Zenith Economic Quarterly

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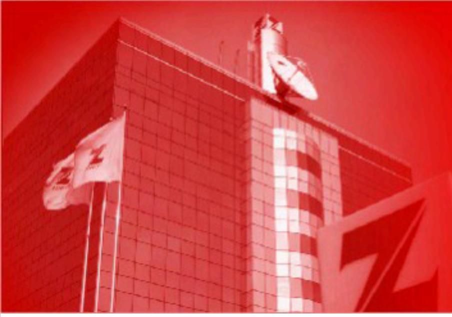

From America to Asia:

Fresh Moves at Salvaging Economies

INSIDE

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PETROLEUM INDUSTRY BILL:

Issues, Challenges & Prospects

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Ineluctable Recrudescence?

In its communiqué No. 86, the Monetary Policy Committee of the Central Bank of Nigeria pointed out the continued deceleration in global output, which resulted from a combination of austerity-driven Euro-zone developments, weak recovery in some Asian economies, and slowdown in major emerging market economies. In addition, says the Committee, high and rising unemployment, fragile financial conditions, weak housing markets, and deterioration in both public and private sector balance sheets in some major industrial countries posed major risks to global economic recovery.

As scary as the MPC scenario and analysis is, the concern becomes even merely euphemistic in the face of the stark realities that is the lot of many an economy today. Whether the focus is on the fiscal gridlock in the US, the lingering Euro-zone financial and economic crisis, or the declining output growth in the key emerging Asian economies, the conditions look really grim. These depressing conditions are not any different from those of the 2008/2009 era, when the global economic meltdown ravaged all nooks and crannies of the world. Again, the 'warning signs' are every where. Virtually every country is at one stage of economic reform or the other; yet the fundamentals seem to keep defying all expectations and hope. Steadily but unwillingly, it seems, the global economy is headed for another crisis—or meltdown. This worry—or ineluctable fate—is couched in the piece—"From America to Asia: Fresh Moves at Salvaging Economies." In it, the author sums up that, with the increasing aggressive fiscal and monetary stance against looming global recession, it is getting increasingly more certain that a sustainable solution could be in the offing. This optimism is however with a caveat: "…a lot would depend on chance, and of course, on whatever becomes of the EU common currency dream." The EU story and challenge is analysed in-depth in another piece "All Quiet on the EU Front, or Too Quiet?" In this, the over 20 summits of the leaders of the EU member-states as well as their determination to keep their Euro are masterfully discussed.

As scary as the MPC scenario and analysis is, the concern becomes even merely euphemistic in the face of the stark realities that is the lot of many an economy today.

Allied to these is our focus on the manufacturing sector in Nigeria—one of the supposed pillars in the nation's quest to be among the top 20 largest economies of the world by the year 2020. In this piece—"Recent Trends in Nigeria's Manufacturing Sector: Cause for Optimism?"— the plaid history of this crucial sector is told in lurid details. However, the flicker of hope emerging from the impact of recent reforms in the economy as it affects the sector is also vividly captured. Our focus on the 'hydra headed and Octopoid' Petroleum Industry Bill (PIB) is also revealing. The PIB which aims to streamline a legal, fiscal and regulatory framework for the oil and gas sector has had several versions—some still in circulation, others consigned to the rubbish bin—with attendant controversies. Yet the PIB (or the eventual Act) is a product of efforts to reform the oil and gas industry towards greater efficiency.

In a related article titled "Agenda for Development: Petroleum Subsidy", the author delves into the controversy-ridden deregulation of the downstream sector of the oil industry. In view of the fraud, scams and other sharp practices that characterize the operations of the downstream sector of the oil industry, according to the author, government, through deregulation, wants to do away with discretionary interventions and administrative controls—such as fixing of pump prices that are responsible for distortions.

In our section, 'Discourse', the ever-evolving corporate identity mix is expertly analysed. This essentially deals with how a firm's personality is expressed through symbolism, communication and behaviour.

Other segments of the journal, including 'Periscope', 'Facts & Figures', 'Policy', etc, also contain our usual informative masterpieces.

Please read, digest, and stay enriched!

Marcel Okeke

from our mailbox

I am directed by the Hon. Ag. President, Court of Appeal to acknowledge with thanks the receipt of a copy of the July edition of the Zenith Economic Quarterly (ZEQ) Titled "Agric Transformation: Tackling Nigeria's Food Import Dependency" forwarded to His Lordship under cover of your letter dated 25th September, 2012.
Once again, thank you.
Yours sincerely,
E. Akhilor, (Mrs.)
Secretary to the Ag. PCA,
For: Ag. President, Court of Appeal

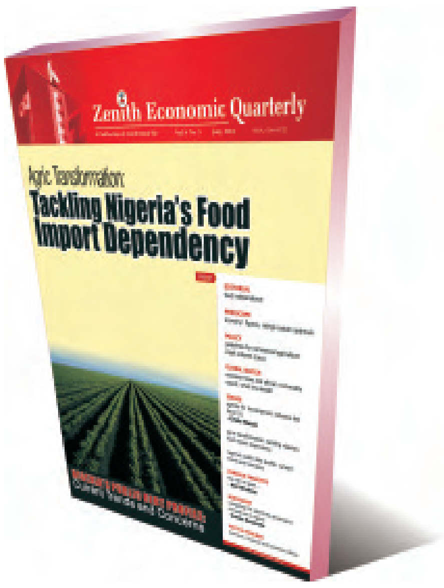
We acknowledge with thanks the receipt of One (1) copy of April, 2012 edition of Zenith Economic Quarterly (ZEQ) donated to the Library. We are very grateful for this kind gesture and we promise to put the Journal to the good use of staff and students of the College.
On behalf of the College Management, once again I say thank you.
Yours faithfully,
Adebowale, T.O (Mrs.)
Librarian
Yaba College of Technology

The University Librarian gratefully acknowledges your kind donation of the following publication to the University Library;
1 copy of Zenith Economic Quarterly, October 2011 vol 7(4).
We appreciate your kind gesture and contribution to the development of the University Library. We also commend your contributions to intellectual development.
We solicit your further help and will count on your future co-operation in the continuous process of building the University Library.
Thank you.
F. Balogun (Mrs.)
Head, Gifts and Exchange Unit
University of Lagos Library

We wish to acknowledge with gratitude receipt of a copy of the January 2012 edition of the Zenith Economic Quarterly (ZEQ).
The ZEQ has proven to be a valuable source of relevant information since it focuses on the cashless economic issues. The journal has been a useful reference material because its incisive analysis has provided significant insight into imperatives for legal and Regulatory Framework.
Please accept the assurances of the Embassy's highest consideration.
Warm regards,
Beatrice Ayokhai
Admin. Attaché
For: Ambassador
Embassy of Nigeria,
The Republic of Guinea

We write to acknowledge with thanks the receipt of a copy of your Economic Quarterly and to appreciate your continuous recognition of NASME as a critical stakeholder in Economic Development.
As usual the content is quite educative, informative and gives a clear investment guide and strategic policy decisions to readers.
Best regards,
Nerus Ekezie
Ag. Executive Secretary
Nigerian Association of Small and Medium Enterprises

We wish to acknowledge, with thanks a copy of the June 28, 2012 edition of Zenith Economic Quarterly Journal.



"The ZEQ has proven to be a valuable source of relevant information since it focuses on the cashless economic issues. The journal has been a useful reference material because its incisive analysis has provided significant insight into imperatives for legal and Regulatory Framework."

The copy will be put in a prominent place for the benefits of our staff and students' research and up-date their background on the issues treated therein.
Once again, thank you.
Dr. S.A. Alalade
Head of Department, Economics B/F
Babcock University

Your letter dated 28th June, 2012, forwarding April, 2012 edition of the Zenith Economic Quarterly (ZEQ) refers.
We are grateful to you for providing us a copy of the Zenith Economic Quarterly, which we found to be informative and educative.
Please, accept our warm regards.
Thank you.
Chief Terkaa I. Gemade
Registrar/Chief Executive
Association of National Accountants of Nigeria

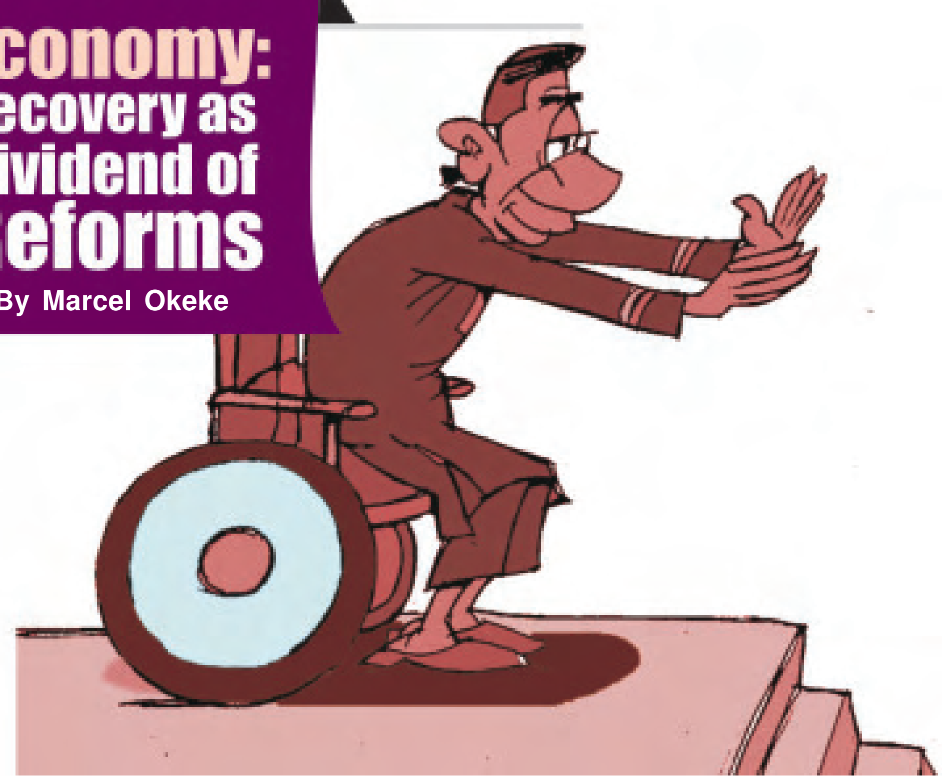
We acknowledge with thanks the receipt of one (1) complimentary copy of the April, 2012 edition of your Institutes' Journal "Zenith Economic Quarterly (ZEQ)".
We appreciate this gesture and commend your organization for this contribution to Chartered Institute of Stockbrokers (CIS) and the financial industry in the area of impacting knowledge.
Please be assured that you remain on our mailing list in the exchange of well articulated research work.
Thanking you for your cooperation, while assuring you of ours at all times.
Yours Faithfully,
Olayiwola Ajayi & Shakirat Oladimeji
Research & Technical
Chartered Institute of Stockbrokers

We would like to acknowledge the receipt of the copy of your Zenith Economic Quarterly (ZEQ-April 2012 Edition).
The journal is insightful, and we commend your effort in putting it together.
Thank you for your kind gift.
Dr. Yinka David-West
Faculty
PAN-AFRICAN UNIVERSITY

We write to appreciate and acknowledge the receipt of the Zenith Economic Quarterly Journal of April, 2012 which focuses on the "Cashless Economy: Imperatives for Legal and Regulatory Framework".
It is indeed packed with critical information on the Nigerian and global economy for strategic policy decision which is relevant to the College Community and library users.
It is very interesting and educative.
Thanks.
Mrs. Molokwu, E.U
College Librarian
Federal College of Fisheries and Marine Technology

Economy: Recovery as Dividend of Reforms

*By Marcel Okeke



The positive, stable economic outlook verdict given on Nigeria almost at the same time by the two global rating agencies, Standard and Poor's and Fitch Ratings can be described as most apt. According to Fitch, the key rating drivers include the ongoing macro-economic reforms: partial removal of oil subsidy, privatization of the power sector, banking and financial sector reforms, increasing external reserves, among others. S & P in its report indicated that Nigerian government has sustained reform momentum in several areas such cutting the fuel subsidy, reforming the power sector, as well as restructuring and strengthening the previously troubled banking sector. Although these reports were released in the early part of the fourth quarter, 2012, their contents are testaments to the positive cumulative effects of macro-economic initiatives of the Federal Government so far this year.

Specifically, by the close of third quarter 2012, virtually all economic indicators moved in the desired direction: inflation rate came down consistently from July, through August to September; external reserves increased markedly; exchange rate maintained stability; the capital market experienced a robust turnaround; oil production remained upbeat, just as crude price rally continued in the international market. Inflation rate which stood at 12.80 per cent (year-on-year) in July, declined to 11.70 per cent in August and further came down to 11.30 per cent in September. This is attributable to relatively tight monetary policy of the Central Bank of Nigeria (CBN) which saw the base interest rate on hold at 12 per cent in September for the sixth time in a row.

The apex bank simultaneously also focused on supporting the volatile national currency and building up foreign exchange reserves to help in dealing with the threat of inflation. Hence, the Naira held largely steady all through the quarter under review owing to among other factors, improved supply of foreign exchange which is reflected in the country's huge current account surplus—also due in large measure to the high price of oil—Nigeria's major export. The CBN's tightening of liquidity through the reduction of net open foreign exchange position (NOP) limit (that is, the ratio of dollars banks can hold relative to shareholders' funds) from three per cent to one per cent during its July 2012 Monetary Policy Committee (MPC) meeting also helped in strengthening the Naira, as the pressure on the local currency promptly subsided. Also, a third quantitative easing in the United States has kept the global economy awash with US dollar liquidity which, combined with the relatively high yields in Nigeria, has provided a great incentive for improved portfolio investment, further supplying the domestic economy with foreign currency.

The net effect of all these was that the Naira appreciated against the US dollar in all segments of the foreign exchange market during the third quarter 2012. Specifically, the whole sale Dutch auction system (WDAS) rate appreciated by N0.06, from N157.40 on July 25 to N157.34 on September 28, 2012. Inter-bank rate appreciated by N2.81, from N160.00 to N159.00 in the same period. Bureau De Change (BDC) rate also appreciated, by N4.00, from N163.00 to N159.00 during the same period. In sum, the appreciation recorded in all segments of the market could be traced to the combined effects of tight monetary conditions, improved supply of foreign exchange to the market by oil companies; increased inflows from portfolio investors and the policy that barred the Deposit Money Banks (DMBs) from accessing the CBN lending window (SLF and Repo) and WDAS simultaneously.

On the same trend, strong dollar inflow during the quarter under review also enabled the CBN to boost its holdings of foreign reserves substantially. Indeed, the nation's external reserves increased from US$32.64 Billion at end-December 2011 to US$40.64 Billion at end-September, 2012— approximately 7.80 months of imports cover. This rise by US$8.00Billion translates to nearly 25 per cent year-to-date. On month-by-month basis, the reserves grew from US$36.28Billion in July to US$36.51Billion in August, hitting US$40.64Billion in September.

