003)	....	Worsening
7	**Ensure Environmental sustainability**				
	• Proportion of land area covered by forest	10%	12%	20%	Fair
	• Proportion of households with access to safe drinking water	30%	60% (2003)	100%	Fair
	• Proportion of gas flared	68%	40%	0%	Fair
	• Proportion of households with access to basic sanitation	56.5%	74% (2003)	100%	Fair
8	**Develop Global Partnership for development**				
	• Per capital ODA as % of GDP to Nigeria in $	1.2 (1998)	2.3%	....	Fair
	• Debt service as a % of exports of goods and services	13.6%	18.4%	5%	*Worse

Note: **Debt service as a % of export of goods and services has improved recently owing to the drastic reduction in Nigeria's external debt following its exit from the Paris and London Club of Creditors between 2006 and 2007*

Table 2: Nigeria's Economic Indicators vis-à-vis some Selected Countries

Indicators	Nigeria	South Africa	Korea	Japan	U.S.
GDP Per Capital ($)	411	2,980	7,660	31,400	24,740
Energy consumption per Cap.	141	2,399	2,863	3,642	7,018
Gross Enrolment Rates (Primary)	76	&	102	102	104
i. Male					
ii. Female	85	&	101	102	104
	67	&	103	102	104
Infant Mortality	191.2	69	12	06	10
Measles Immunization	34	63	93	66	98
DPT	29	67	74	87	97
Life Expectancy	51	63	71	79	76
Female advantage	3.2	06	7.5	6.1	6.8

Source: Estimated and Projected from Ajakaiye Olu's Plausible Economic Scenarios for Nigeria's Vision 2010

These structural defects manifest in socio-economic indications such as poverty, malnutrition, ignorance, poor health, hunger, marginalization, severe environmental degradation and high rates of infant and child mortality, among others. All of these deficiencies require reform policies in one form or the other to ensure adjustments.

Conclusion and Some Policy Issues:

It is obvious from the analyses and discussions in this paper that the Nigerian development status is dismal relative to its chances of achieving the MDGs. This situation calls for measures that would ensure economic reconstruction, social justice and self-sufficiency. These are required in the reform process to alter and re-align aggregate domestic production pattern to achieve steady and balanced growth, in line with the spirits and features of SAP, Vision 2010, NEP and NEEDS.

Against this background, reforms reinforcement to achieve MDGs would need to consider policy agendas such as:

i. Rationalization and privatization of Public Enterprises

ii. Diversification of Nigeria's productive base

iii. Appropriate pricing of goods and services

iv. Attaining realistic exchange rate

v. Trade and payment liberalization

vi. Demand management strategies etc

Embarking on the above reform measures would enable Nigeria to: *"alter the structure of production and consumption activities so as to diversify the economic base, reduce dependence on crude oil and imports, create wealth and jobs and put the economy back on the path of self-sustaining and non-inflationary growth thereby eradicating or reducing poverty."*

This is just what the economy requires if it is to achieve at least, much of the Millennium Development Goals at the stipulated timeframe.

(*Prof. J. A. Odebiyi is the Vice Chancellor, Achievers University, Owo while Prof. A. 'Sesan Ayodele is the Dean, College of Social and Management Sciences (COSMAS), Achievers University, Owo. The views expressed in the paper do not necessarily reflect the official position of Achievers University on the subject matter as they merely represent the opinions of the authors.)

REFERENCES

Ayodele Sesan & Falokun, G.O. (2003): *The Nigerian Economy: Structure and Pattern of Development;* Printoteque, Lagos.

Ayodele A. 'Sesan (2003),: *Economic priorities for the incoming Government in Nigeria.* Commissioned Paper by CIDA Abuja.

Ajakaiye Olu (1997): *Plausible Economic Scenarios for Nigeria's Vision 2010;* NISER; Ibadan.

Ajakaiye D.O (2003): *Nigeria's Economic Development'* A Review of the Experience" NCEMA, Ibadan.

Ajakaiye Olu & Ayodele Sesan (2001): *Industrial Transformation in Nigeria*: Some Reflections. Occasional Paper Series, NISER, Ibadan.

Ayodele Sesan (2006): *The Nigerian Economic Reforms- Facts and Fallacies"* Paper Presented at the Lagos Forum of the Group of Friends Unilag. Lagos.

FRN (1986): *Structural Adjustment Programme for Nigeria (Federal Ministry of Information)*, Lagos.

FGN (1999): *The Nigerian Economic Policy,* 1999-2003.

NISER (2001): *NISER Review of Nigerian Development, 2000* (The State of Nigeria's Development) NISER, Ibadan.

World Bank (1997): *Global Development, Finance;* A World Bank Book (Washington).

Oni & Akinbinu (2005): *Public- private Partnership in Nigerian Development;* NISER and SISERA; NISER, Ibadan.

Ayodele A' Sesan (2008): "*Achieving the Millennium Development Goals in Ondo State*" Paper presented at the Workshop by Ondo State Government on MDGS at NIEPA, Ondo.

Warfare And Modern Strategy: Lessons for Nigerian BUSINESSES

* By Elaine Delaney

The world is facing unprecedented times: the global financial contagion that has been termed the "credit crunch" has left considerable damage in its wake. The demise of Lehman Bros, the write off of over $500bn of securities, the fall of AIG, the crash of Northern Rock, the meltdown of Iceland and the aftershocks are still emerging. Difficult times call for difficult measures; for a company to weather the raging financial storm it must have a clearly focused strategy that tackles the ensuing onslaught head-on. Taking a step back, it is instructive to examine the strategic options facing a company in order that it may take decisive action to batten down the hatches. Our modern concept of strategy was first defined in the 18th century. Prior to this, little material is known other than the works of Sun Tzu and the Italian philosopher, Niccolo Machiavelli (1469-1527). Sun Tzu, a Chinese general, military strategist and author, wrote The Art of War in the fourth century BC; astonishingly the principles he lay down then for success in strategy are equally applicable in competitive situations today. Sun Tzu lived through an era of tumultuous change; seeing warfare move from feudal disputes to epic battles between states with the ensuing need for an examination of strategy. The philosophy of strategy only really came to the fore during the Enlightenment period. The first great modern exponent of strategy was Frederick the Great of Prussia (1712-1786) under whose watch strategy undertook a chess-like quality. Intricate mathematical formulas and elaborate geometric designs were employed to formalize the art of strategic warfare. The mathematicians and philosophers were sent running back to the drawing board with the introduction of perhaps one of the greatest strategic thinkers, in military terms, of modern times, Napoleon Bonaparte. The work of one scholar in particular that sought to define Napoleonic warfare has endured to this day; that is the Prussian general Karl von Clausewitz (1779-1869). His work, "On War" has been successfully translated to create a framework for modern business strategy. Von Clausewitz's bitter rival, Antoine-Henri de Jomini is widely regarded as the founder of the modern concept of strategy and was the most widely read interpreter of Napoleon's genius. De Jomini's faith was Platonist that proposed that behind the chaos of war lurked a few immutable scientific principles. These principles proved popular with the military until their utter failure in the American civil war of 1914-1918 whereby had his principles been implemented, it would have been akin to mass suicide. In this article, we examine the principles laid down by Sun Tzu in "The Art of War" and how they are relevant for modern business today. We will subsequently examine von Clausewitz's "On War" with a similar ambition in the next edition.


Sun Tzu, Chinese general, military strategist and author

Learn to fight

"Warfare is the Way of deception. Therefore, if able, appear unable, if active, appear not active, if near, appear far, if far, appear near. If they have advantage, entice them; if they are confused, take them, if they are substantial, prepare for them, if they are strong, avoid them, if they are angry, disturb them, if they are humble, make them haughty, if they are relaxed, toil them, if they are united, separate them"

Competition is an inevitable factor of life that will be met across every aspect of life. Sun Tzu argues that we can never learn enough about how to compete. However; caution should be taken against competition for its own sake. Using competition merely to win or enrich oneself is a risky and costly strategy. Competition should occur when there is something important to gain or danger is faced. As with any aspect of strategy planning, emotions have no role to play, given their propensity to cloud reason and reduce objectivity.

It is worth turning to the tactics of Muhammed Ali, perhaps the greatest boxer of all time. In 1954 in Louisville, Kentucky, 12-year-old Cassius Marcellus Clay's bike was stolen while he and a friend were at the Columbia Auditorium. Young Cassius found a policeman in a gym, Joe Martin, and brimming with impetuous rage, told Martin he was going to "whup" whoever stole his bike. Martin admonished, "You better learn to box first." Within weeks, 89-pound Cassius had his first bout, and his first win. For the next 27 years, Cassius, later Muhammed Ali could be found in the ring. Ali, with his unorthodox style that defied boxing logic, was a "headhunter" avoiding body shots and close proximity. Ali danced in the ring; unsettling his

Competition is an inevitable factor of life that will be met across every aspect of life. Sun Tzu argues that we can never learn enough about how to compete.

opponents, inventing the "Ali Shuffle;" a foot maneuver where he would elevate himself, shuffle his feet in a dazzling blur, and sometimes deliver a blow while dancing. However, his most potent weapon earned him the nickname "The Louisville Lip" for his persistent haranguing of opponents inside and outside the ring. Ali's strategy in fighting his arch-nemesis Joe Frazier was not solely in the boxing ring; Ali took aim at Frazier's mind before the battle, unsettling his centre of gravity. Before each fight, Ali would goad Frazier, calling him an Uncle Tom, a tool of the white man's media. Ali would continue the taunts inside the ring to such an extent that Frazier became obsessed with Ali and could not think about him without bursting into a fit of anger. Ali had controlled Frazier's mind and thus weakened his body. Ali's unconventional fighting tactics of dancing in the ring, keeping his gloves low and dirty warfare outside the ring made him into one of the greatest artists of pugilism the world has seen.

One of Ali's Deft moves

Develop your character as a leader

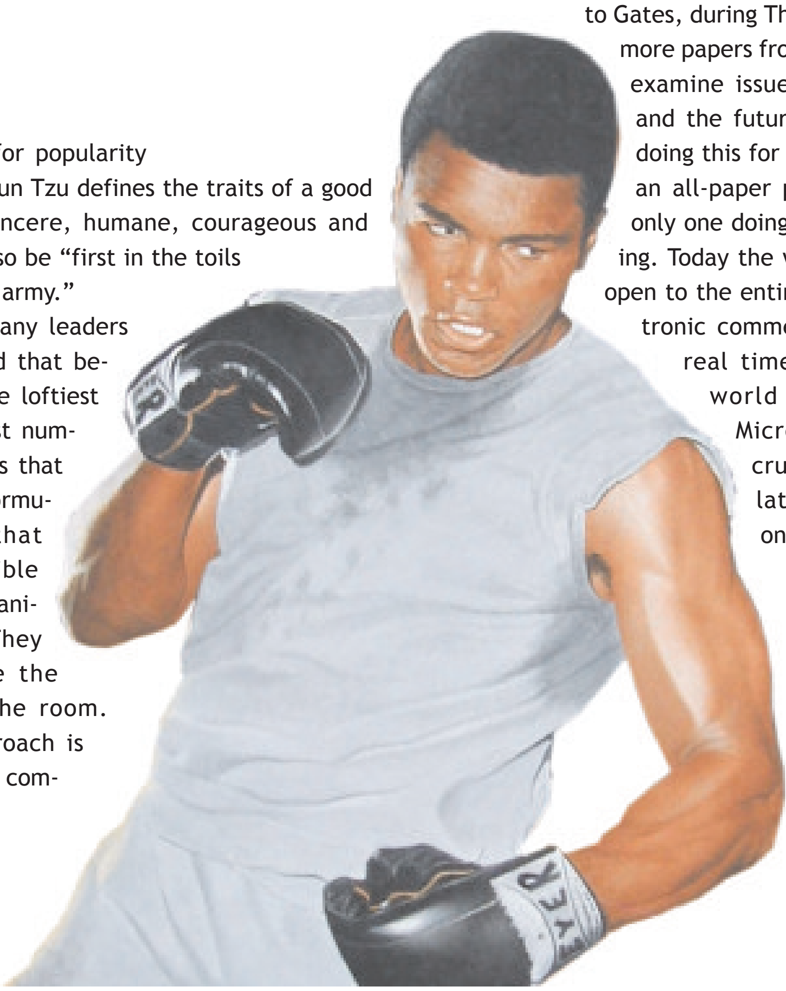
"When one treats people with benevolence, justice and righteousness, and reposes confidence in them, the army will be united in mind and all will be happy to serve their leaders".

Leadership alone defines success; Sun Tzu identifies five impediments to the success of strategic planning:

- Recklessness
- Timidity
- Emotionalism
- Egoism
- Overconcern for popularity

As a corollary, Sun Tzu defines the traits of a good leader as: wise, sincere, humane, courageous and strict and should also be "first in the toils and fatigues of the army."

For decades, many leaders mistakenly assumed that because they held the loftiest title and the largest number of stock options that they alone should formulate the ideas that would be responsible for shaping the organizations future. They alone were to be the smartest guy in the room. However, this approach is doomed to fail when competition becomes so intense, the markets so unpredictable, and technology so evolutionary that no individual leader – even Bill Gates – can think of everything? What should one's response be? One should act like Bill Gates. In March 2005, the Wall Street Journal ran a front-page account of the business mogul's secretive bi-annual "Think Week" in which the Microsoft co-founder heads off by himself to a remote cabin to read papers written by Microsoft staff, surviving on orange soda and two meals a day. According to Gates, during Think Week "I will read 100 or more papers from Microsoft employees that examine issues related to the company and the future of technology. I've been doing this for over 12 years. It used to be an all-paper process in which I was the only one doing the reading and commenting. Today the whole process is digital and open to the entire company. I can add electronic comments that everyone sees in real time. From the sessions, the world has benefited from Microsoft's web browser that crushed Netscape (discussed later), its Tablet PC and its online videogame business.



