ZENITH

Zenith Economic Quarterly

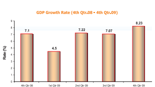
A Publication of Zenith Bank Plc Vol. 6 No. 1 January, 2010 ISSN: 0189-9732

The Economy in 2010:
Recovery, Challenges & Prospects

Economic Meltdown: The Role Of Oil

Zenith Economic Quarterly

C O N T E N T S



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

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ISSN: 0189-9732

ZENITH
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Jump-starting Point

Since the cataclysmic impacts of the global financial crisis began to show on various economic jurisdictions across the world, the myth of any nation enjoying immunity from the phenomenon has been fully laid to rest. In fact, the preoccupation of governments and economic agents across the globe has been efforts at containing and contending with the ravaging effects of the economic meltdown. Nigeria is no exception. Hence, the financial services sector of the country, unarguably, the catalyst and livewire of the economy, has been subjected to a pervasive reform in recent times. Simultaneously, work on the nation's economic development roadmap (vision 20:2020) has been going on at a feverish pitch. But given the documented outcomes or performance levels of the nation's annual budgets (roadmaps) in the recent past, laden with missed targets and mounting deficits, the journey forward evokes some trepidation. Even at present, the 2010 Appropriation Bill is lying before the National Assembly for consideration.

> ...the financial services sector of the country, unarguably, the catalyst and livewire of the economy, has been subjected to a pervasive reform in recent times.

Now, therefore, is most auspicious to dispassionately survey the roadmaps, both for the short (2010) and long-run (2020) destinations. And this we've done in the masterpiece titled: 'The economy in 2010: recovery prospects and the challenges ahead'. The author, armed with a panoramic analysis of the nation's public finance challenges, posits pointedly that the journey of the next ten years (to 2020) must begin today in earnest. He also indentifies the 'economic drivers' and insists that determined actions must begin on them to effectively jump-start the recumbent economy. Similarly, the critical place of crude oil in the now receding global recession is expertly investigated in the piece tagged: 'Economic meltdown: the role of oil'. Here, the political, diplomatic, socio-economic and commercial dimensions of the role of the 'global commodity' in the context of the recession are explored and analyzed.

Our work on the aviation sector, titled: 'The Nigerian aviation industry: thriving on hope and promise', is also quite illuminating and stimulating. In it, the gamut of the successes and challenges of this pivotal industry in the transport sector is x-rayed, with pointers to the way forward amply indentified. But the author sums up that "Nigeria is still being afflicted by the absence of a major flag carrier since the ill-advised liquidation of the Nigeria Airways". In a similar vein, another article, part of a serial on security and internal controls in banks, specifically dealing with internal security, didactically gives the nitty-gritty of contemporary security in financial institutions.

In tune with the mood of the moment, our treatise on "Building the pillars of democracy" meticulously investigates the real substrata of 'government of the people by the people and for the people'. Here, the link between democracy and development is established; just as high accent is placed on information (freedom of the press), political parties and elections, rule of law, freedom of expression, accountability and transparency as well as the role of the civil society. And in the words of the author, "to nurture and sustain democracy, its beneficiaries must also serve as its guardian, and the common people must be vigilant and wise".

In our 'foreign insights', the piece on Nigeria-Singapore trade relations focuses on the similarities and dissimilarities between both countries, especially with respect to history, demography, natural resources, industry, trading , economic development, etc. It is discovered that "Singapore's principles of free-trade and outward orientation remain a robust platform for countries like Nigeria to leverage".

And, as is our hallmark, stimulating write-ups in other sections of the journal make up this 'un-put-downable' edition in your hands. **ENJOY YOURSELF!**

Marcel Okeke

I acknowledge receipt of October, 2009 edition of your quarterly magazine. It is a highly incisive and educative issue of your magazine on the current trends of the Nigerian and global economy.

I would appreciate if subsequent issues are forwarded to me accordingly.

Thank you.

Yours faithfully,

M.K. Dangusau
Branch Controller
Central Bank of Nigeria Paiko Road Niger State

I am directed to acknowledge, with thanks, the receipt of your letter dated 11th January, 2010 together with a copy of the October 2009 edition of your Zenith Economic Quarterly, (ZEQ), which serves as a veritable and dependable source of information on Nigerian economy.

While thanking you for extending the Publication to the Mission, please accept the Ambassador's best wishes.

Regards

Your faithfully,

M.L. Yusuf
For: Ambassador
Embassy of Nigeria Republic of Congo

I am directed to acknowledge the receipt of the Zenith Economic Quarterly (ZEQ) for October 2009 edition, and to thank you for the good gesture extended to Babcock University.

May the Lord continue to bless and prosper you.Thank you.

Sincerely,

Israel B. Olaore, Ph.D.
Chief of Staff to the President/Vice-Chancellor
Babcock University Ogun State

I am directed to acknowledge with thanks, receipt of a copy of the above mentioned magazine forwarded under cover of your letter dated January 11, 2010 and to inform you that we find the magazine to be interesting, educative and indeed very useful.

The magazine has brought out key issues on the economy of Nigeria and the World at large. It makes for easy reading, reasoning and understanding.

Please accept sir, the assurances of our highest consideration.

N. O. Nze
For: Honourable Minister
Ministry of Foreign Affairs, Office of the Permanent Secretary Abuja

On behalf of the Chairman, National Population Commission, I wish to acknowledge the receipt of your Zenith Economic Quarterly (ZEQ), which focuses on corporate governance and the global economic meltdown.

We highly appreciate your kind gesture and wish to inform you that the magazine is interesting and informative.

Kindly accept the assurances of my highest regards.

Rev. W. D. C. Wokoma
Director-General
For: Chairman
National Population Commission, Office of the Director General Abuja

I am directed by the Chairman NDDC to acknowledge the receipt of the October 2009 edition of the magazine and to thank you most heartily for the kind gesture.

The magazine has brought out key issues on the economy of Nigeria and the World at large. It makes for easy reading, reasoning and understanding. The effort put into its production is indeed welcome and worthwhile.

Yours sincerely,

Ebitimi Tawari
Sa (SD) to the Chairman
Niger Delta Development Commission (NDDC) Office of the Chairman

This is to acknowledge with gratitude receipt of the October 2009 issue of the Zenith Economic Quarterly. It is striking to note that it was devoted to analyses of pertinent issues bordering on corporate governance and global financial crisis. I am sure that staff and students of the Department will find the issue of tremendous importance.

We look forward to receiving future copies of the journal.Thank you and best regards.

Dr. A. U. Sanda
Ag. HOD
Department of Economic Usmanu Danfodiyo University, Sokoto

We acknowledge with thanks the receipt of your letter dated January 11, 2010 on the above subject and wish to express our profound appreciation to your organization for the kind donations of the copy of the October 2009 edition of your publications to MAN.

As usual, the publication will be added to the collection in our library for use. Accept our kind regards and best wishes.

Adegbite Seyi
For: Dierctor-General
Manufacturers Association of Nigeria, Lagos

This is to acknowledge and thank you for the many copies of the above magazine that were sent to our school. We will ensure that it is widely circulated within the university and our library.

We appreciate our relationship with your bank.

Sincerely,

Michael Essien, Esq.
Chief of Staff
African University of Science and Technology (AUST) Abuja

The Commission wishes to acknowledge with immense appreciation the October 2009 edition of Zenith Economic Quarterly which focuses on corporate governance and the global economic meltdown.

We believe that this and subsequent publications would enrich the library and knowledge management objectives of the Commission. Thank you.

Yours faithfully,

Lana Loyinmi
Head, Risk Management
National Pension Commission Abuja

I am directed to acknowledge receipt of your letter dated 11th January 2010, in which a copy of the October 2009 edition of the Zenith Economic Quarterly (ZEQ) publication was forwarded to the Mission. I am to add that, the publication is indeed a valuable reference material as its contents are very informative on the contemporary global economic issues.

Please accept the assurances of His Excellency's high consideration and esteem.

H. M. Sallau
For: Ambassador
Embassy of the Federal Republic of Nigeria Burkina Faso

Economy: Stability is the GAME

*** By Marcel Okeke**

Owing to the apparently receding global recession and some reform initiatives in the country, especially in the banking and finance sector during the last quarter 2009, the Nigerian economy remained generally stable. The period was marked by relatively high and rising oil prices and production, consummation of amnesty programme of the Federal Government for militant Niger Delta youths, consistently bearish capital market and government efforts to boost the power sector and agricultural production. There was also a generally stable exchange and interest rates regime; relatively stable double-digit inflation rates as well as moderate decline in the stock of external reserves. The N4.079 trillion "Fiscal Stimulus Budget" 2010 of the Federal Government was also presented to the National Assembly during the quarter.

All these influenced activities in the economy, and translated into appreciable growth in Gross Domestic Product (GDP), which, according to provisional figures from the National Bureau of Statistics (NBS), grew by 8.23 per cent in the last quarter 2009. The indicator had risen by 4.50, 7.22 and 7.07 per cent in the first, second and third quarters respectively. Overall GDP growth for 2009 was projected at 6.90 per cent—which is

The improved oil earnings during the last quarter 2009 reflected in the consistently rising price of the commodity in the international oil market.

significantly higher than the 5.98 per cent achieved in 2008. This is however still less than the 7.5 per cent target growth for 2009 as contained in the Federal government budget. Similarly, although the inflation rate remained relatively stable during the quarter under review, it closed the year at 12.0 per cent (year-on-year). It had risen from 10.4 per cent in September to 11.6 and 12.4 per cent in October and November respectively. Despite this trend in stability, the inflation rates missed the single-digit mark of 8.2 per cent targeted in the 2009 Appropriation Act.

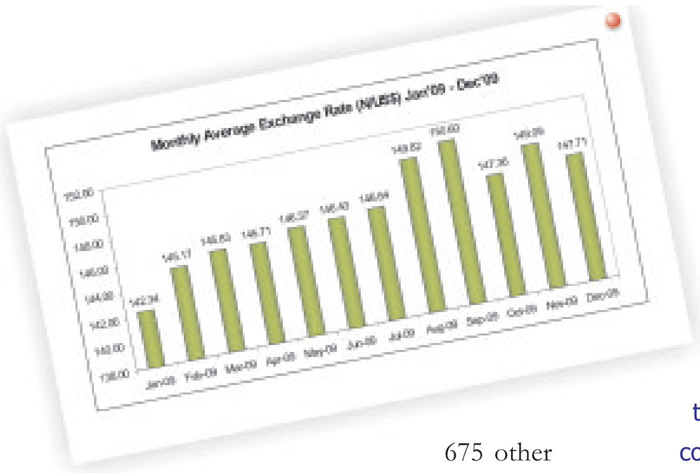
Stability was also largely the trend in the foreign exchange market during the last quarter 2009—sustained mainly by some monetary policy initiatives and inflow from oil earnings. This was further assisted by the decline in dollar demand around the year-end as many corporate entities shut down their operations for the season. Foreign exchange earnings by International Oil Companies (IOCs) in the country also helped in making the forex market liquid. Thus, although the national currency had generally depreciated against the dollar in the first three quarters of the year, it gained some strength against the greenback in the last three months: from N149.49/$ in October to N149.14 in November and N148.05 end-December.

...the Cocoa Association of Nigeria reported during October 2009 that the price of the nation's cocoa had shot up to N450,000 per ton, from half this price early in 2008.

The improved oil earnings during the last quarter 2009 reflected in the consistently rising price of the commodity in the international oil market. Specifically, light sweet crude which opened the year 2009 at $46.35 per barrel, came to $79.36 per barrel at end-December: a rise of over 70 per cent. In fact, the price of oil hovered around $70 since the second quarter, and even hit the $80 per barrel mark by the close of the year. This trend, juxtaposed against the 2009 budget oil price benchmark of $45 per barrel, account for the bountiful inflow from oil even though crude production remained at below the 2.292 mbpd budget target all through the year. This oil price and production scenario is attributable to the calming effect of the peace initiative in the Niger Delta, expectations of economic recovery in 2010 in various regions as well as the US Dollar depreciation against other major currencies.

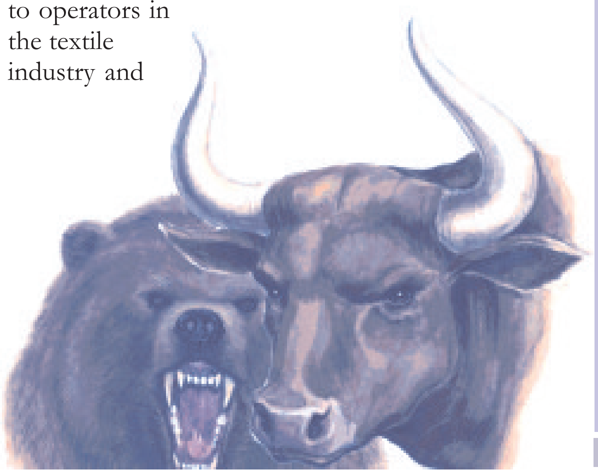
...although the inflation rate remained relatively stable during the quarter under review, it closed the year at 12.0 per cent (year-on-year).

During the quarter under review, the Central Bank of Nigeria released the findings of its joint special examination with the Nigeria Deposit Insurance Corporation of 14 banks. Outcome of a similar examination of 10 banks had been released earlier in August. Sequel to the action on the 14 deposit money banks, the apex bank announced a provision of a total of N200 billion as "liquidity support" and long term loans for the four banks it adjudged as being in a "grave situation".



This, according to the CBN was to enable them continue normal business, while pursuing recapitalization options. This sum was a sequel to N400 Billion injected into five other banks which were among the first set of the ten to under go the special examination by the regulatory authorities. All these contributed to stimulating the economy—providing liquidity.

There were also the second tranche of the Federal Government's commercial agriculture loans totaling N100 billion which was released through the states and participating banks for onward lending to commercial farmers. Similarly, the Federal Government and the Bank of Industry (BoI) extended capital fund of N68 billion to operators in the textile industry and 675 other enterprises, essentially to stimulate the textile sector. This is part of the estimated N400 billion package of the Federal Government to turnaround the ailing textile industry in the country. In a related development, the Cocoa Association of Nigeria reported during October 2009 that the price of the nation's cocoa had shot up to N450,000 per ton, from half this price early in 2008. This development, according to CAN, was attributable to spike in demand owing to improved quality of cocoa beans from the country. There was also decline in cocoa beans supply from some key producer nations—including Cote D'Ivoire.



A decomposition of the end-year market capitalization shows that the 20 most-capitalized companies accounted for 70 per cent of the market value. Also, of the 20, are eleven banks, and whose share prices experienced sharp declines sequel to recent reforms in the industry—a development that cumulatively depressed the total market value.

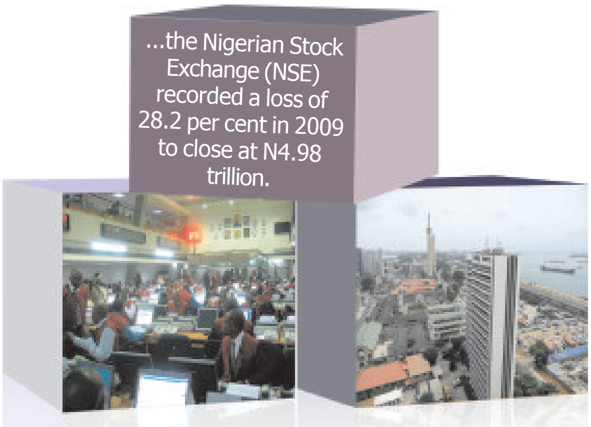
THE CAPITAL MARKET

The bearish trend in the Nigerian capital market since the second quarter 2008 remained in place all through 2009—with significant crash of quoted shares. The impact of the global economic meltdown worsened the scenario, as foreign investors shunned assets considered risky while local investors sought refuge in short-term securities. In its review of market performance in 2009, the Nigerian Stock Exchange further noted that the initial negative reaction to the decision of

20 Stocks with Highest Market Capitalisation on the NSE, 2009

S/No	Company	NSE Sector Classification	Market Capitalisation (NBillion)	Annual Change (%)
1	First Bank of Nigeria Plc	Banking	407.54	(22.35)
2	Nigerian Breweries Plc	Breweries	401	29.8
3	Zenith Bank Plc	Banking	341.6	(7.3)
4	Guaranty Trust Bank Plc	Banking	289.13	48.3
5	UBA Plc	Banking	232.81	2.7
6	Guinness Nigeria Plc	Breweries	188.05	28.1
7	Dangote Sugar Refinery Plc	Food & Beverages	181.2	2.6
8	Benue Cement Company Plc	Building Materials	168.41	198.7
9	Nestle Nigeria Plc	Food & Beverages	158.2	25.1
10	Stanbic IBTC Bank Plc	Banking	140.1	(31.5)
11	Ecobank Transactional Inc. Plc	Foreign Listings	130.4	(52.31)
12	Access Bank Plc	Banking	124.92	7.5
13	First City Monument Bank Plc	Banking	116.5	18.54
14	Diamond Bank Plc	Banking	107.12	(0.8)
15	Lafarge Cement WAPCO Nig. Plc	Building Materials	90.05	17.65
16	Oando Plc	Petroleum (Marketing)	85.1	17.81
17	Union Bank of Nigeria Plc	Banking	81.1	(53.95)
18	PZ Cussons Nigeria Plc	Conglomerates	79.41	122.42
19	Ecobank Nigeria Plc	Banking	76.73	(62)
20	Unilever Nigeria Plc	Conglomerates	70	78.23

Source: The Nigerian Stock Exchange



most banks and insurance companies to make full provisions for their non-performing assets during the last quarter dampened investors' appetite and slowed down market recovery. There was also the challenge of deliberate switch of portfolio in favour of fixed income assets as well as massive sale of securities used as collateral for margin facilities.

Thus, all market indicators recorded downward movements during the period under review. The NSE All-Share Index (ASI) closed the year at 20,827.17 points —dropping by about 33 per cent or 10,623.60 points from its end-2008 level of 31,450.78 points. This, according to the NSE, reflects a significant reduction in the prices of equities during the year; and by year-end, out of the listed equities only 23 stocks recorded price appreciations, 159 experienced price declines while the prices of 34 remained unchanged. In terms of trading activities during 2009, a total of 101.64 billion shares worth N677.12 billion were traded in 1.72 million deals.

The total market value (market capitalization) of the 216 listed equities on the Nigerian Stock Exchange (NSE) recorded a loss of 28.2 per cent in 2009 to close at N4.98 trillion; its value at end-December 2008 was N6.96 trillion. This decline, obviously, resulted from equity price losses, and the delisting of 64 securities—11 equities and 53 fixed income securities. A decomposition of the end-year market capitalization shows that the 20 most-capitalized companies accounted for 70 per cent of the market value. Also, of the 20, are eleven banks, and whose share prices experienced sharp declines sequel to recent reforms in the industry—a development that cumulatively depressed the total market value. Similarly, of all the quoted companies, only financial services organizations (banks and insurance firms) made up the list of the 20 most traded stocks in 2009.

The total market value (market capitalization) of the 216 listed equities on the Nigerian Stock Exchange (NSE) recorded a loss of 28.2 per cent in 2009 to close at N4.98 trillion; its value at end-December 2008 was N6.96 trillion. This decline, obviously, resulted from equity price losses, and the delisting of 64 securities—11 equities and 53 fixed income securities.

S/No	Company	Volume Traded (Billion shares)
1	Access Bank	6.348
2	UBA Plc	5.405
3	Wema Bank Plc	4.913
4	First Bank of Nigeria Plc	4.804
5	Guaranty Trust Bank Plc	4.413
6	Zenith Bank Plc	3.823
7	Intercontinental Bank Plc	3.209
8	FinBank Plc	3.004
9	First City Monument Bank Plc	2.929
10	Oceanic Bank International Plc	2.902
11	Diamond Bank Plc	2.849
12	Fidelity Bank Plc	2.805
13	Skye Bank Plc	2.541
14	AIICO Insurance Plc	2.388
15	Goldlink Insurance Plc	2.203
16	Bank PHB Plc	1.938
17	Investment & Allied Assurance Plc	1.795
18	Chams Plc	1.789
19	Transnational Corporation of Nig. Plc	1.718
20	International Energy Insurance Plc	1.666

Source: The Nigerian Stock Exchange

According to the NSE report, no company did any Initial Public Offering (IPO) in 2009, as against 2008, when over N1.0 trillion was approved/ raised. Still in the primary segment of the market, the Exchange approved 30 applications in 2009 for new issues valued at N279.25 billion, as against 70 applications in 2008 for the amount of N2.6 trillion. Some of the new issues approved in 2009 include Guaranty Trust Assurance Plc amounting to N30.0 billion; Pinacle Point Group Plc (N27.5 billion); e-Transact International Plc (N20.16 billion). Others are Unity Capital Assurance Plc, Afromedia Plc, Courteville Investments Plc, Honeywell Flour Mills Plc, African Alliance Insurance Plc, etc.

In the bond segment of the capital market, the Debt Management Office (DMO) continued to be active all through the year. In fact, on behalf of the Federal Government of Nigeria (FGN), the agency offered a total of N694.44 billion worth of bonds—19.30 per cent higher than the N515 billion offered in 2008. The total subscription in 2009 was N1.34 trillion, up by 46 per cent from N845.2 billion subscribed in 2008. Apart from the DMO activities in the bond market, a number of state governments also played in the market—raising some long-term funds. They include Lagos State fixed rate bond 2013 series one; Kwara state fixed rate bond and Imo State fixed rate bond. Niger, Bayelsa, Ogun and Bauchi state governments also made moves into the market in 2009.

During the quarter under review, a new Director-General, Ms. Arunma Oteh assumed duty at the Securities and Exchange Commission (SEC), bringing her wealth of experience, including top-level exposure at the African Development Bank (AfDB) to leading the apex capital market regulator. The new helmswoman has since the approval of her appointment in November 2009 by the National Assembly, initiated a number of policies including directing Unit Trusts to divest from unquoted investments in line with the provisions of the Investment and Securities Act (ISA). Furthermore, the Unit Trusts were also directed to keep custody of their full assets with their trustees and not fund managers—in order to protect the interest of the unit holders.

BANKING AND FINANCE

Reform policies and actions of the Central Bank of Nigeria continued with gusto in the fourth quarter 2009—dictating the shape and focus of the financial services sector and, in deed, the economy. The apex bank, for instance, saw

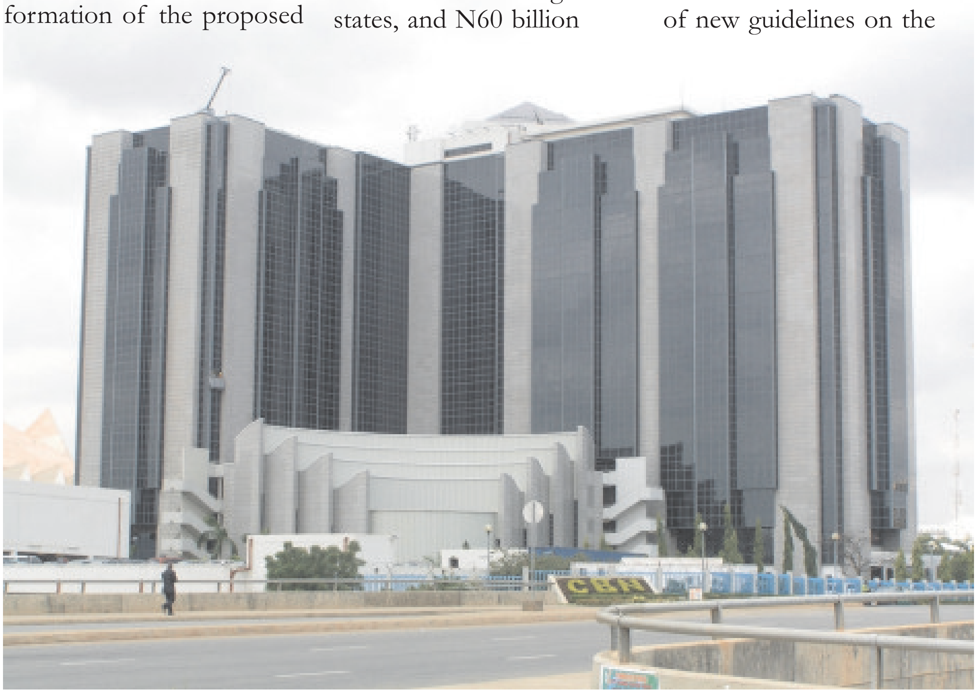
> The apex bank has also taken further steps towards the restriction of DMBs' Automated Teller Machines (ATMs) to only their business premises.

through deposit money banks' (DMBs) compliance with the policy of common year-end, effective December 31, 2009. Obviously, the run-up to the implementation of the policy rattled the DMBs as they scrambled for deposits and made provisions for 'toxic assets' in their books. It led to further credit crunch in the system, as the banks either remained cautious or refrained from granting loans. Steps towards the formation of the proposed Asset Management Company (AMC) by the monetary authorities also commenced during the period under review. Specifically, the AMC which is expected to have a N250 billion take-off capital will manage the 'huge bad loans of banks'. The capital is expected to be contributed by the CBN and the ministry of finance in the proportion of 60:40, with a life span of 10 years—when it is expected to have satisfied the purpose for its existence.