The robustness of these macro-economic indicators also reflected in the performance of the Gross Domes-

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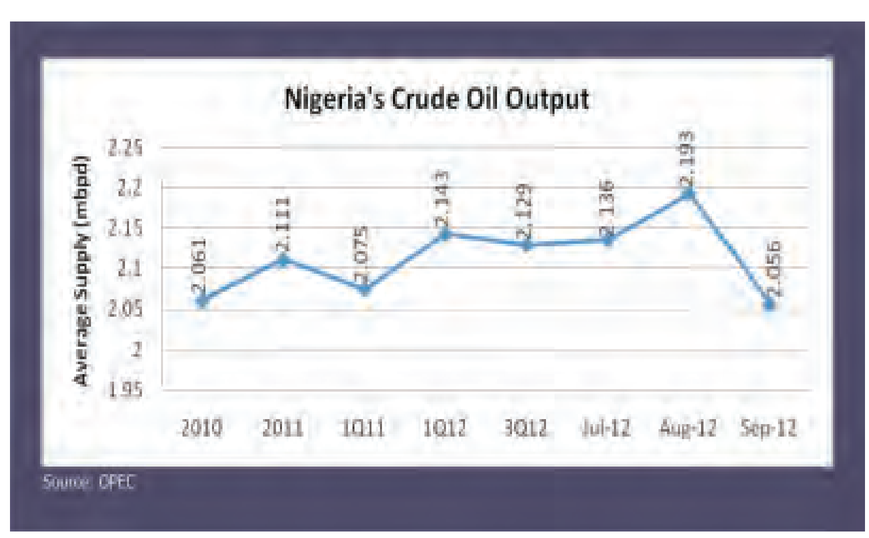


Source: OPEC

tic Product (GDP) during the first three quarters of the year. Data from the National Bureau of Statistics (NBS) show that the economy on a quarterly basis grew by 6.34 per cent; 6.39 per cent, and 6.48 per cent respectively in the three quarters up to September 2012. Although compared to the corresponding periods in 2011, these growth rates are less cheery; they are nonetheless encouraging in the global context. Specifically, the economy, comprising two broad output groups of Oil and Non-oil sectors, witnessed slower growth output in the third quarter of 2012 as a result of declines in non-oil sector output. While the oil sector witnessed positive growth for the first time in four quarters, according to NBS data, the slower non-oil sector growth was driven by growth in activities recorded in the building & construction, cement, hotel and restaurant, and electricity sectors.

The impact of the Federal Government's reform policies also translated into a number of other cheery developments during the quarter under review. Thus, according to the Manufacturers Association of Nigeria (MAN) report, the fortune of Nigeria's manufacturing sector had begun to 'look up' as over 240 factories commenced operations in the last one year, with a projected turnover of N140 billion. This development is an indication of increased investment and improved turnover for the industrial sector. The improving business environment for the manufacturing sector is also reflecting on industrial capacity utilization, as industrial activities improved significantly in the quarter under review relative to the level in the preceding quarter and the corresponding period in 2011.

According to the 2012 second quarter economic report of the CBN, these positive developments in the sector are attributable to improved business confidence—which led to a rise in consumer demand, and improved electricity supply. Some of Government's initiatives to encourage the manufacturing/industrial sector in recent times include: pioneer status—given to pioneer companies located in economically disadvantaged areas (providing tax holiday period of five to seven years); tax relief for research and development—up to 120 per cent of expenses on R & D are tax deductible; re-investment allowance –given to manufacturing companies that incur capital expenditure for purposes of approved expansion of production capacity, modernization of production facilities, and diversification in related products, etc.

In the same vein, the Federal Government, in a bid to attain self sufficiency in sugar production, developed a New Sugar Master Plan (NSMP) which is envisioned to generate 1.80 million tonnes of sugar annually; about 40, 000 permanent jobs; 400 Mega watts of electricity annually. It is also expected to generate 1.6 million tons of animal feeds annually; $65.8 million savings in foreign exchange on fuel imports annually; and $350 million saving in foreign exchange on sugar imports annually. Currently, Nigeria depends almost exclusively on sugar imports in the form of brown sugar, largely imported from Brazil, despite the recent privatization of all government-owned sugar resources.

During the period under review, the Federal Government forwarded to the National Assembly, the 'correct version' of the much-awaited Petroleum Industry Bill (PIB) for deliberations. Highlights of this crucial Bill include the creation of a conducive environment for petroleum operations; enhancement of the exploration and production of petroleum resources in Nigeria for the benefit of the Nigerian people; optimization of domestic gas supplies, particularly for power generation and industrial development. Others include establishment of a fiscal framework that encourages further investment in the petroleum industry while optimizing revenues accruing to the Government; establishment of a commercially oriented and profit driven oil and gas entities; deregulation and liberalization of the downstream petroleum sector, etc.

Still during the quarter under review, Nigeria moved closer to joining most of its OPEC partners in steering oil revenues into longer-term investment, by announcing a top management team for the Sovereign Wealth Fund. The Fund also took off with a cash hoard of around $1billion. Until this quarter, Nigeria was one of only three OPEC member states that did not have an SWF. Mahey Rasheed, a member of the board of First Bank of Nigeria, was chosen as the chairman of the Fund team with UBS executive and former JP Morgan head, Uche Orji, as the managing director and chief executive officer.

Sovereign wealth funds are essentially government-run investment portfolios that buy into anything from mainstream assets such as stocks and bonds to direct foreign investment. The SWF has three main aims: saving money for future generations, funding infrastructure and defending the economy against commodity price shocks. But while the SWF initiative was taking shape, the nation's public debt stock was inching up at a pace that had started attracting some concern. Indeed, as at September 30, 2012, Nigeria's external debt stock stood at US$6.2 billion, while her domestic debt was put at N6.30 trillion, according to data released by the DMO. Of the total external debt, multilateral loans represent about 81 per cent, non-Paris (Bilateral and commercial) loans about 10.70 per cent and Eurobond about 7.90 per cent. At the close of the third quarter 2012, the country's total multilateral loans stood at about US$5.1 billion; World Bank's IDA loan stood at US$4.4 billion while Africa Development Bank's ADF loan was US$402 million.

THE CAPITAL MARKET

By every yardstick, the astounding performance of the capital market in the third quarter 2012 proved a validation of the efficacy of the reform measures initiated in that sub-sector in recent times. Indeed, the Nigerian Stock Exchange (NSE) All-share Index (ASI) which opened at 20, 730.63 points in January 2012, closed the third quarter at 26, 011.63 points—translating to about a 25.5 per cent improvement. Also, the market capitalization of equities rose from N6.53 Trillion to N8.28 Trillion—a growth of about 27 per cent or N1.75 Trillion within the period. This remarkable performance is attributable to a number of factors, including the improving confidence of domestic investors, sustained foreign investor patronage owing to a number of market-growing initiatives of the NSE and the Securities and Exchange Commission (SEC). The improved second quarter financial performance of blue-chip companies, especially the banking stocks, as well as the bargain hunting of investors also proved key drivers.

One major move that also boosted investor confidence (and thus, activity) in the Nigerian equities market was the constitution of the Board of Trustees (BoT) for its Investor Protection Fund (IPF). The nine-man BoT has Gamaliel Onosode as chairman while the NSE, shareholders, stockbrokers, registrars, are also represented. The IPF, which had a balance of N625 million as at December 30, 2011, is meant to compensate investors who lose money as a result of the bankruptcy, insolvency, negligence or wrong doing of stockbroking firms. Also, The Nigerian Stock Exchange (NSE) appointed a new Executive Director, Business Development Division. The appointee, Mr. Jalo-Waziri would have oversight for the Listings Sales and Retention, Branch Network and Product Management Departments of the Nigerian bourse.

But from all indications however, the most significant driver of the market during the quarter was the introduction of the 'market-making' initiative. The SEC had earlier in the year mandated 10 investment bodies to commence market making—a process whereby a broker-dealer provides continuous two-way quotes to the market for the securities that they make markets on during the trading day—one indicating the price and size they are willing to buy a particular security, the other indicating the price and size they are willing to sell that same security. In adopting this initiative, the NSE commenced market making on September 17, 2012 with 16 stocks—but has since added nine more. Indeed, according to the NSE, all quoted stocks that are trading above par value would be added to the market making programme over a period of six months.

This cheery performance of the capital market during the period under review is also evident in the bond segment. Specifically, on October 1, 2012, the FGN bond was adjudged robust and sophisticated enough to be included in the widely used JP Morgan Government Bond Index—Emerging Markets (GBI-EM). The JP Morgan GBI-EM indices are comprehensive emerging market debt benchmarks that track local currency bonds issued by governments of emerging markets. The index was launched in June 2005 and is the first comprehensive global local emerging markets index.

According to the Debt Management Office (DMO) Nigeria, until now South Africa was the only African country whose bonds are included in the index. Other countries in the index are Brazil, Chile, Columbia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Thailand and Turkey. Again, according to the DMO, Nigeria joining this 'exclusive club' is a clear demonstration the Government's investments in developing the domestic bond market and externalization of the Nigeria story through the Eurobond issuance and related road shows, have been rewarding. In particular, the DMO sums up, "this development represents an authoritative validation that the quality and strength of the domestic financial markets have improved commendably…it is indeed, a new fillip to the momentum of the transfor-

Nigeria: Annual Sugar Importation (2005 -2011)

Year	Consumption (Tons)	Production (Tons)	Importation (Tons)	Average Unit Price (US$)/MT	Importation Cost (US$)	Per Capita Consumption (Kg-Raw value)
2005	1,301,494	-	1,301,494	216	281,416,777	9.2
2006	1,176,698	50,000	1,126,698	175	197,172,150	9.0
2007	1,258,996	55,000	1,203,996	260	313,038,960	9.3
2008	1,396,668	38,000	1,358,668	241	327,438,988	11.2
2009	1,220,080	39,000	1,220,041	324	395,293,284	8.7
2010	985,675	30,000	955,675	505	482,615,875	7.1
2011	1,139,410	35,000	1,104,410	595	657,123,950	7.6

Source: Sugar Development Council (NSDC

Table 1: Nigeria's External Debt Stock, as at 30th September, 2012

Category	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage 5
MULTILATERAL					
World Bank Group					
IDA	4,484.85	0.00	0.00	4,484.85	
IFAD	78.10	0.00	0.00	78.10	
African Development Bank Group					
ADB	31.91	0.00	0.00	31.91	
ADF	402.20	0.00	0.00	402.20	
ABEDA	1.02	0.00	0.00	1.02	
EDF	104.28	0.00	0.00	104.28	
IDB	14.58	0.00	0.00	14.58	
SUB-TOTAL	5,116.94	-	-	5,116.94	81.27%
NON - PARIS					
BILATERAL	565.21	0.00	0.00	565.21	
COMMERCIAL	114.02	0.00	0.00	114.02	
SUB TOTAL	679.22			679.22	10.79%
ICM					
EUROBOND	500.00	0.00	0.00	500.00	7.94%
GRAND TOTAL	6,296.17	0.00	0.00	6,296.17	100.00%

Source: DMO

mation agenda."

Also giving an opinion on this development, JP Morgan's sub-Saharan Africa economist, Giulia Pellegrini, noted that Nigeria's economic outlook has continued to improve as policy makers remove restrictions on foreign investment, control inflation and steady the currency. The CBN had last year, lifted a requirement for foreign investors to hold local-currency debt for at least one year to attract capital—a development that has been key to luring investors and improving liquidity as well as build up of external reserves.

As the boom in transactions on the FGN bond was raging, the sub-national bond market was also active—following the quest by various state governments to fill budget gaps or fund big ticket infrastructure projects in their domains. A number of state governments got to various stages in the process of raising funds in the capital market during the quarter under review. They include Gombe, Rivers, Lagos, Ebonyi and Osun states. In the face of the trend however, the DMO had commenced steps to restrict the rush by many state governments to the bond market. Thus, according to the DMO, "no state will be allowed to borrow if its total debt service outlay on a monthly basis is above 40 per cent of its FAAC allocation for the past 12 months. This is bearing in mind the fact that every state should have an Internally Generated Revenue (IGR) and so should not depend fully on FAAC."

BANKING AND FINANCE

In this critical sector, reforms continued with gusto all through the quarter under review, just as the performance of the players (especially the deposit money banks—DMBs) continued to be encouraging. Indeed, the third quarter financial reports of the banks have since constituted one of the drivers of the rapid recovery activities in the stock market. More banks have joined the list of market makers—thus strengthening the efficacy of the new policy in reviving the market. The non-performing loans (NPLs) that had hitherto burdened most DMBs have dropped to insignificant levels, while each bank embarked on market share consolidation and brand equity building.

In this regard, Zenith Bank Plc fast-tracked its strategic move to have its shares listed on the London Stock Exchange (LSE). This move is to achieve additional level of comfort for the Bank's teeming international investors derivable from the subjection of its operations to the LSE's reputed corporate governance standard which is regarded as 'best-in-class.' Besides, London is seen as the hub for emerging market fund investors and other specialist investors. Zenith Bank therefore opted for a technical listing of its shares through non-capital raising Global Depository Receipts (GDRs) that will confer it with a number of benefits. These will include increased liquidity of the Bank's shares; access to international investors; increased demand in share price and better diversified shareholdings.

Most of the banks embarked on new 'electronic products' development in tune with the 'cashless' policy of the apex bank. Again, Zenith Bank came up with 'EazyMoney' and others; First Bank unveiled 'FirstMonie'; Ecobank introduced 'Rapid Transfer'; GT Bank came up with a product targeted at senior citizens. They also have been aggressively deploying point of sale (POS) devices and automated teller machines (ATMs) in virtually every

business location in the Lagos area in line with the 'Cash-less Lagos' project. Many DMBs also embarked on fresh restructuring in the effort to arrive at new business forms in line with the emerging banking model of the CBN. Some are opting for the holding company (HoldCo) structure while others are adopting the 'single company' arrangement—divesting from none core banking businesses. Although the deadline for the restructuring which entailed the surrendering of the universal banking licenses to the CBN had expired, the apex bank has given no new date.

The Central Bank of Nigeria (CBN) on its part embarked on a number of reform initiatives during the quarter under review: the (suspended) Naira restructuring; financial inclusion; drafting of agent banking framework; bank customer identification via biometrics; upgrading of its intervention funds in agric, etc. Under a policy move code named 'Project Cure', the CBN was to restructure the national currency. As part of the scheme, a new higher denomination currency, five thousand naira note would be issued. In the same vein, the lower bank note denominations of N5, N10, N20 were to be converted to coins. In all, the Naira currency structure would have been 12 units: six coins and six bank note denominations. Although the new Naira notes were to be introduced early in 2013, the Presidency at a point issued a statement 'suspending' the currency restructuring exercise.