Time is of the essence

"When doing battle, seek a quick victory. A protracted battle will blunt weapons and dampen ardor. I have heard of military campaigns that were clumsy but swift, but I have never seen military campaigns that were skilled but protracted."

Competitive advantage rests heavily on effective execution; whilst planning may be important, action is crucial to success. Without effective action, planning is a sterile, futile exercise that can be demoralizing if not employed. In fact, many modern management theorists believe that a bias for action is a critical success factor for any strategy. Sun Tzu's belief system was grounded on the ethos that competitive advantage arises from creating favourable opportunities and then acting on these opportunities at the right moment. The desire to act should also be neatly counterbalanced with the need for patience.

Michael Dell can hardly regret dropping out of university at 19 to set up PCs Limited, which was subsequently renamed Dell Computer Corporation. This decision has seen him amass a fortune of over $17 billion, placing him as the 12th richest man in the world. Dell, as CEO, oversees a company whose revenues are in excess of $50 billion and has been credited with revolutionizing the PC market. Dell's focus was upon execution; bypassing retailers and implementing a direct sales and build-to-order business that enabled Dell to overtake Compaq in 2001 as the world's largest maker of PCs, despite Compaq's vastly greater size and scope. Dell recognised early on the power of building to order, executing superbly and keeping a sharp eye on costs. The traditional supply model in the PC arena was conventional batch production manufacturing whereby a business sets its production volume based on forecast demand with the end result of unsold inventory if sales fall short of projections and conversely a scramble to meet demand if projections underestimate

Michael Dell can hardly regret dropping out of university at 19 to set up PCs Limited, which was subsequently renamed Dell Computer Corporation. This decision has seen him amass a fortune of over $17 billion, placing him as the 12th richest man in the world.

Michael Dell

demand. Building to order, in contrast, produces a unit upon receipt of a specific order; this can be diffused throughout the entire value chain, creating minimal inventory management and enabling the latest technology to be offered to customers, rather than lying in a warehouse, awaiting ordering and growing obsolete. Build-to-order improves inventory turnover, which increases asset velocity, one of the most important measures of productivity and working capital management. The approach also improves cashflow, the lifeblood of any business, in particular a capital intensive one, further improving margin, revenue and increased opportunity for market share growth. Dell turns its inventory over 80 times a year compared to the 10-20 range achieved by rivals. It is therefore not surprising that working capital is negative, with the company generating significant amounts of cash. Dell's strategy is deadly to its competition; its high velocity enables it to enjoy a high return on capital and positive cash flow. The high velocity also positions Dell to take advantage of falling component costs – which it can then use to drop costs further and increase market share or improve margins. The system's success is predicated upon meticulous execution at every juncture; the linkages between suppliers and manufacturing have created a seamless enterprise for execution that remains unparalleled in the marketplace, even by its build-to-order rivals.

四 Know the facts

"Know the enemy and know yourself; in a hundred battles you will never be in peril."

Having access to information is critical to success; information in today's business landscape is power. According to Sun Tzu, if a leader has access to sufficient reliable information, victory is almost certain. Two aspects to information are key: gathering and disseminating. Gathering information will enable one to make informed decisions whilst disseminating information can act as a powerful tool to misdirect competition. First-hand information is crucial: agents and informants are the primary tool to gather and transmit firsthand information. Statistical tools should then be employed to weigh the information gathered to develop the optimal solution.

•Tom Brown

Tom Brown was one of the most lauded banking analysts on Wall Street, owing to his fierce opinions and unique insights that wielded such influence that he could sway the price of stocks by his research. Brown established Second Curve Capital, a hedge fund managing hundreds of millions of dollars. Brown's days are largely filled hobnobbing with CEOs, interrogating CFOs, commenting for the media and all the other usual master of the universe day-to-day tasks. However, once a year, Brown organises the "Branch Hunt" where everyone from the lowly receptionist, to the IT guy to Brown hit the New York pavements dressed in jeans and t-shirts armed with 5 crisp $100 bills. The firm is split up into teams, with each team assigned an avenue where they must visit every retail bank along that avenue, opening accounts and capturing the process on camera. At the end of the hunt, the group reconvenes to discuss and rate the experiences endured in the various branches. Every aspect of the organization is discussed and dissected – from customer service, to account opening procedures to rates. Brown dishes out awards of $500 to staff with the best anecdote, best photo, best sign from a branch etc. As a result of the exercise, Second Curve Capital gains an invaluable insight into the retail operations of the companies that they are analyzing whilst simultaneously building team morale and camaraderie. The results feed directly into the fund's stock-picking abilities which have seen top decile consistent performance.

五 Expect the worst

"Do not depend on the enemy not coming, but depend on our readiness against him. Do not depend on the enemy not attacking, but depend on our position that cannot be attacked."

Never assume that the competition will not attack; be adequately prepared for such as it is sheer folly to believe that an organization will sit idly by given an engagement in battle. The best weapon against competitive attacks is thorough preparation. Resources contribute heavily to success: avoid difficult problems when facing inadequate resources. Superior strategy alone cannot ensure success when crippled by inadequate resources.

Ben & Jerry's was established by two former hippies with strong counterculture tendencies and very liberal political leanings that undertook a $5 correspondence course in ice cream making in 1977. Their humble beginnings began with an ice cream counter in a renovated gas station in rural Burlington, Vermont. Their next milestone was to package their ice cream in pint cartons and wholesale these cartons to local groceries with the logo "Vermont's Finest All Natural Ice Cream". The carton featured a picture of the cofounders on the lid and unique handstyle lettering to create a more organic, homemade feel to the product. A Time magazine article catapulted the company to cult status by declaring Ben & Jerry's "the best ice cream in the world". Sales soared to $10m in 1985, $78m in 1990. By 1994, Ben & Jerry's were in all 50 US States, offering 29 flavours in pint cartons and 45 in bulk cartons. Ben & Jerry's counterculture approach initiated a move away from the bland definitions of ice cream, vanilla, chocolate, strawberry to such exotic names as Chunky Monkey, Bovinity Divinity, Chubby Hubby, Totally Nuts and Karamel Sutra, to name a few. Early on, Häagen-Dazs recognised the threat posed by the avant-garde ice cream makers. Their strong-handed tactics included trying to force independent distributors to stock either Haagen-Dazs, the market leader, or Ben & Jerry's, a little-known upstart brand, but not both. In retaliation Ben and Jerry's filed a law suit against the Pillsbury subsidiary saying that it had acted illegally in its operation and was trying to put Ben and Jerry's out of business. To coincide with the lawsuit Ben Cohen and Jerry Greenfield also began the "What is the Doughboy afraid of?" campaign, a question posed to the corporate mascot of Pillsbury. They also encouraged a boycott of all Pillsbury subsidiaries, which included Burger King, apparently to great personal distress of both Ben & Jerry. Their strategy included placing advertisements on the sides of buses to renting banner planes to target specific major sporting events, Cohen and Greenfield employed whatever means they could to garner support for their growing business. They took out a classified ad in Rolling Stone magazine asking readers to "help two Vermont hippies fight the giant Pillsbury Corporation." Greenfield even became a one-man picket outside the headquarters of Pillsbury in Minneapolis, handing out pamphlets that read, "What's the Doughboy afraid of?" Later that year, Cohen and Greenfield came up with the idea of putting a freephone number on every carton of Ben & Jerry's ice cream. Public interest and media attention surrounding the issue began to grow, most of which portrayed Pillsbury in a negative light – the evil corporate giant trying to put two young hippies out of business. Eventually, all of the bad press forced Pillsbury to renege on its ultimatum. Pillsbury went to Ben and Jerry's with an out-of-court settlement and signed an agreement whereby it would not impose restrictions upon suppliers. The Ben and Jerry's brand grew tremendously, partly because of the success of the David and Goliath case and the publicity the brand received because of it; so much so that Unilever purchased the brand in 2000 for over $300 million.

Never assume that the competition will not attack; be adequately prepared for such as it is sheer folly to believe that an organization will sit idly by given an engagement in battle.

六 Bind the team

"If one punishes the troops before their loyalty is formed, they will be disobedient. If they are disobedient, they will be difficult to use. If one does not punish the troops after their loyalty is formed, they cannot be used. Therefore, if he commands them by benevolence, and unifies them by discipline, this is called certain victory. If commands are consistently enforced when training men, they will be obedient; if commands are not consistently enforced when training men, they will be disobedient. If commands are consistently executed, they are in accord with the general."

When people are unified in purpose, no obstacle can stand in their way. A successful leader will place his followers in situations where they are in danger of failing; upon realization that failure may result if co-operation does not follow, group mentality will naturally follow creating unification in purpose. With unity and common purpose, a group will reinforce their commitment towards a common set of goals and objectives. The successful leader will push his followers forward and then burn bridges behind them. Commitment and motivation are key to leadership. Sun Tzu advises that people are motivated by the expectation of profit; when facing obstacles and challenges focus upon the benefits of success. Avoid telling followers about risks involved; this may act as a demotivator. To engage the team, give clearly defined goals and valuable rewards. Treat people well and train them thoroughly – the success of the organization depends upon the individual success of its constituents.

Commerce Bank has long stood out from the crowd of US banks; with a colorful workforce of over 13,000 employees across 375 branches, the Bank set to redefine the customer experience in banking.

Commerce Bank has long stood out from the crowd of US banks; with a colorful workforce of over 13,000 employees across 375 branches, the Bank set to redefine the customer experience in banking. Every Friday at Commerce is "Red Day", from the head office to branches to the call centre, every employee is expected to wear at least a splash of red. Once a month this is extended to customers who can win prizes for wearing red to the bank. Commerce Bank's CEO is a maverick; although trained as a banker he does not think as one; he thinks of Commerce as a growth retailer, rather than benchmark against Citigroup or Bank of America; Commerce's peer group is the Gap and Home Depot. Hill likes to think of his branches as stores and seeks innovative ways to keep bringing customers back. The majority of Commerce *stores* are open 70-80 hours per week, including Saturdays and Sundays and for over twelve hours per day on weekdays. Every manager is expected to have read "Built from Scratch" the autobiography of Bernie Marcus and Arthur Blank, founders of Home Depot. Hill has taken the business model back to its fundamentals; focusing his strategy on deposit gathering; a large departure from the focus of other big banks that have sought to compete against Wall Street, make high-priced loans and distributing credit cards; barely tolerating retail depositors. Hill's success in attracting customers has seen some branches attract 100,000 customer visits per month, a phenomonal rate given that the average McDonalds attracts only 25,000. As CEO, he believes that "Customers care more about the retail experience than they do about the lowest price, which in our business is the highest interest rate"; enabling Commerce to offer lower deposit rates relative to its competitors. The Bank seeks to redefine almost every aspect of the "traditional" banking model. The driving ethos behind their approach is that every procedure should be capable of being understood by an eighteen-year old. Cheque clearing is one such example. Whilst most banks will take up to a week to clear cheques, Commerce will clear by the next day. This has exposed the Bank to higher rates of fraud; however this is more than compensated for by the good faith of its customer base. Rather than focusing on cost-minimising strategies, the company focuses upon customer satisfaction strategies. Lost or stolen ATM cards are replaced the same day. Mascots are hired to entertain customers and employees, street fairs are held to celebrate the launch of a new branch; but what really sets the "Commerce way" apart from its peers is its approach to its employees. As a fast-growing bank, challenges are met in keeping the culture consistent; the solution – employee SMART cards. Every employee carries a SMART card that lists the company's five principles of great service. Each manager and officer is equipped with a roll of red stickers in the shape of the company's logo, ready to slap a sticker on the back of an employee every time an employee is found to be "doing it right". As an employee accumulates stickers, they can be redeemed for prizes. It is the re-

Commerce Bank, Livingston, New Jersey

sponsibility of managers and officers to catch people "doing it right"; so much so that in 2005, over 115,000 stickers were awarded. The approach to HR is championed by Tim Killion, manager of the Wow Department. In ensuring employee satisfaction, the Wow Department has over 150 volunteers from within the company to help organize celebrations, run contests and generally contribute to the overall Commerce culture and spirit. The strength of the Commerce cultural bind equates to the lowest employee turnover in the industry and consistently overwhelming positive feedback on the bank's customer service.

七 Do things differently

"What enables an army to withstand the enemy's attack and not be defeated are uncommon and common maneuvers. Generally, in battle, use the common to engage the enemy and the uncommon to gain victory."

In war, there are only two types of tactics: expected and unexpected. An effective commander will combine both according to the situation at hand. However, unexpected tactics are the source of opportunity for victory. Innovative tactics are difficult to defend against in advance. Innovation is the singular weapon for invoking invincibility. Innovation need not necessarily be complicated or difficult in order to ensure success; a large number of simple improvements can be effective as a major game changer. Managers who are skillful at encouraging and implementing innovative ideas have infinite resources in a competitive situation.