Apparently in response to some comments against the exclusive appointment of only the First Bank and UBA as disbursing banks of the first tranche of the N100 billion Federal Government's Agric Loan, the CBN towards end-2010 appointed five additional banks. The five are to disburse the second tranche of the loan also totaling N100 billion: N40 billion to be distributed through states, and N60 billion directly through the participating banks. The new disbursing banks include Zenith Bank, Union Bank, Fidelity Bank, Guaranty Trust Bank and Unity Bank.

The apex bank has also taken further steps towards the restriction of DMBs' Automated Teller Machines (ATMs) to only their business premises. In this regard, it issued licenses to two more independent ATM operators namely Chams Access Nigeria Limited and Cooperative Support Services (CSS). ATM Consortium Limited was the first to be issued ATM deployment license by the apex bank. Deadline for banks to dismantle their off-site ATMs had been shifted severally: first, from December 2008 to June 30, 2009, and now to March 31, 2010.

A few other policies/ steps taken by the CBN during the period under review include the issuance of new guidelines on the



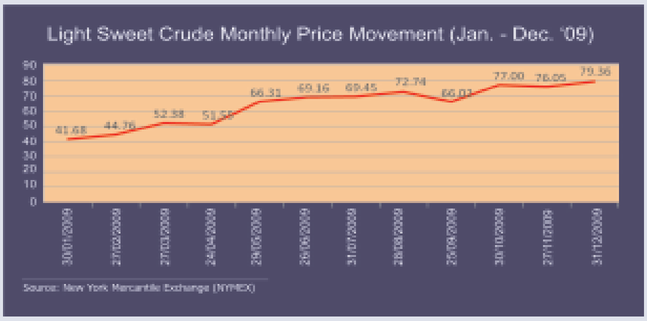
treatment of Commercial Papers (CPs) and Bankers' Acceptances (BAs) by banks, appointment of advisers for the 'rescued' banks as well as setting of December 2010 as deadline for the DMBs to adopt the International Financial Reporting Standard (IFRS). Also, effective January 1, 2010, each DMB's accounts with the apex bank must not exceed three, just as cheques exceeding N10 million would no longer be honoured through the clearing system. This is in a bid to promote e-payment within the Nigerian economy.

While the apex bank was dishing out this avalanche of policies the DMBs on their own were undertaking various measures in the areas of branch expansion, business diversification, market share growth, operational costs adjustment, among others. Thus, during the period, First Bank 'diversified' into microfinance banking by formally inaugurating the FBN Microfinance Bank Limited—a wholly owned subsidiary. Unity Bank, on its part, commenced the process of raising about N70 billion in fresh capital through a combination of rights issue, public offering and debenture. Stanbic IBTC Bank also commenced arrangements to raise N2 billion through its two new fixed income funds. United Bank for Africa continued with its offshore expansion—opening an affiliate in Gabon and subsidiaries in Tanzania and Kenya. First City Monument Bank also opened its London subsidiary, FCMB (UK) Limited.

> Demand for OPEC crude in 2010 is projected to average 28.5m b/d, representing an upward revision of 110,000 b/d from the previous assessment, as world oil demand was revised up and non-OPEC supply remains unchanged.

GAS, OIL AND POWER

As already observed, the price of crude oil remained high and rising all through the last quarter 2009. OPEC monthly report for December 2009 attributed the development to expectations of economic recovery in 2010 as contained in the world economic outlook by the IMF and the positive impact on demand as well as the dollar depreciation against other major world currencies. Demand for OPEC crude in 2010 is projected to average 28.5m b/d, representing an upward revision of 110,000 b/d from the previous assessment, as world oil demand was revised up and non-OPEC supply remains unchanged. In terms of prices, OPEC Reference Basket soared by about five per cent to average $76.30 per barrel in November, but dropped to about $71.20 per barrel in December 2009 due, among others to stronger dollar and counter-seasonal stock builds. Still, on spot basis, oil price in 2009 surged from about $35 per barrel early in the year to about $80 per barrel by year-end. This trend notwithstanding, the OPEC Conference which held December 22, 2009 decided to leave oil production level unchanged. This was the fourth consecutive time production level was left in tact.



In Nigeria, two issues dominated developments in the oil industry in the last quarter 2009: the Petroleum Industry Bill (PIB) and debates on deregulation of downstream sector. In fact, Government's posture on the removal of 'fuel subsidy' all through the period created uncertainty which in turn, affected the pump-price of petroleum products in the country. Speculations as to when the subsidy removal (deregulation) would commence and the form/extent it would go drove up the price of fuel in varying degrees in various parts of the country. Some cases of 'hoarding' by petroleum products marketers were even discovered by the Department of Petroleum Resources (DPR) who either sealed off the affected fuel stations or imposed some other penalties. However, as at year-end 2009 deadline for the deregulations of the downstream oil industry remained unclear.

However, while the Government, Labour and other stakeholders keep debating the pros and cons of the subsidy removal, prices of the products remain volatile—affecting such economic fundamentals as inflation, and cost of living generally. Government is however exploring the option of a partnership with selected private sector players to facilitate supply and distribution of the products. This is even as any one of the private firms licensed in the past few years to build refineries is yet to commence full operations. Thus, the Government keeps peddling the 'huge' sum it expends as subsidy to ensure the continued supply of the products at the ruling prices. At present,

according to the Government, over N650 billion goes into subsidizing petroleum products in the country.

Similarly, debate over the content of the Petroleum Industry Bill (PIB) keeps lingering between the Government on one hand and other stakeholders, especially the International Oil Companies (IOCs), on the other. Although the Government takes the oil bill as part of the overall reforms in the sector, the IOCs seem to hold a differing view—some believing the proposed law could adversely affect their

hegemonic control on aspects of the industry. For the Government, the proposed law is intended to open up the industry, remove secrecy from most aspects of the sector activities and better harness benefits accruing from the industry for the development of the country.

In the area of power, the Federal Government during the period under review awarded fresh licenses for the construction of three power generating plants. The recipients of the licenses include Corporation Power and Gas Limited for the generation of 20 Mega Wats (MW), Wedotebary Nigeria Limited for 5MW solar power and DIL Power Limited. Also, the Osun State government and Xian Tianhong Electric Company Limited have signed an agreement on independent power project and rural electrification in the state. A tripartite committee drawn from First Nigeria-China Trade and Investment Forum, Osun State government and Xian Tianhong Electric has set up to embark on full project implementation.

The Nigerian Electricity Regulatory Commission (NERC), on its part, has announced intention to conduct a "major review" of the Multi-Year Tariff Order (MYTO) which it introduced in June 2008. MYTO, used for the determination of charges and tariffs for electricity, transmission and retail tariff was supposed to be in place till 2013 before any review. However, in its public notice issued re-

The telecommunications industry maintained its geometric growth streak during the last quarter 2009, with the nation's teledensity rising from the end-third quarter position of slightly over 50 per cent to 51.36 per cent in October.

cently, NERC said "due to numerous complaints and observations expressed by stakeholders in the industry, it has become imperative for the Commission to conduct a major review of the MYTO before the stipulated five years". NERC requests all comments and observations to be directed to its head of market competition and rates.

TELECOMMUNICATIONS

The telecommunications industry maintained its geometric growth streak during the last quarter 2009, with the nation's teledensity rising from the end-third quarter position of slightly over 50 per cent to 51.36 per cent in October. It stood at 51.61 per cent in November, hitting 53.23 per cent by year-end 2009. Teledensity measures the proportion of telephone lines in relation to population of the country.

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

DEBT MANAGEMENT OFFICE
NIGERIA

External Borrowing Guidelines 2008 - 2012

1. INTRODUCTION [1]

1. 1 Background

During the 1990s, the Nigerian economy recorded low growth rates averaging less than 3 percent per annum, low domestic investment, high unemployment and wide balance of payments deficits. Nigeria was in a situation of debt overhang, i.e. its debt stock exceeded its future repayment capacity. This situation discouraged investment in the Nigerian economy and created difficulties in accessing funds from the International Capital market, not only for the government but also for the private sector.

After about three decades of military rule, the civilian government which was elected in 1999 launched a home-grown development strategy, namely the National Economic Empowerment and Development Strategy (NEEDS). This was complemented by State (SEEDS) and Local Government (LEEDS) strategies. NEEDS aimed at value reorientation, poverty reduction, wealth creation and employment generation.

The economy responded positively to these policy reforms. The average annual real GDP growth rate was 6.5 percent between 2003 and 2007, reflecting the strong annual growth of the non-oil sector. The regime of fiscal prudence, tighter monetary policy and low deficit/GDP rates during this period resulted in single digit inflation.

Although the above achievements did not directly impact on the country's external debt sustainability, the reforms enabled Nigeria to resume dialogue with creditors on debt relief. Through high level diplomatic initiatives, the government garnered the support of the international community and was eventually able to get the Paris Club, Nigeria's leading creditor, to agree to a historic debt relief deal that allowed the country exit from all its Paris Club debt obligations between October 2004 and April 2005. This was followed by the exit from its London Club debt obligations in 2006.

Following its success with external debt, the government

[1] This External Borrowing guideline was culled from the National Debt Management Framework. Details of the guidelines can be accessed at the DMO website: www.dmo.gov.ng

began the restructuring of the domestic debt portfolio, which was dominated by short term instruments. This has resulted in a portfolio with a substantial long-tenored component. Furthermore, it started working on recognising and settling contingent liabilities that emerged from unfunded pension arrears, local contractors' debts and privatized enterprises, through the issuance of sovereign bonds.
In order to avoid a relapse in to debt unsustainability, the following guidelines have been developed for the use of the Federal and State Governments, as well as their agencies. This version is an update on the guidelines issued in previous years.

The following guidelines complement the existing provisions as contained in The Constitution of the Federal Republic of Nigeria, The Debt Management Office (Establishment) Act, 2003, Act no 18, and the Fiscal Responsibility Act 2007.

2.0 Guidelines 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 borrowing 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 between 20 – 25 percent and the upper limit of 25 percent is considered 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). Accordingly, the following general guidelines will apply with regards to external borrowing by the Federal and State Governments or their agencies, for the fiscal years 2008 up to 2012, subject to modifications from time to time.

2.1 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;

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; and,

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

2.2 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, State Governments and their agencies/ 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 agencies or parastatals) 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-by-case 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, State and Local Governments and their agencies/parastatals 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 Federal 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).

2.3 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.

2.4 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 funding should be pursued. Such options include Public Private Partnerships (PPPs), Build, Operate, Recover and Transfer (BORT) 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 promoters 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.

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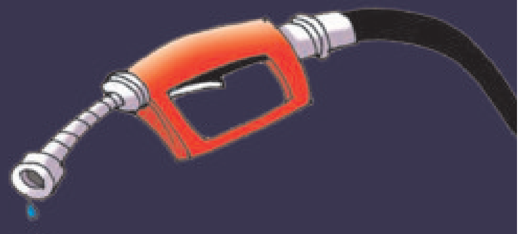


Global Financial Crisis: Recovery Prospects and the Role of Oil

* By Sunday Enebeli-Uzor

Oil can be said to be the basis and the prime mover of modern industrial society. And as the global economy grapples with the most severe recession since the Second World War, it is pertinent to explore the role of the commodity in the economic meltdown and the recovery process. Oil consumption patterns and economic growth have exhibited similar trends historically and as such, it is believed that altering oil consumption patterns affects economic growth. For instance, at the peak of the global financial crisis when oil price plunged from an all time high of $147 per barrel in July 2008 to less than $40 per barrel in December 2008 due to weak demand, the global economy also contracted and major economies drifted into recession or depression. It follows therefore that oil plays some critical roles in the dynamics of the global economy.

How oil price movement exactly affects the global economy and hence economic dynamics has somewhat remained ambiguous. The difficulty in establishing the exact relationship between oil price and economic growth led Alan Greenspan, former Chairman of the U.S Federal Reserve, to assert that "the impact by oil prices in modern market-based economies is difficult to infer in a way in which policy is automatically obvious". Although there exists a relationship, available "evidence shows that either that those relationships are spurious or that there is nonlinearity in the way oil prices impact market economies", the former Fed boss concludes. For oil producing/exporting countries, higher oil price rakes in more revenue and hence more money to fund government projects, and for oil consuming/importing countries, the reverse holds true. However, the long-run impact of oil wealth or 'petro-dollar' on the economies of oil producing countries is still being debated.

In recent times, as major economies gradually pull out of recession after a period of gloom and grim, there has been an upswing in the price of oil in the international commodities market. The return of the U.S – the world's biggest energy consumer, to positive growth after contracting for four consecutive quarters since the third quarter of 2008 has contributed immensely to the upswing in oil price. Also, China – the world's second largest energy consumer, has remained resilient in its growth trajectory, performing resoundingly impressive. Some of the world's biggest economies and energy consumers, notably France and Germany have also exited recession and this has somewhat improved market sentiments and fuelled optimism in the international commodities market. Consequently, the appeal for oil has increased, thus pushing price further up.

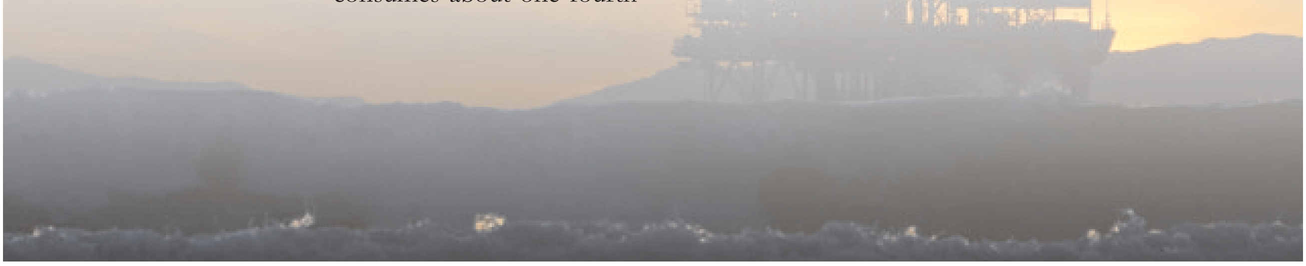
Oil Demand Outlook for 2010

The global financial crisis expectedly impacted negatively on global oil demand especially in early 2009. However, the downward trend was halted following OPEC's decision to cut supply. Also, massive fiscal injection of funds (stimulus packages) into the global economy by governments across the globe helped ease financial conditions and industries were saved from collapse. These efforts were complimented by monetary policies that calmed financial markets and restored confidence in the international financial system. Oil price surge was also supported by the improvement in sentiment as well as the weakness of the U.S Dollar against major currencies. The world economic outlook gives a semi-rosy picture for the year 2010 as world GDP is expected to grow by 3.9 percent according to the International Monetary Fund (IMF). Most of the recovery is anticipated in the United States which consumes about one fourth of the world's oil. Non-OECD countries are also expected to experience some recovery in economic activities leading to smooth growth in oil demand. The Chinese economy is also expected to maintain its resilience and new vehicle sales are expected to be strong due to the stimulus packages initiated by the government.

Consequently, OPEC expects global oil demand to rise by 20,000 barrels to 85.15 million barrels per day and consumption to expand by 820,000 barrels per day, or 1 percent, from 2009. On its part, the International Energy Agency (IEA), an intergovernmental organisation which acts as energy policy advisor to 28 member countries, believes that global oil demand for 2010 will be 86.3 million barrels per day, up 1.7 percent from 2009. The Paris-based agency also noted that global oil supply has risen steadily to 86.2 million bpd in recent months with December production up by a further 270,000 bpd. Generally, outlook for commodities in 2010 is bright as commodity prices are expected to increase further as economic activities rev up.

What Really Drive Oil Price?

Oil price is perhaps the most volatile in the international commodities market. As a basic global commodity, fluctuation in the price of oil has both direct and indirect impact on the global economy, hence, movement in the price of oil is monitored very closely by investors all over the world. Oil price variation also influences the sentiment and hence the volatility in stock markets around the globe. An increase in the price of oil impacts industries and businesses as higher oil price culminates in higher energy prices, which can cause a ripple effect on



The new OPEC Headquarters in Vienna

virtually all business aspects that are dependent on energy (directly or indirectly). There are many factors that drive the price of oil in the international commodities markets. These range from production technology which improves supply; demand from oil-importing countries; storage by richer nations (an indicator that is monitored closely is the U.S crude oil inventory); changes in tax policy; political issues; crisis/instability in major producing regions; weather conditions and natural disaster; effect of OPEC quota; and activities of speculators, etc.

However, how these factors drive oil price depends on a combination of factors and not just a single factor at every point in time. For instance, the recent rally in price has been attributed to the extreme cold weather condition and OPEC quota cut. The activities of hedge fund managers and speculators in futures markets are often blamed for shocks in oil price. Although speculation influences oil price, it will not be if the fundamentals do not point to higher prices ab initio. Also, speculation will not influence oil price if equities were a more attractive investment outlet than commodities. This therefore brings to the fore the investment appeal of oil as a hedge against inflation. From the foregoing, it becomes evident that an admixture of factors account for oil price movement at every point in time.

OPEC, Oil Price and the U.S Dollar

The organisation of Petroleum Exporting Countries (OPEC) is a 12-member oil cartel whose core mission is to coordinate the oil production policies of member countries in order to help stabilise the oil market and to assist oil producers achieve a reasonable rate of return on their investments. The cartel's policy is also designed to ensure that oil consumers continue to receive stable supplies of oil. Since its formation in 1960, the cartel has been at the centre of the global energy equation, sometimes coming under intense criticism for altering market fundamentals. The organisation intervenes in the oil market by adjusting supply to moderate the market, and

An increase in the price of oil impacts industries and businesses as higher oil price culminates in higher energy prices, which can cause a ripple effect on virtually all business aspects that are dependent on energy (directly or indirectly).

maintain extraction capacity in order to influence price. Its policy thrust has been to balance the market while allowing for an appropriate level of oil inventories in consuming nations at a fair price for producers.

Since the global financial crisis weakened the demand for oil, the cartel has responded with supply cuts totalling 4.2 million barrel-a-day to help shore up price. The level of compliance with supply cuts by members of the Organisation has always been an issue of concern as some members renege on the agreed quota thereby oversupplying the market. For instance, the International Energy Agency recently estimates that OPEC members' compliance to supply cuts fell to 58 percent in December 2009 from 60 percent in the preceding month, indicating a further loosening of compliance by members.

Oil like most other internationally traded commodities is priced in U.S. Dollar hence, the strength of the U.S Dollar impacts on oil price. Both oil price and the U.S. Dollar exchange rate are important economic variables that impact on the world economy. Changes in both variables affect international trade and economic activity around the globe. In recent times however, some OPEC members have been clamouring for a change from the U.S Dollar as the reference currency for oil transactions. Iran and Venezuela have been at the forefront in calling on the group to dump the U.S Dollar and denominate oil transactions either in Euro or a basket of currencies. In February 2008, Iran made bold its threat and opened the Iranian Oil Bourse as a commodity exchange primarily trading oil in Euro, Iranian rial, and a basket of other major currencies apart from the U.S Dollar. Iran's action however passed largely unnoticed and did not trigger the collapse of the U.S Dollar as feared.

However, should OPEC someday yield to pressure from some of its members and dump the U.S Dollar as its reference currency, analysts believe that the world economy and not just the United States will be affected. For instance, China holds its foreign currency reserves in U.S Dollar which currently stands at about $2.4 trillion, and over 60 percent of global reserves are denominated in U.S Dollar. The Euro Zone is not likely to be favourably disposed to such a move because it will erode the benefits the zone enjoys by buying crude oil in U.S Dollar. The shift from U.S Dollar to Euro may not enjoy the support of some members of the Organisation notably Saudi Arabia – a strong U.S. ally. However, Saudi Arabia – the most influential member of the cartel, has long dismissed the currency shift idea. There are also other essential reasons why a switch from the U.S Dollar to the Euro as the reference currency for oil transaction would not work despite the move by Iran and Venezuela, and Dubai's emergence as the new regional trading hub for commodities. Some analysts claim that OPEC has no real ability to determine the price of oil, rather, the cartel merely follows the rhythm and trend on the New York Mercantile Exchange and the London-based ICE Futures Europe exchange.

The US economy and Oil

The economics of oil significantly impacts the United States, and vice-versa. The foundation of the U.S economy rests on energy, and some 93 percent of that foundation is provided by oil, natural gas, coal and nuclear power. Oil – at over 20 million barrels per day provides 40 percent of the total. The United States alone consumes about a quarter of the world's total oil and it relies on imports to meet over 50 percent of its total oil consumption since the country became a net importer in the late 1940s despite holding less than 3 percent of the world's proven reserves. The U.S therefore to a large extent dictates the dynamics of price in the oil market. For instance, in March 2008 when oil price rose above $100 per barrel, Chakib Khelil, Algeria's oil minister and then OPEC president said: "If the prices are high, definitely they are not due to a lack of crude. They are due to what's happening in the U.S." About 70 percent of U.S oil imports come from the following six countries: Canada, Saudi Arabia, Mexico, Venezuela, Iraq, and Nigeria.

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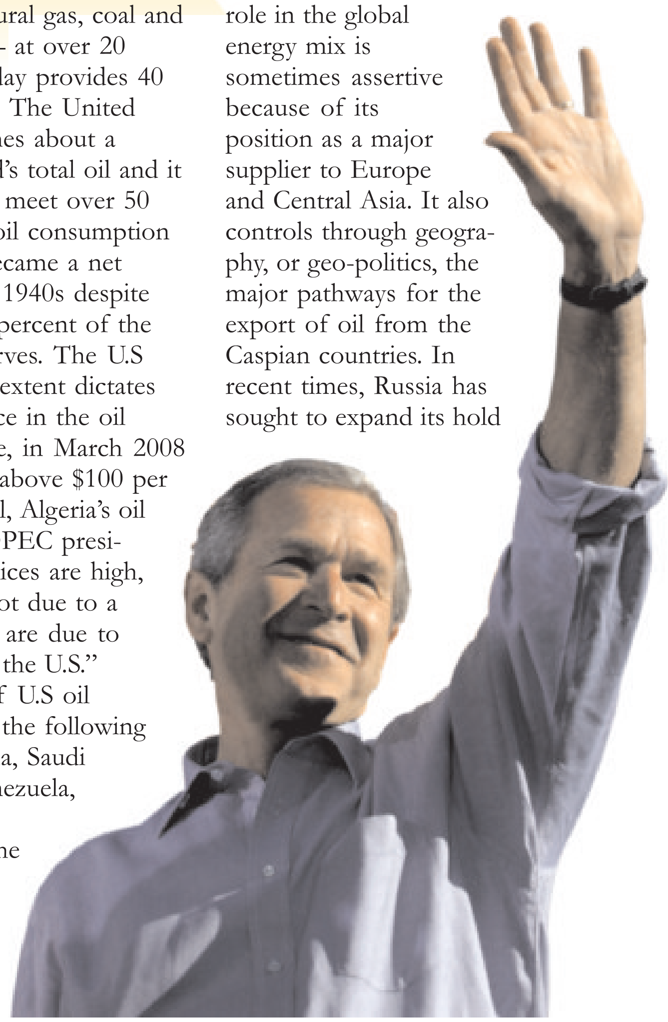
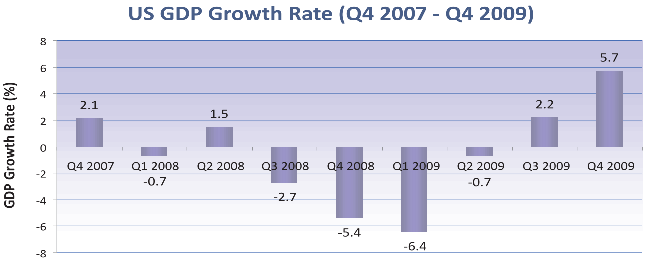
To underscore the dependence of the U.S on oil, former President, George W. Bush proclaimed in a conference on renewable fuels in Washington in 2008 that "America's got to change its habits; we've got to get off oil. Until we change our habits, there's going to be more dependency on oil." Oil imports account for more than 70 percent of total U.S. consumption. The economy's dependence on oil imports no doubt endangers its national security and has shaped its foreign policy direction over time.