Under the agent banking initiative, the apex bank commenced the development of a framework that will also make for a tiered Know Your Customer (KYC) to create easier access for rural dwellers and other financially excluded individuals to open bank accounts. A banking agent is a postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds; pay their bills, enquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, among others

On moves to tackle customer identity challenges in the DMBs, the apex bank under the auspices of the Bankers' Committee set up a committee of seven bank chief executives plus the Nigeria Interbank Settlement System (NIBSS) and heads of two of its relevant departments (Shared Services Unit) to achieve a biometric solution for the entire industry. The committee tagged "Bankers' Committee Sub-Committee on Customer Identity Management in the Banking Industry" is led by the Chief Executive Officer of Zenith Bank Plc. The Committee which had since commenced work is expected to put in place a robust biometric solution for the entire industry by mid-2013—to eliminate all manner of identity fraud in the industry. The apex bank has also directed that effective January 8, 2013, the National Identification Number (NIN), to be issued by the National Identity Management Commission (NIMC), shall become the basis for Know Your Customer (KYC) verification and compliance by all DMBs and other deposit taking financial institutions in the country. The CBN has also directed the DMBs and other financial institutions to include the Independent National Electoral Commission (INEC) voters' card as an acceptable identification for transaction purposes in banks.

The National Financial Inclusion Strategy (FIS) formulated by the apex bank was also launched during the quarter under review. The FIS seeks to enable more Nigerians have access to funds; that is to bring about 85 million adult population of the country into the banking system through a deliberate creation of access to finance. According to the CBN, 39.2 million of the Nigerian adult population, representing 46.3 per cent currently has no link or access to any banking services of any sort. Of the un-banked population, women account for 54.4 per cent while 73.8 per cent of the population is below 45 years. Also, 34 per cent of the population is without formal education, with 80.4 per cent of them living in the rural areas of the country.

TELECOMMUNICATIONS

All through the period under review, the quality of service (QoS) by the telecommunication companies, especially the GSM firms, remained a dominant issue. The regulator in the sector, the Nigerian Communications Commission (NCC) had, in the previous quarter, imposed some fines on these operators, following from the result of a QoS survey early in the year. This trend has hardly abated. Indeed, the Commission said it had in recent times been inundated with several complaints from consumers, and other industry stakeholders against the various promotions offered by telecommunications operators. The NCC said it had evaluated those complaints against the backdrop of sustaining the integrity of the networks, the general interest of the consumers, the socio-economic impact of the promotions on operators and other relevant stakeholders.

These promotions, according to the NCC have increased the number of minutes available to subscribers for use within a limited period of time thereby creating congestion in the networks as subscribers try to use up the available minutes within the stipulated time. The regulator adds that on-net calls were now being offered by operators at tariffs well below the prevailing inter-connect rates, thereby introducing anti-competitive practices and behaviour.

The NCC insists that the termination of calls were becoming increasingly difficult from one network to another and overall consumer experience on the networks has become very poor thereby making it extremely difficult for subscribers to make calls successfully. The Commission therefore banned all promotions by Telecommunications Network Operators as well as lotteries being carried out on such networks, adding that the measure covered all proposed and approved promotions and lotteries on which it had given approval, further to the Memorandum of Understanding (MOU) entered into with the National Lottery Regulatory Commission (NLRC).

Still concerned with consumer dissatisfaction with quality of service, the NCC in a directive issued last August mandated "that from November 1, 2012, all mobile operators shall send, free of charge, a message or an alert to both postpaid and prepaid subscribers after every call, SMS, or system generated charge or tariff, with a proviso that a subscriber can opt out if he or she so wishes". The order mandates operators to send messages containing six critical information including: exact duration of call minutes and seconds, total cost for each call or SMS; customer accounts balance after the last call and SMS for prepaid customers; customer account balance after a charge or tariff and the reason for the charge or tariff; cumulative call charges up to the last call within the charging period for postpaid customers; cost of services and credit balance upon request by customer for data service.

While issuing the directive, the NCC said "this direction is a response to one of the major concerns of the subscribers as it relates to the actual amounts deducted from their credit balances by the service providers for each call or SMS sent", adding that, with this service, subscribers are empowered to promptly discover any anomaly in their bills, and will be able to prove if they are billed for calls that they did not make.

The telecoms operators on their own part have been contending with a number of debilitating challenges including multiple taxations, wilful attacks on telecoms infrastructure, interference of some federal, state and local government officials and agencies. These, according to the telecom companies, have been affecting their quality of service in the country as well as pushing operating costs up. The sub-sector has also been contending with the face-off between NCC and the National Environmental Standards and Regulations Enforcement Agency (NESREA) over mast regulation in the country. While the NESREA Act gave it the power to regulate the environment, the NCC Act empowers it to regulate the telecoms industry.

Even with these concerns and regulatory actions by the NCC, the sector continued to turn out impressive records on subscriber patronage—as reflected in various indices. Indeed, while the total subscriber base of all telephone companies stood at 95.89 million as at end-December 2011, the figure rose to 102.37 million in June 2012 and rose further to 107.37 million at the close of the third quarter 2012. Of this number in September, the GSM operators accounted for 96.54 per cent or 103.65 million. During the period also, the teledensity improved from 68.49 in December 2011 to 73.12 in June 2012 and still went up to 76.69 in September 2012.

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

NEW CBN CASH COLLECTION POLICY

The Central Bank of Nigeria recently announced a set of policy directives aimed at addressing the currency management challenges in Nigeria, and enhancing the national payments system. The policy also further reinforces the electronic payments directive of the Federal Government of January 2009.

This press statement forms part of the CBN's program of engagement and enlightenment of the public, to further clarify the policy and allay any anxieties that may arise from misunderstanding or misinterpretation of the policy. The CBN seeks to ensure that the essence of the policy is properly understood and seen as beneficial to us as a nation that desires economic growth and development, particularly in view of our ambition to be amongst the top 20 economies of the world by the year 2020.


CBN

1. What informed the new policy?

In the wake of the 2009 reforms, data analysis of the commercial banks showed a high cost structure in the banking industry, of which a significant proportion is passed on to the customers in the form of high service charges and high lending rates. Also worthy of note is that a substantial part of the operational costs is the expenditure on cash management.

The Nigerian economy is too heavily cash-oriented in the transactions of goods and services. The huge volumes of cash transactions impose tremendous costs to the banking sector and, consequently, the customer, in terms of cash management, frequent printing of currency notes, currency sorting and cash movements.

This informed the preference by the banks to lend to the capital market and oil & gas industry rather than the real sector and small and medium scale enterprises (SMEs). There are also the risks involved in keeping or moving large amounts of cash, namely the high incidences of robberies and burglaries and the public's propensity to abuse and mishandle currency notes.

In 2009, the direct cost of cash management to the banking industry was N114.5bn, and it is estimated to be as high as N192bn by 2012. This spiralling cash management cost, most of which is passed on the consumer in the form of bank charges and lending rates, is as a result of the cash dominant economy. For example, the value of Currency-In-Circulation (CIC) as at December, 2009 amounted to N1.184 trillion, an increase of 20.36% over the level at the end of 2008. As at 31st December, 2010 the total CIC value stood at N1.378 trillion, showing an increase of 16%.

Further analysis indicated that 90% of bank customer daily withdrawals are of amounts below N150,000 whereas only 10% of bank customers who withdraw over N150,000, are responsible for the heavy cost of cash management being borne by all bank customers.

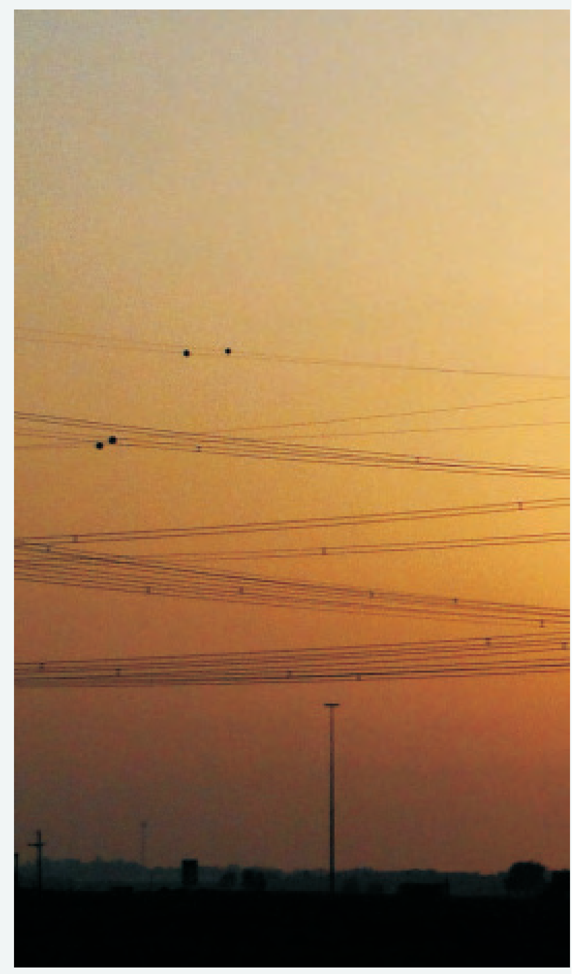
The present levels of cost and inefficiencies in providing banking services and the poor quality of services experienced by the majority of the banking public will be addressed by the new cash withdrawal policy, in concert with other efficiency initiatives by the CBN in collaboration with the Bankers Committee. There is need to remove the burden of cost of managing cash from the low savers and improve services to them.

The progress made by the Federal Government in the electronic payments of salaries and contractors/suppliers, the growing acceptance among the citizens of innovations such as the ATM and mobile telephony and commitment by the banking community to improve the supporting infrastructure for seamless electronic payments were encouraging factors which propelled the new retail cash policy.

The New Cash Policy

The retail cash policy which commences from June 1, 2012 stipulates that over the counter cash transactions above N150,000 and N1,000,000 for individual and corporates respectively will attract a charge. Notwithstanding, the Policy recognises that Merchants have to continue to receive payments, therefore, it allows merchants and traders alike to choose either cash option for receiving payments or adopt cheaper and convenient alternative electronic payments channels to facilitate business transactions. The implementation of the policy will commence at first in Lagos, and gradually phased to cover Port Harcourt, Kano, Aba and F.C.T.

A careful review of the policy reveals the following salient considerations that went into the formulation of the policy as well as actions being taken to ensure seamless implementation:



1. The Central Bank of Nigeria, while acting within the limits of its statutory responsibilities in respect of the development of the payments system, did not place a limit on cash transactions in the banks rather the CBN is formally encouraging banks to shift cost burden of heavy cash management to customers conducting high volumes of cash transactions in the banking halls.

Individuals and corporates who are desirous of such cash usage should be willing to pay for the cash services being offered by the banks. Since the majority of Nigerians (90%) do not carry out cash transactions of up to N150,000 a day on their respective accounts, the threshold for charging was set taking into consideration the need to protect the low income earners and savers.

2. It is should be clarified that the policy does NOT prohibit the withdrawal of more than N150,000.

Those who still wish to conduct heavy cash transactions with their banks are free to do so within the provisions of the directive.

3. The banks are poised and committed to an aggressive roll-out of

http://fc04.deviantart.net/fs70/f/2010/023/e/4/Electricity_Line__by_Pranomic.jpg

ATMs, Point-of-Sale (POS) and other electronic channels to ensure these are readily available to the high cash driven individuals and businesses. The CBN and Bankers Committee are implementing an e-payment rollout program that will deploy additional 40,000 POS and 10,000 ATMs before December 31,

2011 and 375,000 POS and 75,000 ATMs by December 2015. These are to be deployed with strict rules on high uptime and availability.

4. Currently, there are funds transfer products of banks that ensure same day value to customers anywhere in the country through the electronic funds transfer system.

5. The CBN aims to roll out this policy with a pilot starting with Lagos, to be implemented by January 1, 2012. Following proof of concept, the roll-out will continue to the remaining identified cash-dominant localities with effect from June 1, 2012.

6. To address the communication infrastructure issue which had hitherto affected the level of availability of POS and ATMs to users in the country, the CBN and the Bankers Committee have commenced concrete actions to ensure that priority is given to payments related data traffic by telecommunication networks. Agreement has been reached to provide dedicated channels for transactions over the Point of Sale (POS).

7. Power is another key infrastructure which impacts the availability of POS and ATMs. The CBN has therefore agreed on minimum POS standards which specify adequate battery life span to support uninterrupted avail-

Power is another key infrastructure which impacts the availability of POS and ATMs. The CBN has therefore agreed on minimum POS standards which specify adequate battery life span to support uninterrupted availability of service of the terminals.

ability of service of the terminals. In addition, the CBN will stipulate and enforce minimum uptime for ATM and POS. Providers of these services will be held to minimum availability standards.

8. The non-acceptance of some cards over the POS, owned by certain payments networks due to lack of interoperability, is equally being addressed. POS service providers and banks have been issued, through this policy, a clear directive to vacate any existing contract which is restrictive to card usage with effect from June 1, 2012. The CBN has commenced compliance checks.

9. Last year, the CBN issued approvals in principle to 16 mobile payment providers for which the pilot was recently concluded, as part of the efforts to provide effective and efficient alternatives to cash in the economy. The eventual licensees will be held to strict service quality and roll out targets. The arrangement for prioritising payments data traffic over the telecommunication network will also be extended to cover mobile payment providers.

10. Today, the cheque is available to make payments of up to N10million through the clearing system. Enforcement of the T+2 clearing cycle is being stepped up and efforts are ongoing to reduce the cycle to T+1. We are prepared to ensure discipline in the usage of cheques and we shall give necessary assistance to the EFCC in prosecuting issuers of dud cheques. Issuance of dud cheques is a financial crime.

11. The CBN has set up a Consumer Protection Office to address users' complaints especially in respect of these alternative banking and payment channels.

12. The CBN is mindful of the need for careful implementation. The policy becomes effective on June 1, 2012 (**not 2011**) **in selected areas of the country**. In fact, we have obtained the understanding of the President and the Executive Governor of Lagos state to carry out a pilot commencing January 2012 to demonstrate the feasibility of the policy. We have a clear plan of action over the next six months to continue efforts to ensure that alternative payment modes are effective and efficient for conducting business transactions.

13. We are convinced that the low level of literacy is not a potent limitation to the adoption of innovation and technology in payments. Millions of the so called illiterates use mobile phones effectively and even send text messages. Nevertheless, the CBN is committed to a robust grassroots awareness and education campaign strategy to aid the understanding, adoption and usage of POS and ATMs.