"It's not about getting people stressed. It's about getting them full of conviction. We keep increasing the intensity, the passion, the goals. We're doing a billion dollars a month of new deposits right now. I just announced that we are going to step up to two billion dollars. It's scaring the hell out of everybody, but we'll do it. It's very hard to be an employee here and not ask yourself "Am I up for this or not?" said Arkadi Kuhlmann, President and CO of ING Direct USA. Kuhlmann is not a typical CEO of a bank; he crusades against high fees, admonishes complexities and champions transparency. ING Direct is an internet-based banking service that focuses upon speed, simplicity and low overheads. ING Direct does not have any brick-and-mortar branches, no ATMs, no charming financial advisors or overpaid commercial bankers. Instead of the traditional commercial banking fare, it offers no-frills mortgages, simplistic saving accounts, streamlined mutual funds and a range of CDs. The simplicity of the product offering is deliberate and results in costs of just under one-sixth of ING's competitors. Such low costs are translated into higher savings deposit rates and lower mortgage rates, further fuelling the rapidly expanding deposit base and enabling even more competitive rates to be offered on both assets and liabilities. The success of the model has propelled ING Direct to become America's largest Internet-based banks and one of the largest thrift banks. ING Direct's headquarters are a welcome blast of colour in the otherwise drab Wilmington, centre of the US credit card industry. The location is by no means a mistake; the contempt that Kuhlmann holds for the credit card industry acts as a catalyst for him to further the lofty goals of ING Direct to redefining the American banking industry from one focused upon encouraging spending to one encouraging thrift. The lobby of the headquarters is bustling with an ultramodern coffee shop, flat-screen TVs, internet access points all cloaked in a hue of orange, the company's corporate colour. Many of the staff at the headquarters have been recruited from outside the banking industry;

Arkadi Kuhlmann, CEO ING Direct

the theory being that it is easier to train a musician, for example, than to train and re-train a banker. The bank has become famous for its publicity stunts; in order to increase its market presence in California the Bank offered to pay for fuel at Shell stations in Manhattan Beach, Santa Monica and Burbank. With lines of cars stretching for miles and queues for hours, the stunt made headline news. In Boston, the company paid for free travel on the subway, the "T" to Bostonians, for rush hour commuters one morning – dubbed the "ING Direct Boston T Party". ING has steadfastly refused to offer some of banking's most lucrative products, credit cards, auto loans and checking accounts as these products run contrary to their ethos of encouraging their customers to save. ING Direct has even gone further to define its

market position as the bank of the masses – on one particular occasion Kuhlmann personally refused a $5 million deposit from one of America's well not high net-worths. Contrarily, ING Direct does not impose deposit minimums but deposit maximums, an approach explained by Customer Service Chief, Jim Kelly as "We are about Main Street, not Wall Street. Our most important role is to help people who need help the most save money. People who are going to deposit a million dollars- they don't need a lot of help." Placing a premium on low-deposit savers at the expense of high depositors lies at the extreme of the spectrum of contrary approaches in the banking industry; ING Direct even goes further – "firing" 3,500 accounts every year that do not play by their rules or fit their ideal. Whilst such an approach on the surface might seem verging on the suicidal, the word-of-mouth generated by such an approach keeps the accounts coming. There is no such thing as bad publicity.

Pull together

"Therefore, there are five factors of knowing who will win: One who knows when he can fight, and when he cannot fight, will be victorious; one who knows how to use both large and small forces will be victorious; one who knows how to unite upper and lower ranks in purpose will be victorious; one who is prepared and waits for the unprepared will be victorious; one whose general is able and is not interfered by the ruler will be victorious"

The foundation of success is predicated upon organization, training and communication. By organizing and training followers properly, a commander will be better positioned to influence and control their actions in competition. Given clear expectations and organizational structure, people will naturally trust their leaders and even follow them under the most difficult of circumstances. Examining the cost-benefit trade off of appropriate training demonstrates the importance of targeted, motivational training. Good training develops a common sense of purpose and encourages team bonding. A common set of goals and understanding is essential during the heat of battle; effective training builds loyalty amongst troops. Sun Tzu believed that people cannot be punished until they have developed a sense of loyalty and consider themselves members of a constituent group.

TopCoder Inc seeks to develop high-performance software from a grassroots foundation. Defined by its founder as "Open source meets capitalism" the business model is undoubtedly a geek's paradise. Founded in 2006, the company now has over 75,000 registered programmers from over 190 countries. The majority of the company's revenues are derived from writing sophisticated software code for blue-chip organisations. The blue-chip, for example ING, will appoint TopCoder to build a computer application who will in turn divide the project into a series of discrete components and will then engage its members to write the code for each component in an open-source style. Every member is eligible to write and contribute to existing work; all programmers' work is visible by the global network. The key differentiator to TopCoder's approach is that the programmers go head-to-head in competition to write the best source code; the work is organized as a series of online matches and live tournaments where members are challenged to battle each other and deadlines in order to write the most elegant code and gain the commendations of their peers. The competitions bring out the most competitive and macho elements of programmers, with boasts of technical prowess, character assassination of rivals and heart-felt appeals by members upon losing. The stakes are high: many of the programmers are from low-income countries where the prospect of winning tens of thousands of dollars for writing code is life changing. Ego matters also; the scorecard of a member is visible to all, further fueling the fires of competition of TopCoders. Their unity of purpose fuelled by competitive spirit has consistently produced the most elegant code writing in the industry.

九 Keep them guessing

"What does it matter if a competitor has greater resources? If I control the situation, he cannot use them."

The strongest competitive strategies have no defined form. The subtleties of such, if executed properly, are not discernible to either competition or constituents. If a strategy is a mystery; it cannot be counteracted. As a result, competitors will be forced to react after your strategy is revealed. Maintaining control can create victory by focusing upon objectives and keeping a tight lid on strategies. In order to gain control, seize upon something your competitor wants or needs; identify competitive weaknesses and move swiftly. The less a competitor knows about where to focus your attention, the stronger you are. If he must prepare defenses at many points, because of limited resources, your competitor will be weak everywhere.

The nineteenth century American financial Jay Gould fought daily guerilla battles in his business life. His ultimate goal was to create maximum disorder in the market-

The key differentiator to TopCoder's approach is that the programmers go head-to-head in competition to write the best source code; the work is organized as a series of online matches and live tournaments where members are challenged to battle each other and deadlines in order to write the most elegant code and gain the commendations of their peers.

place that he could then anticipate and hence exploit. His main adversary was Commodore Cornelius Vanderbilt. Gould's tactics against Vanderbilt included working back channels to gain influence in, say, New York State legislature, in order to enact laws to undermine Vanderbilt's interests. A furious Vanderbilt would then go on the counterattack but by then Gould would have moved onto some other unexpected target, leaving Vanderbilt with no target to counterattack. Gould was also a skillful manipulator of the media, planting stories that would sideswipe Vanderbilt, portraying him as an evil monopolist. With Gould's name nowhere to be found, the media acted as the perfect smokescreen for his guerilla tactics. In guerrilla warfare, success is predicated upon one's ability to feed off the enemy's resources, energy and power. Gould initially started out as Vanderbilt's financial partner, entering his inner circle and using Vanderbilt's vast resources to initially fund his mayhem. Keep your friends close and your enemies closer.

十 Attack their weaknesses

"Now an army may be likened to water, for just as flowing water avoid the heights and hasten to the lowlands, so an army avoids strengths and attacks weaknesses."

Often, a market leader may seem invincible with few discernible weaknesses. In this instance, the clever strategy is to convert said strengths into weaknesses.

Pepsi proved an excellent proponent of this strategy against Coca-Cola in the 1980s, the then dominating market force with deep pockets. Respectively introduced in the year 1886 and 1903, both Coca-Cola and Pepsi, today, are archrivals, each trying to dominate the carbonated soft drinks market. Both brands undertake global advertisement wars through print ads and video ads, trying to stay on top of each other. Coca-Cola had long spent significant sums defining itself as the classic American cola, the nation's favourite drink. Pepsi therefore create the "Pepsi Generation", targeting the youth market with the resultant effect of translating the "classic" cola into a drink for the older, and by implication old-fashioned, generation. America's traditional drink was significantly weakened.

Innovative or be damned

"Therefore when I have won victory I do not repeat my tactics but respond to circumstances in an infinite variety of ways".

Innovation is no longer a ring-fenced activity undertaken by Research & Development departments; today's modern organization will need to have innovation flow through every artery and nerve of its being in order to remain competitive.

Johnson & Johnson, the global pharmaceutical company, is accustomed to spending billions of dollars upon R&D. Innovation is at the core of their business model. Innovation, however, is not merely confined to the R&D department. The 117-year-old business, was founded by Robert Wood Johnson on the then revolutionary idea that doctors and nurses should use sterile sutures, dressings and bandages to treat peoples' wounds. J&J has rarely relied on traditional top-down decision-making, preferring to try decentralized management despite the strong-willed personalities of the men who ran it. Innovation has flowed from all over, and J&J has taken advantage of it, bringing surgical tools into the modern era and now-familiar products like baby powder into the home. Robert Wood Johnson died in 1910, and his brother James took over until Robert's son, General Robert Wood Johnson II was ready to take the helm, a position for which he'd long been groomed, given that he started attending business meetings with his father before he was 5. The General was 17 when his father died, and he started working part-time in the factories until finishing high school, when he went full-time. He worked his way up through the ranks, reaching a top management position at age 33 and then formally succeeding his uncle in 1932, when he was 39 years old. General Johnson could be dogmatic and autocratic like his father, but his beliefs about how J&J should be run were different. Instead of a seamless business monolith with a traditional hierarchy, he preferred decentralization, creating discrete, semi-autonomous units and letting them develop their own product lines while relying on the parent corporation for marketing and distribution muscle. When a division reached critical mass, it would simply be spun off into its own subsidiary. Today the J&J group of companies number over 250 stretched across 57 countries.

In 1943, the General penned the company's philosophy into a 291-word manifesto of moral obligation that became J&J's mission statement and remains so today, long before anyone had heard of corporate social responsibility. Formally known as "The Credo", it lists the company's four primary responsibilities in order of importance-first to its customers, then to its employees, then to the community, and finally to its shareholders. J&J to this day implement the principles of The Credo; it is posted in every J&J facility around the world and carved in an eight-foot chunk of limestone at company headquarters in New Brunswick, N.J. On innovation, The Credo states: "We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched." The list of innovative products developed by J&J to maintain its market leading position is endless: everything from baby powder, sterile bandages and antiseptic mouthwash to disposable contact lenses, hip and knee replacements and breakthrough medicines. In today's markets, one of J&J's innovations will provide welcome respite; their ad campaigns for their headache relief solutions can be found on brokers' websites whenever markets exhibit significant drops.

Create your environment

"Therefore those skilled in war bring the enemy to the field of battle and are not brought there by him."

Shaping your competition will result in you gaining control over your environment and forcing the competition to act according to your wishes.

Never has this been moreso than in the most famous David and Goliath battle of modern business history – the rise, retrenchment and eventual sale of Netscape Communications. Marc Andreessen and Mike McCue were the programming geniuses behind Netscape, acquiring Gatesque celebrity in 1995 when the company went public. They were the protagonists championed by hundreds of programmers and entrepreneurs hoping to challenge Bill Gates' stranglehold. Netscape was the pioneer of internet browsers, developing the first user-friendly way of enabling users to surf the web. Its Netscape Navigator brought out the worst of Microsoft's monopolistic tendencies when it realised the rapid growth, market dominance and potential for revenues of the web-browsing product. Netscape launched the first beta version of their programme in late 1994; it was not until May 1995 that Bill Gates told his executives "Now I assign the internet the highest level of importance". With those fatal words, the full wrath of Microsoft's power was unleashed. According to Netscape sources, Microsoft began to "use its market power to extract exclusionary deals with many of the largest PC manufacturers and internet service providers, threatening Netscape customers such as Compaq that if it tried to replace the Internet Explorer icon on its Presario range of computers, Microsoft would withdraw Compaq's Windows 95 license". Netscape revenues relied solely upon its internet browser product; whilst holding 80% share of the marketplace, these revenues could not even match the interest earned by Microsoft on its cash at bank. Nonetheless Microsoft identified a threat and is alleged to have retorted along the lines that Netscape was a "whiner and poor competitor". Netscape's greatest mistake against the Goliath may have been to continue charging for Netscape whilst Internet Explorer was free. Microsoft could easily bundle its browser with it Windows operating system of which it had over 90% market share. Serious allegations from Netscape continued, however the discord finally abated with the takeover of Netscape by America Online for $4bn in 1999, making Netscape part of a dominating force as influential as Microsoft. The resultant outcome is clear to all readers; if they examine their web browser, chances are that the only option available will be an IE icon. As Andreessen learned the hard way: "Never take your eye off the customer…Even in the face of massive competition, don't think about the competition. Literally don't think about them. Every time you're in a meeting and you're tempted to talk about a competitor, replace that thought with one about user feedback or surveys. Just think about the customer."

Strategy is not evoked by gut-feel, but by an innate ability to examine one's surroundings and develop a gameplan for success.

Local strategy

Whilst the theory, philosophy and history of strategy may prove of interest to examine and study, it is not a topic that can be taught or learnt. Moreso, the greatest strategists have developed their own innovative approaches, redefining the state of play and changing the landscape in their wake. Strategy is not evoked by gut-feel, but by an innate ability to examine one's surroundings and develop a gameplan for success. Whilst Nigeria's future businessmen and women have much to gain by examining the traditional theories and practices of strategy, their success or otherwise will be defined by their flexibility of mind and ability to "think outside the box" in crafting strategies for the companies that will define Nigeria's future. Opportunities abound across every sector of the economy; albeit international competitiveness may be stifled by the challenges of the environment; these challenges can be turned into competitive advantages given the right mindset of Nigeria's future business leaders.

"You must not fight too often with one enemy, or you will teach him all your art of war." – Napoleon Bonaparte

(* Elaine Delaney is the Associate Editor, Zenith Economic Quarterly.)