Russia's Influence

As the world's second largest oil producing and exporting nation, Russia unarguably wields enormous influence in the global oil market. Russia's role in the global energy mix is sometimes assertive because of its position as a major supplier to Europe and Central Asia. It also controls through geography, or geo-politics, the major pathways for the export of oil from the Caspian countries. In recent times, Russia has sought to expand its hold





Source: US Department of Commerce

and control on oil by venturing into the Gulf of Guinea. For instance, its energy giant, Gazprom, recently signed a $2.5billion joint venture deal with Nigeria's state operated NNPC in mid-2009. The deal gave birth to a new firm, Nigaz, which will build refineries, pipelines and gas power stations in Nigeria. It is believed that the incursion of Russia into the Gulf of Guinea will further strengthen its influence in global energy making decisions.

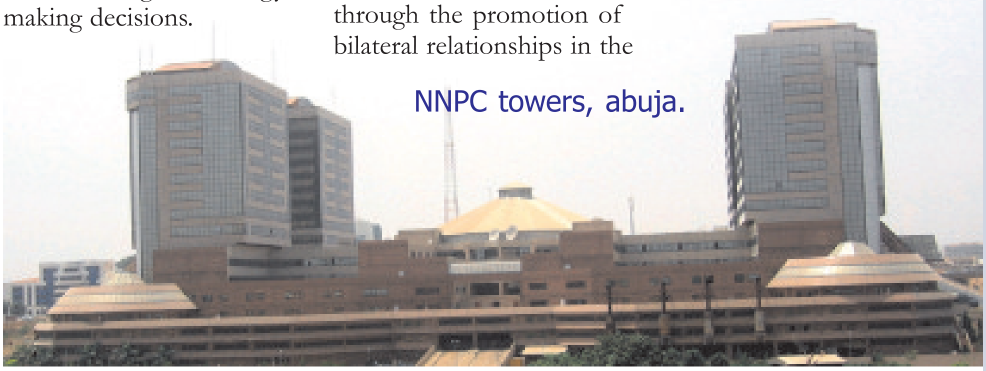
President of Russia (Dmitry Medvedev) and Prime Minister (Vladimir Putin)

Although Russia is a non-member of OPEC, it attends its meetings as an observer and joins in efforts to stabilise the oil market by agreeing on production cuts. It has sought to wield control over the cartel's decisions by means other than joining the oil club, leveraging on the healthy relationship it enjoys individually with many OPEC member countries. Over the years, Russia has built goodwill amongst OPEC members through the promotion of bilateral relationships in the form of foreign aids, military cooperation and assistance, and nuclear technology. Although Russia exerts enormous influence in the global energy mix, being the second largest producer of oil and holding the largest deposit of natural gas in the world, it treats Saudi Arabia – the world's largest oil producer as a partner and not a rival.

China's Quest for Oil

As the economy of China continues to boom, it requires sufficient levels of energy for sustenance and continued growth. China's economy grew impressively in 2009, surpassing its target of 8 percent for the year and coming close to overtaking Japan as the world's second-biggest economy. The economy accelerated in the fourth quarter to expand by 10.7 percent after growing at 6.1 percent, 7.1 percent and 7.7 percent in the first, second, and third quarter respectively. In a bid to secure its present and future energy needs which the International Energy Agency projects to hit 13.1 million barrels per day in 2030, China has turned to Africa. The race for Africa's oil has somewhat pitched China against Western multinational oil companies who have been in the region. China's biggest suppliers in Africa include Angola, the Republic of Congo, Equatorial Guinea, and Sudan. It has also sought supplies from Chad, Nigeria, Algeria, and Gabon. China has oil exploration and production licence in Gabon, Equatorial Guinea, and the Republic of Congo. In 2006, China's biggest offshore oil producer, China National Offshore Oil Corp (CNOOC) Limited, paid US$2.3 billion for a stake in a Nigerian oil and gas field. Angola has become one of China's major sources of oil, sometimes ahead of Saudi Arabia, Iran, Oman and Russia. Its interest in the Angolan oil industry is deep-seated and the African country is considered a strategic partner worthy of special attention although its involvement in Angola dates back to the early years of the anti-colonial struggle in Angola.

China's increasingly multi-faceted presence in Africa has been seen as part of the country's growing global reach to seek natural resources (especially oil), and export markets. China is using its enormous resources to build infrastructure to win favour across Africa. It is estimated that at least half a million Chinese are working



NNPC towers, abuja.

on projects across the continent. China's diplomatic engagements in the continent is viewed as a strategy to secure oil supplies to help meet growing domestic demand in the near-term , and to position itself as a global player in the international energy market in the longer-term. China's reach for oil is not limited to the African continent. Petrochina (a Chinese oil company and the listed arm of state-owned China National Petroleum Corporation), recently paid $1.7billion for interests in oil sands projects in Canada. Petrochina alongside China National Offshore Oil Corporation (CNOOC) and Sinopec have stepped up acquisitions of oil reserves and refineries overseas. Chinese oil companies have also made substantial investment in Venezuela. China and Venezuela are in the process of establishing a joint venture oil company in Venezuela, with Venezuela holding a 60 percent stake and China 40 percent. The two countries also plan to set up a shipping company to facilitate oil transportation as part of their strategic alliance.

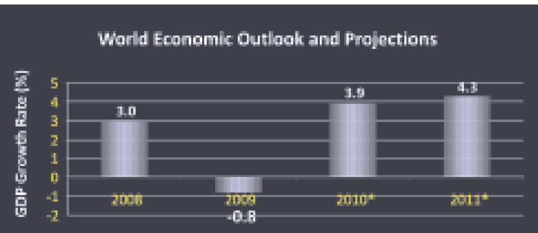
Source: National Bureau of Statistics of China

Oil, Global Politics and Diplomacy

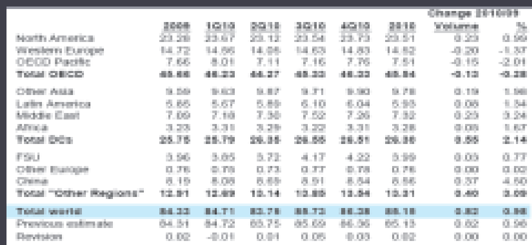
Oil and energy security has always been at the centre of global politics, peace, and diplomacy. Oil is a prominent feature of the international political landscape as major oil producing countries utilise their energy resources to pursue their strategic and political objectives. Oil importing countries have also become vulnerable and constrained in the pursuit of their foreign policy and national security objectives.

The commodity has continually shaped political alignments and realignments as countries dependent on imports subtly modify their policies to be more congenial to suppliers. It lubricates the mechanisms of both national and international politics. Oil has been variously deployed as an important tool of global diplomacy. Some major oil exporting countries sometimes cut oil supply to countries perceived to be pursuing antithetical interests in what has been dubbed "energy blackmail". The safety of oil investments has been at the fore of global peace initiative since the Cold War.

Oil played a very critical role in the Second World War and since the war ended, there has been several conflicts that either disrupted or threatened to disrupt the world oil supply system, especially from the Middle East. Even during the Cold War era, oil was at its epicentre being a potent arsenal in the war of attrition. All over the world, from the Persian Gulf to the Gulf of Guinea, wherever oil is found, there is one form of agitation, crisis or tales of woes. This has led to the association of oil with such phenomena as resource curse, paradox of plenty and the most

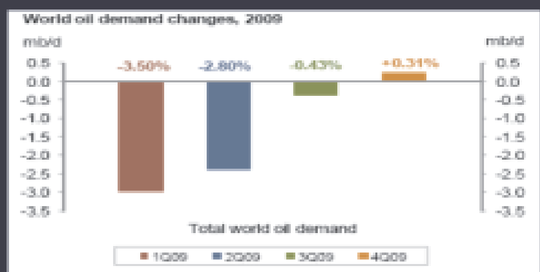


*Source: IMF * Projections*



	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 2010/09 Volume	%
North America	23.28	23.67	23.12	23.54	23.73	23.51	0.23	0.99
Western Europe	14.72	14.66	14.06	14.63	14.83	14.52	-0.20	-1.37
OECD Pacific	7.66	8.01	7.11	7.16	7.76	7.51	-0.15	-2.01
Total OECD	**45.66**	**46.23**	**44.27**	**45.33**	**46.33**	**45.54**	**-0.12**	**-0.28**
Other Asia	9.59	9.63	9.87	9.71	9.90	9.78	0.19	1.98
Latin America	5.85	5.67	5.89	6.10	6.04	5.93	0.08	1.34
Middle East	7.09	7.16	7.30	7.52	7.26	7.32	0.23	3.24
Africa	3.23	3.31	3.29	3.22	3.31	3.28	0.05	1.67
Total DCs	**25.76**	**25.79**	**26.35**	**26.55**	**26.51**	**26.30**	**0.55**	**2.14**
FSU	3.96	3.85	3.72	4.17	4.22	3.99	0.03	0.77
Other Europe	0.76	0.76	0.73	0.77	0.78	0.76	0.00	0.02
China	8.19	8.08	8.69	8.91	8.84	8.56	0.37	4.50
Total "Other Regions"	**12.91**	**12.69**	**13.14**	**13.85**	**13.84**	**13.31**	**0.40**	**3.09**
Total world	**84.33**	**84.71**	**83.76**	**85.73**	**86.38**	**85.16**	**0.82**	**0.98**
Previous estimate	84.31	84.72	83.75	85.69	86.36	85.13	0.82	0.96
Revision	0.02	-0.01	0.01	0.05	0.03	0.02	0.00	0.00

Source: OPEC

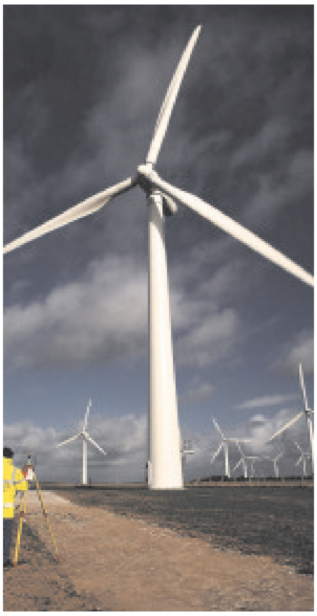


Source: OPEC

infamous sobriquet – "devil's excrement". In some instances, the discovery of oil mark the end of peace in some regions as disagreements over ownership and distribution of oil wealth makes it impossible for meaningful economic development to take place.

Alternative Energy and The Future of Oil

As concerns for the protection of the environment increases, and major oil consuming countries seek to reduce their dependence on oil, emphasis on alternative source(s) of energy is increasing. The environmental challenge of increasing consumption of hydrocarbons concerns both low level pollution, affecting air quality in cities, and the long term question of the impact of human activity on the climate. Another challenge is that oil is believed to be depleting



rapidly and it is becoming harder to extract the commodity. The consequence is that an energy crisis in the future is imminent if steps are not taken to develop an alternative. Although concerns about the future of oil in terms of the quantity remaining in the earth's crust and how soon the resource will run out is not new, oil being a nonrenewable resource, it is only wise to avoid a doom scenario by finding alternative sources to meet humanity's energy needs.

In a bid to reduce the negative impact of humanity's industrial activities on the environment, especially global warming, the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC or FCCC) was adopted in December 1997 in Kyoto, Japan and entered into force in February 2005. Its thrust is to combat global warming by stabilising greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. As of November 2009, 187 countries have signed and ratified the protocol which requires countries, especially 37 industrialised countries to commit to a reduction of greenhouse. To further press for commitments on curbing greenhouse gas emission, the 2009 United Nations Climate Change Conference, commonly known as the Copenhagen Summit, was held in Copenhagen, Denmark in December 2009. The Summit however ended without a legally binding treaty and was plagued by negotiation deadlock.

The consequence is that an energy crisis in the future is imminent if steps are not taken to develop an alternative.

As the United Nations and environmentalists continue to push for a cleaner environment and a shift to more environmentally friendly sources of energy such as wind, solar, and geothermal; governments and industries are under pressure to act swiftly in order not to imperil the ecosystem. For instance, President Barack Obama on assumption of office signed new measures to spur development of fuel efficient cars. Car manufacturers are also under pressure to produce cars and other light vehicles that could be fueled with larger fractions of biomass-derived liquids such as ethanol. Plug-in hybrids vehicles which allow some fraction of the mileage to be powered by electricity that is charged from the grid are also underway, perhaps leading to an eventual transition to fully electric vehicles in future. As efforts to reduce dependence on oil continues, some energy analysts have dismissed them as mere rhetoric stressing that the world will continue to depend on oil.

A major component of the alternative/eco-friendly

energy initiative is the promotion of biofuel production and usage. The political landscapes of the European Union and the U.S have been agog with the biofuel frenzy with government subsidies, biofuel blend mandates, and tax breaks. The E.U has developed action plans and set targets to promote the use of biofuel while a number of states in the U.S have enforced mandates to convert corn to ethanol. The use of biofuel has however been seriously criticised as a short-sighted policy because of the attendant food shortage it will cause although corn farmers and oil plantation owners have hailed the move as a novelty. Critics of biofuel argue that the diversion of grains and edible oils from food to biofuel will lead to acute shortage of food for human consumption in the future. Another argument espoused by some scientists has it that biofuels are actually net energy negative because it takes more fossil fuel energy to produce biofuels from grains and edible oils. China, the most populous nation in the world has frowned at the use of biofuels and has halted corn ethanol projects to avoid a humanity crisis of food shortage. With these criticisms, how soon biofuels will replace oil as source of energy is certainly not foreseeable.

Looking Ahead with Tempered Optimism

As policymakers continue to tinker with measures to return the global economy to positive growth path, oil will play a major role in the process of recovery. Although the year 2010 has opened with a wave of optimism about the global economic and financial outlook, there is need to exercise caution with oil because of its price volatility. Inspite of the fact

China, the most populous nation in the world has frowned at the use of biofuels and has halted corn ethanol projects to avoid a humanitarian crisis of food shortage

that the impact of oil price movement on global economic growth has been somewhat ambiguous historically, there is no doubt that very high oil price will not augur well for the global economy in this period of recovery. The International Monetary Fund (IMF) in its recent economic outlook notes that commodity prices were surprisingly buoyant in 2009, and are expected to rise further in 2010 as economic activities expand after the global crisis. The commodity price rally at the early stage of recovery (and ahead of global economic growth) contrasts with past experiences. After previous global industrial downturns, prices typically continued to fall or rose at very modest rates.

Oil price presently oscillate between $70-$80 per barrel (a level considered fair for oil producing countries in order to guarantee investments), there is however the need to maintain equilibrium in the market to avoid extreme volatility. Although normalcy is beginning to return to the extreme cold weather condition in the Northern Hemisphere which has been a major push on energy prices, demand is expected to be strong from oil importing countries as economic activities rev up across the globe, led by emerging economies. As economic activities gathers momentum, and depending on the strength of the U.S Dollar, the risk appetite of investors will swing between euphoric, panic and neutral, and this will impact on the price of oil as the commodity has become a veritable investment alternative and a hedge against inflation. Looking ahead into 2010, oil will play a major role in the process of recovery from recession, and global politics and diplomacy will continue to revolve around it.

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the economy in 2010: recovery prospects & the challenges ahead

* By Mike A. Uzor

Through the cycle of economic boom and depression, there is a flicker of optimism for Nigeria in 2010. The signals are good that the oil market will show a sunny side to the economy from both sides of output and price. A new peak in crude oil production seems attainable in the year and a return to fiscal abundance isn't far fetched for the nation. That can be expected to permit the economic growth target of 6.1% for the year with a fair chance of overshooting it.

Nigeria looks very good at achieving in excess of 2.5 million barrels per day [mbd] crude oil output in the current year, according to NNPC projection. The new production peak is calculated on the premise that community hostility in the Niger Delta is out of the way in 2010. An improved security environment would let oil companies reopen abandoned sites and fix vandalized facilities. The output projection for the year stands 20% above the 2.088 mbd benchmark for the 2010 budget.

Further progress in the recovery of the global economy is expected this year and this will have a favourable effect on crude oil price. By the projection of the IMF, the global economy will grow by 3.1% in 2010, making the first strong growth from a three-year slow down. The strong economic growth will spur demand for crude oil, which by OPEC forecast, will reach 85.13 mbd. Global crude oil demand is therefore expected to improve by 0.82 mbd or about 1.0%. Demand for OPEC crude is expected to improve marginally to 28.61 mbd.

Fiscal 2010 is a prospective year of revenue boost for oil exporting nations with the expected gains on both crude oil production and price. The US-based Energy Information Agency projects that OPEC member countries would gain $184 billion in revenue in 2010, up on the estimated net income of $575 billion for 2009. That will be a big progress from an estimated drop of 40.4% in crude oil earnings in 2009.

Considering the demand and supply conditions likely to rule the oil market in 2010, crude oil prices are likely to average well above the 2010 budget benchmark of $57 per barrel. The bullish signals coming from the oil sector are again reinforced by an unwavering growth

GDP Growth Rate %

2004	6.5
2005	6.2
2006	5.6
2007	6.2
2008	6.0
2009*	6.9
2010+	6.1

*Estimate +Projected

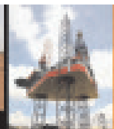
of the non-oil sector. Commodity prices remained strong despite the global economic decline and the recovery process of the world economy can be expected to spur demand and prices further in 2010.

The summary of the expected outcome of global trade in 2010 is that Nigeria is one of the countries that will receive a boost in income. The challenge for the economy lies in what is likely to happen to the quality of government spending in an economy in which credit and capital market windows have remained shut for two years. Translating economic growth into development is likely to remain a challenge for the nation. Effective fiscal and monetary governance will be critically needed to drive recovery in the economy through the financial markets.

The positive growth potential for the Nigerian economy in 2010 needs to be matched by the development of effective transmission mechanisms to channel funds into productive activities. The fact that money is significantly out of productive sectors in Nigeria isn't a new development. However the situation has been further extended since the crisis in the financial markets began in 2008. Since then neither banks nor the stock exchange has been able to play their role as a source of development capital. How to use the expected improvement in the fiscal position of government to stimulate the rest of the economy towards recovery and growth is the real task for policymakers and administrators in 2010.

The quality of government spending

Fiscal governance has for many years not permitted the deepening of economic activity. An excessive concentration of government spending on recurrent votes has



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shaped spending in the private sector to follow the same pattern. Like the government, the spending by both individual and business units has centred on maintaining existing operating capacities.

A move to change this spending pattern came through the recapitalisation process in the banking sector in 2007. However much of the gains made have been lost in the crisis that followed and the source of the capital – the capital market has been down for the past two years. With the development, the dream of building banks to build a bigger economic capacity has faded.

The globally recommended approach to dealing with the economic meltdown is stimulatory spending. The target is to apply government spending to prop up productive activities and in the process keep aggregate expenditure from falling. The quality of government spending is of much more importance to Nigeria where money has for a long time remained out of productive activity.

Are there any prospects that the quality of government spending will improve in 2010 and the economy empowered to attain a higher level of production capacity? The 2010 budget isn't saying convincingly yes. If by any chance an effective implementation of the capital vote of N1.3 trillion happens in the year, this will make a difference in a broken down economy. Yet the recurrent vote remains relatively too large to permit the much needed economic capacity building.

Budget proposal by the President indicates an increase of 35% in recurrent votes to N2.7 trillion in 2010. This is against the projected federal government revenue of N2.5 trillion for the year. This means government revenue will be insufficient to run the machinery of government in the year and it is willing to borrow to make up for the shortfall. Recurrent expenditure will grow ahead of government revenue at 35% compared to 31.5%. Such an income-expenditure relationship isn't sustainable neither can it permit economic development.

This is a real challenge for the nation not only in 2010 but for many years to come. The running of the machinery of government is continually reshaped around the huge influx of revenues. In 1999, oil price hovered around $16 per barrel. Nigeria recorded a fiscal deficit of N285.1 billion in that year. In 2008 when oil price hit a peak of $147.2 per barrel in addition to a strong growth of the non-oil sector, Nigeria proposed even a bigger fiscal deficit of N757.5 billion for the year.

The 2010 budget follows the same pattern

Like the government, the spending by both individual and business units has centred on maintaining existing operating capacities.

Federal Government Finances 1999 2009 - Nb

Year	Fed Govt. Retained Revenue	Fiscal Deficit/Surplus	Total Expenditure
1999	662.6	-285.1	947.7
2000	597.3	-103.8	701.1
2001	797.0	-221.0	1,018.0
2002	716.8	-301.4	1,018.2
2003	1,023.2	-202.7	1,226.0
2004	1,253.6	-172.6	1,426.2
2005	1,660.7	-161.4	1,822.1
2006	1,835.2	-102.8	1,938.0
2007*	1,777.7	-609.2	2,309.3
2008*	2,194.0	554.0	2,748.0
2009*	2.291.7	-757.5	3,049.1

Source: Compiled from Various Fiscal Policy Papers and Budgets
* Budget proposal

of sustained fiscal deficits even as revenue continues to grow. The recurrent expenditure of N449.7 billion that serviced government machinery in 1999 represents just 26.3% of the recurrent vote in 2009. While capital expenditure was 52.5% of total federal government expenditure in 1999, the provision in 2009 represents only 29.2%.

The spending pattern is the reason why Nigeria is unable to use oil wealth to create economic prosperity for its people. While most oil exporters ran budget surpluses during the 1999 – 2008 oil price build up, Nigeria consistently maintained fiscal deficits. While a number of oil exporting countries have utilized oil wealth to create general economic prosperity at home and lift ordinary people, in Nigeria much of the oil proceeds are lost to corruption, thereby depriving the country of a great opportunity for development.

Capital budget concerns

The capital budget is planned to improve by about 30% to N1.3 trillion in 2010. The concern here is neither the fact that capital votes will grow at a lower pace than recurrent spending nor the consideration that they represent a lower proportion of aggregate expenditure than in 2009. The real concern is whether the capital spending programmes, no matter how big or small, will be implemented reasonably. Poor execution of capital projects has been a recurring issue for the past two years. An effective implementation of a capital vote of N1.3 trillion can be expected to make a noticeable impact on the economy.

> The realization of the present administration's seven-point agenda depends on the effectiveness of its capital spending programmes on priority sectors. Yet the critical sectors such as **power**, **works**, **education**, **agriculture** and **security** have recorded the worst budget performances.