14. The banking industry will also be adopting biometric authentication for POS and ATMs to address safety of customers' funds and avoid losses through compromise of PIN. This will improve the ease of transaction on electronic channels as customers will no longer have to worry about forgetting PIN numbers or disclosure of PIN to fraudulent assistants.

We are convinced that the low level of literacy is not a potent limitation to the adoption of innovation and technology in payments. Millions of the so called illiterates use mobile phones effectively and even send text messages. Nevertheless, the CBN is committed to a robust grassroots awareness and education campaign strategy to aid the understanding, adoption and usage of POS and ATMs.

15. We need to be mindful that Nigeria cannot relent in ensuring that it maintains its accreditation by the international money laundering watchdog - the Financial Action Task Force. In this regard, it is essential to ensure that our payments system keeps trail of internal and external flow of funds within the economy.

16. Our sister countries in Africa are making progress in reducing the level of cash transactions in their economy. Nigeria currently has 13 POS/per 100,000 adults whereas Uganda has 453 POS/ 100,000 adults, South Africa is 1,063 POS/1000 adults and Brazil 2,247 POS/ 100,000. If Uganda could take the bold step to embrace more efficient payments options some years ago, it is very clear that Nigeria requires an aggressive POS and other electronic payment rollout to realise the vision of being one of the 20 biggest economies in 2020.

In conclusion, Nigerians can be assured that this programme is for their benefit and for the benefit of the country as whole. It will reduce cost of accessing financial services and quality of banking services while also helping to stem cash-related crimes such as burglary and arm robbery. Over the next 12 months, the CBN will carry out adequate public awareness and enlightenment as we engage all stakeholders in a two-way conversation to understand the concerns and explain how the new policy will address all those concerns and issues. We seek the cooperation of Nigerians on this initiative and we assure them that the economic/financial stability and the protection of funds of the banking public remain key priorities for the CBN.

From America to Asia: Fresh Moves at Salvaging Economies

By EUNICE SAMPSON

America, Brazil, China and many more – the growing trend during this last lap of 2012 is economic stimulus – because the key economies are not just growing as they should!

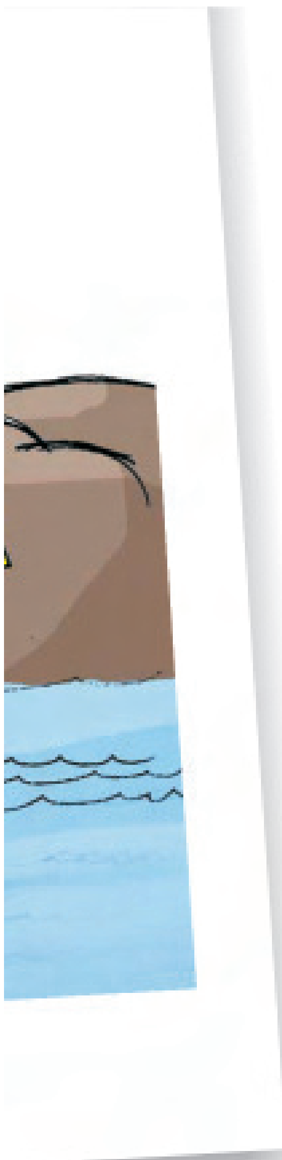
Once more, the Keynesian economic school of thought seems to be holding sway – their dogma of robust public spending as a critical growth propeller is again being tested out in various countries.

And so, just as in 2008 and 2009, the major economies are currently drawn into two camps – those that have already announced their stimulus plans and those seriously mulling over the idea. The challenge before national leaders is how to stimulate economies back to normal growth paths.

Growing recession signals

The global economy has witnessed some very tough times in the last five years – and almost concomitantly. A big challenge remains the euro zone economy — the starting point of the new round of crisis. The huge debt and deficit burden there has been difficult to fix owing to the zone's structural peculiarities.

In addition, rising energy prices, slow US economy and the seeming cooling in China's growth have further complicated the snail paced recovery witnessed since the Great Recession of 2007-2009 – to the extent that several economies have been



flagged for a possible recession by the end of the year.

Everyday, stakeholders hope for some news that would signal that at least, the worst is over. But so far, some good news from one economic bloc is cancelled out by some bad news from another – almost in quick succession.

According to IMF estimates, public debt is at the highest levels in 60 years and is increasingly becoming unsustainable. For the advanced economies, public debt now averages 110% of GDP.

Growths are slowing in virtually all major economic centers. In the US, there has been some improvements in labor market and housing data. But according to data released by the Bureau of Economic Analysis, the economy grew by a slow 1.3% in the second quarter of 2012, after a more impressive 2.0% in the first quarter. Growth however returned to 2.0% in the third quarter boosted by consumer spending, an improving housing sector and increased defense spending. But the mood remains pensive as the still sluggish growth pace is deemed insufficient to snap the economy out of its downbeat labor market recovery.

In *Germany,* GDP continues to advance albeit very slowly. In second quarter 2012, growth accelerated by a mere 0.3% after a 0.5% growth in the previous quarter. Unemployment rose by 9,000 in September, marking the sixth consecutive month of increase as export wanes in response to the euro zone crisis. Unemployment rate remained flat at about 6.8% at the end of the third quarter.

In the UK, GDP contracted by 0.4% (q/q) in second quarter 2012 (-0.5% y/y), after a decline of 0.3% in the first quarter, which means that technically, the economy entered a recession second quarter. The contraction has been attributed to weaknesses in the construction, production and services sectors, according to data from the Office of National Statistics.

In France, Gross Domestic Product stagnated at 0.00% in second quarter 2012 over the level in the previous quarter. Third quarter growth announced in October showed a further contraction (q/q) of 0.1%. France could be said to have gone into recession already based on its third quarter growth performance. Outlook for the last quarter of the year does not seem any more promising.

In China, year-on-year GDP growth continues to decelerate. Data released by the country's National Bureau of Statistics on October 18 shows that Third quarter GDP (y/y) grew by 7.4%, a decline from the 7.6% and 8.1% growth recorded in the second and first quarters, respectively. But on a quarter-on-quarter basis, third quarter performance of 2.2% growth marked the first quarterly gain after seven consecutive quarters of decline. Analysts have expressed relief that third quarter growth signaled a soft landing rather than the drastic slowdown that had been anticipated.

In Greece – the goose that laid the troubling eggs – fiscal and monetary challenges persist. Yes, there have been some slight improvements in its deficit data and a lowering in its debt servicing obligations in recent months — but that is as far as the good news goes. The Greek economy continues to contract rapidly, with a decline of 6.2% (y/y) in second quarter 2012 after an earlier 6.5% decline in the first quarter. Greece's condition is now a classical example of an economy in depression with unemployment rate now put at over 23%.

Citi's economists are adamant that despite all the politics targeted at preventing it, a Grexit (referring to a Greek Exit from the Euro zone as coined by the bank's chief economist) could still happen between 2013 and 2014, unless a complete write-off of the country's official debt is agreed. But this is of course most unlikely.

Which way to go – stimulus or austerity?

For decades, the world's poorest countries have groaned under IMF imposed austerity measures which the Breton Woods institution recommends as an effective route out of fiscal and monetary crisis. But the Fund has in recent times joined the clamour against the measure – at least, in addressing the current challenges faced by the developed economies.

The IMF now agrees with the likes of the OECD that austerity measure, which comes as a spontaneous national response during periods of economic stagnation such as this one, could "act as a drag" and further

The global economy has witnessed some very tough times in the last five years – and almost concomitantly. A big challenge remains the euro zone economy — the starting point of the new round of crisis. The huge debt and deficit burden there has been difficult to fix owing to the zone's structural peculiarities.

aggravate rather than ameliorate economic troubles. This is definitely a brand new IMF position and a major u-turn on its age long austerity gospel.

Moreover, the IMF recently admitted that it had underestimated the damage caused by a sudden public spending cut. Its recent World Economic Outlook report admits that previous estimates that for every £1 of spending cut the economy shrank by 50p were wrong – rather, the economy shrank by around £1.30.

A new survey also found that sweeping austerity measures worsen rather than solve public debt burdens since, as public spending falls, so does economic growth —- with downward pressure on employment and tax revenues. In the end, the initial target of deficit cut is hardly ever achieved.

Propelled by its latest findings, the IMF now urges governments to allow for spending cuts that are staggered over a longer period to reduce the impact on economic growth.

The need to spur economies back to growth has therefore become a major theme in recent gatherings of national leaders, even during the October 2012 annual meetings of the IMF and World Bank which held in Tokyo, Japan. And to spur growth, many experts now agree with the increasingly popular Keynesians that fiscal stimulus is the best bet.

Stimulus – what are they proposing?

Since the Great Recession which ended effectively around mid 2009, the major economies have been struggling with recovery efforts. The OECD in September 2012 downgraded growth prospect for virtually all G7 economies except Japan. This has heightened the need to take measures that would spur growth.

2012 projected growth for the US economy has been cut from an earlier 2.4% to 2.3%. For the world's biggest economy, a stimulus move is even more expedient. As the country approaches its so-called "fiscal cliff" – when Bush-era tax holidays would come to an end and a series of stringent spending cuts and other austere measures imposed – a recession is possible if the situation is not tactically managed.

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It did not come as a major surprise to analysts therefore when the US Federal Reserve on Thursday September 13, 2012 unveiled a new stimulus plan aimed at boosting economic activities and creating new jobs.

In the new package, the US Fed is embarking on a quantitative easing plan tagged *QE3* – a new round of bond buying scheme targeted at stimulating growth and reviving a labor market where unemployment remains stubbornly above 8%.

The Fed would undertake open-ended monthly purchases of mortgage-backed securities which, together with other measures would inject $85 billion into the economy monthly.

The Fed also plans to keep interest rates at "exceptionally low levels" until

at least the middle of 2015. This easing would continue for as long as it takes to achieve some significant economic recovery.

Fed Chairman, Ben Bernanke has warned against the austerity measures that the "fiscal cliff" could represent from 2013 (in the form of spending cuts and tax increases) and has called on the US Congress to take steps to avert them.

The stock market saw major gains following the announcement, with the S&P share index ending the day 1.6% higher; Dow, 207 points higher and NASDAQ, 1.3% higher, according to reports from the CNN.

Also, in the European Union, a similar measure has been taken to address recent economic contractions in that area. The European Central Bank (ECB) unveiled a bond-buying plan on September 5, 2012. The ECB would buy the bonds of its debt-burdened member countries to cut their borrowing costs and ease the euro zone's debt crisis.

The maturities of the bonds being purchased would be between one and three years and there would be no limits to the size of bond purchased.

In the words of Mario Draghi, the ECB President, the plan would engage in outright monetary transactions (OMTs) to address "severe distortions" in government bond markets based on "unfounded fears."

The new palliative is in conjunction with the European Stability Mechanism programs and the ECB will be soliciting the assistance of the IMF to ensure that benefiting countries comply strictly with the set conditions.

However, for the OMTs to be triggered, economically troubled countries would have to first request a bailout.

The ECB President has reiterated the need for member countries to continue with their deficit reduction plans and labor market reforms as part of efforts to address the current debt crisis and avert a possible collapse of the common currency.

The ECB expects the euro zone economy to shrink by 0.4% in 2012 and grow by 0.5% in 2013, with inflation rising to 2.6%.

Euro zone markets rallied significantly in response to the stimulus plan – The FTSE 100 ended 2.1% higher; the German Dax, 2.9%; the French CAC 40 index, 3.1%; and the Spanish IBEX, 4.9%. Understandably, bank stocks were the biggest gainers.

Also, Spanish and Italian governments' implied borrowing costs fell sharply as a result of the stimulus plan. For Spain, the implied cost of borrowing over two years fell from 4.71% to 2.80%; the three-year rate went down from 5.09% to 3.68%; and the four-year borrowing cost fell from 5.97% to 4.60%. In the secondary market, Spain's yield on 10-year bonds fell below 6% after hitting 7% in recent months —- the level at which Ireland, Portugal and Greece were compelled to file for bailouts.

The ECB intervention in bond markets is aimed at reducing the borrowing costs of highly indebted member countries and reducing the odds of their requiring bailouts.

Away from Europe, the Bank of Japan – in what appears to be a harvest of economic stimulus – on Wednesday 19 September announced that it would expand its asset purchase and loan program by 10 trillion yen (about $126 billion) in a move expected to ease monetary policy and stimulate the economy.

Japan's growth outlook was recently reviewed upward by the OECD, from an earlier 2.0% to 2.2% as the country rebuilds its infrastructure following the earthquake and tsunami of January 2011. Japan's economy has been helped by the huge government spending in an effort to recover from the twin disaster. Yet growth has been relatively slow in line with falling global demand for its exports.

For an export-dependent economy in a world where demand is slowing significantly as trade and business confidence dampen, Japanese

As in previous stimulus efforts, advanced economies have so far undertaken the measure this year with the aim of increasing liquidity, boosting bank lending, creating jobs, enhancing disposable income and consumer confidence and returning the economies back to the path of sustainable growth.

authorities have reasons to be worried. Near stagnant growth, falling earnings from exports and persisting deflation are some of the troubles the country currently struggles with.

To keep the economy afloat, Japan has therefore embarked on a proactive stimulus plan in which the central bank would increase its current bond buying program from 70 trillion yen to about 80 trillion yen, a difference of an equivalent of $126 billion. The bond and treasury bills purchases would be completed by the end of 2013.

The plan was unanimously adopted by the monetary policy committee of Japan's central bank which also left monetary rates unchanged at a range of zero to 0.1%.

The announcement came less than a week after that of the United States and two weeks after the European Central Bank unveiled its own bond purchase plan.

As expected, the news gave a significant boost to the risk appetite of investors as American, European and several Afro-Asian markets experienced some gains immediately after.

Neighboring China had on 5th and 6th September through the National Development and Reform Commission, announced approvals for 60 infrastructure projects totaling more than 1 trillion Yuan ($157 billion) in efforts to boost an economy that has sagged in the last seven quarters.

The spending plan includes 25 new subway lines and 13 new highway projects spanning thousands of kilometers. Other projects in the offing include airports, energy production and wastewater treatment plants.

The new spending boost is coming amid criticisms that the Chinese authorities have not done enough to stimulate growth following recent uncharacteristic quarterly drop in GDP. Export earnings and FDI inflow have also slowed and the profits of industrial companies have dropped for a fifth consecutive month as at August.

Moreover, the domestic property market has struggled in recent months, and so has the manufacturing sector. Inflation has also experienced a downward trend, all indications that the economy could do with some prompting.

The new infrastructure projects are therefore designed to jump-start growth and inspire confidence that the economy remains upbeat.

The announcement gave an instant boost to the global financial market, even though the approved infrastructure projects were a part of the 12th five-year plan, rather than new, spontaneous ones targeted specifically at stimulating the economy as perceived in several quarters.