Corporate Governance in the African Context

*By Karugor Gatamah

Corporate governance is not always recognized as an important development tool by people outside the private sector development field. Yet viewing democratic and economic reform from the private sector perspective can show that it is important not just that economic growth occurs, but *how* it occurs.

Corporate governance is what allows businesses to row and thrive in a way that builds strong frameworks for future growth. For Africa, corporate governance is crucial to building businesses that use entrusted resources efficiently, resulting in the greatest benefit for the majority of the people - maximum value with minimum waste. Corporate governance helps ensure that resources are used efficiently and effectively.

Africa is a resource-rich continent. Unfortunately, these resources are often exploited for the benefit of a few individuals rather than the population as a whole. Corporate governance can contribute towards a more equitable distribution of the benefits of growth, making it crucial to Africa's development.

It is good corporate governance that will build trust between Africa's public and private sectors, and between its leaders and the public, allowing the continent to concentrate on aggregating resources for investment and growth. Corporate governance builds responsible businesses that do not damage the environment or exploit labor. It creates a framework that allows businesses to disclose their profits and pay their taxes and creates viable states with governments that use revenues to address the social needs of the population.

From this perspective, reformers in Africa are increasingly beginning to think, "How do we create businesses that are owned by our people that also utilize foreign investment efficiently and effectively? How do we create good corporate government standards that motivate businesses to have the highest productivity?"

These reformers recognize that to alleviate poverty, there must be wealth creation; to create responsible wealth in a sustainable manner, there must be good corporate governance.

The African Context

Unfortunately, the promotion of corporate governance in Africa has not been effectively adapted to the context and needs of the continent. In general, it has been preached to Africa almost exclusively as a way to attract foreign investment, especially through privatization. This has tended to lead Africans to view corporate governance as part of the privatization process of "throwing away the ownership and control" of Africa's rich natural heritage in exchange for foreign investment – not as something that leads to enhanced productivity by more efficient enterprises for sustainable growth and development.

It is for this reason that corporate governance implementation must be framed in the context of social development, economic competitiveness and viability (for states and corporations), transparent accountability, and the development of the tax base. Corporate governance must be related to poverty reduction, increased standards of living, and the transformation of society. African states and citizens must see good corporate governance as well-run businesses, enhanced productivity, transparent disclosure, and the responsible use of resources. The public, as consumers, needs to understand how

> In many African countries, the source of capital may not be banks - it may be a brother or cooperative. Nevertheless, transparent disclosure and accountability is still important.

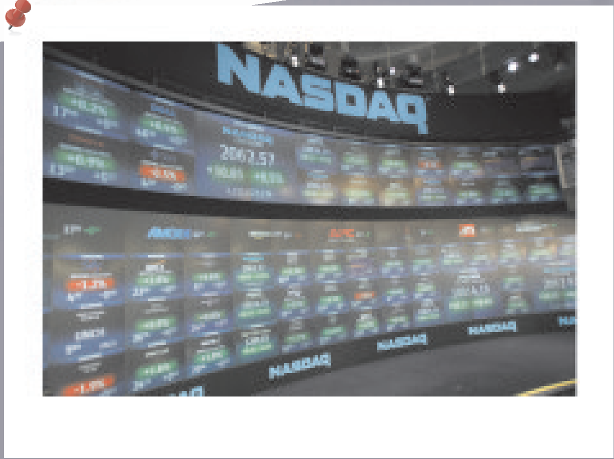
implementation of good corporate governance results in the production of the best-quality products at the most competitive costs (and thus resulting in consumer benefits). Governments need to appreciate and understand how good corporate governance enhances tax collection. Society as a whole needs to see show how good corporate improves productivity and ensures the efficient allocation of resources, resulting in increased employment opportunities, a better quality of life, and poverty alleviation.

State-Owned Enterprises

Only 17 countries in Africa have stock exchanges. So, when corporate governance is framed in the context of a capital market, most of the 53 African countries are alienated. This is why, although it is important to ensure that good corporate governance is implemented in all of Africa's larger companies (whether they are state-, foreign-, or locally-owned), it is particularly important to talk about corporate governance as it relates to state-owned enterprises.

In Africa, as elsewhere in the world, it is primarily state-owned enterprises that work in the natural resource sector. These companies exert huge influence over their national economies, and therefore, it is essential that they adopt good corporate governance. However, because state-owned enterprises have been put in the command position in the economy, good corporate governance and growth in this sector would lead to development in other sectors.

For example, seeing the positive applications for state-owned companies, in April 2003, Kenya launched its guidelines on corporate governance and state owned enterprises. Shortly thereafter, the government introduced performance contracting in state-owned enterprises. Today, performance contracting has been introduced into the ministries, and into local administrations. It is mandatory for directors who sit on the boards of state-owned companies to be trained in corporate governance as part of their performance contracts. Furthermore, in public procurement, the government requires transparent disclosure by all involved parties.



Family-Owned Enterprises

While state-owned enterprises are in the command position over most African economies, family-owned enterprises account for the vast majority of the continent's business community. In Kenya, there are over 140,000 registered companies. Just over 50 are listed on the stock exchange. Further, out of these 140,000 registered companies, only 5,000 are public companies. That means that there are approximately 135,000 that are either family-owned private companies or small- and medium-sized enterprises (SMEs). Consequently, if corporate governance is not addressed in the context of family-owned companies or SMEs, the message is not reaching the vast majority of the business community.

Reaching family-owned companies can be challenging. The Centre for Corporate Governance (CCG) cites an example it uses in its training programs. A grandfather founded and has been quite successfully running the family company since its inception. He is now spending a bit of company money on his second wife. CCG asks, "What are the implications of his actions for corporate governance?"

Some participants often respond, "Well, if the second wife is making the old man comfortable and better able to work for the company, what does it matter, then, if he uses some company money to finance something that allows him to better contribute to the company's success?" This is one of the many real issues of corporate governance in family-owned businesses in Africa. Culturally, it is very difficult for a grandchild in the company to say to the grandfather, "You cannot do that. It is just not done. All the money, assets, and property belong to the company. You must account for every penny." In addition to cultural challenges, succession in family-owned companies and formalized decision-making processes are some of the other issues that must be addressed in building proper corporate governance.

Reaching the Broader Business Community through the Capital Base

Unfortunately, in many African countries, the application of corporate governance guidelines has been limited to capital markets as a means for attracting foreign investment and, therefore, has a limited reach. (Outside of one or two countries, foreign investment in Africa is still nominal.) Similarly, many people associate the *enforcement* of corporate governance with stock exchanges. But many companies in Africa don't list on the stock exchange. The source of capital may instead be cooperatives, the family, or banks. Banks are key to helping companies adopt good governance practices, because eventually, when businesses start to thrive, they all deal with banks or financial institutions of some sort, whether it is in terms of depositing money, transferring funds, or securing loans. Banks thus have a major role to play in promoting corporate governance. There are two aspects of this role: how the banks themselves are governed and how the corporate governance practices of various clients factor into banks' risk evaluation.

First, the implementation of good governance helps banks to develop a long-term vision. Simply put, corporate governance forces banks to properly evaluate cli-

tions. This approach tends to take away from the primary role of business, which is to create sustainable wealth. Making the connection to sustainable wealth is how entrepreneurs in Africa will see that corporate governance is important to them.

Beyond Politics

Instead of looking at producing sustainable wealth, Africa has long been preoccupied with political drama. The media has tended to be sensational in reporting on politics, with almost no attention to economic issues. Journalists must be educated about the importance of economic issues, so, in turn, they will be able to hold business accountable and contribute to the creation of viable economies. Likewise, the distribution of wealth must be taken out of the sole context of the political, tribal, and ethnic division of the national "cake." An effective media understands corporate governance, disclosure, and the efficient use of resources by the private sector.

ents, and rewards and facilitates long-term development rather than short-term exploitation of random transactions. Banks have a major role to play in the long term because all other sectors ultimately deal with the banking sector. Second, banks can be a major conduit for the adoption of corporate governance practices if they make corporate governance an element of risk management in assessing their clients. While corporate governance is not always easy to enforce, if banks make it a requirement, companies will see its necessity.

In many African countries, the source of capital may not be banks – it may be a brother or cooperative. Nevertheless, transparent disclosure and accountability is still important. It need not be disclosure to the public, but disclosure to the brother who is giving the money, disclosure to the cooperative, disclosure to the community. Disclosure builds trust. Trust is key in helping people see the importance of corporate governance. Like effective contract enforcement, corporate governance facilitates new transactions that would otherwise never take place because it develops trust among economic actors.

If corporate governance is not made applicable to the banking sector, state-owned enterprises, family owned enterprises, or even the informal sector, people will continue to assume that corporate governance is only important for someone else and not for them. Yet for society as a whole, corporate governance is crucial to job creation. Well-run companies create more jobs and better products, and can be held accountable for paying their taxes in a timely manner.

Unfortunately, in many African countries, many people think that the most important thing is corporate social responsibility, or the philanthropic aspects of corpora-

Similarly, there is excessive focus on corruption in the public sector, without any attention or thought as to who drives corruption in terms of supply. Yet it is obvious that it is the private sector that pays 'the millions in order to make billions' and in most cases is tempted to *offer* bribes. But with transparent disclosure and competition, the possibilities for corruption are reduced. Disclosure is part of corporate governance.

The media needs to be asking these questions, hold-

Getting people to see how corporate governance applies to the African context is a challenge because even using these words elicit the reaction that corporate governance was conceived in Washington, conveyed through Paris and London, and imposed on the continent by "consultants."

ing both the private and public sectors accountable, rather than fixating on the drama of political patronage.

In Africa, as elsewhere, a number of companies have politicians or political affiliates on their boards. With proper governance, the role of the director is to act in the best interest of a company. Politicians or political affiliates may instead be tempted to act in the best interest of a particular party. With good corporate governance, politics are left out of business. Transparent disclosure of who is on the board of what company, what relationships exist, and how property is transferred can minimize the influence of politics.

In the past, many development organizations have been involved in awareness raising, engaging governments and helping them accept that corporate governance is important at the national political level and at the international level in terms of international standards. In Africa, these standards are the current challenge. While everyone knows the standards exist, the challenge is in creating the capacity of African countries, and in particular, the businesspeople to actually implement the standards. Implementation must not be 'because the World Bank says so,' but rather, because it is in the best interest of the continent.

Getting people to see how corporate governance applies to the African context is a challenge because even using these words elicit the reaction that corporate governance was conceived in Washington, conveyed through Paris and London, and imposed on the continent by "consultants." It is crucial to convey that corporate governance is something that is useful to *Africans*, not just something that pleases foreigners and development partners.

Moving Forward

It is important to engage the continent at all levels – governments, the business community, professional organizations, youth, disadvantaged or marginalized groups, and consumers – in the promotion and implementation of good corporate governance. Of course, Africa is a dynamic and varied market, and across Africa corporate governance must be addressed within very different contexts; certainly work on corporate governance has not been uniform. For example, much has been done with family-owned businesses in North Africa. Unfortunately, in Africa, it is these regional differences that are often highlighted, rather than commonalities or shared concerns. Reformers must help people see that working together toward harmonized standards enhances the potential of the continent and benefits everyone. Working together will help build trust, raise regional investment *by Africans*, and expand Africa's domestic markets.

Involving the public in demanding the implementation of good corporate governance involves building public awareness and understanding, and then organizing calls for reform. In Kenya, a shareholder association and investor association are currently working to demand corporate governance.

CCG is exploring the idea of creating a media association and a student association to promote corporate governance. Involving youth and students will help build a base for future implementation. CCG currently works with a university to offer a diploma in corporate governance, has worked with Kenya's central bank to put corporate governance in banking and finance master's degrees, and has developed a master's program that is offered in public universities. CCG has proposed instituting corporate governance as a common course in all university programs, in order to build understanding that the principles of good governance are essential to all aspects of institutional and political governance.

Once there is consensus behind corporate governance, the next challenge is motivating society to demand it. The media can help civil society understand that good corporate governance is not just about making profits. It can help connect well-governed businesses to increased productivity and competitiveness; high quality products; transparent and prompt payment of taxes; efficient, transparent, and accountable use of tax revenues by governments; and – ultimately – the efficient and effective use of national resources for the benefit of society. When corporate governance is only associated with foreign investment, it is difficult for people to see the benefits of good practices for society at large and for the poor.

Good corporate governance leads to wealth creation, and viable businesses lead to job creation. Only when people understand these connections will they get excited about corporate governance and be motivated to do something about it.

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

(*Karugor Gatamah is the former CEO of the Centre for Corporate Governance in Kenya. He serves as the Secretary to the Pan African Consultative Forum on Corporate Governance and is a Member of the Council of the Commonwealth Association for Corporate Governance Africa Division.)

Nigeria-Israel Relations: Critical Roles for Agriculture

* By Sunday Enebeli-Uzor

Nigeria's relation with Israel pre-dates her independence in 1960 and Israel's in 1948. Labour and socialist activists from both countries met themselves in various world forums prior to the independence of the two countries. These meetings provided veritable opportunities to forge ties and nurture relationships. After Nigeria's independence in 1960, full diplomatic relations were established between the two countries. Israel as a young state that had achieved independence in 1948 was eager to build friendships across Africa and share its experience and expertise with the newly independent African state. After independence however, Nigeria's relationship with Israel witnessed some hiccups especially during the Arab-Israeli war of 1967, Nigeria's civil war (1967-1970), and the 1973 Middle East war. These unfortunate incidents culminated in the severance of diplomatic ties with Israel, however, commercial ties continued to some extent. Nigerian students continued to participate in training courses in Israel; and Israeli consultants and experts were active in various activities in Nigeria. Diplomatic relationship between the two countries was restored in September 1992, and in April 1993, a Nigerian Embassy was established in Israel.