Yet, no matter how well the capital budget for 2010 is implemented, the yawning gap in development spending will remain. Because the preceding two years' capital votes were largely unimplemented, the budget for the current year is effectively for three years. The projects are largely the same for which the prior year allocation was returned unutilized. The effect of this is that the real share of capital budget in the overall government spending is significantly lower than indicated.

Since the preceding year's unspent budget allocations are brought forward to finance the current year's programmes, this means capital votes of the previous year are actually transferred to fund recurrent expenditure in the current year. Again, since capital spending programmes are usually funded with borrowing, this means recurrent expenditure is practically being funded by a higher margin of borrowing than is apparent. This has been the practice for some years now. This is leading to a build up of an unsustainable level of domestic debt, leaving the economy one step away from fiscal crisis.

In 2008, the average funds utilization rate for capital budget programmes was put at 24%. In fact, a number of ministries,

departments and agencies achieved less than 15% funds utilization during the year. Budget office indicated a 21% implementation rate in the first quarter of 2009, which improved to 42.9% in the second quarter. Full year funds utilization rate is estimated at under 45% for 2009.

The realization of the present administration's seven-point agenda depends on the effectiveness of its capital spending programmes on priority sectors. Yet the critical sectors such as power, works, education, agriculture and security have recorded the worst budget performances. The indication is that government is clearly not on the way to realizing its key promises to the people with just about one year to the end of a four-year mandate.

Failure in implementing development programmes in the midst of painful needs is the summary of the budget programmes of the preceding years. There is yet nothing in the current year to suggest that a break from the past pattern should be expected. The failure in budget implementation is linked to wide scale corruption in government. The Bureau of Public Procurement has accused ministries, departments and agencies [MDAs] of conniving with contractors to scuttle the procurement process in the budget implementation machinery. According to the bureau, 80% of corruption in the civil service originates from contract inflation, non-delivery of contract items and bias/undue influence in the bidding process.

The finding is quite disappointing after so much noise about fighting corruption in Nigeria. Nevertheless, the main factor in the recurring budget failures has been identified and the arms of government where it resides are also made known. Is government willing and able to cure itself of corruption and get the budget implementation process right on target for 2010? There is apparently no initiative in this direction worthy of the critical consideration the problem deserves.

If government appreciates the seriousness of its fiscal plan it is expected to feel the pain of its failure. If it feels the pain, it is expected to set up inquiries to fish out the stumbling blocks and continuously adopt new strategies to actualize its budget programmes. Where there is authority to exercise fiscal governance over the affairs of the nation, there is an attaching responsibility to deliver desirable social and economic goals to the people. Inability to deliver budget goals cannot therefore be excused on the failure of any arm of government over which the leadership exercises authority.

If the corruption in the civil service is judged incurable, which seems to me to be the case, can we reasonably continue to rely on MDAs for the delivery of capital budget goals? The answer is no! A new strategy that shifts the task of implementing capital budget programmes from various MDAs now needs to be tried. An institution, say agency for capital projects could be created for this purpose to be run jointly by government and consultants. The responsibility for planning and execution of capital projects will then be split between the MDAs and the agency for capital projects respectively.

Priority Projects in 2009

Project	Capital Vote N billion
Power sector	
Transmission projects	32.0
Distribution projects	19.25
Completion of Niger Delta Power Holding Companys NI PP projects	6.5
Mambilla hydro electric power generation project	3.5
Other power generating projects	21.5
Petroleum resources	
Ajaokuta-Abuja-Kano gas pipeline	10.3
Calabar- Umuahia- Ajaokuta gas pipeline	6.7
Gas supply pipeline to PHCN Delta IV	1.1
Trans-Saharan gas pipeline	0.904
Works	
Highways construction and rehabilitation	56.86
Access Roads to 6 NNPC refineries and ports	10.7
Construction of the 2nd Niger bridge	4.3
Construction of Guto/Bagana bridge across River Benue	3.6
Transport	
Completion of Ajaokuta- Warri railway line	12.4
Modernisation of locomotives, coaches/wagons, etc	8.3
Dredging of the Lower River Niger	8.4
Health	
Maternal & childrens health	7.7
Response to HIV/AIDS	6.5
Polio eradication	6.0
Midwifery services	3.0
Agric & water resources	
Supply of fertiliser	15.0
Water supply & sanitation	11.6
Construction & rehabilitation of dams	9.2
Tractor service PPP schemes	6.5
Development of livestock production	4.6
Niger Delta projects	
Environment restoration projects	92.8
East-west road project	28.4
Other projects, mainly skills acquisition centres	18.6

Source: Federal Budget 2009/Nigeria Banking & Economy, 2009

Critical action areas in 2010

The enormity of the task that must be accomplished to lift Nigeria into the league of the top 20 developed nations in 2020 increases each year that is lost in terms of missed development spending targets. The level of economic growth that must happen to take Nigeria to the 2020 vision is yet nowhere in sight. The industrial base the nation needs to attain the vision is clearly not the presently declining sector, running at one-third of capacity and unable to compete.

The agricultural sector the nation needs to feed the people and grow non-oil exports by 2020 isn't the present one that is dependent on the crude implements of peasant farmers. The infrastructures required to drive the 2020 vision isn't the broken down facilities that are presently driving even established businesses across the borders.

> Nigeria's competitiveness for investment has continued to suffer principally on account of lack of the basic infrastructures of power supply. This is to the extent that some existing businesses in the country are moving their production base across the borders.

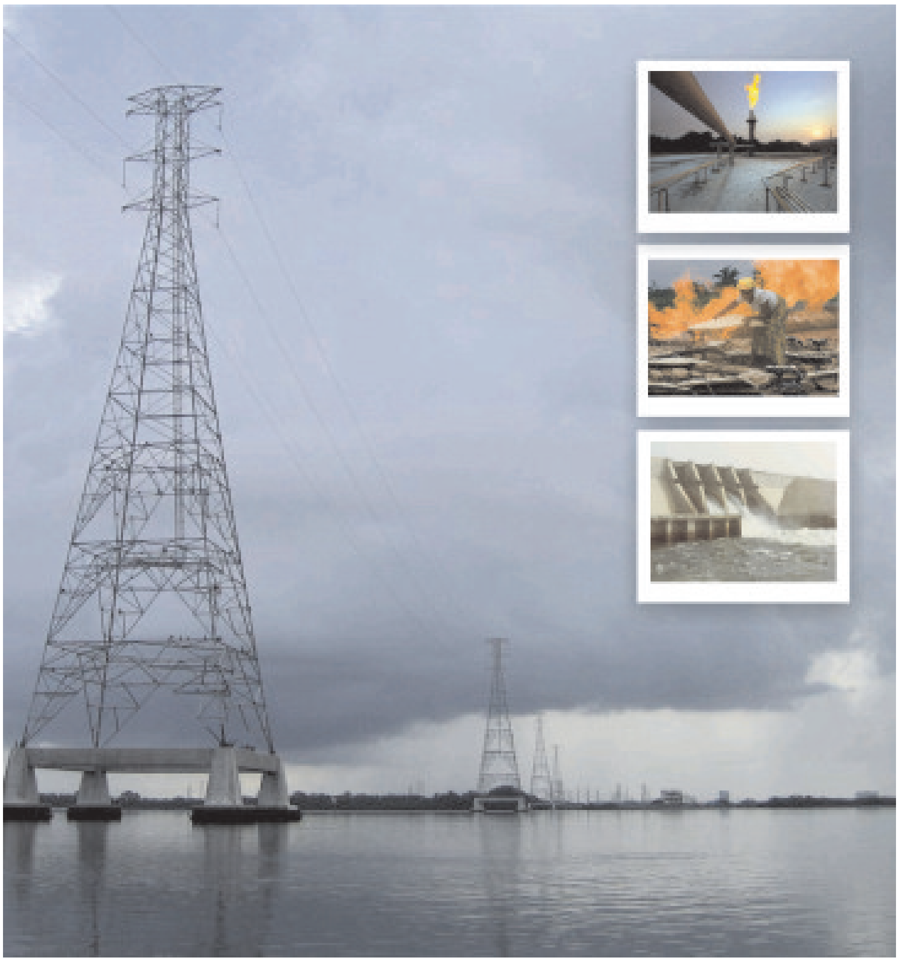
In the absence of quality spending to empower the various aspects of the economy, the 2020 vision is made to appear like a duty reserved for government to accomplish. Apart from the fact that quality spending is not happening to stimulate the development forces of the economy, there is also no clear definition of roles and expectations of the various sectors of the economy in attaining the vision.

Apart from the Financial System Strategy [FSS] 2020 unveiled by the Central Bank in 2007, there is no other plan in place or even on the drawing board for the other key sectors of the economy towards the 2020 vision. FSS 2020 is supposed to be a subset of an overall economic blueprint laying a strategic direction for positioning the economy towards achieving the 2020 vision for Nigeria. Less than 11 years away from target, there is yet no such overall plan defining the roadmap to 2020 neither are there any other accepted sectoral plans that should fit into it.

Fiscal 2010 is a critical year in the 2020 vision, being the year that heralds the decade of the nation's big dream. For a decisive headway to be made towards the realization of the 2020 vision, four key sectors of the economy must be empowered in 2010 to drive the rest of the economy. These are energy, transportation, banking and agriculture. Decisive actions are needed in these sectors quite early to stimulate the economy towards a significantly higher rate of growth than targeted for 2010.

It is imperative for the nation to fast track economic growth in order to regain lost ground. At the inauguration of the Vision 2020 Business Support Group about a year ago, President Umaru Yar' Adua calculated that the economy needs to grow by an average of 30% annually for 10 years to attain the 2020 vision. The estimated GDP growth of 6.9% in 2009 and the proposed growth rate of 6.1% for 2010 do not indicate any serious bid to make the list of the next group of countries that could break out in economic power within the next 10 years.

A much stronger growth is realizable for the economy in 2010



Power Intervention Spending in 2009

Total disbursements for Niger Delta, Mambila power projects & NIPP	$4.6 billion
NIPP projects Rehabilitation of PHCN power plants	N315 million N117.3 billion
Expansion of Alaoji power plant	$480 million
Construction of ramp jetty across Imo River to move equipment to Alaoji power plant	N2.1 billion
Capital budget allocation to power	N88.5 billion

if appropriate stimulatory actions can be taken early enough to stimulate the four critical sectors to drive growth and development in the rest of the economy. The test for progress with the 2020 vision is ability to unlock the development forces of the economy.

The energy sector

Nigeria's competitiveness for investment has continued to suffer principally on account of lack of the basic infrastructures of power supply. This is to the extent that some existing businesses in the country are moving their production base across the borders. Going by the nation's huge reserve of oil and gas, it should not lack power and fuel. In reality it lacks both.

The schedule for the attainment of stable power supply has continued to be shifted forward despite huge investments poured into the sector. The December 2009 deadline for the generation of 6,000 megawatts of electricity has been pushed forward to March 2010. That seems to leave just a little space to attain the 10,000 megawatts power generation capacity scheduled for 2011.

In the past when there was a long time frame for the power generation target, it was never met. Past experiences of unrealized power generation targets create doubts for meeting the targets in the current year and next. It is however strategically important that this year turns out in the end to be a break from the past. It is expected of government to do everything needed to attain the power generation target in 2010. Improvement in power supply is the single most important development needed to attract and retain investments for building the desired, bigger operating capacity for the economy.

Power generation is considered the most critical of the President's seven point agenda. He has been advised to scale down the seven point agenda to concentrate on solving the power problem. Even the 10,000 megawatts target for 2011 is still a far cry from the estimated minimum need of 25,000 megawatts for the nation of more than 140 million people. The Nigerian Electricity Regulation Commission estimates that only 40% of Nigerians have access to public power supply. Government has already rightly identified rural electrification as an area of emphasis in order to empower the rural economies.

The available power generation is estimated at less than one-half of the installed capacity of 7,000 megawatts. The wide gap between available power and installed capacity is the first point to address in the effort to raise power output. The gap is attributed to poor plant maintenance, inadequate gas supplies to thermal stations and pipeline vandalisation. With the amnesty deal in the Niger Delta, it is expected that the three factors affecting power generation are now within the control of government.

This is a 12.5 MW gas fired reciprocating Independent Power Plant providing electricity to Lafarg WAPCO Nigeria Plc\'s factory in Ewekoro, Ogun State, Nigeria

A new strategy is needed in the maintenance of power plants to build in efficiency in the process. A lot of funds are sunk in every year in plant maintenance and yet the nation does not get value for the

spending. In 2009, N117.3 billion was approved by the National Economic Council [NEC] for the rehabilitation of some power plants of the Power Holding Company of Nigeria. As it happens in the refineries, so it is with the power plants. By experience, accountability is very poor in the energy sector; in some cases even non-existent. Unless the operating structures of these institutions are changed to get them run efficiently, the problem of frequent breakdown will persist.

While there is a problem in supplying gas to power generating stations, a greater number of power stations are gas dependent. Again, they are located far away from the source of gas supply, thereby creating a complex situation out of an otherwise simple matter. Apart from pipeline vandalisation, gas fields frequently experience technical problems that hinder the flow stations from pumping sufficient gas to distant destinations. This insufficiency thrives in a nation that has one of the largest gas reserves in the world. Estimated at 187 trillion cubic feet, more than 10,000 megawatts capacity power plants can run on just 10% of Nigeria's gas reserve at 80% capacity for 22,000 years.

More than 40% of the 2.5 million cubic feet of gas produced daily is presently flared. New gas projects were provided for in the 2009 budget meant to supply gas to the various power plants and local industries. The inability to meet the power generation target of December 2009 indicates that the projects were not completed. The gas supply projects need to be given a priority in 2010 to permit significant improvement in the operating capacities of all the thermal stations.

The power sector has been a waste pipe for the nation through which millions of dollars have been spent with very little to show in power generation. More money is still being thrown at the power problem. It was initially calculated that to attain the 10,000 megawatts power generation by 2011 will require N200 billion in new investments. Nearly three and half times that amount was spent in 2009 and yet the 6,000 megawatts power generation could not be attained during the year.

Federal and state governments pooled together the sum of $5.2 billion from their shares of excess crude oil funds for investment in the power sector in 2009. More than $4.6 billion of the funds was spent on various projects in the power sector, under the management of the presidential steering committee on emergency power.

A major improvement is needed in road networks to make for easy movement of people and goods. Remote villages and farming communities need to be opened up with roads in order to create easy access for their products to markets.

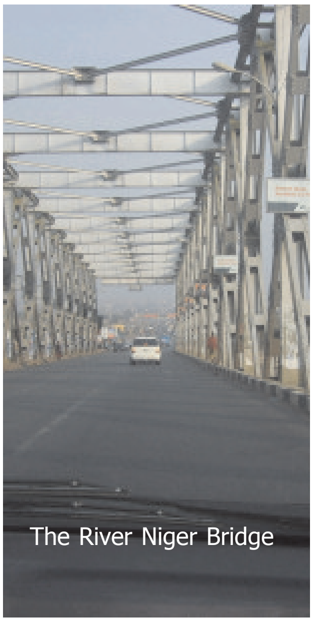
NEC, in approving the spending, clearly stated the purpose – which is to shore up power generation from its dismal 1,200 megawatts to 6,000 megawatts at the end of 2009.

The problem of the power sector is defined to be more of human and political than money. Lack of accountability is the main factor hindering progress in the power sector. Petroleum Business Digest agrees that "without accountability there can be no progress. Putting money on problems does not solve the problems unless people are accountable", it said.

Is fiscal 2010 going to be the year when the billions of dollars spent without generating power will be called for proper accountability? If not, it will appear meaningless to keep revising power generation targets forward because there will be no end in the effort to fill a leaking basket.

Transport Infrastructures

Transport infrastructures rank next to power supply in their importance in achieving economic development. Improvement of the stock of transportation facilities is therefore one of the four imperatives for the economy in 2010. A major improvement is needed in road networks to make for easy movement of people and goods. Remote villages and farming communities need to


The River Niger Bridge

be opened up with roads in order to create easy access for their products to markets.

Easy movement of people and goods across the nation is one of the basic standards required for attaining the 2020 vision. Linking up rural economies is needed in the effort to build bigger capacity for non-oil exports, which have led economic growth in the past three years. Transport was listed among the priority sectors in 2009 and N35.2 billion was provided for the development of transport facilities that will improve movement of people and goods.

This was in addition to the N56.9 billion earmarked for highway construction and rehabilitation. Provisions were also made for construction of the second Niger Bridge and Guto/Bagana bridge across River Benue.

In view of poor implementation of the budget, it is not certain that reasonable progress was made in realising the projects.

The transportation sector needs to be modernised to create an inter modal transport system. Some moves were made in this direction in 2009 and needs to be expanded in 2010. Completion of Ajaokuta-Warri rail line was on the agenda last year and N12.4 billion was provided for it in the budget. Modernisation of locomotives, coaches and wagons are also part of the plan.

The full realisation of these programmes is of strategic importance to the nation, as the railway provides cheap service that benefits the larger section of society. It is expected that ongoing efforts will be sustained in 2010 to realise the set objectives. A much greater zeal in execution of planned projects in the transport sector is needed in 2010. The funds allocated to the sector is far below what will be needed to build a modern transport system, which makes full execution of approved projects of critical importance.

The financial sector

Since money is the life blood of the economy, the operating conditions of financial markets in 2010 will determine whether the nation's economy will get the essential life support or be choked off by financial anaemia. Banking is the key driver of the economy with new lending to the private sector exceeding the combined spending by the three tiers of government for the first time in 2008. The bulk of the over N2.0 trillion that federal and state governments expect

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to borrow in 2010 [N1.6 trillion in 2009] will come from the banking sector.

The challenge for the year is that both the money and capital markets are affected by the financial crisis and neither can bail out the other. Banks got into trouble because share prices melted in the stock market largely funded by banks. Banks are looking up to the stock market to rebuild share prices to write back huge provisions to profit. The market, on its part, is waiting for banks to improve earnings prospects for it to raise share prices.

The situation has created a log jam in the flow of money and credit. The net effect is the freezing of both the credit and capital markets. How to free the economy from the resulting cash and credit crunch is the challenge for regulators and policymakers in 2010. It is indeed a challenge that must be surmounted in order to prevent an apparent drift of the economy into a deeper recession.

The role of credit and capital markets in the business cycle needs to be properly understood and the transmission of monetary policy adequately employed in managing the economic recession. The path that the rest of the world followed in dealing with the global economic recession clearly emphasizes this point. Credit and capital markets should be up when the economy is down because in them resides the strength to stimulate economic activity.

This is the reason why governments and regulators around the world moved decisively in the direction of low interest rates and pumped billions of dollars to unfreeze their credit markets. The objective is to keep aggregate spending in the economy from falling, keep industrial engines

There are commendable moves on the path of the Central Bank to deal with the crisis in the banking sector.

CBN Liquidity Improvements	
A cut in monetary policy rate from 10.25% to 9.75%	September 2008
Reduction in cash reserve ratio from 4% to 2%	September 2008
Reduction in Liquidity ratio from 40% to 30%	September 2008
Suspension of aggressive liquidity mop-up	September 2008
Permission of repo transactions against 90-day eligible securities	September 2008
Reduction in monetary policy rate from 9.75% to 8.0%	April 2009
Reduction in liquidity ratio from 30% to 25%	April 2009
Reduction in cash reserve ratio from 2% to 1%	April 2009
Reduction in monetary policy rate from 8.0% to 6%	July 2009
BAs and CPs admitted as eligible liquid assets	November 2009

Source: Various Monetary Policy Committee Reports

streaming and men at their duty posts. When this is accomplished, the force of economic recession is broken and the period in which an economy is in decline is minimised. In all the countries where such counter cyclical policies were applied, their economies have been on a recovery track since last year.

With the recovery so far in oil prices since last year and the benign behaviour also expected in the current year, there is no reason to permit an aggravating impact of the global crisis on domestic economic activity. The tools to accomplish this lie in stimulatory fiscal behaviour and the unfreezing of financial markets. There isn't much fiscal space though, but the planned deficit spending in 2010 creates the scope for discretionary fiscal easing.

How effectively the fiscal policy is transmitted to stimulate aggregate demand depends on how soon financial markets are aided to reopen credit and capital windows. That too will permit the realisation of the beneficial effects of monetary policy easing on credit delivery. There aren't much inflationary fears in the fiscal 2010, which permits a combination of both fiscal and monetary policy expansion. However caution is called for in sustaining fiscal deficits amid an internal debt overhang of over N3.0 trillion.

There are commendable moves on the path of the Central Bank to deal with the crisis in the banking sector. The first and, in fact, the most important are the assurances by the bank that all is well with Nigerian banks despite the global crisis. This move is equivalent to the assurance by the chancellor of the exchequer in London to investors and depositors of Northern Rock that there was no need to panic over the affairs of the bank. The British bank was then facing a full blown run and had borrowed £3 billion from the Bank of England within the first few days of its crisis.

Because the business of banking is built on confidence, the move by the Central Bank to strengthen that confidence was sufficient to enable it undertake a market-based adjustment. The bank activated market-based forces designed to end the decline and steer the economy towards recovery. It eased monetary policy in September 2008 to raise banking system liquidity and the measures were further strengthened in April 2009.

The additional measure in April followed the observation that the earlier liquidity improvements were not stimulating

Northern Rock Birmingham, UK

credit growth. Monetary tightness was inducing high interest rates and credit to the private sector was growing at the lowest rate in three years.

The assurances and the measures worked positively on investors' confidence. Recovery signals were visible in the stock market as from the end of April 2009. By the beginning of June 2009,

The good effect of this revelation and the actions that followed is the opportunity to rid bank balance sheets of toxic assets and cure them of technical insolvency.

the market had recovered all losses recorded in the year. Market capitalisation, which opened at N6,957.5 billion in January and fell to a low of N4,472.6 billion in March, recovered to N7,038.4 billion in the first week of June.

The worst days seemed over for banks. Every kobo gain in share price meant millions of naira reduction in loan loss provisions for banks. The process for the capital market to pull out the banking sector was in motion. The return of confidence and stability in the capital market is the key requirement for banks to undertake a market-based strengthening of operations on their own.

The outcome of the Central Bank's risk asset audit in banks that followed revealed to the public a precarious position of banks over which it was earlier asked to be confident. The good effect of this revelation and the actions that followed is the opportunity to rid bank balance sheets of toxic assets and cure them of technical insolvency. The challenge with it is that the same public that is needed to keep the banks liquid through deposits and eventually recapitalise them now has a reason to lose its confidence.

The indication is that the ability of banks to return to normal lending operations in the short-term is undermined and the normal process of rebuilding that strength through the market has stalled. Public confidence is the essential ingredient for financial policies to work. On September 17 2007, Northern Rock, then facing full blown financial crisis, suffered a sharp drop in its share price in London. The chancellor of the exchequer announced same day that the British government and the Bank of England would guarantee all deposits held in the falling bank.

The reassuring statement marked the turning point in the affairs of the troubled bank. It immediately caused a 16% recovery in the share price of the bank. The next day the long queues of panicky depositors around the bank's branches thinned down and petered out in another couple of days. The renewed confidence provided the needed opportunity to implement turnaround measures that eventually saved the bank.

The prospects for the economy operating for the third year running in 2010 with credit and capital markets frozen are fearful. What it means is that in addition to the poor state of physical infrastructures, the nation has also lost the main aspect of its financial infrastructures. Productive operations can therefore be expected to drop significantly.

The economy could slow down to a level that would take several years to achieve recovery before we can reasonably expect growth to resume. The big setback this would have on economic development will be far more than the power supply problem. There are alternatives to power outages but none for credit and capital crunch. While the economy has kept on running for years without the basic infrastructures, it will contract sharply without liquidity.

But with the uncertainty in the stock market, the equities market is unavailable for now.

Unless a quick fix happens somehow for the crisis in the banking sector and the broken confidence in the capital market, the economic growth and development prospects for the nation in 2010 are clouded. If the authorities let that happen, the economic development forces would be broken far beyond the capacity needed to build up to the 2020 vision. The present state of the financial markets therefore poses more threat to the wellbeing of the economy and its development aspirations than the state of physical infrastructures.