But it was an economic stimulus anyway and investors swooped on the news, resulting in the biggest gains in months in Asian markets.

While China's quick and massive stimulus of an estimated 4 trillion Yuan (about $585 billion) during the 2008-2009 recession helped lift the country and other major markets out of the quagmire then, this time, Chinese authorities have taken their time. The cautious approach is perhaps in the bid to avoid a repeat of the sweeping fiscal measures that ignited an investment surge, over heated the economy and sent property prices and other assets soaring in 2009 and 2010.

But the recently published third quarter data which showed a growth of 7.4% and

some recovery in industrial output and retails sales brought with it some relief and reduced the anxiety for a comprehensive fiscal boost**.**

However, the economy is not completely out of the woods yet. From year-end 2011 growth level of 8.5%, analysts and even the Chinese authorities now peg the expected 2012 growth level at 7.5%. By China's standard, this is not a very impressive performance.

In far away Latin America, Brazil in mid August unveiled the first phase of a major economic stimulus plan to boost growth in an economy that had witnessed the second year of slowdown.

After an impressive 7.5% growth in 2010, the economy experienced a sharp fall in growth to 2.5% last year. In addition, 2012 growth projection was this September reviewed downward by Brazil's central bank to 1.6%, from an earlier 2.5%.

The stimulus move came after monetary measures like a cut in interest rate and a devaluation of the country's currency, the Real, failed to stimulate growth.

Like in China and Japan, the stimulus would be channeled through infrastructure development. More than $60bn (£38bn) will be invested in the country's roads and railways over the next 25 years, with more than half of this spent in the next five years.

Major projects targeted include 8,000 kilometers of new roads and 8,000kms of railways. Ports and airports are also expected to benefit from the planned spending spree.

Other measures planned by the authorities include a reduction in energy price for industries through tax cuts that could bring the price of energy products down by about 10%.

Stimulus – resisting the urge

As tempting as it may seem however, not all major economies have chosen the path of stimulus. And as bleak as growth prospects seem for key economies in the European Union, several of them still hang on to diverse levels of austerity measures.

In addition to the EU's planned bond purchase program some experts have advocated for individual members of the bloc to take action too, to enhance the chances of a quicker recovery. But so far, nothing far reaching has been done in this regard.

The UK is a case in point. The OECD recently slashed the country's 2012 growth prospects from an earlier 0.5% growth to a decline of 0.7%. It also warned that the country will be one of the worst hit by the current downturn among G7 nations and suggested that a fiscal boost would be useful. But this call has so far gone unheeded.

Though the authorities introduced two new stimulus packages in mid June 2012, including a plan to provide billions of pounds of cheap credit to banks to lend to companies; and access to short-term facilities for banks facing "exceptional market stresses," stakeholders have actually demanded for much more considering the rather gloomy economic outlook.

A Bank of England's MPC meeting of October 4, 2012 would have been an opportunity to take some far reaching actions. But the policy makers voted against new stimulus measures. Even though the current record low interest rate was maintained at 0.5%, no upward review was made to the earlier £375bn quantitative easing (QE) plan.

The UK economy has continued to underperform, with growth slowing and major sectors, including manufacturing and construction contracting.

The enthusiasm with which markets received the news of the QE measures in June was an indication that the economy had craved for some fiscal incentives. Stock prices of UK banks soared with the Royal Bank of Scotland for example advancing by a whopping 8%.

Meanwhile, it's not all bad news from the UK. In mid October, the Office for National Statistics said the employment level rose to 29.59 million for the period between June to August, 2012. This is the highest employment level since the records were first captured in January to March 1971. Also within the period, unemployment level fell from 8.1 percent to 7.9 percent, far more than analysts had hoped for.

Also, a shocking growth data emerged on October 25 when the UK Office for National Statistics announced a 1.0% growth in third quarter 2012. This far-higher than expected growth came after two consecutive quarters of decline – signaling that the UK was now out of a recession. The growth, according to the authorities was helped mostly by sales recorded during the recent summer Olympic Games which added 0.2 percentage points to the figures.

http://upload.wikimedia.org/wikipedia/commons/1/1d/Flickr_-_davehighbury_-_Bank_of_England_London_331.jpg

Government deficit / surplus as a percentage of GDP (2006-2013)

	2006	2007	2008	2009	2010	2011	2012	2013
Australia	2.3	1.8	-0.8	-4.5	-4.7	-3.9	-2.2	0.4
Austria	-1.7	-1.0	-1.0	-4.2	-4.5	-2.6	-2.9	-2.3
Belgium	0.3	-0.1	-1.0	-5.7	-3.9	-3.9	-2.8	-2.2
Canada	1.6	1.4	-0.4	-4.9	-5.6	-4.5	-3.5	-2.4
Czech Republic	-2.4	-0.7	-2.2	-5.8	-4.8	-3.1	-2.5	-2.2
Denmark	5.0	4.8	3.3	-2.7	-2.7	-1.9	-3.9	-2.0
Estonia	2.5	2.4	-2.9	-2.0	0.3	1.0	-2.0	-0.3
Finland	4.0	5.3	4.2	-2.7	-2.9	-0.9	-0.7	0.0
France	-2.4	-2.7	-3.3	-7.6	-7.1	-5.2	-4.5	-3.0
Germany	-1.7	0.2	-0.1	-3.2	-4.3	-1.0	-0.9	-0.6
Greece	-6.0	-6.8	-9.9	-15.6	-10.5	-9.2	-7.4	-4.9
Hungary	-9.4	-5.1	-3.7	-4.5	-4.3	4.2	-3.0	-2.9
Iceland	6.3	5.4	-13.5	-10.0	-10.1	-4.4	-2.6	-1.4
Ireland	2.9	0.1	-7.3	-14.0	-31.2	-13.0	-8.4	-7.6
Israel 1	-2.5	-1.5	-3.8	-6.4	-5.0	-4.4	-4.3	-4.2
Italy	-3.4	-1.6	-2.7	-5.4	-4.5	-3.8	-1.7	-0.6
Japan	-1.3	-2.1	-1.9	-8.8	-8.4	-9.5	-9.9	-10.1
Korea	3.9	4.7	3.0	-1.1	1.3	1.8	2.3	2.8
Luxembourg	1.4	3.7	3.0	-0.8	-0.9	-0.6	-1.4	-1.1
Netherlands	0.5	0.2	0.5	-5.5	-5.0	-4.6	-4.3	-3.0
New Zealand	5.3	4.5	0.4	-2.6	-4.2	-8.2	-4.4	-2.9
Norway	18.3	17.3	18.8	10.6	11.2	13.6	15.1	16.3
Poland	-3.6	-1.9	-3.7	-7.4	-7.9	-5.1	-2.9	-2.2
Portugal	-4.6	-3.2	-3.7	-10.2	-9.8	-4.2	-4.6	-3.5
Slovak Republic	-3.2	-1.8	-2.1	-8.0	-7.7	-4.8	-4.6	-2.9
Slovenia	-1.4	0.0	-1.9	-6.1	-6.0	-6.4	-3.9	-3.0
Spain	2.4	1.9	-4.5	-11.2	-9.3	-8.5	-5.4	-3.3
Sweden	2.2	3.6	2.2	-1.0	-0.1	0.1	-0.3	0.3
Switzerland	0.8	1.7	2.3	1.0	0.6	0.8	0.6	0.6
United Kingdom	-2.7	-2.8	-5.0	-11.0	-10.3	-8.4	-7.7	-6.6
United States	-2.2	-2.9	-6.6	-11.6	-10.7	-9.7	-8.3	-6.5
Euro area (15 countries)	-1.4	-0.7	-2.1	-6.4	-6.2	-4.1	-3.0	-2.0
OECD-Total	-1.2	-1.3	-3.4	-8.1	-7.5	-6.3	-5.3	-4.2

Source: OECD

Meanwhile, while the UK had remained relatively cautious in its stimulus efforts, other major economies have embarked on actual fiscal tightening in recent months. France had in October announced its 2013 budget that included a package of tax increases. One of the highlights of the new measures is a 75% tax rate imposed on persons earning more than one million euros — in an effort to reduce spending deficit to 3.0% of GDP in 2013, from 4.5% in 2012.

Spain also recently introduced some austerity measures even as it struggles with growth, unemployment, debt and deficit challenges. In July, Spanish authorities approved a new round of €65bn austerity packages.

In nearby Italy, students and labor unions took to the streets in protest mid October against stringent austerity measures so far introduced by the Italian authorities in efforts to address debt and deficit problems.

But despite these stringent measures by several of the member countries, second quarter data from the Euro zone shows that at the end of that period, the total debt burden of the 17 countries that make up the bloc had risen to 90% of total GDP — their worst debt situation since the launch of the common currency in 1999.

Government Debt as percentage of GDP (2006 – 2013)

	2006	2007	2008	2009	2010	2011	2012	2013
Australia	15.6	14.5	13.8	19.4	23.5	26.6	28.7	27.8
Austria	66.4	63.4	68.7	74.4	78.1	79.7	83.0	84.4
Belgium	91.6	87.9	92.9	99.9	100.0	102.3	103.1	102.0
Canada	70.4	66.7	71.2	82.4	84.0	83.8	84.5	81.4
Czech Republic	32.5	31.0	34.4	41.0	45.5	48.3	50.7	52.6
Denmark	41.2	34.3	41.4	51.2	54.8	61.8	63.0	64.8
Estonia	8.0	7.3	8.5	12.7	12.5	10.0	12.7	12.8
Finland	45.6	41.4	40.4	51.8	57.6	57.2	59.1	61.8
France	71.2	73.0	79.3	91.2	95.8	100.1	105.5	107.3
Germany	69.8	65.6	69.8	77.4	86.8	87.2	88.5	87.8
Greece	117.0	115.4	118.7	134.0	149.6	170.0	168.0	173.1
Hungary	71.9	72.9	77.0	86.2	86.4	84.7	84.8	84.1
Iceland	57.4	53.3	102.1	120.0	125.2	128.3	126.7	124.7
Ireland	29.0	28.6	49.5	71.1	98.4	114.1	121.6	126.9
Israel [1]	84.7	78.1	77.1	79.5	76.1	74.2	73.9	73.2
Italy	116.7	112.1	114.6	127.7	126.5	119.7	122.7	122.1
Japan	166.7	162.4	171.2	188.8	192.7	205.5	214.1	222.6
Korea	28.5	28.7	30.4	33.5	34.6	34.7	34.5	33.9
Luxembourg	11.5	11.3	18.3	18.0	24.7	23.9	26.0	28.7
Netherlands	54.5	51.5	64.8	67.5	70.6	75.2	81.0	83.6
New Zealand	26.6	25.7	28.9	34.5	37.4	44.3	48.4	50.5
Norway	59.0	56.8	54.3	48.9	49.6	34.0	28.1	20.2
Poland	55.2	51.8	54.5	58.4	62.3	63.3	62.9	62.3
Portugal	77.3	75.4	80.7	92.9	103.2	117.6	124.3	130.1
Slovak Republic	34.1	32.9	32.0	40.4	47.1	46.8	52.1	54.2
Slovenia	33.8	30.7	30.4	44.3	48.4	56.4	60.3	63.2
Spain	46.2	42.3	47.7	62.9	67.1	75.3	87.9	90.9
Sweden	53.9	49.3	49.6	51.8	48.9	48.7	48.0	46.0
Switzerland	50.2	46.8	43.6	42.5	41.7	41.0	40.8	39.4
United Kingdom	46.0	47.2	57.4	72.4	81.9	97.9	104.2	108.2
United States	66.4	67.0	75.9	89.7	98.3	102.7	108.6	111.2
Euro area (15 countries)	74.7	71.8	77.0	87.8	93.1	95.1	99.1	99.9
OECD-Total	76.0	74.5	81.0	92.5	98.7	103.0	107.6	109.3

Source: OECD

Will the stimulus plans work?

Similar stimulus measures in the US and other major economies during the 2007-2009 recession recorded some level of success, including stimulating growth pace, reducing job losses and creating new ones, and quickening activities in major financial markets across the world. It was also a significant boost to public confidence and spending which are indispensible in any quest for a sustainable recovery.

Reports from the White House say the multi-year $814 billion stimulus package passed by the US Congress in 2009 created between 2.5 million and 3.6 million jobs and raised the nation's annual economic output by almost $400 billion.

Also, in China, the $586 Billion Stimulus Plan unveiled in November 2008, at the height of the global recession, played a significant part in upholding robust growth put at 8.7% as at year-end 2009 and helping to expedite global recovery from the recession, even though trailed by some stern criticisms.

Critics of China's stimulus package have maintained that it had injected excessive investments into an economy that was already over-saturated with excess capacity and over-investment, thereby further overheating the economy.

However, barely six months after the package was announced, the World Bank in June 2009 reviewed China's GDP growth for that year upward to 7.2%, from an earlier 6.5%. By the end of the year, China's actual growth was a whopping 8.5%. The development was an indication that the stimulus effort did work, at least in accelerating growth.

Even in the Euro zone during that recession period, the same was true to a large extent. EU's 200 billion euro stimulus announced in November 2008, which represented 1.5% of the region's GDP helped to halt falling growth and lift several economies in the bloc out of a deep recession.

As in previous stimulus efforts, advanced economies have so far undertaken the measure this year with the aim of increasing liquidity, boosting bank lending, creating jobs, enhancing disposable income and consumer confidence and returning the economies back to the path of sustainable growth.

So, will the 2012 stimulus regime be effective in achieving these set goals? That remains the million dollar question right now.

Although it is still far too early in the day to gauge impact, early economic responses to the stimulus measures have been mixed.

Financial markets around the world of course advanced remarkably following the announcements of the various stimulus plans. Capital markets witnessed soaring prices while several of the troubled economies saw a significant drop in their bond yields – notably Spain and Italy.

But some analysts have argued that the drop in yields for these countries in recent times might not be all about the EU stimulus plan. Some also say it could be more of a market perception that these countries are actually moving closer to asking for bailouts, than an indication of growing confidence on a possible recovery.

This October, Standard & Poor's cut its credit rating for Spain to a level just above the junk territory, and Moody's is expected to follow suit soon.

Also, after an earlier S&P downgrade on January 13 by two notches, from A to BBB+, Moody's in July cut Italy's rating by two notches, from A3 to Baa2, two levels above junk status in a move that heightened concerns about the future of the euro common currency.

In the United States, much of the criticisms of the stimulus policy centers round the inflationary impact of such a plan.

Meanwhile, latest data released in October and monitored through The Guardian (UK) shows some upbeat economic data from the United States – consumer sentiment index (a measure of the level of confidence of US citizens in the economy) has soared far above expectations. It came in at 83.1, a big improvement on Reuters' earlier forecast of 78.0. The latest index is at a five-year high, and a major step up from the September level of 78.3.