Nigeria and Israel: Historical and Political Relations

Nigeria's relation with Israel prior to her independence in 1960 was rosy. As a new independent country, Israel was eager to build friendships and establish ties with emerging states like Nigeria. Nigeria's political relation with Israel went sour from the late 1960s due to perceived Israeli role in the ill-fated Nigerian civil war. Israeli occupation of the West Bank, the Gaza Strip, and the Sinai Peninsula following the unfortunate Six-Day War of June 1967 further worsened relations between Israel and Nigeria. This soured relation was not helped by the 1973 Middle East war. Things took a turn for the better when in 1992 diplomatic ties with Israel was restored.

Historically, there are claims that the Ibos of South Eastern Nigeria have ancestral link with Israel. Though this has not been proved, the notion has engendered close tie between the Ibos of Nigeria and Israel. Nigeria and Israel have deep cultural ties especially in religion. This stems from the fact that Christians all over the world have high regard for Israel because of Christian holy sites. Large delegations of Christian pilgrims from Nigeria visit Israel yearly on pilgrimage.

Nigeria and Israel: Key Demographic Indices

Index	Nigeria	Israel
Population (millions)	146.23 (July 2008 est.)	7.112 (July 2007 est.)
Population Growth Rate	2.025% (2007 estimate)	1.713% (2007 est.)
Life Expectancy at Birth:		
Total population (years):	46.53	80.61
Male (years):	45.78	78.54
Female (years):	47.32	82.79
Total Fertility Rate (TFR):	5.01 children born/woman (2008 est.)	2.77 children born/woman (2008 est.)
Land Area:		
Total (sq. km):	923,768	20,770
Land (sq. km):	910,768	20,330
Water (sq. km):	13,000	440
Land Use:		
Arable Land:	33.02%	15.45%
Permanent Crops:	3.14%	3.88%
Others:	63.84% (2005)	80.67% (2005)
Administrative Divisions	36 States and a Federal capital Territory (FCT) Abuja	6 Districts

Source: Central Intelligence Agency/Research & EIG

The Knesset, home of Israeli parliament

The National Assembly Complex, Abuja

Nigeria and Israel: Demographic Features

In terms of population and size, Nigeria will pass for a giant when compared with Israel. Nigeria is the most populous nation in Africa with an estimated population of over 146 million as at July 2008 – nearly one-quarter of sub-Saharan Africa's population. It is estimated that one in every six black people in the world is a Nigerian. Israel on the other hand is a small nation with an estimated population of 7.1 million people as at July 2008. In terms of annual population growth rate, while Israel grows at about 1.713 per cent, Nigeria's growth rate is estimated to be about 2.025 per cent. This clearly shows that Israel's population is not likely to catch up with that of Nigeria at least in the near future.

On the average, an Israeli is expected to live much longer than a Nigeria. Life expectancy for the total population for Israel and Nigeria is 80.61 years and 46.53 years respectively. Life expectancy for Israel is put at 78.54 years and 82.79 years for male and female respectively while that of Nigerian male and female is 45.78 years and 47.32 years respectively. On the whole, an Israeli is expected to live about 34 years more than a Nigerian at present. As against the Israelis, a Nigerian female is more fertile. While an Israeli female is expected to have two children in her life time, a Nigerian woman could have five children. The level of literacy, availability and access to medical care, and reproductive health education in both countries may account for the difference in life expectancy and fertility rate.

Nigeria has a large land mass compared to Israel. With a total land mass of 923,768 total square kilometres, Nigeria is about forty-four times the size of Israel. Nigeria's waterway of 13,000 square kilometres is about thirty times the size of Israel's 440 square kilometres. In terms of percentages, Nigeria with 33.02 per cent has a much larger arable land compared to Israel's 15.45 per cent.

Recent economic reforms and improved revenue has improved Nigeria's growth experience. The economy grew by 6.51 per cent in 2005 but declined to 5.63 per cent in 2006. In 2007, the economy grew by 6.1 per cent. The growth was propelled mainly by improved revenue from crude oil sales due to rising prices in the international commodity markets (crude oil being Nigeria's major export commodity), huge inflow of foreign direct investments, and migrant remittances from the Diaspora. Other factors include convivial business environment engendered by political stability, growth of the capital market, performance of banks, and strong macroeconomic framework due to reforms. Nigeria's growth performance in the recent past has been impressive taking into account the state of the economy up till the late 1990s. The country's GDP (Purchasing Power Parity) in 2007 was estimated to be $296.1 billion. GDP per capita was $2,100 in 2007 according to the Central Intelligence Agency World Factbook.

The Israeli economy on the other hand is diversified with substantial government interest in business. In 2005, Israel's Gross Domestic Product (GDP) grew by 5.2 per cent, propelled mainly by the business sector which grew by 6.6 per cent. The economy grew by 8 per cent in the last quarter of 2006, the fastest growth of any Western nation. In 2007, the economy grew by 5.1 per cent. The country's GDP (Purchasing Power Parity) in 2007 was estimated to be $185.8 billion. GDP per capita was $26,600 in 2007 according to the Central Intelligence Agency World Factbook.

With GDP Per Capita (PPP) of $26,600 and $2,100 for Israel and Nigeria respectively, Israelis are over twelve times better off in well being compared to Nigerians. In terms of inflation, Israel has a stable price level with inflation rate of 0.4 per cent as against Nigeria's inflation rate of 6.6 per cent (as at end 2007). While about 54 per cent of the Nigerian population is living in poverty, 21.6 per cent of Israelis are living below the poverty line. A poverty level of 21.6 per cent,

Economic Indices: Nigeria Vs Israel

Index	Nigeria	Israel
GDP (Purchasing Power Parity)	$296.1 billion (2007 est.)	$185.8 billion (2007 est.)
GDP (Official Exchange Rate)	$166.8 billion (2007)	$161.9 billion (2007 est.)
GDP Real Growth Rate (%)	6.4 (2007)	5.3% (2007 est.)
GDP Per Capita (PPP)	$2,100 (2007)	$26,600 (2007 est.)
Population below poverty line	54%	21.6% (Israels poverty line is $7.30 per person per day (2005
Foreign Reserves	$61.9 billion (September 2008)	$30.99 billion (Dec. 2007 est.)
GDP Composition by Sector Agriculture: Industry: Service:	 17.7% 52.6% 29.8% (2007 est.)	 2.7% 30.2% 67.1% (2007 est.)
Exchange Rate to the US$	N117	New Israeli Shekels per US Dollar - 4.14 (2007)
Labour Force: Unemployment Rate:	50.13 million (2007 est.) 4.9 % (2007)	2.894 million (2007 est.) 7.6% (2007 est.)
Investment (Gross Fixed)	23.7% of GDP (2007 est.)	18.5% of GDP (2007 est.)
Budget Revenue: Expenditures:	 $19.43 billion $20.36 billion (2007 est.)	 $53.6 billion $53.63 billion (2007 est.)
Inflation Rate (consumer Prices):	6.6% (2007)	0.5% (2007 est.)
Public Debt:	14.4% of GDP (2007)	80.6% of GDP (2007 est.)
External Debt:	$8.007 billion (2007 est.)	$89.95 billion (June 2007)
Natural resources:	Natural gas, Petroleum, Tin, Iron ore, Coal, Limestone, Niobium, Lead, Zinc, Arable Land	
Exports Total: Commodities: Key Partners:	 $61.79 billion f.o.b (2007 est.) Petroleum and Petroleum Products, 95%, Cocoa, Rubber. US 51.1%, Spain 7.6%, Brazil 7.9% (2007)	 $50.37 billion f.o.b (2007 est.) Machinery and E quipment, Software, Cut Diamonds, Agricultural Products, Chemicals, Textiles and Apparel US 35 %, Belgium 7.5%, Hong Kong 5.8% (2007)
Imports:		

Source: Central Intelligence Agency (CIA), Central Bank of Nigeria (CBN) and R&EIG

Nigeria's Trade (Export and Import) with Israel (2001 - 2005)

Year	Export(₦)	Import(₦)	Balance(₦)
2001		1, 683, 560, 551	- 1, 683, 560, 551
2002		1, 495, 779, 904	- 1, 495, 779, 904
2003	305, 795	1, 881, 147, 458	- 1, 880, 841, 663
2004		2, 063, 118, 933	- 2, 063, 118, 933
2005		3, 094, 190, 032	- 3, 094, 190, 032

Source: National Bureau of Statistics

no doubt, is not desirable for any economy but when compared with Nigeria, Israel ranks better. Nigeria's public debt as a percentage of GDP as at end-2007 was about six times less than Israel's figure of 80.6 per cent for the same period. Nigeria's debt profile has improved significantly in the recent past as a result of debt forgiveness granted her by the Paris Club of Creditors and other debt management arrangements with her other creditors. Stringent rules on new borrowings especially by state governments are also helping to keep the country's debt under control. The current level of Israel's indebtedness is worrisome and urgent steps have to be taken to address the problem before it poses a threat to the economy.

Argungu fishing festival in Nigeria

Kayak fishing in Israel

An irrigation source, Israel

Nigeria and Israel: Trade and Economic Relations

During the first republic, Nigeria had a federation arrangement. This arrangement enabled the various regions to pursue their respective foreign policies. During this era, the Western Region forged a formidable tie with Israel and this culminated in a number of economic cooperation agreements in agriculture, cooperatives, and water resources management.

In 2006, the Ministries of Foreign Affairs of Israel and Nigeria signed a Memorandum of Understanding (MOU). This formalized bilateral consultations on political issues between the two countries. Israel and Nigeria agreed to consult on issues of bilateral relations between them and other regional and international issues of mutual interest, as well as to exchange views on matters of mutual concerns under the initiative.

In terms of trade, there has been an imbalance in Nigeria's trade relation with Israel. Nigeria imports heavily from Israel without commensurate export. In fact, official records from the National Bureau of Statistics (NBS) indicate that for the period (2001 – 2005) Nigeria maintained a deficit trade balance with Israel. With the exception of 2003, Nigeria did not export any commodity to Israel.

Israel and Nigeria: Role of Agriculture

The importance of agriculture to the Nigerian economy cannot be overemphasised. Prior to the discovery of crude oil, the groundnut pyramids of Northern Nigeria, cocoa of Western Nigeria, and palm oil of Eastern Nigeria earned foreign exchange and sustained their respective regions. The pathetic story of Malaysia borrowing palm seedlings from Nigeria but now exports palm produce to Nigeria underscores the level of neglect that Agriculture has suffered. Such is the paradox of decay and decline that agriculture has suffered in Nigeria; yet, it has the potential to generate employment, raise people's living standard, and earn foreign exchange for the economy.

Israel is arguably one of the most densely populated countries in the world. Out of the 20,330 square kilometre land area, only 15.45 per cent is arable – and half of it has to be irrigated for agricultural purposes. Over half of the country is either arid or semi-arid, and the remaining part is predominantly forests and steep hillsides. Despite these

College of Agriculture & Natural Resources, Israel

Wheat field in the Haula Valley

Pineapple planting, Akwa Ibom State, Nigeria

shortcomings, Israel produces most of the food consumed in the country and still exports agricultural products worth about $13 billion annually. This much Israel has achieved as a result of advanced technology and ability to harness limited resources.

Effective water management, recycling, desalination and transportation have helped farmers overcome severe water shortages. Israel's wealth of experience in water management is crucial to Nigeria's agriculture, especially in Northern Nigeria where the climatic condition is similar to that of Israel. Also, scientists in Israel have been able to develop disease resistant varieties of seeds, poultry and animals (sheep and goats) that survive and flourish in hot climatic condition. In terms of fish farming, Israel ranks amongst the world top fish breeding nations. Small and medium-size ponds are used to breed fish in commercial quantity, and water from these fish farms is recycled for other uses. Citrus farming also flourishes in Israel.

Israel would not have achieved tremendous success in agriculture in the face of obvious setbacks, without cutting-edge agro-technology that is propelled by research and development. Israeli farmers relate intimately with the country's agricultural research institutes, especially the Faculty of Agriculture of the Hebrew University in Rehovot. These research institutes disseminate research findings to the farmers and render extension services to them to ensure their findings are implemented. The farmers also provide the relevant information that these research institutes require.

Agriculture remains the mainstay of the Nigerian economy despite its decline since the 1970s as a result of oil wealth. A greater proportion of the population (60.88 per cent) depends on the agricultural sector for their livelihood and the rural economy is still propelled by agriculture. It is the dominant economic activity in terms of employment and linkages with the other sectors of the economy. About 60 per cent of Nigeria's arable land is not cultivated. Nigeria's farmland is rated as low to medium—but with medium to good productivity if properly managed. Despite having two major fresh water rivers, the Niger and the Benue, agriculture is predominantly subsistent and dependent on rainfall. Yams, cassava, rice, maize, sorghum, and millet form the bulk of food crops produced in Nigeria. The major export crops are mainly cocoa and rubber, which together represent nearly 60 per cent of non-oil merchandise exports.