Rebuilding financial markets

Recapitalising the banking sector through the capital market is the ideal way forward. But with the uncertainty in the stock market, the equities market is unavailable for now. The only option is the bond market, which of course, only the reputable banks can access. No matter the number of banks that can raise new money through corporate bond issue, it is a way forward for the system.

Every bank that returns to normal lending position is a big plus for the economy. The improvement in returns prospects, which the development implies, is the signal that the stock market is waiting for to rebuild share prices.

Financial markets regulators should therefore act quickly to set the process of bank bonds issue in motion, as a key strategic step to strengthen both the banks and the stock market. The less able banks under the Central Bank's bailout will need more time to let confidence return to the capital market and permit new equity issues.

The Central Bank could prop up that confidence by permitting them to spread the provisions for credit losses over a three-year period. This was the approach followed when prudential guidelines first introduced the present loan quality classification standard in 1990. In consideration of the likely adverse impacts of the required provisions on bank capital stock and the solvency of the institutions, the Central bank promptly modified the prudential guidelines in 1991 and gave banks the option of spreading the provisions over a period of four years. The waving of the 1.0% general provision on performing bank loans for fiscal 2009 is a step in the desired direction of employing countercyclical measures to strengthen bank balance sheets.

Bank Credit to the Real Sector - Nb

Sectors	2003	2004	2005	2006	2007	2008	Feb. 2009
Agriculture	62.1	67.74	48.56	49.39	149.58	106.53	91.16
Mining & Quarrying	95.98	131.06	172.53	251.48	490.71	846.94	813.57
Manufacturing	294.31	332.11	352.04	445.79	487.58	932.8	999.45
Communications	293.7	382.76	375.73	500.24	1,158.1	1,304.85	959.31
Oil & Gas	229.23	277.53	431.39	586.48	1,266.67	1,986.16	2,165.77
Others	227.89	328.04	610.89	690.92	1,260.85	2,622.12	3,097.79
Total	1,203.21	1,519.24	1,991.15	2,524.30	4,813.49	7,799.4	8.127.05

Source: Central Bank of Nigeria

If the approach is followed, the huge losses seen at interim results will be reduced significantly at full year and the effect on the banks' capital accounts will be less devastating. This will create a favourable environment to induce a recovery in asset values and ultimately reduce actual provisioning requirements. It will afford these banks the opportunity to regain respect in the stock market and therefore the ability to undertake recapitalisation on their own.

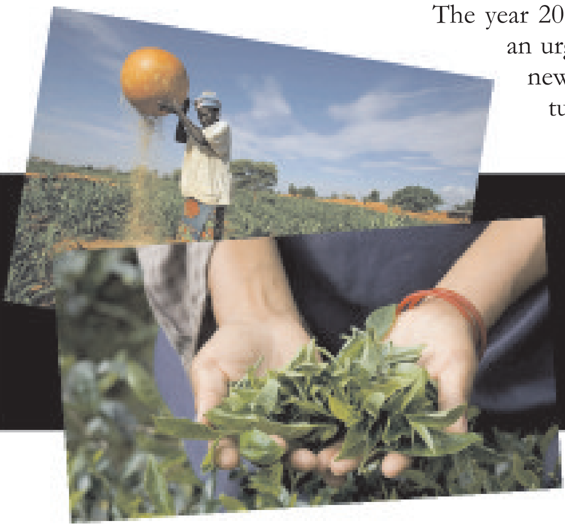
All hands need to be on deck, particularly those of government and all regulators in rebuilding confidence in the stock market. The market that lost over N7.0 trillion in 2008 and another N2.0 trillion in 2009 clearly needs to be persuaded and supported.

Financial policies and pronouncement need to be coherent towards stimulating public confidence once again in the capital market that has capacity to raise N2-3 trillion of development capital annually. Decisive actions are called for to ensure that the capital market does not remain shut for the third year as a source of investment capital. Applications for new issues fell from N2.6 trillion in 2008 to only N279.3 billion in 2009. It is note worthy that much of the applications in 2008 never materialised due to the share price meltdown.

Agricultural sector

Whether it has come by warning or suggestion, advice of recommendation on the danger of excessive dependence on crude oil, the point has been clearly communicated to Nigeria. Oil is a precarious basis upon which to build an economy. This is more so when the world is making frantic efforts to reduce reliance on fossil fuels and in view of the many imponderables that lead to unending price gyrations.

In 2008, Nigeria saw just a glimpse of what life in our nation could be when oil fails. Fiscal crisis will lead to economic



The abundant availability of arable land in Nigeria and the large population of the country create one of the biggest investment opportunities in the world.

recession and investments in financial assets will melt. But the people must continue to eat anyhow. The year 2008 is a clear warning for an urgent need to step up new investments in agriculture and agro-allied activities where Nigeria has one of the biggest opportunities in the world.

A nation that has the potential to feed itself and be a bread basket for the world has become a massive food importer. In 2008, government earmarked N80 billion for importation of rice. The total food import bill in 2007 was about $3.0 billion. Since 2007 garri is being smuggled into Nigeria from Benin Republic. These are not the indices for a nation expecting to be counted among the top 20 developed economies within the next 11 years.

Agriculture was recognized as one of the key areas of focus of government spending in 2009. It is one of the five key areas that accounted for 91% of the federal capital vote. Agriculture and water resources received a capital allocation of N91.8 billion. Key agricultural projects that were planned for execution in 2009 include development of livestock production infrastructure, supply of fertilizer, construction and rehabilitation of dams and tractor service.

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It is not certain to what extent the projects were implemented in the year but it is imperative that capacity building in the sector needs to be sustained and improved. This is necessary to achieve a level of food security needed to aspire to the league of developed nations by 2020.

The investment programmes in 2009 were targeted to increase the area of land under cultivation by 5.0% and raise product yield by a minimum of 50%. Fish production was expected to rise from 650,000 metric tonnes to 1.5 million metric tonnes during the year. The overall target was to increase the contribution of agriculture to GDP by 8.0% in the year.

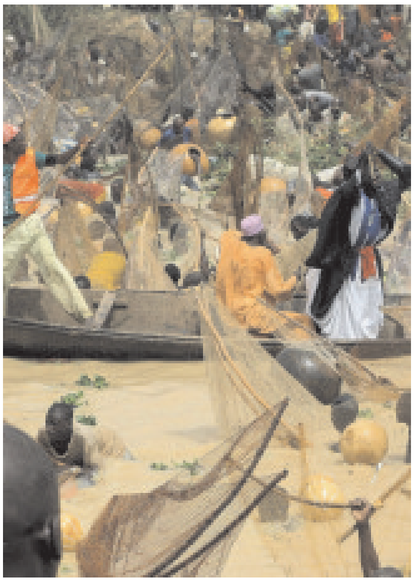
The abundant availability of arable land in Nigeria and the large population of the country create one of the biggest investment opportunities in the world. The availability of cheap labour plus some government incentives further reinforce the advantages. Despite these, agriculture is not attracting new investments from the private sector.

In terms of both bank lending and foreign exchange disbursements, the agricultural sector seems to be a helpless bystander. Of the N7,799.4 billion total bank lending to the real sector in 2008, the share of the agricultural sector was a dismal N106.5 billion or 1.4%. This is a sustained decline from 5.2% recorded in 2003 and the decline continued to 1.1% as at February 2009.

Also sectoral utilization of foreign exchange shows that agriculture accounts for less than 1.0% of total foreign exchange disbursements. Agric products have very low import content, which implies a high retentive capacity of the economy for investments in the sector.

Increased government spending in the sector is therefore needed to make up for the shortfall in bank credit. A new dimension in government spending is critical in terms of development of simple farm technology targeted at small holder farmers. Government spending will be more effective when modernisation of the farming technology is adapted to the socio-cultural ethos of the farming community.

Existing statistics, which are obsolete anyway, indicate that 70% of the population engages in peasant farming and produces less than 40% of total food consumption in the



country. With the sustained rural-urban drift since the mid 1970s, the percentage of the population engaged in agriculture has continued to decline. With the continuing dependence on crude technology, the food output-population ratio is bound to decline drastically in the immediate and the long-terms. The nation is therefore clearly headed for a major food crisis. According to a food status report released in 2008, Nigeria ranks 20th on the global hunger index and 65% of its citizens are food insecure.

The significant imbalance between demand and supply of staple food products will definitely continue to drive up food prices. Over one-third of Nigeria's landmass of 923,768 square kilometres is arable while over 13,000 square kilometres of water and riverine areas are available for fishing and the planting of water crops. The focus on crude oil has led to a stunted growth of the agricultural sector, leaving it largely in the hands of subsistent farmers. This has limited the contribution of the sector to GDP to less than 30%.

The dismal story of Nigerian agriculture needs to change radically and the time to make that change is fast running out. Agriculture needs no less capacity building than that recently accomplished in the banking sector. This is now imperative for us to reverse the nation's unwitting match towards food insecurity before it is too late.

A significantly increased agricultural output is required as a moderating factor to domestic inflation. Efforts to reinforce the liquidity conditions of banks and restore their lending ability to the economy are bound to sustain an upward pressure on the price level. Raising the output of the agricultural sector and indeed the rest of the real economy will provide a long-term solution to the recurring temporary liquidity overhang that normally warrants liquidity mop-ups.

Creating a bigger capacity in the real sector will deepen the absorptive capacity of the economy for government spending and free the Central Bank from inflationary headache. It will open the channels for fiscal ease to stimulate domestic production rather than create inflation.

The dismal story of Nigerian agriculture needs to change radically and the time to make that change is fast running out.

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QUALITY AND INTERNAL CONTROL IN BANKS: OPERATIONAL SECURITY

By Chuks Nwaze

1. THE NEED FOR SECURITY

Our earlier serials were focused mainly on fraud-related service failures in the banking industry. However, it is clear enough that we cannot talk of a fraud-free environment without appropriate operational security. Hence, this particular serial will focus on the security imperatives for banking operations in all ramifications, both physical and human as these are the only ways to minimize avoidable disruptions and focus attention on service delivery.

This has to be the case now that we have only big players in the market place and the only distinguishing feature will be the quality of services rendered, including safety of environment.

In recent times, banking business has become very complex in nature and is even growing in complexity with all the regulatory guidelines, economic policy reforms, increased customer consciousness as well as technological advancements. Banks render a myriad of services to their customers which include, among many others, acceptance of deposits (current, Savings, Time etc.), opening and handling of letters of credit, foreign exchange transactions, loans, overdrafts and advances, treasury management, import/export finance, guarantees, bond issuance, advisory services, etc.

To enable banks to continue to meet the above challenges and even improve upon them, there is need to maintain an environment that is not only conducive for normal business but one that is also secured against all forms of crime, robbery and similar assaults. The situation is obviously becoming worse with increasing social insecurity, unemployment and inflation.

We shall adopt a two-pronged approach in our discussion viz: physical security and the human element.

2. PHYSICAL SECURITY

This will be discussed along the following lines:

2.1 Fire Fighting Equipment

Although safety systems used in bank premises are many and often expensive, it is generally agreed that money spent in that direction is money wisely spent, subject, of course, to the banks budget. Some of the more common fire-fighting equipment include the following:

2.1.1 Fire Extinguishers

This comes in different types for different kinds of fire cases, but the choice of which one to use depends on experience, quality and the specific characteristics.

These are as follows:

(i) **Carbon – dioxide Type:** This is effective but poisonous if inhaled beyond a certain quantity.

(ii) **Powered Type:** This can be used on most kinds of combustible materials including oil and petroleum based products. It is also effective against electrical and similar fires.

(iii) **Blankets:** The blanket is made of asbestos-wool and used to extinguish fire from frying pans in the kitchen and such other fires.

(iv) **Foam Types:** The water content is a conductor of electric current, hence it is not recommended for use in fighting electrical fires. It is useful for oil-based fires.

(v) **Halon Gas:** This has several advantages including high extinguishing power, no residues and no electric conductivity. It is suitable for both mobile extinguishing equipment and fixed installations.

(vi) **Water Type:** Again as water is a conductor of electric current, it is not suitable for putting out electrical fire. However, it is effective for extinguishing fire caused by other combustible materials.

2.1.2 Fire Alarm Systems:

Alarms are triggered off when fire is detected. This equipment is virtually indispensable with the daily risk of fire from accidents, carelessness, defective equipment and electrical faults.

Although safety systems used in bank premises are many and often expensive, it is generally agreed that money spent in that direction is money wisely spent, subject, of course, to the banks budget.

2.1.3 Water Sprinklers

There are both wet and dry sprinklers, but generally, sprinklers are of immense value in dousing fire before any damage could be done by over-night or after – office-hours fire incidents. Fire sensations activate the equipment and water is sprinkled to nib the fire in the bud before it could spread.

2.1.4 Smoke Detectors

Smoke detectors work in conjunction with the fire alarm systems. Smokes from fire simply activate the detectors and warning alarms are triggered off.

2.1.5 Fire Hose Reels and Dry Risers

The common types are available in high-rise bank buildings, but they are usually incorporated as part of the structural design of the building at

the initial stage. The objective is to assist the fire-fighting process on floor-to-floor basis in the building, should the need arise. In the event of fire, the water hose is connected to the hydrant on the ground floor and water is pumped through the line hose to reach the affected floors for use by the fighters.

2.2 SECURITY EQUIPMENT

2.2.1 Closed Circuit Television (CCTVs):

These equipment are usually very helpful in monitoring human traffic within the bank's premises and even inside the banking hall, depending on the number of cameras installed.

2.2.2 Burglar Alarms

These are most suitable at night when even a gentle touch by an unsuspecting intruder can trigger off a very loud warning alarm that could scare away the intruder and alert the security guards into action. Even during the working hours, if under a bank hold-up by robbers, the concealed switches could be pressed by cashiers or even the manager to activate an alarm system that alerts the neighbourhood of the incident.

2.2.3 Walkie-Talkies

This is a very fast medium of communication between security guards on patrol inside and outside the premises. They are quite handy and invaluable at critical periods especially when urgent decisions are to be taken.

2.3 SECURITY PERSONNEL

Maintaining physical surveillance over the bank premises is not a tea party in any sense of the term. Gladly, however, there is a choice to be made between maintaining a full-fledged security department or outsourcing the function i.e hiring security guards from various security organizations. There is still a third option of using armed policemen.

Let us consider these options individually.

Some of the well established old generation banks have adopted the system of having in-house security personnel employed just like any other staff in other departments.

2.3.1 Security Department:

Some of the well established old generation banks have adopted the system of having in-house security personnel employed just like any other staff in other departments. They are usually ex-military personnel, ex-policemen, trained security personnel from other organizations, legionnaires etc. and their operational modalities are as follows:

- They are uniformed and maintain surveillance over sensitive or strategic areas of the premises, which might tempt hired security personnel to comprise e.g bullion bay, etc.
- They run shift duties in order to ensure uninterrupted surveillance of the entire premises.
- The guards have supervisors that co-ordinate their functions with patrol cars and walkie-talkies or even radio network for maximum efficiency.
- The security organization pays its guards their normal salaries (not necessarily what was negotiated with the bank) and are at liberty to exchange them from time to time with those from other locations.
- The security organization runs the entire infrastructure such as supervisors, patrol vehicles, walkie-talkies, guard dogs etc. as may be required to achieve a satisfactory level of surveillance over client premises.
- This system is particularly useful in times of strike or industrial action where the security system may grind to a halt and hold the bank to ransom if security guards are bank staff.

2.3.3 Armed Police Security:

This is not a conventional all – purpose security; they are mostly engaged in two circumstances:
• To escort bullion vans on cash runs. This is both a statutory and regulatory requirement in Nigeria
• To guard certain locations during emergencies as well as some branch locations which are adjudged volatile and unsafe for normal banking operations.

There is nothing preventing a bank from using any of the above methods; in fact, most banks use a combination of the three in convenient proportion as determined by management in line with its own security policy.

What is very clear, however, is that the job of security surveillance is a hazardous one while the responsibilities are onerous. In the event of robbery or similar incidents, the security guards are the first casualties while those who survive or escape are the first suspects for complicity who would invariably be detained and subjected to interrogation by the police in the course of investigation.

What is very clear, however, is that the job of security surveillance is a hazardous one while the responsibilities are onerous.

2.4 SECURITY INFORMATION

The importance of security training, awareness and accurate information dissemination to staff especially on emergency procedures cannot be over-emphasized. For instance, the level of success achieved in a fire fighting operation, including evacuation of occupants, depends to a large extent, on the level of education and state of preparedness of the generality of staff.

The briefing sessions which should be on a regular basis should include, but not limited to the following areas:
• Fire alarm call points and locations of fire fighting equipment must be clearly marked for easy identification. Same should not be too far from the work area.
• Regular fire drills on the use of basic fire fighting equipment such as portable fire extinguishers should be organized.
• Instructions on the use and misuse of electricity should also be a regular feature, for instance staff should generally form the habit of switching off all electrical equipment when not in use at the end of working day or whenever there is power failure. An exception to this rule is security lights.
• A 'no-smoking' sign should be conspicuously displayed and strictly enforced. However, it could be allowed in designated areas which should be made known.
• Fire exit or emergency routes should be property designed to ensure that they lead to the ground floor exit and these should be clearly indicated and easy to follow.

2.5 SUMMARY OF GENERAL SECURITY CONSCIOUSNESS

The following tips will assist management, staff and even security personnel themselves on how to plan for effective security of bank premises, what to do during emergencies and how to combat or minimize the traumatic effects of such circumstances respectively:

- Building should be adequately covered under an insurance policy.
- The management of banks should take a lot more interest in the security of their premises as well as the safety of the people working inside them. The way to demonstrate this is to invest more in modern security and safety equipment not only to combat crime but also to ensure adequate protection of lives and property within the premises. As earlier pointed out, money spent in this manner is money wisely spent.
- At night, the entire bank premises should be well - lit while the controlling switch should be concealed from general view.
- Preventive maintenance is important and should form the basis of the maintenance policy of bank premises.
- Both the internal and the external banking environment should, as mush as possible, be aesthetically pleasing to the senses.
- The premises should be spacious enough for car parking which must be within the view of security personnel.
- Counter services should be

fundamentally improved upon in such a manner as to minimize queues, customer waiting time and possible frustrations, which could result to sudden anger and unexpected breakdown in security.

- There should be periodic but unpredictable patrol of security personnel in some of the sensitive areas such as banking hall, strong room and bullion bay.
- Under no circumstance should security personnel be made to perform non-security functions in the banking hall such as filling account opening forms, loading or off-loading of cash, assisting customer to count or stack cash etc.
- Security personnel should be properly screened and guaranteed by responsible individuals prior to engagement. Apart from being young, energetic and honest, they should also be intelligent and courteous but never provocative or assaulting. Where the security function out-sourced, care should also be taken in choosing the specific organization to be contracted.
- Security equipment must be properly maintained or serviced at stipulated intervals to ensure that they are in perfect working condition at all times.
- Regular staff training and information dissemination on security and safety awareness should be put at the front burner. Even the best and the most expensive security equipment will come to naught if people do not know how to put them to use.

3. THE HUMAN ELEMENT

In the context of this discussion, 'security' can be defined as protection of life and property from danger. However, the objective of security is to prevent loss, harm, damage or wastage.

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3.1 ROLE CONFLICT IN SECURITY

Typically, an individual can play either a destructive or a constructive role in security and I shall briefly highlight their characteristics.

3.1.1 Characteristics Of Destructive Roles In Security

These include the following:

- Careless talk that might compromise security
- Playing host to bad influence
- Laziness and indolence Committing fraud or being dishonest
- Unprofessional conduct in disregard for ethics and etiquette
- Non-compliance with internal controls
- Ignorance of environmental threats or risks
- Physical theft, falsification or destruction of records
- Ignorance or sabotage of safety measures

3.1.2 Characteristics of constructive roles in security

Examples of constructive roles include the following:

- High level probity and accountability
- Diligence at work and vigilance in action
- Professional conduct through integrity and exemplary attitude
- Fraud prevention, frustration or recovery of fund
- Strengthening and compliance with internal controls
- Taking precautionary measures against environmental threats
- Adherence to safety measures in the work place

• Repelling or warding-off physical attacks with instruments

3.2 BANKING OPERATIONS SECURITY

Having considered the security roles an individual can play in an organization, we shall now look at the various parties involved in banking operations as well as their impact on the security apparatus of the bank. These are discussed below under the following headings.

a) Customers
b) Staff
c) Police
d) Non-customers (general public)
e) Service providers

We shall now discuss them individually.

3.2.1 Customers

• The various types of customers who patronize the bank are very important. Being friends of the hank who are not subjected to any specific rules, they should, nevertheless, be security conscious in their dealings and relationships with the bank at all times. However, there is no doubt that there are customers that are willing to play destructive roles in the security of the environment and efforts should always be made to detect, isolate and get rid of such customers before they cause havoc.

This can manifest in any of the following ways:

• Those who are willing tools in the hands of men of the under world outside the hank to commit robbery.
• Those who serve as accomplices to master-minds whether inside or outside the bank to commit fraud
• Customers who deliberately draw cheques on unfunded accounts in the hope that they will be paid in error.
• Customers without any legitimate means of livelihood but who commit fraud against others using the bank

In addition to law enforcement, the police also have the sacred responsibility of protecting lives and property, hence the security coverage they provide for banks during working hours, including escorting cash and other valuables as may be requested by the bank from time to time.

3.2.2 Staff

The following comments are applicable to staff:

• They are expected to guide customers to observe safety measures in the general conduct of their affairs so that they do not constitute security risk, especially in areas such as care of cheque book, security of cash etc.
• Staff are mandatorily subjected to the internal rules of the bank on security; it is also taken for granted that they will play constructive security roles at all times as earlier highlighted.
• It would be wishful thinking to assume that there are no had eggs in the employment of the bank. The important thing, however, is that care should be taken to identify and flush them out.

3.2.3 The Police

• In addition to law enforcement, the police also have the sacred responsibility of protecting lives and property, hence the security coverage they provide for banks during working hours, including escorting cash and other valuables as may be requested by the bank from time to time.
• It is usually advisable to have plain-clothe policemen within the premises during operational hours either as a substitute or an addition to the uniformed ones.
• Other law enforcement agents that interact with the bank should also be treated as friends within the ambit of banking operations.

3.2.4 Non Customers

• The general public (i.e. Non customers) should be treated with some degree of care since they have

Be careful about the friends you make as well as the company you keep, as these are bound to impact on your conduct. As a trusted person, stay clear of dubious characters or individuals.

nothing at slake whatsoever, especially having regard to the principle of secrecy in banking tradition.

• It should also be borne in mind that non-customers are just as problematic as bad customers. Hence, their presence in the bank should call for additional vigilance once identified.

• Within this category also falls potential fraudsters and armed robbers who enter the banking hall solely to study the environment and perfect then strategy.

3.2.5 Consultants and Contractors

These two categories of "stranger element" in the hank should be closely monitored without interrupting the work which they were engaged to perform.

(i) Consultants: The area of concern here is the fact that by the nature of their assignment, consultants have access to highly confidential and sensitive information which ordinarily are not within the reach of outsiders. A lot of this information have to do with the trade secrets of the bank which should never be divulged to

outsiders especially competitors, as that would be detrimental to corporate strategy. A lot of care needs to be exercised in this regard.

(ii) Contractors: There are two types here

• Service providers (security guards cleaners): Most of the time, security guards are provided by the organization to which the service is outsourced by the bank. Their work should, therefore, be restricted to the banking premises; hence they should not be allowed to pry into the internal activities of the bank unless there is emergency.

In the case of cleaners, however, most of their work is inside the bank and this poses considerable challenge to security. Deliberate effort should be made to protect confidential information (which could be in pieces of paper) and also guide against theft or pilfering by them. Unwanted documents should be shredded.