The new data implies some level of good recovery in the US economy – a perception that helped markets a great deal following the news.

From initial data from America to China, it seems the stimulus plans unleashed by major economies during third quarter 2012 just might have some positive impact on the global economy. However the next couple of quarters would give a far clearer picture of their actual effectiveness.

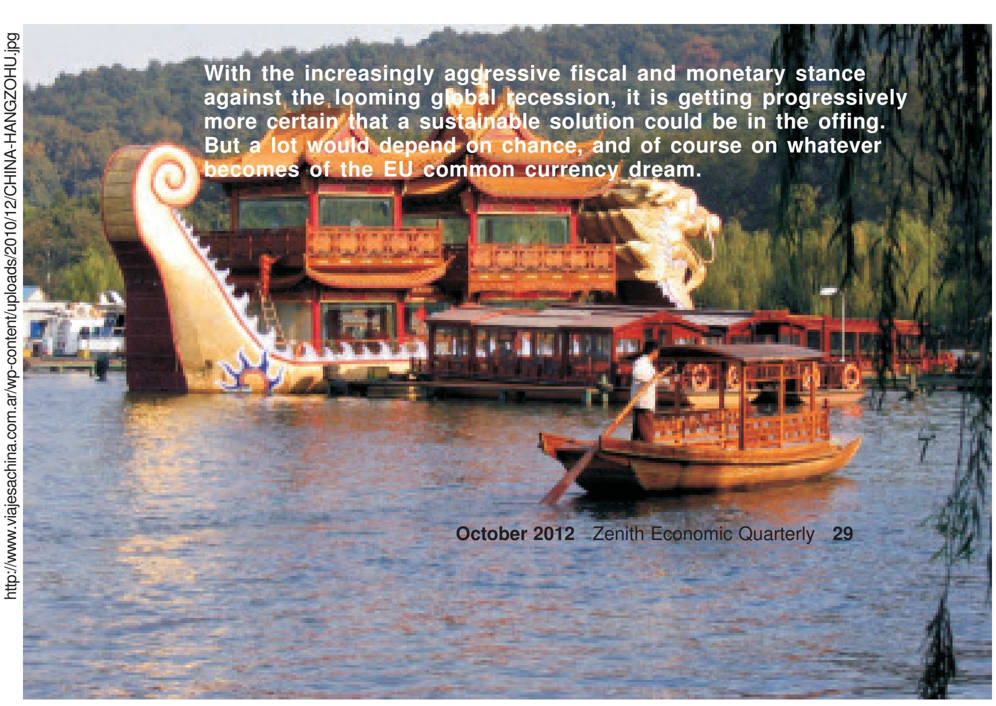
But even if these economic stimulus measures do not work wonders, it is at least reassuring to know that they were the most viable options open to the troubled countries at this point in their history – and they are leveraging on them.

In the meantime however, IMF's Christine Lagarde has proposed to national leaders a five-point plan to tackle the current economic challenges:

1. Accommodative monetary policy
2. The right pace of fiscal adjustment, "mindful of not undercutting growth but with solid and realistic plans to bring debt down over the medium term"
3. Finishing the banking sector clean-up
4. Structural reforms to boost productivity and growth and
5. A rebalancing of global demand toward the dynamic emerging markets.

With the increasingly aggressive fiscal and monetary stance against the looming global recession, it is getting progressively more certain that a sustainable solution could be in the offing. But a lot would depend on chance, and of course on whatever becomes of the EU common currency dream.

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



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Issues (I)

Petroleum Industry Bill:
Issues, Challenges & Prospects

* By Emeka Nwadioke

Nigeria is undoubtedly a petroleum powerhouse. As Africa's primary oil producer, Nigeria is home to the second largest oil reserves in the continent.

Nigeria's hydrocarbon industry remains one of the most troubled in the annals of oil producing countries. Indeed, some have contended that Nigeria's hydrocarbon resources have tended to be more of a curse than a blessing for the majority of the population. Others have pondered the paradox whereby a country with some of the world's richest hydrocarbon resources harbours some of the world's poorest of the poor.

In the 10 years from 1999 to 2009, the Nigerian National Petroleum Corporation (NNPC) collected about $200 billion in revenue. Yet, the country is poorer today than at independence in 1960; with only about 48% of people having access to potable water.

These contradictions have kept the industry and the country on their knees for decades, thus the inevitable disquiet from most stakeholders. It is therefore not surprising that the Petroleum Industry Bill (PIB) 2012 has been designed to seemingly cure all that ails Nigeria's oil industry.

Nigeria is undoubtedly a petroleum powerhouse. As Africa's primary oil producer, Nigeria is home to the second largest oil reserves in the continent. The light, sweet quality of the Nigerian crude makes it a preferred gasoline feedstock. However, stalled reforms in the oil industry due to delays in the enactment of the Petroleum Industry Bill had been damaging to the country's prospects.

Many of the planned projects have already been delayed, as investors await the fiscal terms to be embedded in the PIB. Nigeria's resource governance and institutions have fared worse when compared with Brazil's relatively stable and clear regulatory regime and effective National Oil Company (NOC) in the shape of Petrobras.

The need for an extensive reform of the oil and gas sector prompted the Obasanjo Administration to establish the Oil and Gas Sector Reform Implementation Committee (OGIC) on 24th April, 2000 under the Chairmanship of Dr. Rilwanu Lukman. The OGIC Report led to the National Oil and Gas Policy, and formed the basis for the PIB which was submitted as an Executive Bill in December 2008.

Several versions of the Bill soon emerged, all pandering to varying interests. The inability to assuage these interests effectively led to the non-passage of the Bill by the 6th National Assembly. To revive the process, the Minister of Petroleum Resources on January 19, 2012 inaugurated a task force and technical committee to review the different versions and then produce a unified Bill. The Draft Bill was submitted to the government on 29th June, 2012. The President forwarded the Bill to the National Assembly on 18th July, 2012.

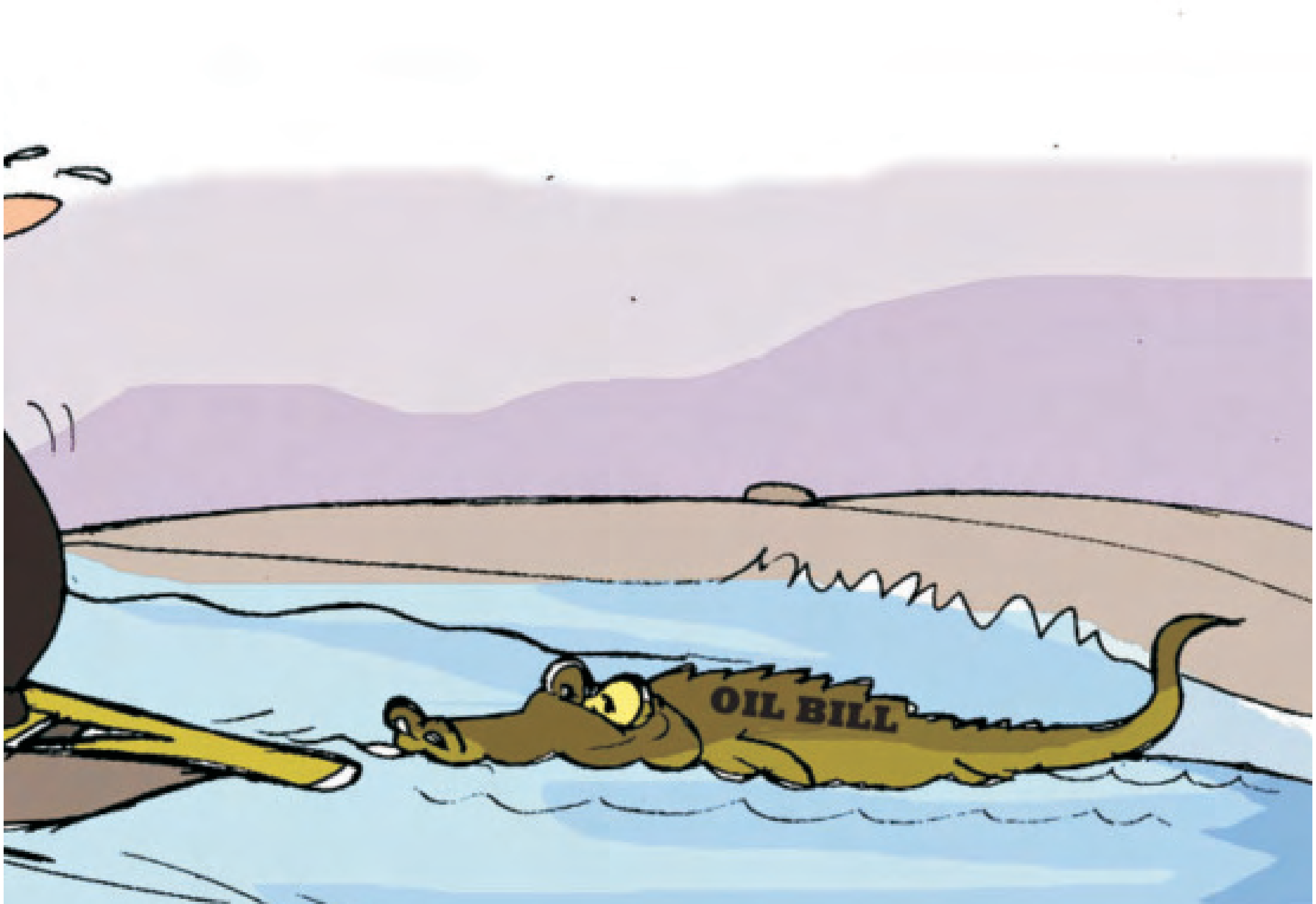
The PIB is designed as the main legal architecture on which Nigeria's oil and gas sector will revolve. It attempts to streamline a legal, fiscal and regulatory framework for the sector by coalescing the multiplicity of laws, rules and regulations governing the sector into a single document. At any rate, some of these legal prescriptions are deemed as lax, archaic, dysfunctional and out of sync with global best practices. The perennial sub-optimal performance of the NNPC when compared to national oil companies in other jurisdictions such as Saudi's Aramco, Malaysia's Petronas and Brazil's Petrobras has been a constant source of irritation for many stakeholders.

Long years of uncertainty in enacting the PIB have blocked billions of dollars of investment. Licensing rounds, contract renewals and investments have been put on hold pending the new bill to regulate Africa's top oil and gas industry. The non-passage of the bill has also stalled further development of the Nigerian Liquefied Natural Gas (NLNG) expansion project which has not been able to take off due to lack of clarity on the fiscal regime that is to govern the project. Three additional LNG plants with a total of seven trains were expected to come on stream after 2012, but their expected start-ups have been postponed beyond 2016. Availability of natural gas for domestic electricity generation also depends largely on the fiscal regime for gas as set out in the PIB.

PIB: THE HEART OF THE MATTER

"The Petroleum Industry Bill 2012" is a 223-page document with 363 sections, five schedules and an "Explanatory Note". The explanatory note states that the Bill "provides for a legal, fiscal and regulatory framework for the Nigerian petroleum industry and establishes institutions, regulatory and commercial entities for the proper administration and coordination of the operation of the upstream and downstream sectors

of the petroleum industry as well as providing for the imposition, assessment and collection of the Nigerian Hydrocarbon Tax."Section 9 of the Bill establishes the Petroleum Technical Bureau consisting of professionals with expertise in the upstream and downstream sectors of the petroleum industry. The Bureau shall provide technical and professional support to the Minister on matters relating to the petroleum industry and in formulating strategies to implement government policies on the petroleum industry among others. Section 13(1) of the Bill provides for the establishment of the Upstream Petroleum Inspectorate. Section 16(a) empowers the Inspectorate to modify, extend, renew, suspend and revoke any licence or permit issued by it pursuant to the provisions of the Bill.Section 43(1) of the Bill establishes the Downstream Petroleum Regulatory Agency while Section 116 establishes the Petroleum Host Community Fund. Section 117 provides that the PHC Fund "shall be utilized for the development of the economic and social infrastructure of the communities within the petroleum producing area." On the other hand, Section 73 of the Bill re-establishes the Petroleum Technology Development Fund while Section 100 also re-establishes the Petroleum Equalisation Fund. Section 120 sets up the National Petroleum Assets Management Corporation to be vested with certain assets and liabilities of the NNPC in unincorporated joint ventures (UJVs). Instructively, Section 148 of the Bill provides for the incorporation of the National Oil Company (NOC) as a public company limited by shares not later than three months after the commencement date. The NOC shall be vested with certain assets and liabilities of the NNPC. By Section 170 of the Bill, the administration of all



acreage for exploration, development and production of petroleum shall be administered by the Inspectorate. Crucially, Section 190 directs that the grant of petroleum prospecting licence or a petroleum mining lease not derived from a petroleum prospecting licence "shall be by open, transparent and competitive bidding process...." However, Section 191 provides that "the President shall have the power to grant a licence or lease...." Section 194(4) states that the Petroleum Minister may revoke a licence or lease under certain circumstances.The Bill also provides for environmental quality management by upstream petroleum operators (Section 200) and penalties for gas flaring (Section 201), even as Section 221 deregulates the pricing of petroleum products in the downstream sub-sector. Section 299 of the Bill imposes the Nigerian hydrocarbon tax to be levied upon the profits of each accounting period of any company engaged in upstream petroleum operations during that period. Section 355 preserves licences and leases granted under the Oil Minerals Act, 1958 and the Petroleum Act 1969. On the other hand, Section 354 repeals a plethora of legislations including the Petroleum Act, Petroleum Products Pricing Regulatory Agency (Establishment) Act, and Petroleum Profits Tax Act. Section 354(3) also repeals subsidiary legislations made pursuant to any of the repealed enactments where inconsistent with the provisions of the Bill.

THE PIB AND ITS CRITICS

It is further contended that the new fiscal framework endangers Nigeria's gas aspirations, with critics stating that the fiscal regime for gas is not as attractive as that for oil.