Nigeria (especially the northern hemisphere) is similar to Israel in terms of climatic conditions. Nigerian farmers

have a lot to learn from their Israeli counterparts. Nigeria's quest to attain national food sufficiency will continue to be a mirage if urgent steps are not taken to reinvigorate the agricultural sector. Agriculture in Nigeria is still basically rain-fed. This limits cultivation to two main cropping seasons based on early and late rainfall. Despite the avalanche of research institutes and specialised universities of agriculture, Nigeria's variety of seeds and animals are still not resistant to old diseases. There are no forward and backward linkages between the agricultural sector and the industrial sector. While Israel, with obvious disadvantages is an exporter of agricultural products, Nigeria with abundant opportunities, is an importer of agricultural products. It is paradoxical for a country that has rich vegetation to be import-dependent in terms of its food supply. The prevailing global food crisis should spur the desire for food self sufficiency to conserve foreign exchange. In the heat of the food crisis, government spent N80 billion for the importation of 500,000 tons of rice to cushion the effects of food shortage on the citizenry.

About 60 per cent of Nigeria's arable land is not cultivated. Nigeria's farmland is rated as low to medium—but with medium to good productivity if properly managed.

Agriculture plays a key/central role in national development. The number of people living in poverty in Nigeria is still staggering – over 70 million. A good poverty reduction programme must enable the rural poor to increase their level of production of economic goods thereby increasing their disposable income level and living standards. The most potent way of achieving this is to create an enabling environment for the rural poor that are engaged in agriculture to exit the subsistence level by increasing their productivity. Israel has successfully used agriculture to generate employment and raise the living standard of its people. About 80 per cent of farms in Israel are owned and run by kibbutzim (collective villages) and Moshavim (cooperative villages). People need not migrate to urban centres in search of non-exiting white collar jobs.

To guarantee national food security and self-sufficiency for Nigeria, the government has to deepen its bilateral relations with Israel to explore and harness its agricultural potential. Cooperation should be in the area of technical assistance in irrigation and water management; research and development of improved, high yielding and disease resistant species of agricultural products. There are a number of exchange programmes between Nigeria and Israel. These should be expanded and the Nigerian government should fund researchers to embark on study visits to Israel to understudy the Israeli agricultural system. Nigerian government should create an enabling environment by providing land and encourage large scale Israeli farmers to establish demonstration farms in Nigeria. This will boost food production in Nigeria and afford Nigerians first hand experience of Israeli expertise in agriculture.

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

Global Financial Crises: Recession, Depression and Other threats

* By Eunice Sampson

WHAT EXACTLY IS GOING ON?

For the millions of people that may not have witnessed the great depression of the late 1920s and early 1940s - often described as the most devastating economic depression in modern history - another opportunity is looming, for them to appreciate just how tough those times really were.

What started out in the United States as mere pessimistic conjectures in August 2007 (sub-prime mortgage crisis) has degenerated into chaotic panic as key corporate bodies (especially large financial institutions) - the very pillars of the global economy - come crumbling like pack of poorly arranged cards.

The socio-economic confusion that was the aftermath of the September 11, 2001 terrorists attack on the United States is nothing compared to the unfolding scenario; except that the current scenario does not directly involve loss of human lives.

Like the Great Depression of the 1930s, this looming one is again triggered off by events in the United States and which are rapidly engulfing the entire globe.

Business titans are failing; forced corporate nuptials are being consummated; major economies are getting bankrupt; banks are failing to perform their traditional functions; giant insurance firms are taking refuge in governments; stock markets are crashing; house owners are faced with homelessness; parliament members, technocrats, treasury officers are working through the nights, struggling to fathom a way out. It is a gloomy picture, portraying the world as indeed in trouble!

Business titans are failing; forced corporate nuptials are being consummated; major economies are getting bankrupt; banks are failing to perform their traditional functions

At last, the bubbles have burst; the seemingly sophisticated financial structure and credits manoeuvring that have characterised most Western economies for decades are fast crumbling.

RECESSION SYMPTOMS

Negative economic growths – A recession is commonly explained as a state of negative economic growth for up to two consecutive quarters. From corporate failures, the recession has started taking its toll on national economies.

On Thursday September 25, 2008, Ireland became the first country in the Euro zone to enter into recession as a result of the raging global economic crises. Ireland's woe is an upshot of a rupture after decades of boom in its real estate sector – the mainstay of the country's economy—which accounts for over 20% of its GDP.

House prices fell eighteen straight months in a row, contracting the economy by 0.5% in the second quarter of 2008 after an earlier decline of 0.3% in the first quarter – its first growth slide in 25 years.

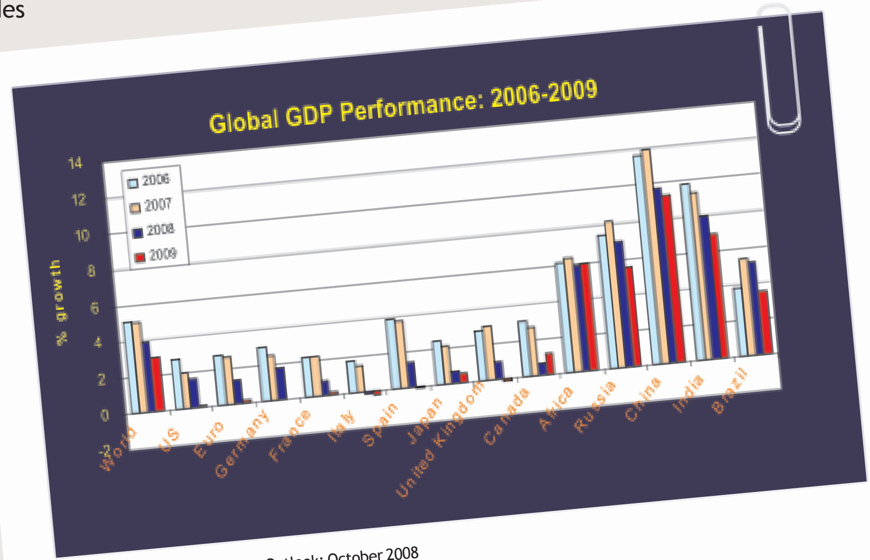
France was next as reports filtered in from its statistics agency (INSEE) on October 3, forecasting that the country's GDP will drop by 0.1% in the third and fourth quarters, after plunging 0.3% in the second quarter. France's recession worry is exacerbated by growing unemployment (now 7.4%); high oil prices; declining exports and the global credit crunch.

Meanwhile Denmark, a non-Euro zone economy, is already in recession, having shrunk 0.2% in fourth quarter 2007 and 0.65% in first quarter 2008.

Other countries currently in recession or at the brink of experiencing it include Sweden, Estonia, Latvia, Finland, Netherlands and Iceland.

Experts also estimate that Germany, Spain, Italy and Britain could be hit by recession soon; their GDP is expected to shrink for at least 2 consecutive quarters before the end of the year.

In the Euro zone as a whole, growth



Source: IMF; Global Economic Outlook; October 2008

Tokyo Stock Exchange

contracted by 0.2% in the second quarter of 2008 after a 0.7% growth in the first quarter. Industrial output is falling in the zone; unemployment is rising while retail sales and consumer confidence are dropping.

In the United Kingdom, revised statistics from the Office for National Statistics (ONS) show that second quarter GDP advanced at zero per cent, its worst performance in 16 years.

In North America, Canada, the second leading economy in that region is also at the edge of a recession, having experienced a 0.8% decline in first quarter while a revised position shows a GDP growth of 0.3% in the second quarter (though a decline was earlier reported). Canada's economy is slowed down by a fall in production in its key sectors including mining, oil and gas, construction and automobile.

In Asia, Japan is also close to a recession. After growing 0.8% quarter-on-quarter and 3.3% year-on-year in the first quarter of 2008, Japan experienced negative growth in the second quarter, with a 0.7% decline quarter-on-quarter and 3%, year-on-year. The global financial crisis has weakened demand for the country's products, both in the domestic and international market.

India and China: Slowed Down but Still Kicking – The Asian giants, India and China may have been slowed down marginally by the global crisis; but they are still thriving.

In the first two quarters of 2008, the Chinese economy for example remained somewhat oblivious of the global economic turmoil with GDP growth still in the double digit region. In the face of grave global credit crunch, Chinese authorities were yet adopting measures that would simmer down growth and curtail bank lending.

In April, China's central bank raised banks' cash reserve ratio to a record level 16% as part of efforts to limit lending – coming at a time most economies are injecting funds into their financial sector to trigger lending.

In first quarter 2008, industrial output remained high, growing by 16.4%; retail sales rose 20.6% (year-on-year); foreign exchange reserves rose to a record $1.68 trillion, the largest in the world. But inflation remained at an 11-year high at over 7% fuelled by a 21% rise in the prices of foodstuff, increasing energy costs, huge export earnings, soaring FDI inflow, and high liquidity in the system.

However, China's growth slowed year-on-year in the first quarter of 2008, from 11.7% to 10.6%. It slowed further in the second quarter to 10.1% owing to sluggish earnings from exports and tight macroeconomic policies. In the second quarter, trade surplus also dropped by 12% (year-on-year) to $58 billion, due mainly to a plunge in demand from the United States.

In the third quarter, reports from the National Bureau of Statistics released on October 20 showed China experiencing its slowest quarterly growth since second quarter 2003, recording a 9% economic advancement. In the final quarter of 2008, growth is forecast to decline again slightly, or maintain the third quarter performance.

Goldman Sachs recently lowered China's annual growth projections from its 11.9% level in 2007 to 10.1% in 2008, and 9.5% in 2009 – still a very strong growth by any consideration. But if the projection comes true, it would mark the first time China would be growing below double digit

China's growth slowed year-on-year in the first quarter of 2008, from 11.7% to 10.6%. It slowed further in the second quarter to 10.1% owing to sluggish earnings from exports and tight macroeconomic policies. In the second quarter, trade surplus also dropped by 12% (year-on-year) to $58 billion, due mainly to a plunge in demand from the United States.

in six years. The ongoing global recession would actually help China slow down on its over-a-decade heated growth which many still see as unsustainable.

On the other hand, India's growth has also experienced a decline, though slightly. From 8.8% in the first quarter, growth slowed to 7.9% at the end of June, dragged down by monetary policy tightening and the global financial crisis. Inflation remains at double digit levels while manufacturing output suffered a major decline in the second quarter, dropping from 10.9% same period last year to a disturbing 5.8%.

However, for the two Asian economies, optimism remains high and recession seems most unlikely, at least in the short and medium term.

Position of Key Economic Indicators for Countries Affected by Global Recession

	GDP growth	Industrial production	Inflation	Unemployment
United States	1.60%	-1.50%	5.40%	6.10%
Euro area	1.30%	-1.70%	3.80%	7.30%
Britain	1.20%	-1.90%	4.70%	5.50%
China	9.80%	12.80%	4.90%	9.50%
Canada	1.10%	-5.90%	3.50%	6.10%
France	1.10%	-2.00%	3.20%	7.30%
Germany	1.20%	-0.60%	3.10%	7.60%
Japan	1.00%	2.40%	2.30%	4.00%

Source: IMF; Countries' Economic reports

Growing Unemployment – In the United States, over 600,000 jobs were lost in the first eight months of 2008. In August, reports from the **United States Department of Labor** showed that unemployment rate had reached 6.1%, the highest since September 2003.

In the United Kingdom, the ONS reports that unemployment claims in August increased by 32,500 to reach 904,900. A recent labour survey found that the number of the jobless rose by 81,000 to 1.72 million between May and July alone, the largest increase in nine years. Current unemployment rate is put at 5.5%.

In Japan, a recent report by the Ministry of Internal Affairs shows that the country's joblessness level rose to 4.2% in August 2008, the highest in more than two years. The number of unemployed persons rose to 2.72 million, a 9.2% increase year-on-year.

Despite the credit crunch, virtually all countries of the world are experiencing record level inflation owing to the recent commodity price boom...

In the Euro area, Organization for Economic Cooperation and Development (OECD) reported a standardized unemployment rate of 7.3% in July 2008. While France and Germany have been lucky to curtail unemployment (at 7.3% and 7.6%, respectively) despite being at the brink of a recession, Spain has not been so fortunate as unemployment has risen from 8.3% as at year-end 2007 to 11.3% in July 2008 – the biggest rise in the Euro zone since the recent global slowdown.

Crashing Oil Prices – Fears of recession is dousing appetite for oil in developed and emerging economies. After reaching a record level of $147.27 a barrel on July 11, 2008, oil price has in three months dropped by about 52%, selling for $70-$75 per barrel in the middle of October.

Oil-dependent economies, mostly third world, are under pressure, struggling with the abrupt slice in their balance sheets and confronted with a dilemma that could destabilize growth prospects.

Rising Inflation – Despite the credit crunch, virtually all countries of the world are experiencing record level inflation owing to the recent commodity price boom; food price hike and the global growth bubble (especially in emerging markets).

Particularly as a result of the twin challenge of energy and food price hike, the developed economies have also been severely hit by rising inflation. A report by the OECD

Change in GDP Growth Forecast for Selected Countries (2008)

	Original (%)	Revised (%)	Change (%)
US	2.10	1.30	-0.80
EU	2.00	1.70	-0.30
GB	2.00	1.80	-0.20
China	10.10	9.70	-0.40
LATAM	4.15	3.65	-0.50
SE Asia	8.60	8.40	-0.20
Africa	6.50	6.40	-0.10

Source: IMF

published on September 30 shows that in the major economies, consumer prices for energy were up 20.9% year-on-year in August. Consumer prices for food were also up 7.1%.In the United States, Consumer Price Index (CPI) increased by 5.4% (year-on-year) in August, 2.1% in Japan; 4.7% in the United Kingdom; 4.1% in Italy; 3.5% in Canada; 3.2% in France; and 3.1% in Germany.**Slashes in Interest Rates** – The month of October 2008 was characterized by a spate of interest rate cuts. On October 8, six central banks (the US **Federal Reserve**, **Bank of Canada**, **Bank of England**, the **European Central Bank**, **Sveriges Riksbank**, and the **Swiss National Bank**) after close consultations, cut policy rates simultaneously by 0.5%.