Building contractors: For buildings that are under construction, there is not much risk as they are not yet occupied. However, for banking premises that are in use, building contractors may be engaged for maintenance duties. Just like cleaners, they should be closely monitored and similar precautions be taken.

3.3 PRACTICAL GUIDES ON OPERATIONAL SECURITY

a) Pay attention to the activities of visitors to your branch, office, desk or department. Do not take it for granted that staff of other branches, units or departments are your friends or that they all wish you well. They may be on a spy mission or they may have come to sabotage you.

b) Beware of the activities of the men of the underworld who may attempt to use you as accomplice for their devilish agenda.

c) As a staff of the bank,

you have a duty to protect life and properties by being security conscious at all times and by reporting or making available to your boss any information that might improve security, prevent fraud or apprehend fraudsters.

d) If you must leave your desk, ensure that no security item is left thereon and do not place any security item on any other person's desk in his absence as this will make the item unsafe.

> In the event of your being the last to leave the office at the end of the day, ensure that all security lights are switched on while the air conditioning systems and other internal electrical appliances are put off.

e) Maintain orderliness in your work as well as cleanliness in the environment in which you work.

f) Give regard to all safely measures while reporting promptly whenever you observe any irregularity in this regard. Also, be vigilant and take careful note of events taking place around you.

g) Everything entrusted to you or to your care or custody should be handled with utmost care and do not leave anything where it is not safe or cannot be found within a few minutes, if needed.

h) Ensure that all security items are securely kept i.e. cheques, cash, bankers payments, drafts, vouchers, signature cards, pay-in-slips, investment certificates etc. They should always be under lock and key.

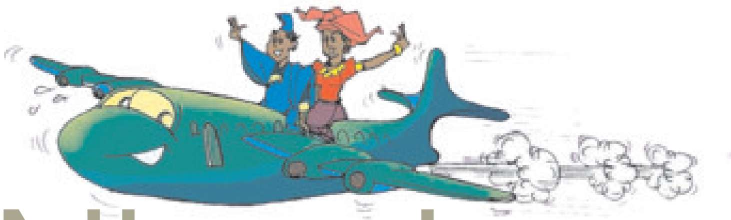
i) At the end of the day, ensure that nothing is left on your desk. All pending work including files, stamps, etc. should be locked away safely. No item should be left carelessly on the floor, on top of cabinet or other fixtures for the risk of fire or being swept away by the cleaners.

j) In the event of your being the last to leave the office at the end of the day, ensure that all security lights are switched on while the air conditioning systems and other internal electrical appliances are put off.

3.4 SECURITY AND PROFESSIONAL CONDUCT

- Appreciate the vital role of banking in society and aspire to foster the ideals of the profession.
- Be attentive lo details and develop a critical and inquisitive mind for good judgment.
- Be careful about the friends you make as well as the company you keep, as these are bound to impact on your conduct. As a trusted person, stay clear of dubious characters or individuals.
- Endeavour always to cultivate a strong character and upright personality traits in your work as these are the essential ingredients for survival in the banking system.
- Recognize your status as holding a position of trust and engender accountability and transparency at all times and in all your dealings.
- Be reserved, watch your language and choose your words when you talk, to avoid falling foul of the oath of secrecy or inadvertent disclosure of privileged information about the bank or any of its customers.
- You need the clients and customers to remain where you are; hence you must dedicate yourself to offer excellent services to them, courteously.

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



The Nigerian Aviation Industry: Thriving on Hope & Promise

* By Chris Aligbe

In nations aspiring to join the league of developed countries—often referred to as emerging markets—the aviation industry always occupies a critical place in the complex vision for the realization of set objectives. Nigeria's case is not different.

Thus, in the final submission of the National Working Thematic Group (NWTG) on Transportation for Vision 20: 2020, far reaching recommendations were made on how to make all sub-sectors of the aviation industry give impetus to realizing the Vision strategies. The recommendations were based not only on the state of the industry as at today, but also on the projections of other twenty-eight thematic groups and the vision of the nation to be among the 20 most developed economies by the year 2020.

Part of the recommendations envisages 25.5million passengers departing from five projected major airports – Lagos (10Million), Abuja (6Million), Port Harcourt (4Million), Kano (3Million) and Enugu (2.5Million) by the year 2020; that is 10 years from now.

This will be a quantum leap from the present close to nine million throughput which approximates to 180 per cent increase for the five airports within the vision period.

Also envisaged is a virile airline industry where Nigerian operators dominate the West coast with two of them emerging as major flag

One can equally assert, without any fear of contradiction that there are signs of positive developments in the airline sub-sector. There is now an impressive national and regional coverage by domestic airlines.

Apart from the privately owned MM2 which offers, for now, a temporary relief, both the international terminal (MM1) and the General Aviation Terminal (GAT) cannot pass any serious service test when compared to what obtains in standard airports globally, and even in Africa.

carriers competing favourably with foreign airlines. Quite futuristic and ambitious, one may say. But what are the indices to support these projections? What is on the ground to serve as a springboard? Precisely, since the future is a product of the present and the present comes out of the past, one can then ask: what is the present outlook and profile of the aviation industry in Nigeria? How far has it fared since the ex-President Obasanjo's economic reforms; or, in particular, since President Yar'dua's ascendancy close to three years?

Unarguably, Nigeria's aviation industry has stabilized in the area of safety and safety regulations, thanks to the efforts of the Dr. Demuren-led Nigeria Civil Aviation Authority (NCAA). There has not been any accident or major incident in the industry for quite a few years now. Although there have been reports of misses and near-misses, they have all been traced to human errors rather than to non-airworthy equipment. The level of adherence to maintenance standards and schedules is not only reasonably high but globally comparable. Standards policing by NCAA has significantly improved confidence on the industry.

One can equally assert, without any fear of contradiction that there are signs of positive developments in the airline sub-sector. There is now an impressive national and regional coverage by domestic airlines. Virtually all the airports in the country receive flights while most of the capital cities in the West African sub-region are in the flight schedules of the three major domestic operators – Arik, Nigerian Eagle and Aero. Nigerian domestic airlines have achieved quite some degree of dominance on the West Coast. Records today show that Accra, Abidjan, Monrovia, Freetown, Banjul and Conakry receive regular/daily flights from Nigeria. A further analysis show that Nigeria's domestic airlines operate over 220 flights daily with Arik doing as

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many as 120. Presently, Arik, Nigeria Eagles, Aero, Chanchangi and Dana airlines remain dominant schedule – operators.

Another major development in the recent past was the final takeover and re-branding of the ill-fated Virgin Nigeria by a new crop of managers led by one-time Deputy Managing Director of Aero, Captain Dapo Olumide. Virgin Nigeria, contrary to its original public perception as an airline meant to meet Nigeria's aspiration of a formidable global operator, was rather designed by its originators and managers (Virgin Group) to be a feeder airline to Virgin Atlantic, their main flagship. It was therefore neither 'virgin' in services and class nor Nigerian in aspiration and roadmap. Now, the ongoing repositioning, in spite of the huge debt albatross from the Virgin Group management of the airline, clearly indicates that the intentions of the new roadmap and its creators are in tandem with Nigeria's aspirations as a nation in search of a strong footing in the global aviation industry.

It is also noteworthy and cheering that in recent times, several strides have been made to make Nigerian airspace very much safer than it has ever been.

The success seen in NCAA is being re-enacted in the Nigeria Airspace Management Agency (NAMA) where Alhaji Ibrahim Auyo, one of

Nigeria's best airspace management professionals, is the Chief Executive Officer. Auyo, with a crop of young active management team, has pushed through the long awaited Total Radar Coverage (TRACON) of the country's airspace. Lagos and Abuja became functional in August and September 2009 respectively. By the end of 2009, Port-Harcourt, Obubra and Talata-Mafara will come on-stream and Kano, by the end of January 2010. The remaining ones under the TRACON project, Maiduguri, Numan and Ilorin already have their civil works completed and will all come on-stream by the end of first quarter, 2010 which will be followed with Global Optimization of the nine sites and commissioning at the end of that period.

When this happens, the Nigerian airspace will join the league of very safe airspaces in the world. Already, foreign airline pilots are beginning to commend flight management through Nigeria's airspace. It is only hoped that this trend continues.

Presently, there are other ongoing airspace management and safety-enhancement projects whose contracts have been awarded or approved.

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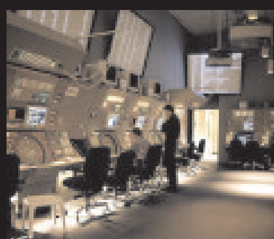

World Geodetic Survey – 84 (WGS – 84). This involves the survey of all airports in the country as well as all air routes. This survey is towards preparing the country for satellite-based airspace management and operations which is the newest technology.

Also, contract has been awarded for a Total VHF coverage of the country. This will enable Air Traffic controllers talk to any aircraft entering the Nigerian airspace. This enhances safety, security and efficient management even from the economic point of new. In fact, not many people know that some dubious operators tend to overfly airspaces without paying over-flight charges by avoiding detection.

Remarkable also is the fact that the Nigerian Meteorological Agency (NIMET), since the last two years, has stepped up its weather forecasting capabilities with the acquisition of Doppler Radar and other equipment for insitu and real-time delivery of weather information to airlines.

In addition, contract has been approved for the automation of Aeronautical Information Service (AIS). When this is completed by 2011, all aeronautical information can be gathered, stored and delivered easily on modern technology platforms rather than the manual procedure presently in use with its attendant inadequacies.

Remarkable also is the fact that the Nigerian Meteorological Agency (NIMET), since the last two years, has stepped up its weather forecasting capabilities with the acquisition of Doppler Radar and other equipment for insitu and real-time delivery of weather information to airlines. Today, there are thunderstorm detection equipment in place as well as weather reporting stations with capabilities for ground-to-control-tower information at all airports.

With all these, however, airline sub-sectors are still yearning for improvement, particularly the airports.

There are twenty-one airports under the Federal Airport Authority of Nigeria (FAAN) and all of them are in various deplorable states. Unlike in most regions of the world, Africa inclusive, where major airports have either been expanded or replaced with new ones to meet global standards and increasing traffic, Nigerian airports are what they were when they were built decades ago. In truth, most of them have so deteriorated to the point of being declared economically unviable.

A close look at the country's four major international airports: Lagos, Abuja, Port-Harcourt and Kano, will vividly illustrate the above assertion.

• A Doppler Rader

For over six years, Kano airport which sits on the third largest traffic centre in the country was abandoned for no reasonable cause while Port-Harcourt, which ought to serve the entire South-east and South-south international traffic, has been left abandoned for over four years. Abuja, in spite of its young age, has only its runway facilities to write home about. The domestic terminal is most unbefitting for a nation like Nigeria while the international terminal has only a part of it in use and more than half of the terminal is in a state of disuse.

Even with the increasing entry of airlines into Abuja, which requires more space for operation, no visible effort has been made to address the challenges.

Lagos airports, the nation's main and most commercial, offer us an inexplicable scenario of pain and sadness. Apart from the privately owned MM2 which offers, for now, a temporary relief, both the international terminal (MM1) and the

• *Kano International Aiport*

General Aviation Terminal (GAT) may not pass any serious service test when compared to what obtains in standard airports globally, and even in Africa.

While GAT cannot be said to be a terminal in the real sense of the word, MMI has undergone so many patch-works and demarcations, all in a bid to meet international safety standards and, at the same time, increase non-aeronautical revenue. This has led to the shrinking of the space available for passengers; making the terminal increasingly less and less passenger-friendly.

Outside the terminal, car parking has become riotous as the temporary parking lot is grossly inadequate. The access roads to the airports from both Ikeja and Oshodi ends are usually congested making it extremely unfriendly to intending passengers who, often miss their flights due to traffic holdups. Environmentally, the roads are degraded by reckless driving, lack of maintenance, particularly the Oshodi access road to the airport. Just as one enters the airport vicinity, he is greeted by a congested aviation fuel Tanker Park. The sight is not only sordid it is also a safety challenge.

For over three years now, one of the two runways in Lagos, precisely the domestic runway, has not been fully functional. Since it was resurfaced over one year ago, the runway lights are yet to be fixed. This has made the runway usable only for day-time operations. At night, both domestic and international flights use the international runway with resultant economic losses to airlines which are made to hold in the air or, at the threshold, for as much as one hour, before clearing to land or take off, as the case may be.

In spite of the commendable efforts of FAAN in the area of bird-strike reduction and resurfacing of some runways as in Kaduna, Kano and Maiduguri, quite a few of the country's over 21 airports is graded as the rest do not meet

• Murtala Mohammed International Airport

comparable global standards in the area of facilities. Nevertheless, they are safe as so much effort has been put in the area of safety, even in the area of manpower where FAAN's security personnel stand out comparably.

Yet, the current situation of airports in the country calls for an urgent and strategic action to stem further deterioration of some facilities. At present, a critical analysis of the statistics on airports and passenger throughput reveals some subsisting challenges in the airports development.

In the airline sub-sector, the state

of affairs is not any better. All the airlines are indebted to tunes of between N200million to N2billion, put modestly. There is hardly any aviation parastatal – FAAN, NAMA, NCAA, NIMET, NAHCO, SAHCOL and even Bi-Courtney owners of MM2 and catering service companies that is not owed huge sums by Nigerian domestic airline operators. Recently, some of them have had to shut down or contracted operations. Even the most perceptibly virile of them is weak, in operational standards, services, schedule integrity and marketing. Most critically, apart from Nigerian Eagle Airline that has put in place a turnaround management most of the airlines are still poorly managed. Also, most of the airlines are afflicted by the owner-manager phenomenon with its attendant poor decision making and 'key-man risk'.

In September 2009, the airlines, under their umbrella body, AON, approached the government for a bailout. The government responded by setting up a committee of the airlines to make recommendations to the government on the kind of assistance they need. This is cheering. But one only hopes that the airlines will acknowledge that they

themselves still have in-house challenges.

It is quite intriguing that while statistics show a 28 per cent rise in domestic and West coast passenger traffic in 2008 over 2007 figures and, up by about 36 per cent in the second quarter of 2009 from 2007 base, rather than show profit, Nigerian airlines are reporting losses; and they are going deeper and deeper into debts. It even appears that the bigger an operator, the larger the debt. Available records show that Nigerian domestic airlines carried over 5.5million passengers in 2008 and posted losses, while Ethiopian Airline airlifted 2.6million passengers in the same period with a profit of US$ 118million from a total revenue of US$1.18billion. South African Airways made a profit of US$53.8million from a total revenue of US$2.6billion in 2008 during which it carried over six million passengers. In 2008, while foreign airlines repatriated US$650million, Nigerian airlines altogether, made US$75million. Also, between June 22nd and July 03, 2009, foreign airlines repatriated N4billion in foreign exchange while Nigerian airlines kept sinking deeper into debts.

One can then ask, is there any hope or is it all a lost cause?

From all indications, the planned concessioning holds a lot of promise for the sector. In this regard, the Ministry of Aviation has set up a committee on airport concessioning headed by Capt. Dele Ore, Chairman of Aviation Round Table. ICAO is advising on the project. These two actions will help a lot in making sure that the challenges of concessioning in the aviation sector in the past are better handled this time around. Investors and financiers will be clear on what they are going into and possible returns on investment. The process must as much as possible, be shielded from politics, since the matter is purely commercial, economic and development-driven decision.

At present, the industry presents only a lot of hope and promise.

Ideally, airports with the greatest potentials, that is, those sitting in the centre of the six air travel passenger-zones in the country – Lagos, Abuja, Kano, Port-Harcourt, Enugu and Maiduguri – should come in the first phase. Also, some issues need to be addressed before actual concession takes place. Some of these include but not limited to: legal, regulatory and administrative frameworks, master plans, anti-monopoly mechanisms.

For the airlines, specifically, the government needs a critical reconsideration of its present policy in that sub-sector. Nigeria is still being afflicted by the absence of a major flag carrier since the ill-advised liquidation of its erstwhile national carrier, Nigeria Airways. There is also the challenge that airline commercial agreements are still being handled by the ministry and political officers with insufficient knowledge of what is involved, to the detriment of the industry and the country.

In addition to this, time has come for the government to set up a crack professional ad hoc committee to advise it on the new roadmap and way forward for the airline sub-sector. The airline sub-sector surely needs a turnaround, in policy and perception, at the government level and, at the airline level, management, operations, thought processes and entrepreneur – role evaluation. Also, a much more focused growth – driven economic regulation needs to be in place.

These are really some of the imperatives for rescuing the airline sub-sector and make it achieve its huge potentials, strongly underlined by Nigeria's population, location and socio-economic advantages. At present, the industry presents only a lot of hope and promise.

(* Mr. Aligbe is the Chief Consultant / CEO Belujane Konzult Ltd.)

By Anand Panyarachun

Building The Pillars Of Democracy

A philosopher, thinker, and a Nobel Laureate in economics, Professor Amartya Sen has inspired us with his seminal contributions that have given new meaning to the ethical dimensions of the pressing economic and social challenges of our times. One of Professor Sen's most influential contributions is the concept of capability, which places human freedom in the center of the discourse on development. Capability is what lies between raw capacity and action, and it is only with an appropriate capacity that individuals can exercise all kinds of freedoms – including democratic freedom.

On democracy, Professor Sen has observed that, "No substantial famine has ever occurred in any independent and democratic country with a relatively free press." Today, when the profit motive often prevails over considerations of justice, equity and rights, Professor Sen's message on development, linking it with human freedom, democracy, and a free press, is refreshing indeed.

With the end of the Cold War, Francis Fukuyama suggested that the end of history was upon us. Yet more than 15 later, the triumph of democracy has been less than absolute. Some countries have turned away from a liberal brand of democracy and embraced a more authoritarian rule. A number of governments continue to keep their political systems democracy-free while delivering economic goods to their citizens. At the same time, some countries that have democratic systems seem to be struggling with issues of accountability and governance.

Democracy, with its obvious virtues, should have had no difficulty in taking root around the world; yet for many countries, "government of the people, by the people and for the people," remains a tantalizing, elusive ideal.

The Challenge of Making Democracy Sustainable

The primary difficulty in sustaining democracies is the struggle between those who govern and those who are governed. Aristotle proclaimed that, "If liberty and equality, as is thought by some, are chiefly to be found in democracy, they will be best attained when all persons alike share in the government to the utmost." But translating this simple prescription into practice is a formidable challenge to which many struggling democracies around the world can attest. As countries strive to follow Aristotle's vision of democracy in our own times, they continue to face compelling questions:

Why does democracy seem so fragile?

• What elements are required for a country to reach • the threshold necessary to sustain democracy?

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The following are some insights from my experience as a prime minister committed to building democracy in Thailand – including drafting a constitution. Let me first share a thought from Mahatma Gandhi, who articulated the organic nature of democracy: "The spirit of democracy cannot be imposed from without. It has to come from within." People have to want democracy.

In most of Europe, the evolution of democracy was slow and non-linear. European history is a chronicle of civil wars, revolutions, and dictatorships. Yet democracy took root, and today, no rival political system challenges it in Europe. That historical experience shows that stable democracy as we understand it today is a relatively new phenomenon. If we take universal suffrage as the key event in western democracy, we find that the broad, inclusive participation of all citizens is little more than a hundred years old. But Europe's experience also demonstrates that the fragility of democracy can be overcome through the development of institutions that enable broad and inclusive participation in governance.

Democracy and Development

In the course of history, humanity has been constantly adapting to new technologies and striving to manage challenges ranging from climate change to natural disasters. Over time, a democratic sytem has clearly proven itself as best able to adapt in the evolutionary process if its basic pillars are strong enough. A contemporary metaphor for democracy is that of a software algorithm that produces the best possible political outcomes for any society. The intellectual code for this political software stretches back centuries, with Britain's Magna Carta of 1215 as a starting point of a centuries-long process that helped shape the principles of democracy and rule of law we so much value today.

There is an implicit premise here that democracy is inherently better, more stable, rational, beneficial, and legitimate than other forms of government. Precisely because democracy derives its authority from the consent of the governed, it can claim this primacy. Winston Churchill aptly stated that, "No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of Government except all those others that have been tried from time to time."

One of the key reasons that democracies around the world remain fragile is unequal emphasis on their political processes and economic development. The political process must be viewed along with the level of development. As development occurs unevenly, so too does the state of democracy. Democracy and development are two sides of the same coin.

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Education and Knowledge Sharing

Democracy starts with the wisdom of the voting public; however, that wisdom is acquired. A voting public must understand the issues it will encounter and the options it has to deal with them, and be able to access the means to exercise choice in the democratic process. The heart of democracy beats only with the participation of all citizens in exercising their rights – first, to raise issues of concern for inclusion in the political agenda; and second, to choose those whom they feel would best address their concerns in the political process.

In addition to responsible citizenship through participation in voting, democracy requires that citizens be well-informed of issues that their communities and societies face in an increasingly globalizing and interconnected world. A struggle in many develop-

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ing countries is to channel resources and make education more relevant to daily life, changing its emphasis from rote memorization to creativity and independent thinking, and extending the reach of education programs, especially to girls and women in poverty. One pleasing silver lining to note is the progress of gender equality in the promotion of universal education. Such progress augurs well for creating the critical mass of informed voters needed to fuel democratic processes.

Asia has the distinction of being a region that has produced a significant number of democratically-elected women heads of government and state. One encouraging development in recent years are South Asia's efforts to ensure gender parity in the democratic process by requiring that a significant proportion of all elected functionaries must be women. Accelerated region-wide, the advancement of girls and women is now necessary for wider grassroots participation. Therefore, education and the sharing of knowledge as a public good are important means of supporting the democratic process and deterring those who want to govern through abusing power.

In Asia, as in the West, democracy is won not just through the ballot box. The real struggle is fought out on the streets by students, farmers, workers, and other ordinary citizens who come out en masse to express their opinions.

is easy prey for any organized group to seize power by force or fraud, giving rise to totalitarianism.

In much of Asia, where harmony is a core value and conflict avoidance a first response, our challenge is to embrace criticism – weighing pros and cons in a disagreement – as part of the maturation of the democratic process in the Asian context.

Democracy in the Asian Context

In Asia, as in the West, democracy is won not just through the ballot box. The real struggle is fought out on the streets by students, farmers, workers, and other ordinary citizens who come out en masse to express their opinions. It was in Asia that Mahatma Gandhi crafted non-violence as a movement for political change; subsequently, there have been street protests over the course of five decades in the Republic of Korea, and the people's power has swept across Indonesia, the Philippines, and Thailand, as well as other countries. The flame of democracy also continues to burn brightly in South Asia, which has the largest and most active voter populations.

For democracy to live, citizens must resist the temptation of being complacent. Each community, workplace, and school needs programs for promoting grassroots democracy. An apathetic electorate

Pillars of Democracy

There are a minimal number of pillars needed to support the infrastructure of democracy. If you wish to build a bridge, there are principles of engineering that must be followed. Similarly, there are seven main pillars of the architecture of democracy: elections, political tolerance, the rule of law, freedom of expression, accountability and transparency, decentralization, and civil society. But democracy, unlike bridge building, isn't just science; it is also the art of the possible.

Political parties constitute a major instrument of constitutional democracy in which fundamental norms govern the political community and determine relations between the legislature and the people, as well as the interactions among centers of power. In a democracy, political parties can be formed and can campaign without intimidation. Some countries require political parties to have a minimum level of popular support before they can participate in elections. All political parties must also have access to free media and other means to broadcast their election platforms.

Elections

Free and fair elections lend legitimacy to democracy by preventing one person or a small group in a society from imposing certain vested interests on the general population. No one person or group should exercise a monopoly of power over the election process.

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Unfortunately, elections may be rigged and votes bought. Politicians who only appear among their constituencies to enhance their patronage power, to be photographed and filmed distributing largesse, are sadly a familiar phenomenon in many countries.

A political establishment that ceases to reflect the aspirations of a given country's citizens loses its political legitimacy. Once that happens, the political establishment could call for new elections. However, it may instead resort to the use of force, fear and intimidation to cling to power, and elections may be suspended or subverted. Although elections are necessary and may be the most visible aspect of a democracy, there are many examples of manipulating election processes to aid and abet autocracy and tyranny. In themselves, elections do not suffice to ensure democracy.