The much touted Bill is however not without its strident critics. Some IOCs contend that certain provisions in the Bill are not investor-friendly and would deter growth and investment. Some critics are worried about the burden of new and extant taxes, including the Nigerian Hydrocarbon Tax (NHT), PHC Fund levy, Company Income Tax (CIT), Niger Delta Development Commission levy, rent on assigned acreages, education tax and penalty for flared gas from where government hopes to earn an average of $10 million daily at the current average oil production capacity of about 2.3 million barrels per day (bpd).The IOCs also contend that the Bill must not take retroactive effect in a way as to affect existing contracts and ongoing projects started under the current fiscal regime. Concerns have also been raised as to lease terms for deep-water concessions, especially the plan to limit oil prospecting licenses to 10 years. It is further contended that the new fiscal framework endangers Nigeria's gas aspirations, with critics stating that the fiscal regime for gas is not as attractive as that for oil. This may also have a spill-over effect on the country's power reform agenda. Another thorny issue is the discretionary powers of the President and the Petroleum Minister under the PIB. Some critics contend that the wide latitude of discretion accorded the duo may lead to uncertainty and abuse, and ultimately imperil the new legal framework. It is recalled that the recent bidding round which saw Asian firms being accorded a "Right of First Refusal" to choice acreages was roundly boycotted by major IOCs as inequitable. Also worrisome is the omnibus Section 6(1)(k) which empowers the Petroleum Minister to "do all such other things as are incidental and necessary to the performance of the functions of the Minister" under the Bill. Critics also assert that the PIB lacks a clear fiscal roadmap for deep-water concessions, adding that this may open the entire process to arbitrariness. On the other hand, some industry operators wonder why the Bill seeks to dichotomize the regulation of upstream and downstream sub-sectors by creating

two regulatory agencies for the oil industry when one will do. Curiously, provisions that would have compelled the government to publish how much oil is produced and payments received for same have been stripped from the Bill. Furthermore, transparency provisions relating to corporate income tax, hydrocarbon tax and production sharing have also been deleted. Though the Bill proposes some changes that will improve transparency in some areas – for instance, keeping royalty payments secret will not be allowed and oil company profit taxes proposed are also in the public domain for the first time – it also does not require disclosure of oil sales and payments to the government, including signature bonuses. This is viewed as a major setback in the quest for increased transparency and efforts towards cleaning up the cesspool of corruption in the oil industry. Given that royalties are payable based on actual production than on exports, the issue of metering has become germane. The oil companies argue that the provision is inequitable given that

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some of that production is lost or stolen during transmission to the export terminals through pipeline vandalism among others, more so as government has the primary duty to ensure security of these facilities.They also argue that the fiscal balance between royalties, taxes and enablers is lost due to excessively high royalty rates and a higher aggregate tax burden, even as others contend that the PIB is extremely complex and lacking in clarity in many respects, especially in relation to its mode of implementation.Though the unbundling of the NNPC into a National Oil Company (NOC) among others has found favour with many, they contend that the control of the NOC by the government apparatchik falls short of stakeholder expectations. Instructively, the Bureau of Public Enterprises (BPE) has valiantly lampooned the funding model set out for the key institutions that will shepherd the oil and gas sector – including the NOC - describing same as unsatisfactory. It prescribes an independent funding scheme for these agencies through 12 cents per barrel charge and 1% charge on fiscalized crude. The BPE reasons that such arrangement will insulate them from official interference and wrought strong institutions. The IOCs also argue that the current JV terms are among the highest globally, and that the proposed terms under the PIB would further erode Nigeria's competitiveness. Nigeria has one of the highest government take (as a percentage of net revenue) at 94 percent pre-PIB, they argue, and this will hit 96 percent post-PIB. This compares with Ghana at 52 percent; Kazakhstan, 61 percent; Russia, 65 percent; UAE, 77 percent; and Angola, 83 percent. They assert that none of the planned Production Sharing Contract (PSC) investments is economically viable, adding that deepwater fields especially require incentives to attract investors. Also, some operators contend that while gas production has tripled over the last six years and about $20 billion invested in the upstream gas sector since 2007, the Gas Master Plan and moves to spur the development of small to medium sized gas fields may suffer a setback under the PIB framework due to unattractive fiscal regime. About 73 percent of new gas production would be unviable, they argue, thus putting at risk about $23 billion in new investments. While Shell Nigeria Chief Executive Mutiu Sunmonu canvasses "a balanced PIB," he however asserts that "as it stands right now, the PIB will render all deepwater projects and all dry gas projects non-viable." According to him, what is required is a PIB that will provide optimal revenue to the government while providing sufficient incentives for new investment to fuel growth, adding that such a Bill must also "take local business challenges into consideration, as well as the impact on existing investments." The PIB proposes tax rates of 50 percent on profits for production operating onshore or in shallow waters, while the rate is set at 25 percent for profits from deep water operations. Though these figures are a substantial decrease from the 85 percent and 50 percent respective taxes that were originally opposed by oil producers in 2009-2011, Shell still feels that the provisions are overly onerous to investors. It asserts that an "unbalanced bill" will hinder new investment rather than unlock it, adding new challenges to existing ones in the areas of investment, licence renewals, the industry-wide PSC disputes and lack of gas terms for PSCs. The PIB requires significant improvement to secure Nigeria's competitiveness, Mutiu Sunmonu asserts, adding that the opportunity to grow the oil and gas sector "will be lost" unless the PIB is overhauled to meet the interests of the IOCs especially. While it is believed that the fiscal terms for onshore operations are a lot more favourable than the current terms, little is known about secretive terms on offshore contracts. The IOCs also envisage that the fiscal terms need to compensate them for the environmental challenges faced, including extra security risks such as piracy, kidnapping and oil theft by armed gangs.Although the salutary effect of the Petroleum Host Community Fund (PHCF) has been validated by many, the concern has shifted to the apparent lacuna in the PIB as to the control and management of the fund. It has also been observed that the fund seemingly duplicates the raison d'être of the Niger Delta Development Commission (NDDC) and the state oil producing areas development commissions (state PADECs), more so as the PIB is silent on the relationship between the fund and these other vehicles. However, Section 118(6) mandates the Petroleum Minister to "make regulations on entitlement, governance and management structure with respect to the PHC Fund."Although the PIB is touted as having the requisite muscle to spur local content, Indigenous Oil Producers are not amused, as there is no provision that sets aside any acreage category for indigenous producers. Also viewed as contradictory is the retention of the Petroleum Equalization Fund in an era of deregulated downstream operations, more so as the insistence of some lawmakers on such retention was critical in stalling the earlier PIB.Some have also queried the role of the draftsman in the PIB debacle vis-à-vis both his expertise and style. For example, they contend that the proper entity to vest ownership of petroleum resources is the Nigerian state and not the "Government of the Federation." The Bill also suffers from typographical errors and numbering challenges. For example, Section 57(2) is duplicated while Section 15(1)(t) is blank. Furthermore, Sections 39, 69, 98 and 145 which bar execution or attachment against the physical property of certain agencies is deemed as an affront on the rights of litigants and a violation of the right to fair procedures.

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IN DEFENCE OF THE PIB

Conversely, pro-PIB analysts assert that the Bill was drafted with equity in mind. They contend that the concerns of the international oil companies (IOCs) were taken into consideration so as to engender a win-win situation for Nigeria and all stakeholders. The new legal framework will create a commercially viable National Oil Company (NOC), deregulate petroleum product prices, create efficient regulatory entities, promote transparency and good governance, engineer sustainable economic development, promote Nigerian Content, and engender health, safety and sustainable environment. The central plank of the reform strategy is to restructure joint ventures between the NNPC and IOCs to allow them raise private capital rather than rely on a notoriously unreliable cash call regime."We have a fiscal regime by royalty and tax which is now predicated on production as opposed to terrain and investment as was previously done," says Petroleum Minister Diezani Alison-Madueke. "Royalty by production as we have outlined in the Bill will capture the output of company as opposed to its location; it will create a fair balance between small and big operators operating in the same terrain; it will give operators the opportunity to make fair returns during field decline, and it proposes lower rates on condensate from large fields as well as ultra-deep water fields." She states that the royalty-by-price model ensures a trigger mechanism for fair and balanced pricing which is fair to all irrespective of the terrain of the operator, since it comes with a self-adjusting rate based on the prices for crude oil and natural gas. She notes that the PIB provides

for a robust and efficient tax regime based on Corporate Income Tax (CIT), Natural Hydrocarbon Tax (NHT) and Production Bonus based regimes.On the reported concerns of some operators over the proposed increase in government take from 61 to 72 percent in the deep and ultra-deep offshore, the petroleum Minister argues that in arriving at the figure, government considered all the variables. According to her, the increase in government take in the deep offshore blocks "is not only competitive but considerate when we look at the scale of other entities around the world like Norway, Indonesia and even Angola with higher government take." It was therefore only natural to review the PSC terms to reflect the global current. The 1993 PSC agreement was based on $20 per barrel price for crude oil real-time, but records indicate that since the start of production in the PSC fields, crude prices have been on the upward swing, thus the need to review the terms. The PIB proposes lower rates on condensate from large fields as well as ultra-deep water fields. The Bill offers strong incentives for enhanced exploration of new frontiers especially in the inland sedimentary basins, she argues, and has the capacity to catalyze the nation's gas master-plan. Indeed it is envisaged that under the PIB regime, gas will be the next area of explosion for the country, given the quantum of Nigeria's gas reserves estimated at over 180 trillion cubic feet. The PIB is designed to reposition the natural gas sub-sector towards a greener, flare-free regime while promoting linkages to other industries. The planned commercialization of gas resources is, beyond supporting the power generation efforts, aimed at enabling gas to serve as feedstock for the industry. Accordingly, an arrangement has been initiated with Nagarjuna of India and Xenel of Saudi Arabia to establish fertilizer and petrochemical plants and a central processing plant to make gas the fulcrum of industrial development.Government will undoubtedly reap increased revenue under the new fiscal regime set out by the PIB. Based on the 2008 figures, total revenue from tax returns from the three PSCs was $5.856 billion. Contrary to the fiscal arrangement under the existing joint ventures between the NNPC and the IOCs where government revenue take is on the basis of royalties and taxes only, the terms proposed in the PIB shifts emphasis from taxes to payment of rents and royalties. This reduces the tax nature of the petroleum profit tax (PPT) by splitting it into the NHT and CIT, to be paid by all companies involved in petroleum industry operations, with the former not deductible for the latter. The new tax rate will be reduced from 85 percent to 80 percent in the ratio of 30 percent for CIT and 50 percent for NHT.It is believed that Nigeria flared 536 Bcf natural gas in 2010 – or about a third of gross natural gas produced in 2010. The NNPC reportedly asserted that gas flaring cost Nigeria $2.5 billion per year in lost revenue. While the PIB requires all gas producers to meet DGS obligations specified by the Inspectorate (the DPR successor agency), it has equally spelt out penalties for non-compliance, namely that the lessee may be precluded from supplying gas to any export operations, except where the lessee can adduce satisfactory reasons for such non-compliance. The PIB also prohibits the flaring of natural gas beyond a flare-out date to be determined by the Minister. These measures are bound to impact positively on environmental remediation if carried through, more so in the light of hazards occasioned by climate change. Also, provisions dealing with third party access to gas pipelines and licensing are believed to have the potential to drive the Gas Master Plan.Given that access to new acreages has tended to impede new investments in the petroleum industry, the relinquishment provisions in the PIB (Sections 186 and 193) are deemed as timely. Accordingly, the PIB attempts to bring allocation of acreages or oil blocks in line with the global practice whereby unutilized acreages are returned to government within a given period, usually after 10 years. This ensures the availability of acreages for re-allocation to new entrants, even as it serves as an incentive for the allottees to actively explore the allotted acreages. It is expected that the new regime will free up about 30% of acreages currently tied down by IOCs under production sharing contracts and JVs.Stock market operators are equally excited at the prospect of the NOC divesting 30 percent of its authorised shares to the public within six years from the date of its incorporation (Section 151). The National Gas Company Plc is also directed to divest up to 49 percent of its shares to the public in a transparent manner on the Nigerian Stock Exchange (Section 162). They assert that these fresh injections would buoy the equities market which has remained lethargic due

to limited instruments.Indeed some believe that the Bill is even deliberately skewed to whittle down government revenue from petroleum operations. Chairman of NEITI National Stakeholders Working Group (NSWG) Assisi Asobie said the Bill will set government's share of oil revenues below internationally competitive levels, while the proposed fiscal structure is designed to ensure a rapid erosion of government earnings from the petroleum sector within the next five years.He said a maximum 45 percent share in oil revenues under PSC and 60 percent in joint ventures "is dangerous to our already fragile economy that is oil-revenue dependent." Some have argued that while the current fiscal regime gives the government 48 percent share of all oil revenues under the production sharing contract (PSC) and 82 percent under the joint venture agreements (JVAs), international rates of IOC host governments put same at 56 and 90 percent respectively.

Others assert that the IOCs may be bent on stalling the passage of the PIB because of its perceived adverse fiscal regime. They argue that the operators would rather prefer the persistence of the current fiscal regime which is immensely favourable to their investment interests. For example, it is estimated that about $300 million is lost monthly as additional revenues to government from the three Production Sharing Contracts (PSCs) operated by Shell, ExxonMobil and Chevron joint ventures.

CONCLUSION

The PIB is a product of efforts to reform the oil and gas industry towards greater efficiency. The Bill seeks to prune the plethora of laws, regulations and guidelines that clutter the oil industry landscape, while establishing a legal architecture that is easily accessible and in sync with global best practice. The Bill also seeks to enhance government revenues through better tax codes and undo the harm done by the profit sharing contract regime of 1993 which is viewed by many as unduly lopsided in favour of the OICs to the detriment of Nigerians.

However, as the debate unfolds, it remains to be seen whether the major IOCs will find the fiscal regime set out by the PIB attractive enough to support its passage. It is instructive that the strident criticism of the earlier PIB by the IOCs contributed immensely to its demise. Furthermore, the powers of the President and Petroleum Minister under the PIB may remain a thorny issue, more so as the controversy over this issue also stalled the earlier PIB as lawmakers insisted that such discretionary powers must be whittled down. The deleting of some transparency clauses from the Bill remains a major source of worry.

All said, unless the national interest takes preeminence in the ensuing debate, the PIB may yet be doomed. Lee Maeba, Ex-Chair, Joint National Assembly Committee on PIB and Ex-Chair of the Senate Committee on Petroleum (Upstream) should know. "The kind of situation we faced in the last days of the (defunct) PIB is a situation that should not happen in the Parliament, where people insist on issues like allowing the Petroleum Equalisation Fund (PEF), Petroleum Product Price Regulatory Agency (PPPRA) to exist," he reminisces. "These are institutions that were deleted by the PIB to pave way for deregulation of the economy, and we believe that deregulation is the way to go."

With the PIB, it only gets *curiouser* and *curiouser*. Even as the quest for a consensus ensues, will the jinx be broken this time around?

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Issues (II)

AGENDA FOR DEVELOPMENT: PETROLEUM SUBSIDY

* By **Chuks Nwaze**

In the last edition of this serial, I completed the two-part analysis of Advance Fee Fraud, a national embarrassment which most Nigerians are fully aware of. The menace is not new, hence it does not come as a surprise to anybody that somebody has been fleeced, defrauded or separated from his hard- earned money. Individuals make their choices and must, therefore, bear the full consequences of those choices, for good or for bad.