The US Reserve Bank cut its key rate from 2% to 1.5%; the European Central Bank brought its rate down to 3.75%; the Bank of England sliced rates to 4.5%; the Swiss National Bank lowered its rates to 2.5%; while Sveriges Riksbank, the Swedish central bank, lowered rates to 4.25%. Japan strongly supported the move but maintained its already-very-low rate at 0.5%.


United States Reserve Bank building

Crashing Stock Markets – Stock markets all over the world have witnessed massive price drops since the beginning of the year, with trade sessions marked by panic sell-offs and bearish conditions.

On Tuesday September 30, a Wall Street panic triggered by rising cases of bank failures, and heightened by US Congress' vote against the proposed $700 billion bail-out plan, led to one of the biggest stock sell-offs in history, resulting in a market loss of over $1trillion in just few hours. On that day, oil prices also dropped by a remarkable $10.52 to settle at $96.36 per barrel. The September 30 market upset could only be likened to the Black Monday experience of 1987 when the US market dropped by about 23% in one day.

On October 10, another major market panic led to a 9% drop in UK's FTSE 100 index; intra day drop of about 5% in US Dow Jones; 7.7% drop in France's CAC index; and 8.4% loss in Germany's Dax. Oil prices also fell to a one-year low that day, with US light crude dropping to $77.99.

But the worst was yet to come. On Wednesday October 15, global stock markets, after few days of cautious gains, came crashing following the release of a new US monthly economic data that deepened recession fears. The Dow Jones and the benchmark S&P 500 suffered their worst one-day percentage drops since 1987, sliding 733.08 points, or 7.8% percent and 90.17 points, or 9.0%, respectively. Market loss that day was put at an approximate value of $1.1 trillion.

Market reactions in Japan hours later (Thursday October 16) saw Nikkei sinking by over 11%, also its biggest single day loss since the 1987 Black Monday experience.

Market regulators in countries like the United States, UK, Australia, etc have placed a ban on short-selling of financial stocks to arrest the rapid drop in stock value. Some developing countries including Nigeria have also taken palliative initiatives such as encouraging listed institutions to buy back their shares, in efforts to revive dwindling investors' confidence.

Liquidity Squeeze – As cases of loan defaults intensify, the credit crunch is worsened by the refusal of banks to lend to each other. Depositors, in response to the growing news of banks' distress are holding on to their monies; and panic withdrawal is now prevalent. Banks are now unable to perform their traditional function of financial intermediation—taking from those with excess and lending to those with deficits.

In the UK alone, industry experts put the combined loss of capital so far suffered by the top banks at an estimated £150 billion, a development that has limited their willingness and ability to lend.

Failing Financial Institutions – One of the many scaring features of the ongoing financial crises is that most of the victims it has claimed so far are the big players in the global financial services sector - **IndyMac**, **Fannie Mae** and **Freddie Mac**, **Merrill Lynch**, **Lehman Brothers**, American International Group (**AIG**), Northern Rock (UK), **Bradford & Bingley**'s (UK), Halifax Bank of Scotland (HBOS), among others. Thus, the biggest bank failure so far in history occurred on September 25 when JP Morgan Chase agreed to purchase the banking assets of Washington Mutual, US largest savings and loan association. The ailing **Wachovia**'s assets were bought over on September 29 by **Citigroup** with the US FDIC absorbing losses of over $42 billion as a result.

After the experience of Lehman Brothers, US Treasury commenced measures to arrest a possible failure of Morgan Stanley and Goldman Sachs as both banks struggle with record stock-market sell-off in October. In one week, Morgan Stanley's stock value dropped by almost 60% while Goldman Sachs' fell 29%.

Nationalization of Private Financial Institutions – This has become a common phenomenon in today's troubled global economy. The list of private financial institutions taken over by governments keeps growing. The UK government raised the bar in January when it announced the nationalization of the mortgage lender, Northern Rock. This was followed with the nationalization of **Bradford & Bingley**'s in September.

In the United States, the Federal Reserve in September nationalized the world's largest insurance company, American International Group (AIG); the mortgage insurance companies, Fannie Mae and Freddie Mac were also nationalized that month.

In the Netherlands, the Dutch government nationalised the activities of Fortis in that country to avert outright collapse.

In the first two weeks of October, Iceland government nationalised its top 3 banks - Kaupthing, Landsbanki and Glitnir – assuring depositors of the safety of their monies. The country's parliament had earlier passed a new law that empowers government to take over financial institutions. Iceland with a population of only 300,000 people has been badly hit by the global crises and is considering seeking help from the International Monetary Fund, IMF, among others.

Depositors, in response to the growing news of banks' distress are holding on to their monies; and panic withdrawal is now prevalent. Banks are now unable to perform their traditional function of financial intermediation—taking from those with excess and lending to those with deficits.

BAIL-OUT TRENDS

The spate of bailouts of private institutions is continuing. On October 8, the UK government announced plans to inject as much as £150 billion fresh capital into its ailing financial services sector, specifically for a stake in the sinking organizations.

About 8 financial institutions in the UK, including Barclays; Royal Bank of Scotland; HSBC Holdings; Lloyds TSB; HBOS; Standard Chartered; Abbey National and Nationwide Building Society have so far subscribed to the plan to take advantage of the government initiative to shore up their capital base by £25 billion before the end of the year.

This came barely three weeks after US President **George W. Bush** on September 20, requested **Congress** to pass a bill (the Emergency Economic Stabilization Bill of 2008) that would empower government to inject about $700 billion to buy over bad mortgage assets from banks and investment houses in the effort to arrest the worsening financial crisis. The initiative, which would cost each

US tax payer about $4,635, was initially resisted vehemently. The Bill was however passed on October 3, 2008.

Meanwhile, leaders from the Euro-zone countries have reached a consensus that no large financial institution in that zone would be allowed to fail. In a meeting in Paris on Sunday October 12, leaders of the 15 countries that use the euro common currency agreed to inject billions of euro into their financial system to revive waning public confidence. However, no particular price tag has been fixed on the bailout plan, even though speculations put the figure at the threshold of 400 billion euro.

On October 14, President George Bush announced a cash injection package for US financial institutions similar to the UK's bailout measure. The plan will see US government directly injecting capital into financial institutions for equity stakes, to help boost liquidity and lending power. About $250 billion from the approved $700 billion bail-out fund would be used for this purpose.

POSITIVE NUMBERS; NEGATIVE SHOWING?

After advancing 0.6% in fourth quarter 2007 and 0.9% in first quarter 2008, the latest figures on the US economy show a 0.5% growth in GDP in the second quarter of 2008 –great numbers considering the air of pessimism surrounding the economy for some time. Despite the resilience the economy has so far demonstrated, many predict a negative growth in the third quarter – the most tumultuous quarter yet in the ongoing financial crises.

The US economy which grew by 2% in 2007 is expected to grow barley above1% this year while a virtual halt is projected for 2009, marking the worst showing since 1991 when the country was pulling out of a recession.

There are contentions as to whether the world's largest economy is already in recession technically. Experts have queried the fourth quarter 2007 and first quarter 2008 statistics which showed slow but positive growth.

At best however, the economy is believed to be a quarter or two away from outright recession. Meanwhile, recent studies insinuate that, putting unemployment and industrial production output into consideration, up to 28 states in the United States - including economic powerhouses like New York and Florida – are already in recession.

FUTURE OUTLOOK

The month of September 2008 will be remembered for a long time in global history as one characterized by unprecedented turmoil in the global financial services sector – severe credit crunch, bankruptcies, forced mergers, unprecedented government rescue efforts, etc. The turmoil which the US sub-prime mortgage failure left in its wake has changed the global economic outlook.

Since several countries in the developing world are yet to start feeling the pinch directly, it is uncertain what the future holds for them and what other drastic measures national governments might be willing to take to rescue their economies from danger.

Even now, projections for the short term as contained in the latest IMF's World Economic Outlook (October 2008), do not appear too good. Global growth projections have been significantly slashed compared to earlier projections. Having sustained an average annual growth rate of 5% since 2004, the global economy is now projected to grow at 3.9% in 2008 and 3.0% in 2009, the slowest growth in 6 years.

Most of the advanced economies would likely enter a full scale recession in the last two quarters of the year and remain there through early 2009. And according to the IMF, the anticipated recovery later in 2009 will be exceptionally gradual by past standards.

On the inflation front, "the combination of rising slack and stabilizing commodity prices is expected to contain the pace of price increases, bringing inflation back below

2% in 2009 in advanced economies.

In emerging and developing economies, inflation would ebb more gradually, as recent commodity price increase continues to feed through to consumers".

IMF countries forecasts show that in 2008, Germany's growth will slow to 1.8%, down from 2.5 percent in 2007. France's growth will weaken to just 0.8%, compared with 2.2 % in 2007. The UK will slow in growth to 1.0% as against 3% last year.

India will experience a slower growth at 7.9%, down from 9.3% in the preceding year. China will drop to 9.7% in 2008 and 9.3% in 2009, down from 11.9% in 2007. The United States will grow by 1.6% this year and 0.1% in 2009, down from 2.0% in 2007; while its neighboring Canada will see a drastic drop, from 2.7% in 2007 to 0.7% in 2008.

In Japan, growth will cool to just 0.7 percent this year and further down to 0.5% in 2009, after a 2.1% growth last year.

The African continent will also see productivity slowing slightly, from 6.3% in 2007 to 5.9% in 2008 and 6.0% in 2009.

Overall, as national governments take desperate measures to curb the growing financial hazard, the question cannot but be asked, 'what happens at the end of the ordeal?'

To start with, when the crisis subsides, the world would need to redefine the concept of government's roles in private institutions. The modern capitalist economies led by the United States would be saddled with the Herculean task of cleaning up the mess now being generated in efforts to bail out failing financial institutions.

The story is the same in the UK and the euro-zone. On October 19, the Dutch government disclosed plans to invest €10 billion ($13.4 billion) in ING Group NV to boost the capital base position of the bank and insurance company. The measure would give the Netherlands' government a major stake in ING, which current market value is only about €15 billion.

As at October, proposed efforts to bailout ailing banks in the UK have given British government majority stake in some top banks. Its financial injection into HBOS would translate to 70% ownership of the bank; while it would get 50% ownership of Royal Bank of Scotland (RBS).

By inference, the overtures would give government automatic board seats in these banks and control over dealings such as dividend payouts – issues that modern governments have no business dabbling into.

By the time all this is over, governments in Europe and North America might have to begin a new round of privatization and liberalization – a stage they had passed centuries ago – in efforts to re-stabilize the now distorted economic structure.

Another nerve-racking concern which the ongoing crises have thrown up is the excessive risk-taking appetite in the financial systems of developed economies, especially the United States. The unguarded display of financial bravado now threatens to drag the world back, at least by one decade.

While so far, most developing and third world economies seem immune from the raging crises, they could end up as the worst victims owing to their peculiar vulnerable economic positions. These much fears were recently expressed by the World Bank when it said:

Another nerve-racking concern which the ongoing crises have thrown up is the excessive risk-taking appetite in the financial systems of developed economies, especially the United States. The unguarded display of financial bravado now threatens to drag the world back, at least by one decade.

"The events of September (2008) could be a tipping point for many developing countries. A drop in exports, as well as capital inflow, will trigger a falloff in investments. Deceleration of growth and deteriorating financing conditions, combined with monetary tightening, will trigger business failures and possibly banking emergencies. Some countries will slip toward balance of payments crises. As is always the case, the most poor are the most defenseless." …. Robert Zoellick; World Bank President; October 7, 2008.

Since the developed economies are already fully engrossed in the fight to rescue their economies from the raging crises, if and when the impacts hit the third world, these susceptible countries would be left completely in the cold, as the saying goes – 'on their own'.

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

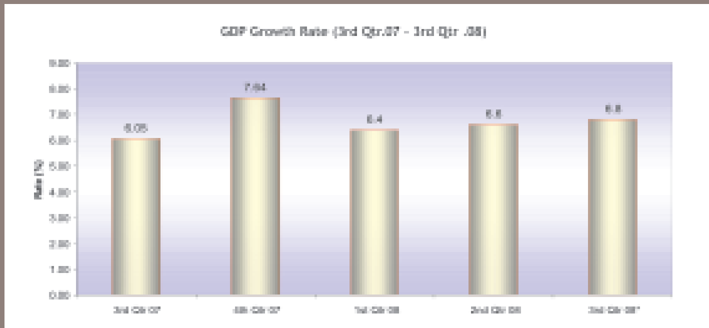
By Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian economy experienced mixed performance in the third quarter of 2008, despite the financial turmoil that engulfed many economies of the world. Some macroeconomic indicators recorded significant improvement while others missed projected targets. Gross Domestic Product (GDP) for the nation for instance went up in the third quarter. Inflation missed projected target in the period and remained in double digit. The nation's foreign exchange reserve witnessed some accretion in the third quarter but slid marginally by the end of the quarter. The nation's currency, the naira, remained strong and stable against major currencies of the world; especially the United States dollar. The Monetary Policy Rate (MPR) was reviewed downward during the quarter. Bearish sentiments continued their dominance in the nation's capital market as share prices plummeted in the period. In the international oil market, crude prices peaked at US$ 147.45 but dropped steeply by the close of the quarter with oil producers experiencing reduced earnings.