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Political Tolerance

The second pillar is political tolerance. Free and fair elections do not give a mandate to oppress or sideline those who have voted against the government. It also does not mean that the majority have the right to rob the minority of its civil liberties, rights, property, or life. Tolerance is required for sustainable democracy. If minority groups do not benefit equitably from the election process, there can be no peace. That absence of peace would make a mockery of efforts to be democratic.

In many countries, there are examples of rewards given only to supporters of the ruling party, with neglect or punishment for those who voted for the opposition. The distribution of food, water supplies, and development resources has been used as a weapon of control to win elections. Post-election politics can also be punitive on the losers. The elected government may view the minority's participation in government as an obstacle, rather than finding a way to include them in reasoned debate and, where appropriate, incorporate opposition ideas into government policy.

Tolerance has to do with acceptance of diversity in society. It begins with the way children and young people are brought up. If we teach the young to believe in the principle of "winner takes all," we impede the development of democracy. Instead, young people must learn that what the winner earns in an election is an on-going duty to strike a balanced consensus in society. Striking that balance is an art.

Rule of Law

The third pillar of democracy is rule of law. There has been much debate on the meaning of this idea. What is clear, though, is the close connection between the rule of law and democracy. When the political process is subject to laws and takes place within a sound regulatory framework, it enables citizens to judge the lawfulness of the government. Citizens can answer some key questions:

Does the government govern according to the law • or does it take the position that it is exempt from some inconvenient rules?

Are procedures of the government stable and • within the law or does government act in an arbitrary fashion, arresting people who challenge its policies and depriving them of their liberty without due process?

Returning to the importance of the Magna Carta, Habeas Corpus is one of the most cherished concepts it contains. Habeas Corpus prevents arbitrary arrest, imprisonment, and execution by requiring such government actions to be justified under law and ensuring the detainee's right to due process. A political class, which accepts that official actions must comply with the law, is more likely to embrace democracy. Proper application of the rule of law puts a brake on any attempt to destroy liberty, seize property, or violate human rights. It also means that such rules apply across the board to all citizens.

Constitutional Court Jo'burg, Gauteng, South Africa

When application of the rule of law is weak, corruption flourishes. Bribery, kickbacks, bid rigging, and policy favors for family and cronies are well known in many countries. In these situations, those who seek enforcement of the law may face intimidation or reprisal. Democracy becomes dysfunctional when the bureaucracy, the judiciary, the legislature, the private sector, the police, and the military all use their power to enrich themselves and advance their own interests at the expense of society at large. Laws notwithstanding, corruption undermines the rule of law. Judicial neutrality is a key premise of the rule of law. If judges apply one set of rules for those with wealth and influence and another set of rules for those without, the entire political and judicial system falls into disrepute, eroding public trust in government institutions to deliver justice.

The rule of law is rooted in a system of moral values. In South

Unfortunately, elections may be rigged and votes bought. Politicians who only appear among their constituencies to enhance their patronage power, to be photographed and filmed distributing largesse, are sadly a familiar phenomenon in many countries.

google images

Africa, for decades, the rule of law existed within an apartheid system. The law was based on the color of one's skin. In a properly balanced political and legal system that protects the rights of citizens, those with a particular skin color cannot use it to obstruct justice. Justice and equality are directly linked with the sustainability of democracy. Generally, once the rule of law is compromised, a regime, despite what it may otherwise profess, slips on its democratic credentials and loses legitimacy.

In a constitutional democracy like Thailand, the constitution defines the institutional arrangements that govern in a democracy. Democracy works best when its institutions and officials operate in a system with checks and balances. The rule of law defines the limits to political interference in decision-making processes. With the rule of law, the system is held in common by all citizens, who are subject to the same laws; those governing do not "own" the system. To ensure the functioning of the rule of law, it is vital that the integrity and independence of the judiciary and the entire justice system are not subject to undue influence and illegal intervention.

Freedom of Expression

The fourth pillar sustaining democracy is freedom of expression. What people in civil society are allowed to say, print, distribute, and discuss is indicative of the democratic nature of a political system. A free press is one measure of freedom of expression in a society. Internet untrammeled by state control is another.

> The fourth pillar sustaining democracy is freedom of expression. What people in civil society are allowed to say, print, distribute, and discuss is indicative of the democratic nature of a political system. A free press is one measure of freedom of expression in a society.

Few governments, democratic or otherwise, have a genuinely easy relationship with free press; yet, despite all its shortcomings, a free press, supported by open Internet access, is indispensable to keeping the public well informed as part of a functioning democracy. Even in an established democracy, government may seek to manipulate free press into serving its own ends. Governments often conduct spin campaigns to advance their agenda and dilute the power of independent media.

New technology is unleashing powerful new forces through quantum expansion of information dissemination and space for public discourse. The Internet has revolutionized participation in political debate and action, and fostered the formation of e-communities. Mobile phones serve as crucial means of facilitating rapid communication. In countries with authoritarian practices, freedom of information is high on the government's danger list. Such freedom, as represented by the new media, is a few clicks away on websites such as YouTube and on numerous subject-specific blogs. These new forces have made it much harder for governments to control the flow of information.

The fact remains that even democratically elected governments will go to great lengths to manipulate public opinion, whether on TV, in the print media, or on the Internet. State influence and control over the flow of information should give us pause. The trappings of democracy may appear healthy, but if freedom of information and press freedom are hollowed out, democracy is compromised. Constant public vigilance remains instrumental in performing a watchdog role. This is not always easy, as the law in many developing democracies is neither supportive of freedom of information nor does it favor the press in case of conflict with the government.

Freedom of expression was thought important enough to place in the Universal Declaration of Human Rights. Article 19 of the declaration provides, "Everyone has the right to freedom of opinion and expression; the right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media regardless of frontiers." Although no democracy has absolute freedom of speech, unless citizens have the right to express themselves in the political process, no government can be made accountable for its actions.

The key is to balance national and societal interests to create and maintain the level of discussion required for participation in democracy to be meaningful, while drawing lines that take into account a country's history and cultural milieu. Each country places its own limitations on freedom of expression. What matters is that those limitations are not misused by political forces to limit public scrutiny of policies and actions that have an impact on the integrity of governance. For example, if criminal libel laws effectively thwart whistle blowing on irregularities or corruption, democracy is diminished.

Democracy is about multiple voices. These may be contradictory; some may be more informed than others, while others may be personal opinion, gossip or speculation. That is a marketplace of ideas.

As in all marketplaces, not everything is of equal value. So as long as our institutions enable people to understand how to assess ideas in this marketplace, selecting the rigorous and rejecting the shoddy, democracy is not only sustained – it thrives. With the Internet, globalization, and mass communications, the marketplace of ideas draws from far beyond the borders of any single democracy. Such a marketplace can no longer be easily crafted and controlled by government and no single government can feel quite comfortable in invoking the means to silence dissent or whistle-blowers.

Democracy is about multiple voices. These may be contradictory; some may be more informed than others, while others may be personal opinion, gossip or speculation.

With the rule of law, the system is held in common by all citizens, who are subject to the same laws; those governing do not "own" the system. To ensure the functioning of the rule of law, it is vital that the integrity and independence of the judiciary and the entire justice system are not subject to undue influence and illegal intervention.

Accountability and Transparency

The fifth pillar of democracy is accountability and transparency. Institutions of government and individuals in those institutions must be held accountable for their actions. A government must be accountable to the people who elected it into power. It must be accountable to an independent judiciary or other impartial institutions established to check government action. Be it agricultural policy, fuel pricing, or health care services, decisions must not advance the agendas of vested interest groups over the public interest.

Accountability and transparency essentially have the same purpose: protecting citizens against misguided policies or decisions that enrich a few at the expense of the many. When these two "guardian angels" are compromised, it is an alarm that good governance is at risk, and that the democratic process has stalled

Decentralization

The sixth pillar rests on local or provincial political empowerment. The closer the government is to the people governed, the more responsive the government is likely to be. At the same time, for decentralized democracy to work, funding must also be decentralized, material and human resources, and institutional capability. Decentralization of the political process is another way to curb the concentration of power and influence exercised by

political forces. Citizens become more aware, interested, and willing to participate in democracy when they see their officials as neighbors and what is at stake as something close to home.

It is at the local level that we see the best example of how democracy is connected with the daily lives of citizens. The physical proximity of the neighborhood has the same benefits as the online community in a knowledge economy: people with common interests and shared values express and exchange views and insights, influencing one another. Citizens' right of assembly and participation at the local level nurture the longevity of democracy in a society. The creation of political parties at the local level also facilitates building of a representative democracy. Local participation by voters and candidates drawn from the same district or province gives credibility and legitimacy to the democratic process. The local administration becomes a training ground for future national leaders.

Civil Society

Civil society is the vital seventh pillar. An active civil society begins its engagement at the grassroots. Community forums, clubs, issue-focused activist groups, charities, cooperatives, unions, think tanks, and associations fit under the broad umbrella of civil society. These groups are the participatory vehicles for sustaining grassroots democracy. There is a strong degree of volunteerism, shared interest and common values around which information is gathered and analyzed, views are formed, and advocacy pursued.

The health of a democracy may be measured by the vitality of its civil society and the extent of citizen participation in public policymaking. Civil society provides an important source of information for intelligent debate on matters of public interest. Civil society provides a mechanism whereby the collective views of citizens can shape and influence government policy. By bringing arguments and information to the public as a context for examining policy, civil society forces democratic government to present counterarguments or to modify its position. Such exchange is healthy for democracy.

Finally, it is clear that when the deliberative process within a political system accepts the role played by civil society, it also implicitly agrees that citizens have a role to play in checking government decision-making. A vibrant civil society thus makes for more thorough decision-making in a democracy. In many countries, however, there is a history of political patronage. Many heads of a political entities have built up a personal following whose loyalty is to the individual rather than to a political party or creed. When that happens, civil society suffers and democracy cannot be easily sustained.

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The Need for Responsible Leadership

The pillars of democracy outlined above are necessary but insufficient without leaders to build and maintain them. The qualities of leadership for sustainable democracy are found in those who act in an honest, transparent, and accountable manner. They are consensus-builders, open-minded and fair. They are committed to justice, to advancing the public interest, and they are tolerant of opposing positions. Of course, it is often said that democracy is a messy way of governing and that the human condition is flawed. There is truth in both statements; but admitting limitations, avoiding the mistakes of the past and looking forward to a new generation of leaders builds on the lessons from the struggles of ordinary citizens for democracy.

To foster a sustainable democracy, a nation must focus its efforts on building a system that empowers people not only through the right to vote, but also through norms, institutions, and values that support that right and make it meaningful

What will sustain democracy is the shared realization that, although democracy is far from perfect, the alternatives are even further from perfection. Some societies come to this realization sooner than others. Some are experimenting to see if only parts of democracy, such as good governance and accountability, can be enjoyed without the implications of full-fledged democracy. As long as they demonstrate a commitment to the larger welfare and well-being of the people and deliver public services, the majority of their people may well be content with the status quo and not protest.

Conclusion

One reason for such views that doubt whether democracy is the best way to advance social welfare may be a sense of disappointment with representative democracy in many fledgling democracies. Elected officials, instead of serving and protecting the public interest, serve their own interests and those of their cronies. They arrogate the right to dictate in the name of the majority, while riding roughshod over the minority. They become "the public" and are no longer "representatives."

For the past three decades or so, a trend towards more direct, participatory democracy has continued worldwide. In established democracies, this may be an incremental change; however, going from autocracy to mass participatory democracy is a big leap that entails a challenging transition. What is important is that the seeds of democracy must be homegrown for it to be accepted and to function. Each society must work out its own contradictions, its own competing priorities.

Historical and contemporary experiences everywhere highlight the fragility of democracy. Even when seemingly well established, democracy can be subject to tampering, especially in times of crisis. There is no democracy so strong that it is invulnerable to the greed and ambitions of people. To nurture and sustain democracy, its beneficiaries must also serve as its guardians; the common people must be ever vigilant and wise. For most of humanity, history has not ended. The struggle for and against democracy will continue far into the night.

This paper was presented as part of the Amartya Sen Lecture Series on Sustainable Development, sponsored by the Cambridge Society, Oxford Society, and Harvard Club of Belgium, on June 24, 2008, in Brussels, Belgium.

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

(The Honorable Anand Panyarachun is former Prime Minister of Thailand and a member of the Caux Round Table World Advisory Council).*

For the past three decades or so, a trend towards more direct, participatory democracy has continued world-wide.

Nigeria-Singapore:

Promoting Growing Interest In Trade Opportunities

* By Charles Ujomu

The growing economic ties between Nigeria and Singapore complement the robust political links the two countries share. Nigeria's established business infrastructure and its potential for huge growth present excellent business opportunities for Singapore companies. Thus, it is worth mentioning that the bilateral trade between the two countries has increased by over 50 percent especially in the last three years. In recent years, some Singapore companies have increasingly begun to explore the Nigerian business space, including the establishment of a deep-sea port and methanol plant by Tolaram Group in Lekki Peninsula area of Lagos, Nigeria. Agricultural sector is another area where the two countries have established increasing links. For instance, a Singapore company based in Nigeria, Olam International, is one of the largest agricultural exporters from Nigeria.

> The introduction of birth control policies by the Singapore's government for almost four decades shaped the type of population trend witnessed for several years in the country. Extremely limited natural re-sources and small territory apparently forced the country to adopt the policies aimed at controlling its population growth.

These positive experiences have not only spurred more companies in the two countries to look further into how their social, economic and business bonds could be better enhanced but have also carved out niches in the areas where resources are yet untapped between the two countries. It is there-fore pertinent to reiterate the fact that solidifying the already existing political and economic ties between Nigeria and Singapore

> Nigeria's sheer population of 149 million represents a healthy appetite for consumer goods and services that would grow the country via its rapidly emerging middle class.

would add impetus to the flow of business and investments between the two countries and towards better bilateral relations.

Nigeria's sheer popula-tion of 149 million repre-sents a healthy appetite for consumer goods and services that would grow the country via its rapidly emerging middle class. Its current positions as the 12th world's largest oil producer and 7th largest proven natural gas reserves present several opportunities for Singapore's companies in the oil and gas sector.

Demographic and Physical Features:

Nigeria's demographics describe a population of over 149 million, 32 times bigger than that of Singapore's 4.65 million. Singapore is the second most densely populated independent country in the world (after Monaco) with a total population density of over 6,300 people per square kilometer. Singapore's estimated birth rate stood at 8.82 per

Index	Nigeria	Singapore
Population (millions)	149,229,090	4,657,542
Total Fertility Rate	4.91 Children Born/Woman (2009 est.)	1.09 Children Born/Woman (2009 est.)
Population Growth Rate (%)	1.99%	0.99%
LIFE EXPECTANCY AT BIRTH:		
Total Population (years):	46.94	81.98
Male (years):	46.16	79.37
Female (years):	47.76	84.78
LAND AREA:		
Total (sq. km)	923,768	697
Land (sq. km)	910,768	687
Water (sq. km)	13,000	10
Land Boundaries (km)	4,047	-
Irrigated Land	2,820	-

Source: World Fact Book – 2009

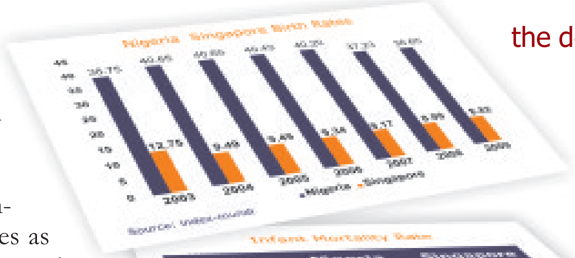
1,000 population in 2009 compared to Nigeria's 36.65 births per 1,000 population. The low level of birth rate in Singapore is attributed to birth control policies and the death rate is one of the lowest in the world at 4.66 per 1,000. The introduction of birth control policies by the Singapore's government for almost four decades shaped the type of population trend witnessed for several years in the country. Extremely limited natural resources and small territory apparently forced the country to adopt the policies aimed at controlling its population growth. The attendant results were aging population with fewer populace entering the labour market and also a dearth of skilled workers. In a bid to correct the anomalies, the Singapore's government radically introduced a scheme in 2001 called "baby bonus" that would encourage couples in the country to have more children.

Singapore's life expect-ancy rate of 81.98 years is one of the highest in the world and is ascribed to its universal healthcare system where government ensures affordability, mainly via obligatory savings and price controls. The situation is however different in Nigeria as access to quality healthcare system in the country is either limited or non-existent with stunning financial burden to most of its citizens. This undoubtedly has some serious moral, social and economic consequences in the country. This underscores its relatively low life expectancy rate of 46.94 years as the absence of comprehensive national health policy has over the years prevented healthy lifestyles among most people in Nigeria. According to the World Bank, Singapore currently has the lowest infant mortality rate in the world and in the areas of efficiency in financing and the achieved results in community health. Unlike Nigeria, Singapore's health system employs a combination of compulsory savings from payroll deductions (funded by both employers and workers) and state-owned health insurance programme (government subsidies) to keep costs in check. Singapore's workforce has consistently been ranked top amongst the world's most competitive countries as its high quality workforce continues to attract long-term investments from all over the globe. The quality of the education in the country is seen as the main driver responsible for the highly skilled workforce in Singapore. Its government has laws that guarantee compulsory education for children to enroll in schools and ensure their regular attendance. There is also constant commitment on the part of the Singaporean government to continue to enhance its manpower capabilities as an important competitive advantage in order to fuel the growth and development of the country's economy.

Singapore is located in South-Eastern Asia between the islands of Indonesia and Malaysia and its climate is hot and humid with clear change in seasons. The country is 697 square kilometers in total area with 687 square kilometers of land while the remaining 10 square kilometers are of water. Nigeria on the other hand has about 923,768 square kilometers in total area, approximately 1,325 times the size of Singapore.

In a bid to correct the anomalies, the Singapore's government radically introduced a scheme in 2001 called "baby bonus" that would encourage couples in the country to have more children.

Singapore's estimated birth rate stood at 8.82 per 1,000 population in 2009 compared to Nigeria's 36.65 births per 1,000 population. The low level of birth rate in Singapore is attributed to birth control policies and the death rate is one of the lowest in the world at 4.66 per 1,000.



Infant Mortality Rate

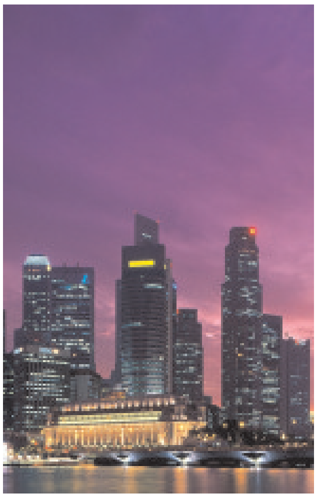
Year	Nigeria	Singapore
2003	71.35	3.57
2004	98.8	2.29
2005	98.8	2.29
2006	97.14	2.29
2007	95.52	2.30
2008	95.74	2.30
2009	94.35	2.31

Source: mundi

Nigeria Vs Singapore Economies

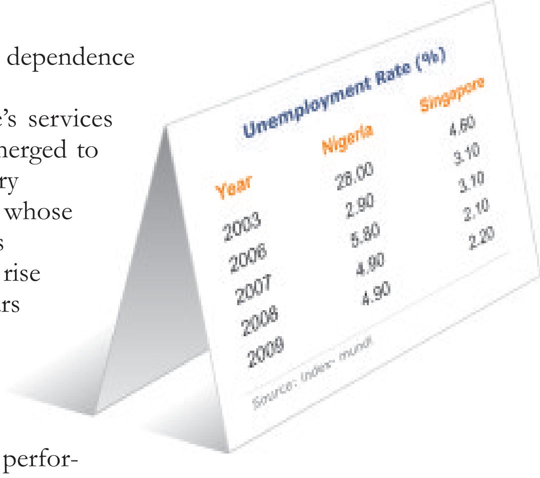
Singapore operates a dynamic free-market economy and is rated the second most competitive country after the United States. It also boasts of the most efficient airport, the busiest port in the world, the fourth largest financial center and the third largest oil refining center in the world. The country's far-sighted economic policies have helped to transform its economy into an Asian power house. Its economy typifies a vibrant one that is growing at a rapid pace. This is possible due to a sound economic strategy, a highly skilled workforce, excellent infrastructure and a number of foreign

source: google.com



investments. Interestingly, government-linked corporations have also contributed to the development of the economy of Singapore. Unlike the Nigerian economy, Singapore's economy is heavily dependent on exports and the government has invested hugely in diversifying its economy. The impacts of this are seen in the continuous growth witnessed in the tourism, financial services, multimedia, pharmaceutical, retail and leisure sectors among others. Singapore exports especially in chemicals, electronics and services provide the major source of revenue for the economy and they offer the opportunity to purchase natural resources and raw goods which Singapore does not have. Nigeria, a mono-cultural economy, is about 90 percent dependant on revenue derived from crude oil sales. The economy of Nigeria witnessed oil boom in the 70s that practically led to the neglect of its strong agricultural and manufacturing sectors in favour of an unhealthy dependence on crude oil.

Singapore's services sector has emerged to become a very dynamic one whose relevance has continued to rise for some years now. The sector remains an influential factor in the performance of the country's manufacturing industries. It contributes about 72.0 percent (3.6 times bigger than Nigeria's) to its growing economy. The country's economy, no doubt, has become a major center of international finance in recent years. It is one of the greatest commercial centers with a large modern port. This highlights the fact that commerce in Singapore has historically been the major source of income in the country. In Nigeria, the services industry (second largest contributor to its GDP) contributes about 20 percent to its gross domestic product. Economic experts are of the view that Nigeria needs to actively and operationally increase the quantum of investment and expertise to effectively operate in modern services sector. Also, the sector should be efficiently liberalized in a bid to reduce the capacities and tendencies for actual and potential government regulation and control. This would apparently lead to a more dynamic development process steered by the private sector of the country's economy. Singapore's services sector has witnessed an impressive expansion, contributing the largest proportion to its GDP. The rapid expansion of the services sector in Singapore is linked to three important roles it plays in the country's economic development. Firstly, because demand for services is highly income elastic, it is utility-inducing complementary component of total consumption when the economy is growing.



Unemployment Rate (%)

Year	Nigeria	Singapore
2003	28.00	4.60
2006	2.90	3.10
2007	5.80	3.10
2008	4.90	2.10
2009	4.90	2.20

Source: index mundi

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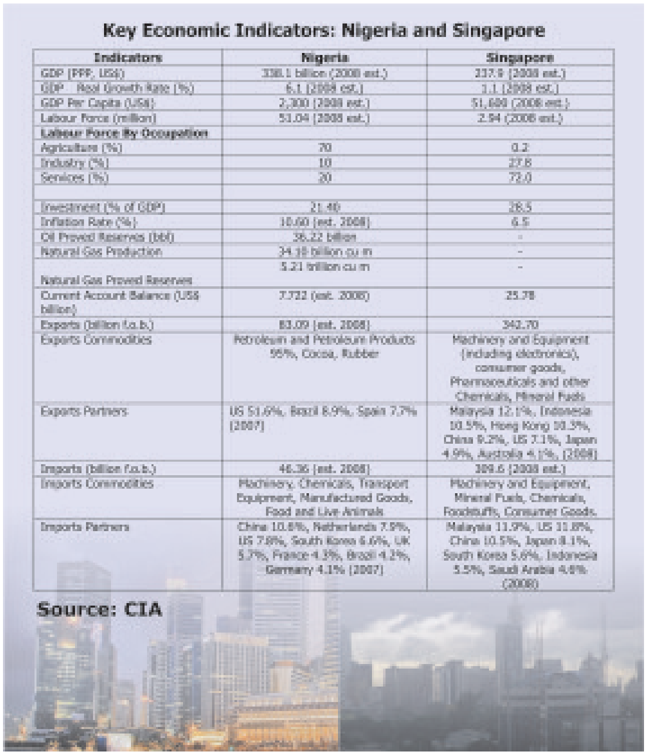


Key Economic Indicators: Nigeria and Singapore

Indicators	Nigeria	Singapore
GDP (PPP, US$)	338.1 billion (2008 est.)	237.9 (2008 est.)
GDP Real Growth Rate (%)	6.1 (2008 est.)	1.1 (2008 est.)
GDP Per Capita (US$)	2,300 (2008 est.)	51,600 (2008 est.)
Labour Force (million)	51.04 (2008 est.)	2.94 (2008 est.)
Labour Force By Occupation		
Agriculture (%)	70	0.2
Industry (%)	10	27.8
Services (%)	20	72.0
Investment (% of GDP)	21.40	28.5
Inflation Rate (%)	10.60 (est. 2008)	6.5
Oil Proved Reserves (bbl)	36.22 billion	-
Natural Gas Production	34.10 billion cu m	-
Natural Gas Proved Reserves	5.21 trillion cu m	-
Current Account Balance (US$ billion)	7.722 (est. 2008)	25.78
Exports (billion f.o.b.)	83.09 (est. 2008)	342.70
Exports Commodities	Petroleum and Petroleum Products 95%, Cocoa, Rubber	Machinery and Equipment (including electronics), consumer goods, Pharmaceuticals and other Chemicals, Mineral Fuels
Exports Partners	US 51.6%, Brazil 8.9%, Spain 7.7% (2007)	Malaysia 12.1%, Indonesia 10.5%, Hong Kong 10.3%, China 9.2%, US 7.1%, Japan 4.9%, Australia 4.1%, (2008)
Imports (billion f.o.b.)	46.36 (est. 2008)	309.6 (2008 est.)
Imports Commodities	Machinery, Chemicals, Transport Equipment, Manufactured Goods, Food and Live Animals	Machinery and Equipment, Mineral Fuels, Chemicals, Foodstuffs, Consumer Goods.
Imports Partners	China 10.8%, Netherlands 7.9%, US 7.8%, South Korea 6.6%, UK 5.7%, France 4.3%, Brazil 4.2%, Germany 4.1% (2007)	Malaysia 11.9%, US 11.8%, China 10.5%, Japan 8.1%, South Korea 5.6%, Indonesia 5.5%, Saudi Arabia 4.6% (2008)

Source: CIA

Hence, as Singaporeans become richer, consumption of such services as tourism, education, health, hotels, restaurants and transportation expands and this explains the robust contribution of the services sector to the economy of the country. Besides, the country's services sector has always provided important auxiliary outputs to its manufacturing companies that increasingly depend on external sourcing of such basic inputs as financing, communication and transportation. In most cases, service providers have to personally render the service making the sector responsible for a large chunk of the country's employment.

Despite the growing importance of oil in Nigeria, the country has remained essentially an agrarian economy with agriculture contributing significant proportion to its

gross domestic product (GDP) as well as employing the bulk of the labour force. The sector contributes about 70 percent to the Nigerian economy. The case is however different in Singapore as less than 5 percent of the country's land is used for agriculture. Vegetable, orchids and tropical fruits are cultivated while hogs, poultry and tropical fish are raised. The significance of agriculture in the country is highly negligible accounting for only 0.2 percent of the GDP and employing 0.2 percent of the country's workforce. The country has almost fully depended on the import of foodstuffs but has some interest in the greenhouse

Singapore ranked 17th among Nigeria's major trade partners in 2008 with total trade value between the two countries at 323.1 million euro.

production of some fruits and vegetables for internal consumption which is yet underdeveloped and remains small. The public outcry in the United States and Europe over the genetically modified food has greatly reduced Singapore's entrepreneurs expressed interest in biotechnology and genetically modified food production. In spite of the importance of agriculture in Nigeria, domestic food supply is still being augmented through large imports. According to Oxfam of Great Britain, Nigeria spends about US$3 billion yearly on food importation. Obviously, various economic, social and other environment challenges, the advent of oil boom, poor infrastructure, insufficient agricultural inputs and dearth of improved seeds are responsible for the increasing poor performance of this sector in the country.

Singapore's industrial sector has grown tremendously and currently contributes about 27 percent to its gross domestic product. The country's technological expertise, efficiency, innovation and cost competitiveness are some of the factors responsible for the exceptional success recorded in the country's manufacturing sector. Nigeria's manufacturing

sector on the other hand contributes 10 percent to its GDP, the least contributor to the economy. Several factors are believed to be affecting the country's manufacturing sector, these include low level of technology, low capacity utilization, little investments, high cost of production, poor performing infrastructure and inflation among others. It should be emphasized that high productivity in the Nigerian manufacturing sector is a prerequisite for the industry to achieve competitiveness, improve its GDP contribution and indeed uplift the standards of living of Nigerians. The Singaporean government goal for its manufacturing sector has produced several excellent results. Today, the Made-in-Singapore trademark has not only earned itself the status of producing dependable, superior and cost effective products, it has also garnered excellent international tributes.

Nigeria Vs Singapore: Trade Relations

Given Singapore's economic flexibility, political stability and international competitiveness, the country enjoys one of the most open economies for foreign direct investment and international trade. The country's strategic location and free trade policy have also enabled it achieve swift growth in trade over the past numerous decades. This Asian country is an exporter of electronic goods, pharmaceuticals, consumer goods, mineral fuels and machinery and equipment amounting to about US$342.70 billion in 2008, four times bigger than that of Nigeria's US$83.09 billion.

This Asian country is an exporter of electronic goods, pharmaceuticals, consumer goods, mineral fuels and machinery and equipment amounting to about US$342.70 billion in 2008, four times bigger than that of Nigeria's US$83.09 billion.

Singapore's top export partners are the United States, Indonesia, China and Hong Kong. Nigeria's export goods are petroleum products, cocoa and rubber among others. Singapore imports electronic raw materials and minerals which are then turned into finished products for exporting to other countries. Nigeria on the other hand imports machinery, chemicals, transport equipment, manufactured goods, food and live animals among others. Some of its import partners are China, United States, South Korea and United Kingdom.

Singapore ranked 17th among Nigeria's major trade partners in 2008 with total trade value between the two countries at 323.1 million euro. United States of America, the European Union, Brazil, China and South Korea all occupied the top five positions on the list. Singapore's trade with Nigeria has thus far concentrated on exporting refined petroleum products, ships and boat parts, and electronics among others. Historically, multilateral tariff and non-tariff barriers between Asia and sub-Sahara African countries are estimated to have substantial impact on their trade relations over the decades. Hence, restricted trade flows between the two regions underscore the dearth of comprehensive and formal trade and investment policies necessitating the mutual trade and investment relations in both continents. Thus, the relatively low amount of trade between Nigeria and Singapore is in part attributed to this factor as it has sustained a bias against both exports and imports from Africa over the years.

Nigeria's export value with Singapore in 2008 stood at 4 million euro. Singapore ranked 40th on Nigerian export list that same year as United States of America, European union, Brazil, Ivory Coast and South Africa ranked as the country's five major export partners in the world that same year. Nigeria's exportable goods to Singapore include rubber, cocoa and petroleum products among others. On the other hand, Nigeria – Singapore import trend shows that Nigeria import value is more than what it exports to Singapore. The value stood at 318 million euro (0.9 percent of Nigeria's total global imports' value) at the end of 2008, ranking Singapore as the Nigeria's 13th major imports partner in the world. Some of the import goods from Singapore include machinery, chemicals, transport equipment, manufactured goods, food and live animals.


• sINGaPORe cityscape

The current level of trade relations between Nigeria and Singapore needs to be enhanced as there are huge untapped trading opportunities between the two countries. Singapore's open-door investment policies and its highly developed business infrastructure present significant advantage for Nigeria and its companies to explore the country's business space in a bid to largely increase the level of trade relations with Singapore and its numerous companies. The trade relationship between Nigeria and Singapore is not only limited to products, it also includes potential huge foreign direct investment. Hence, the growing presence of some Singaporean companies in Nigeria would not only boost the level of foreign direct investment (FDI) of Nigeria but would also help to address some of the various challenges affecting the country's manufacturing industry. Strong and continuous improved bilateral trade relations between the two countries are seen as the only change instrument that can bridge the current trade between Nigeria and Singapore. At present, the trade relations between the two countries show that there are huge opportunities yet untapped considering various machineries and manufactured products from Singapore and Nigeria's petroleum products needed in Singapore owing to the dearth of natural resources in that country. Also, Singapore's principles of free-market system and an outward orientation remain a robust platform for countries like Nigeria to leverage on. Today, about 95 percent of imports entering the country are duty free. Nigeria and Singapore's participation in multilateral trade forums within their respective continents and across the globe also reflects their commitments to global multilateral free trade that both countries can explore and increase their foreign trade portfolios especially with each other.

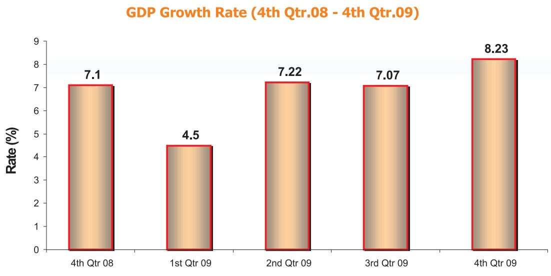
Singapore's principles of free-market system and an outward orientation remain a robust platform for countries like Nigeria to leverage

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

Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian Economy in the fourth quarter 2009, recorded mixed performance in several parameters. Some of the indicators improved as **the economy made minimal gains during the quarter.** Gross Domestic Product (GDP), for instance, grew in the fourth quarter while the foreign exchange reserves also made some gains. The nation's currency, the naira, firmed up against other major world currencies. However, inflation rate missed projected target in the period. The benchmark rate, the Monetary Policy Rate (MPR), remained unchanged all through. The bears tightened their grip on the nation's stock market as investors remained virtually inactive during the period. In the international crude oil market, prices surged, recovering initial losses.



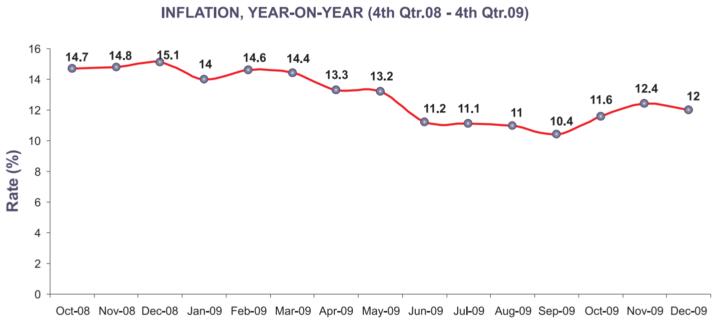
Source: CBN

GROSS DOMESTIC PRODUCT

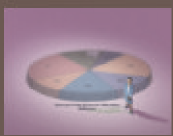
Gross Domestic Product (GDP) in the fourth quarter was estimated at 8.23 percent, a marked improvement when benchmarked against the previous quarter. The non-oil sector was the main driver of this growth. Favourable rainfall since mid-July across most parts of the country produced a bumper harvest, allowing agriculture to continue its dominance as the major contributor to GDP. For the oil sector, the fruits of the amnesty deal embraced by the Niger Delta militants yielded results as production jumped by 42 percent between November and December. Real GDP growth for 2009 has been projected at 6.9 percent, significantly higher than 5.98 percent recorded in 2008.

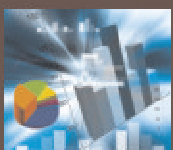
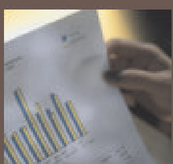
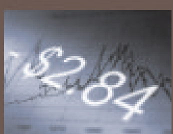
INFLATION

The Year-on-Year (y-o-y) inflation maintained an upward trend in the fourth quarter 2009, closing at 12 percent in December. This position missed the single digit target of the Government. However, inflation had been on a downward spiral for seven consecutive months since March 2009. Although inflationary pressures began in October with the rate climbing to 11.6 percent due to lingering fuel crisis induced by rumors of full deregulation in the downstream sector. The scarcity and attendant price increases caused inflation to inch upwards to 12.4 percent in November but slowed to 12 percent at end-year due to a drop in prices of some staples like maize, millet and sorghum. However, soaring prices of other food items combined with slight increases in the prices of cooking gas, household goods and service posed a major challenge during the period. In the months ahead, inflation risk remains a threat due to expansionary fiscal spending from the three tiers of government and the impact of the monetary easing undertaken by the CBN.

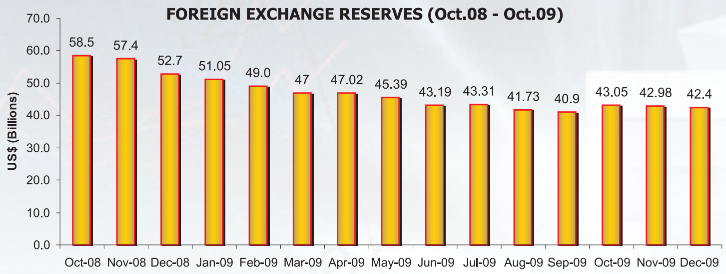


Source:National Bureau of Statistics

EXTERNAL RESERVES

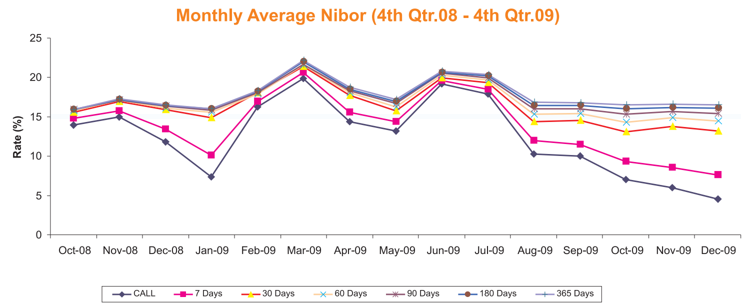


Source: CBN

The nation's stock of external reserves rose slightly in the fourth quarter 2009, buoyed by slowdown in net outflows and strong rebound in commodity prices in the international markets. The foreign exchange reserve has dwindled by about 37 percent since hitting an all-time high of $64 billion in August 2008. Despite the decline however, the apex bank successfully plugged some leakages, with outflows subsiding to $138million in the fourth quarter from a whopping $5.6billion in the first quarter 2009. The stock of external reserves stood at $42.4 billion as at end December 2009, capable of financing up to 15 months worth of imports. The authorities attributed the improvements in reserves to rising crude oil prices in the international markets and improved oil output due to relative peace in the Niger Delta.

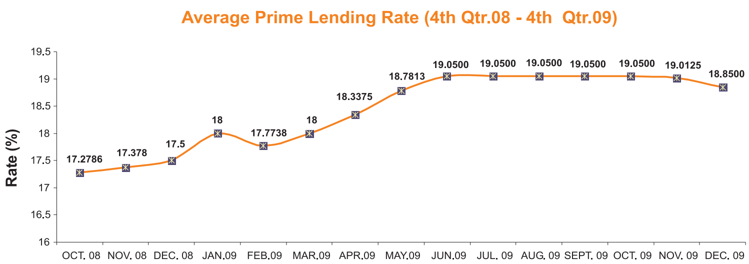
INTEREST RATE

To stem soaring cost of funds, the CBN made efforts in support of the real sector by holding interest rate unchanged in the fourth quarter 2009. The Monetary Policy Rate (MPR) remained steady at 6 percent following a reduction from 8 percent in the preceding quarter.



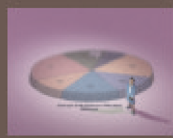
Source: Financial Markets Dealers Association of Nigeria (FMDA)

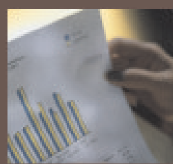
The average monthly interbank rate (NIBOR) dropped sharply across most tenors as a result of the apex bank guaranteeing transactions in the market. For instance, rates were highly volatile on the call and 7 Days tenors. The rate on the Call tenor crashed to a four year low of 2.6 percent in November from 10.2 percent in the preceding month. The downward spiral continued in October as the market was awash with a mixture of liquidity such as the N200billion injected into the rescued banks; the stimulus facility of about $2billion withdrawn from the excess crude account and the N350 billion Statutory Revenue Allocation shared among the three tiers of government.

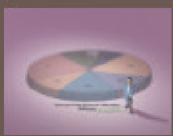


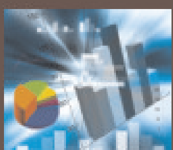
Source: Financial Markets Dealers Association of Nigeria (FMDA)

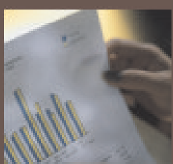
Facts & Figures

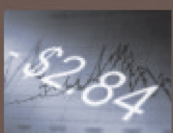



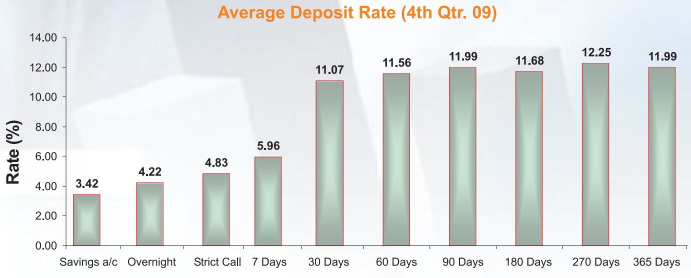





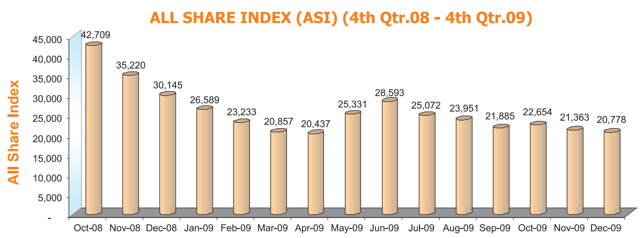




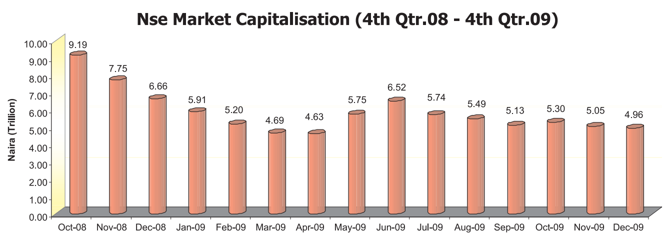
In terms of cost of borrowing, the average Prime Lending Rate (PLR) eased marginally due to improved confidence in the market. Although, lending rates generally remained on the high side hovering around 19 percent during the quarter, the CBN relaxed some of its policies to bolster lending activities. It lifted the ban on Bankers Acceptances (BAs) and Commercial Papers (CPs); introduced an asymmetric corridor around the MPR, where it dropped the Standing Deposit Facility by 400 basis points below the benchmark rate but left the Standing Lending Facility at 200 basis points above the monetary policy rate. Returns on the average deposits rate slipped across most investment horizons during the fourth quarter. Cumulatively, yields on the Call and Overnight tenors dropped by 56 and 42 basis points respectively during the fourth quarter.



Source: Financial Markets Dealers Association of Nigeria (FMDA)



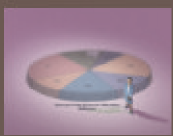
Source: Nigerian Stock Exchange

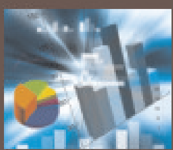


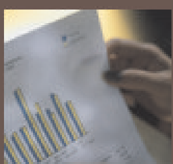
Source: Nigerian Stock Exchange

CAPITAL MARKET

The capital market continued its downward trend in the fourth quarter 2009 sliding to a 7-month low amidst tumbling stock prices. The All-Share Index (ASI) and market capitalization finished the volatile quarter at 20,827.17 and N4.91trillion respectively, from 22,065 and N5.13trillion in the preceding quarter. Stock prices remained generally low as jittery investors were cautious over blips of an early recovery. Market sentiments were weakened by the delayed rescue plan of the monetary authorities through the Asset Management Company (AMC). Nevertheless, risk appetite for a slice of the market increased with signs of profit taking activities, as investors narrowed their investment horizons. On the positive side, quoted companies such as Nestle, Total and Guinness Nigeria among others, paid impressive dividends of N1.95, N3.40 and N7.50 per share respectively, providing a boost to otherwise weak investor confidence. Also, a number of companies joined the official list of the NSE: Guaranty Trust Assurance; Unity Kapital Assurance; McNichols Consolidated Plc; as well as Resort Savings and Loans.

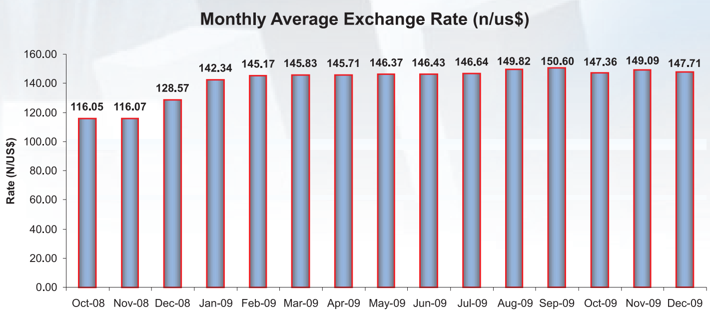






EXCHANGE RATE

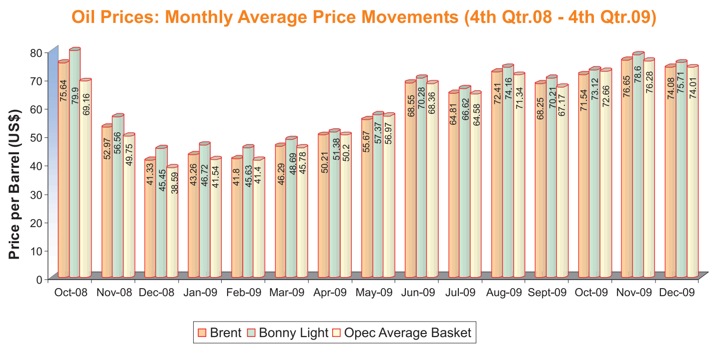
The nation's currency, the naira, ended the fourth quarter on a less uncertain note around CBN's target, strengthening against other major world currencies. The Naira remained broadly stable at N147/US$ during the quarter, regaining some earlier losses from the preceding quarter. Cumulatively, the naira has been waxing strong since November last year after losing about 25 percent of its value. In its twice weekly auctions, the CBN offered about $3.9billion and sold $3.3billion against about $4billion demanded during the quarter. However, excess demand for the dollar resurfaced in October, although this gap was filled by sufficient inflows from the oil majors, telecoms companies, among others. The clarity of expectations during the quarter narrowed the spread between the official and interbank market. As at end-December 2009, the WDAS average exchange rate was N149.58/US$, while the inter-bank market rate averaged N151.03/$US.



Source: Nigerian Stock Exchange

OIL

Crude oil prices in the international market wrapped up the year on an impressive note, surging to a new high of $82 per barrel for the first time in 14 months. Crude oil prices made strong recoveries in 2009, soaring by about 80 percent from a year ago. From below $70 per barrel on the back of a stronger US dollar in November, crude oil prices closed the year at $78 per barrel. Nigeria's brand of crude oil, bonny light, gained about $14 in the fourth quarter, trading in a band of $70-$84 per barrel. Industry analysts attributed the surge in crude oil prices to signs that the global economy was on the rebound, with the Euro zone, Japan and the United States emerging from recessions. The world's number two energy consumer – China, stepped up its demand for Nigeria's and Angola's crude oil, despite a slump from the US. However, the market was highly unbalanced as result of sluggish demand and mounting supply. At their emergency meeting in Angola on December 22, OPEC members agreed to maintain the same level of production.



Source: Energy Information Administration (EIA), OPEC