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP), was estimated at about 6.8 percent in the third quarter, as compared to 6.6 percent in the second quarter. The recorded growth in real GDP continued to be driven by the non-oil sector of the economy, which grew at over 8 percent. This period happens to fall within the harvest cycle and agriculture continued its dominance over other sectors. Non-oil share of GDP remained stable at about 80 percent while the oil share made up the difference. Real GDP was estimated to grow at an average of 9 percent for the year, however, poor infrastructure such as power, road among others continued to impede the achievement of this target. Also disturbances to crude oil production in the Niger Delta continued to hamper real GDP growth. Crude oil production stood at 1.958 million barrels per day as at third quarter, up from 1.857 in the second quarter. The outlook for real GDP remains strong in the coming quarter as government is likely to exhaust allocations before the fiscal year ends.



*Source: CBN & *R&EIG*

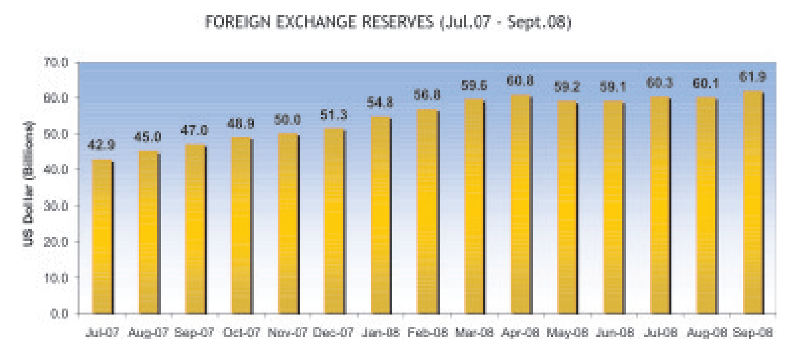
INFLATION

The year on year (y-on-y) inflation had a haphazard trend in the third quarter, closing at 13 percent. Inflation began the quarter at a high, peaking at 14 percent in July, a level last witnessed in well over two years. During the quarter, inflation however, reversed direction dropping to 12.4 percent in August. The fall in the headline rate was due to policy reversal on the part of the government for mass importation of cement, rice and other staple foods, coupled with the dampening effect of the harvest period. However, for a second time during the quarter, the upward trend returned with inflation hitting 13 percent. This can be attributed to threats coming from surging global food prices (wheat, corn, rice etc); rising price of domestic fuels such as diesel, cooking gas; and increased government spending on infrastructure which raised the price of building materials.

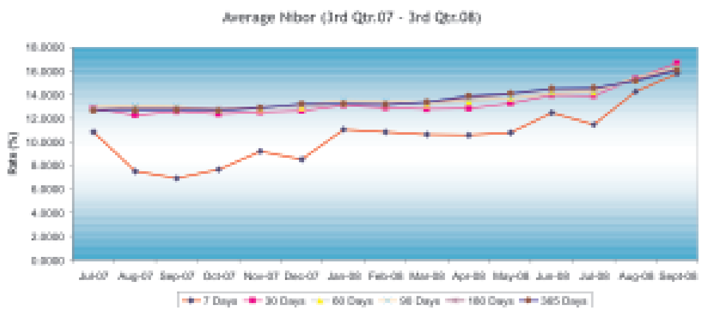
Source: NBS

EXTERNAL RESERVES

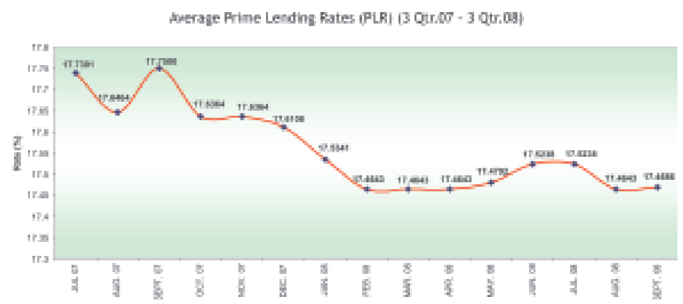
Movements in the nation's foreign exchange reserve were mixed in the third quarter. External reserves stood at US$61.9 billion as at end September, up from US$59.1 end second quarter. In the third quarter, external reserves had spiral movements with periods of ups and downs. The stock of foreign exchange reserves reached as high as US$64.8 billion in August, which could finance about 16 months worth of imports. The continuing growth in the foreign exchange reserves can be attributed to the nation's favourable trade balance, driven mainly by oil and non oil exports.



Source: CBN



Source: Money Market Association of Nigeria (MMAN)



Source: Money Markets Association of Nigeria (MMAN)

INTEREST RATE

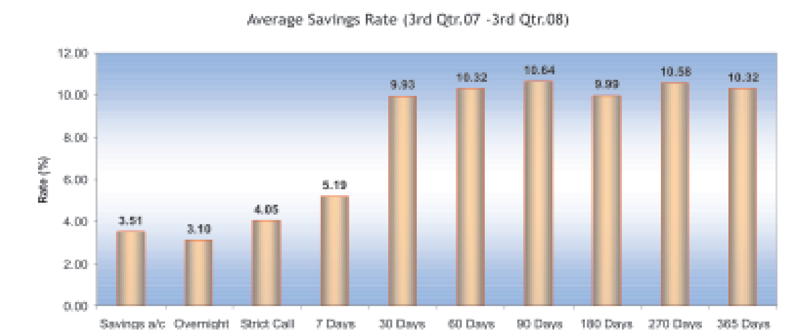
Amidst concern by manufacturers and investors on the soaring cost of fund, the Central Bank of Nigeria (CBN) lowered interest rate in the third quarter. The Monetary Policy Rate (MPR) was dropped by 50 basis points; from 10.25 to 9.75 percent. According to the CBN, the MPR was lowered in September to ease tightness in liquidity in the economy. Earlier in the quarter, CBN undertook aggressive mop up policy to curb inflationary pressure.

The average monthly interbank rates (Nibor) went up in almost all tenors. Volatility was higher on the 7 and 30 Days tenors, reflecting the scarcity of funds within the period under review. The rates on these tenors peaked as high as 18.93 and 18.65 percent respectively. The apex bank intervened in September to ease the liquidity crunch, mainly by lowering Cash Reserve Ratio (CRR) from 4 to 2 percent and allowing Repo transactions on eligible securities for 90 days, 180 days and 360 days. This timely intervention eased pressure on the rates, with the 7 Day tenor dropping to as low as 9.83 percent within few days in September.

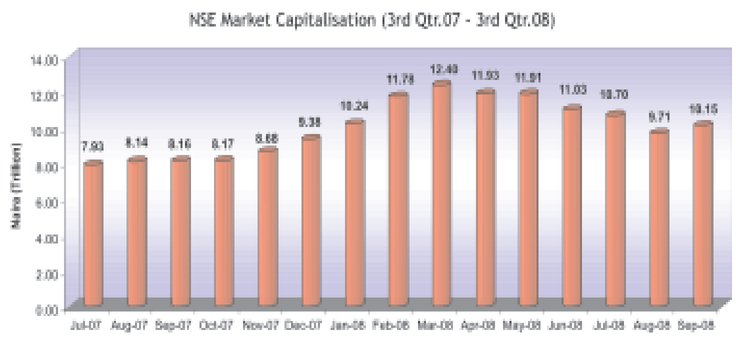
The average deposit rates remained relatively stable with minimal volatility across most investment horizons, with the exception of minor upswings on the longer term tenors. The rates on the 60, 90 and 270 Days went up by 33, 39 and 48 basis points respectively;

from 9.99, 10.25, and 10.10 end second quarter to 10.32, 10.64 and 10.58 in the third quarter, respectively.

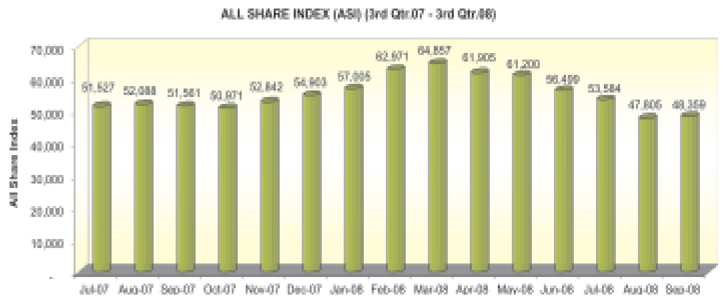
Volatility on the Prime Lending Rates (PLR) has been negligible although with a downward trend as against the upward trend witnessed in the preceding quarter. Average PLR stood at 17.46 as at end September. The average PLR has been relatively stable and has remained within the range of 17.5 percent since January 2008.



Source: Money Market Association of Nigeria (MMAN)



Source: Nigerian Stock Exchange



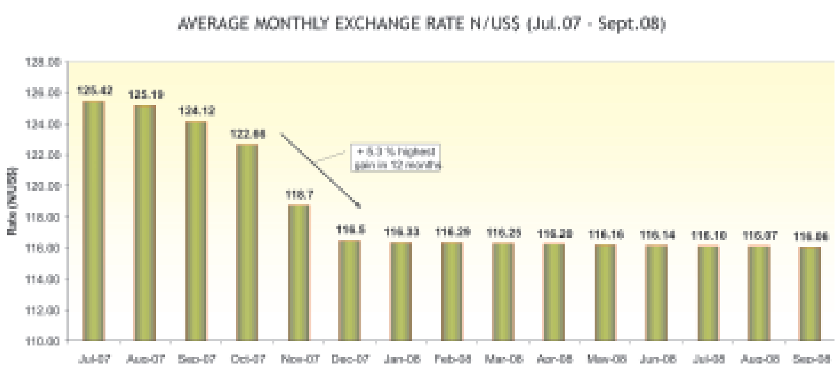
Source: Nigerian Stock Exchange

CAPITAL MARKET

The capital market was on a downbeat mood for most of the third quarter, with investors riding out the storm of a second consecutive quarter of falling stock prices. The All Share Index (ASI) and market capitalisation closed the quarter lower at 46,216.13 and N9.83 trillion respectively; from 55,949.04 and N10.92 trillion as at end of the second quarter. Market sentiment was hit by cautious trading over stock market performances with investors choosing a 'wait and see approach'. Dearth of liquidity was a major concern for operators and investors. On the upside, a minor glimpse of the long anticipated rebound was witnessed in September following a cocktail of measures by the regulators such as: the lowering of NSE transaction fees to a uniform 0.3 percent for both primary and secondary market transactions; the cancellation of common year end for banks; the daily limitation for price movements to 1 and 5 percent downward and upward, respectively; allowing companies to buy back up to 15 percent of their shares; and the proposed introduction of market makers among others. Despite efforts to restore investors' confidence the market however closed the quarter on a bearish note. In the coming months, the expansionary initiative of the Monetary Policy Committee is expected to improve liquidity position in the economy and stabilize the capital market in the short run.

EXCHANGE RATE

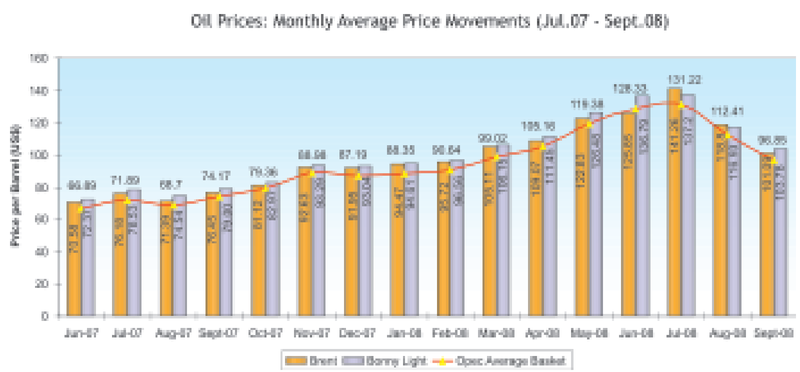
The Naira exchange rate has remained relatively stable against the dollar in the third quarter. The exchange rate stood at about 116.06/US$1 as at end September 2008. The Central Bank of Nigeria (CBN) has continued its stance for a strong exchange rate. The strengthening of the Naira has offered convenient means for the monetary authority to finance the surging import bills fueled by rising food prices and to curb inflation. The Naira traded at N116.10 at the beginning of the quarter and had fluctuation with narrow margin to close the quarter at N116.06 to the US dollar. The appreciation of the Naira against other major currencies can be attributed to: the high oil revenues and higher foreign exchange reserve position; higher inflows of foreign direct investment (FDI) which stood at about US$8.5 billion as at August 2008. The possibility of major economies of the world slumping into recession and the growing attractiveness of the real estate sector of the economy has made naira denominated investments more attractive to investors.



Source: Central Bank of Nigeria

OIL PRICES

Crude oil prices in the international commodity markets plummeted in the third quarter, sliding more than 31.5 percent to below US$100.64 per barrel as at end September, from an all time high of US$147.27 in July. The downward pressure in the price of crude oil was sparked off by the slowdown of the US economy and other major industrialised economies hit by the global financial crisis. The price of Nigeria's brand of crude oil, Bonny Light, plunged more than US$40 within the space of a month. In terms of average monthly movements; the price of Bonny Light dropped to US$103.78 as at end September from US$141.26 in July. Industry analysts attributed the precipitous slide in crude oil prices in the third quarter to the following factors: improved supply from non-OPEC countries mainly Russia and Brazil; OPEC projects coming on stream; rising inventories in the US, Euro-Zone; and weaker demand from China among others. In the months ahead, this downward trend may continue as OPEC's spare capacity is expected to pick up from the current 2.9 mbpd to 3.8 mbpd by the fourth quarter; however, the cartel may cut production to protect dwindling revenues. Some members of the cartel including Venezuela, Iran, Kuwait, and Algeria among others are in support of the output cuts.



Source: Energy Information Administration