In this edition and the next, we shall discuss another brand of national embarrassment, called petroleum subsidy fraud, which is novel, unprecedented and hence unexpected. Of course, the practice of subsidizing the pump price of petroleum products is not new in our land. What is new, which obviously shocked Nigerians beyond imagination, is the alleged scam that emanated from subsidy implementation between 2011 and early 2012, obviously masterminded by individuals who for their own selfish reasons are intent on sabotaging the good intentions of government for instituting such policies.

There is no doubt that this is part of the inexplicable ironies of our corporate existence where a few citizens frequently conspire against the state and by extension against themselves. It does not dawn on them that government is interested in the greatest good for the greatest number —- not for a few individuals.

In ordinary parlance, according to the Oxford Dictionary, the term *subsidy* is "*a sum of money given to help keep the price of a product or service low*".

THE CRUX OF THE MATTER

Nonetheless, the problem is not just that the ordinary Nigerian and taxpayers have been taken for a ride by a tiny group of people popularly called ***the cabal.*** It is also that we are shying away from a serious economic, social and political conundrum, called subsidy, which will sooner than later explode if not urgently tackled.

In other words, why not face the devil now and defeat it, rather than pretending that all is well with the state of affairs? Why not do away with this cancer known as subsidy through deregulation, thereby tackling the corruption in the system? What does this term ***'deregulation'*** mean to the ordinary Nigerian?

These are some of the issues we shall be exploring in this two-part discussion, with a view to finding a way forward for our dear country in the short, medium and long term. At the onset, however, this writer wishes to own up to the fact that this is simply an informed commentary based on research, as distinct from an expert opinion which is not directly within his area of jurisdiction. However, efforts will be made to simplify the issues and present a balanced analysis not only to enable the generality of Nigerians appreciate the situation but also assist our policy makers navigate the minefield.

WHAT IS PETROLEUM SUBSIDY?

In ordinary parlance, according to the Oxford Dictionary, the term ***subsidy*** is "*a sum of money given to help keep the price of a product or service low*". With reference to petroleum products, therefore, subsidy refers to the difference between the landing (or production) cost of petroleum products and the pump price (i.e. dispensing price to the general public).

THE CONTROVERSY

The fundamental issue at stake has to do with the process of product importation, and the attendant 'sweetener' called subsidy, which is alleged to be bedeviled with scams, corruption, greed and inefficiency. In other words, there is a question mark on the integrity of the downstream processes which is mostly populated by shrewd business barons known as petroleum marketers.

Even the volume of petroleum products said to be imported into Nigeria is alleged to be infested by the corruption virus, hence the fictitious allocations and disbursements of subsidy allegedly collected by some organizations. *The dilemma of government that can neither guarantee the accuracy of landing cost nor volume of importation because of the actions or inactions of some of its own agents but, nonetheless, retains the sole prerogative of economic management through price adjustments is better imagined!*

WHAT IS DEREGULATION?

This is one twelve-letter word that Nigerians must understand and quickly come to terms with. It is pretty obvious that every successive government has identified it as an economic imperative. Fortunately, many enlightened Nigerians also agree that it is economically unavoidable.

Economic decisions are not taken based on sentiments or on the cacophony of voices in the jungle or market-place —- even when they remain the ultimate beneficiaries of those decisions. Hence, it is no longer a matter of "IF" but "WHEN" full deregulation will be ushered in.

In simple parlance, to deregulate is "to remove regulations or controls from". In economic parlance, it refers to the practice of allowing the market forces of demand and supply to determine the price of a commodity or service. With respect to petroleum products which are imported into Nigeria for domestic consumption, since our refineries are not functional, the international price of refined products as well as the exchange rate between the naira and the major currencies would constitute the determining factors at any point in time.

In a deregulated environment, there is no room for administrative or arbitrary fixing of prices. Only the invisible hand of demand and supply, otherwise known as market forces determine prices. However, this has never been allowed to happen in our land.

Comment

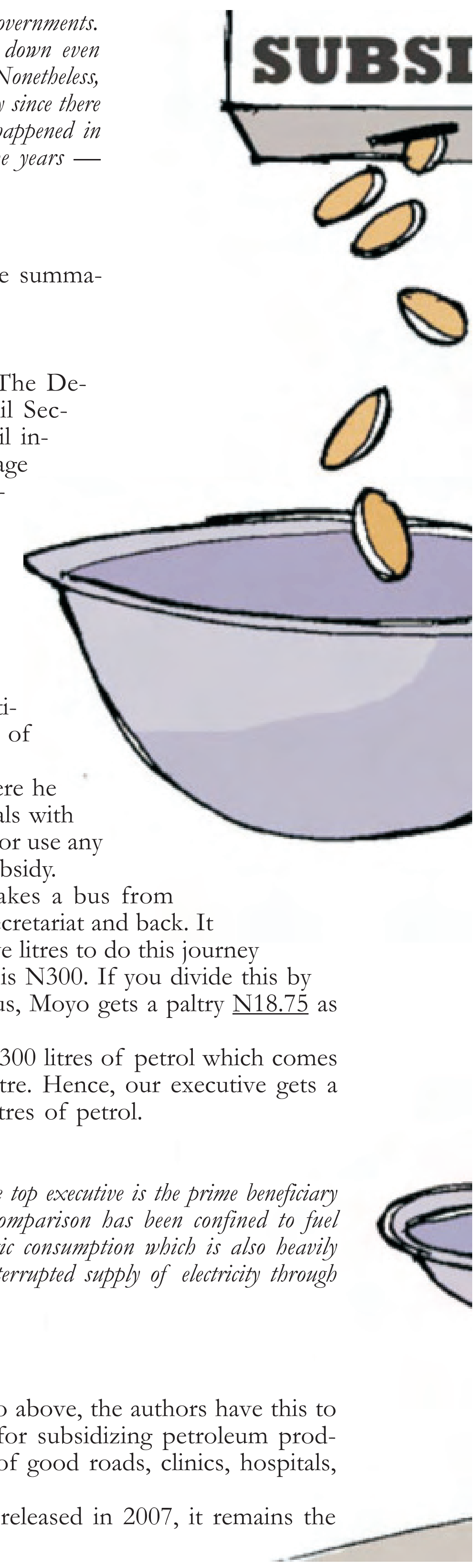
Although the vast majority of Nigerians would readily argue that the word deregulation is synonymous with price increases, this is simply a reflection of the fact that the average citizen had been disappointed by previous governments. Most would argue that domestic prices never came down even when there was a decline at the international level. Nonetheless, this assertion is not completely valid for the oil industry since there has never been full deregulation in Nigeria. What happened in January 2012 is what has been happening over the years — partial removal of subsidy, not deregulation.

FACTS AND FARCE

The major arguments for deregulation can be summarized as follows:

Lopsided Benefits

Let us take our bearing from "A Story Of The Deregulation Of The Nigerian Downstream Oil Sector" written by government officials in the oil industry and published in 2007. According to page 95: "there is no equity in this subsidy arrangement since the elite consume more petroleum products than the masses…who commute in public transportation; it is the affluent that have chains of vehicles and power their homes with generators that run on petroleum products."



Practical Demonstration:

We can easily demonstrate this assertion quantitatively by assuming that the subsidy per litre of petrol is **N60:**

Maco lives in a village in Sokoto state where he walks to his farm and back. He cooks his meals with firewood and has no need to commute by bus or use any petroleum products. He gets N0.0 kobo as subsidy.

On the other hand, Moyo, a gateman, takes a bus from Karu, a satellite town in the FCT to Federal Secretariat and back. It takes a bus that carries 16 passengers about five litres to do this journey and back. Fuel subsidy on the 5 litres of fuel is N300. If you divide this by 16 people in the bus it gives you N18.75. Thus, Moyo gets a paltry N18.75 as subsidy.

Now, Johnson, a top executive buys up to 300 litres of petrol which comes to N18,000 at the subsidy rate of N60 per litre. Hence, our executive gets a subsidy of N18,000 each time he buys 300 litres of petrol.

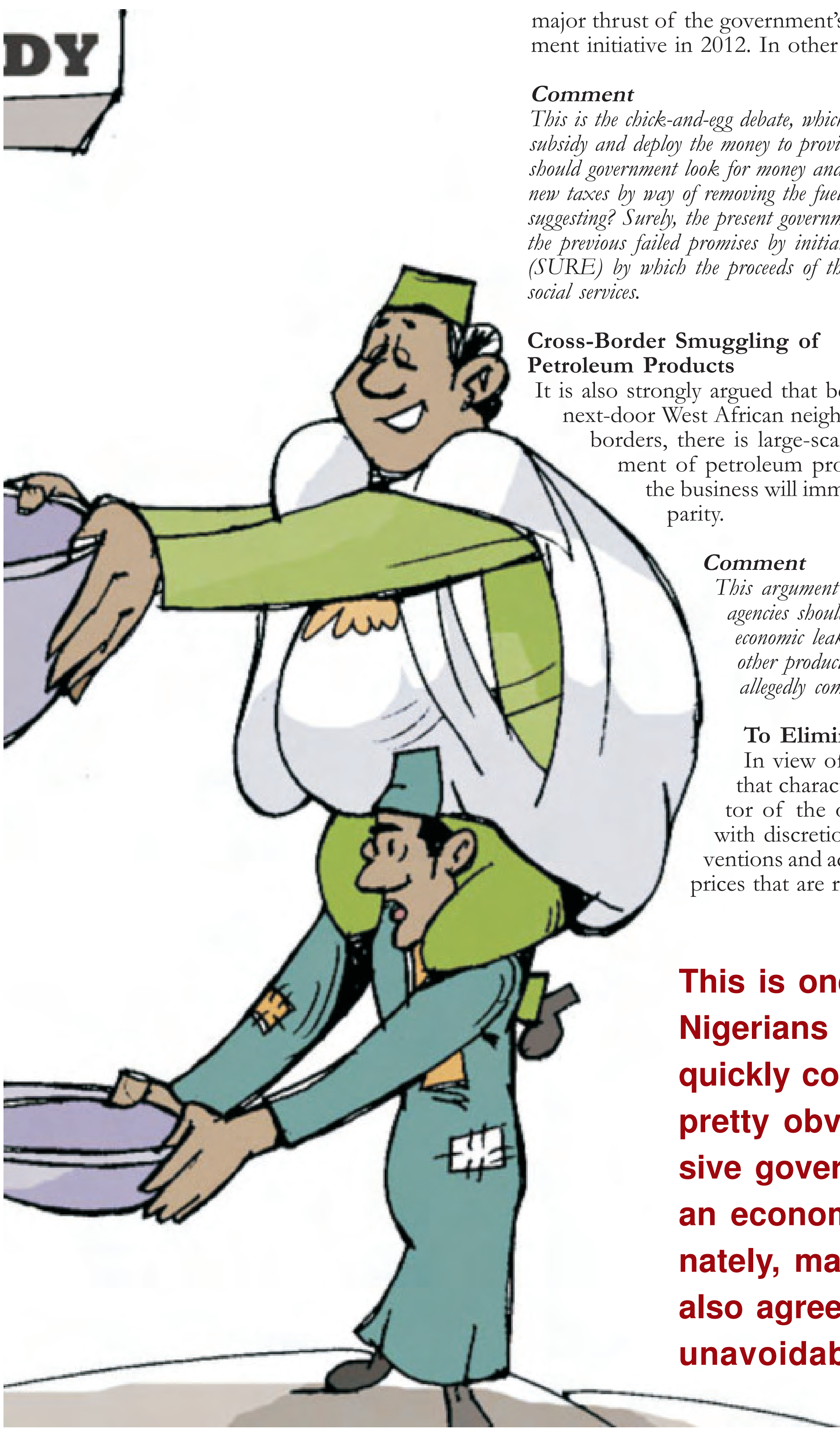
Comment:

From the above calculation, it is clear enough that the top executive is the prime beneficiary of the subsidy regime. Remember that the above comparison has been confined to fuel consumption while on the road. How about domestic consumption which is also heavily skewed in favour of the executive, courtesy of uninterrupted supply of electricity through giant electricity generating sets?

To Save Money and Develop Infrastructure

Again, on page 56 of the document referred to above, the authors have this to say: "government resources previously used for subsidizing petroleum products will be freed to undertake construction of good roads, clinics, hospitals, schools and provision of drinking water…"

Incidentally, although this document was released in 2007, it remains the



major thrust of the government's Neighbour-To-Neighbour public enlightenment initiative in 2012. In other words, the issues have remained the same.

Comment

This is the chick-and-egg debate, which one came first. That is, should government remove subsidy and deploy the money to provide infrastructure as the government is advocating or should government look for money and put infrastructure in place first and then introduce new taxes by way of removing the fuel subsidy to repay the loan as Nigerians seem to be suggesting? Surely, the present government has shown that it is capable of departing from the previous failed promises by initiating the Subsidy Reinvestment and Empowerment (SURE) by which the proceeds of the partial removal of subsidy is channeled towards social services.

Cross-Border Smuggling of Petroleum Products

It is also strongly argued that because petrol is cheaper in Nigeria than our next-door West African neighbors, coupled with the porous nature of our borders, there is large-scale arbitrage and criminal trans-border shipment of petroleum products from Nigeria to those countries —- the business will immediately become unprofitable if there is price parity.

Comment

This argument is valid but critics have advised that the security agencies should work harder to police the borders and reduce the economic leakages arising from the smuggling of petroleum and other products as well as criminal activities, many of which are allegedly committed by foreign nationals.

To Eliminate Malpractices in the Oil Industry

In view of the fraud, scams and other sharp practices that characterize the operations of the downstream sector of the oil industry, government wants to do away with discretionary interventions and all manner of interventions and administrative controls, such as fixing of pump prices that are responsible for those distortions.

This is one twelve-letter word that Nigerians must understand and quickly come to terms with. It is pretty obvious that every successive government has identified it as an economic imperative. Fortunately, many enlightened Nigerians also agree that it is economically unavoidable.

Comment

No one can fault this economic principle.

To Encourage Private Sector Participation in the Downstream Sector

Although about 20 licenses were issued many years ago to interested operators of refineries, not a single one has taken off the ground, ostensibly because quick returns on investment is not guaranteed at subsidized pump prices. In other words, subsidy removal will raise prices initially and provide better returns for the huge capital required in the sector as well as usher in the level of competition that will ultimately lower prices just as was witnessed in the mobile telecommunications sector.

Comment

Let us hope that 'the cabals' who have been spoilt by cheap money from subsidy will still be interested in investing in the downstream sector when subsidy goes.

FRAUD, SUBSIDY AND GOVERNMENT INTERVENTION

It is clear enough that government is determined to sanitize not only the downstream sector but also the petroleum industry as a whole, courtesy of the Petroleum Industry Bill (PIB). However, we need to also understand where we are coming from and how we got to where we are today as a guide for the future. In other words, what were the wrongdoings and how were they being perpetrated?

'THE CABALS'

The dictionary meaning of the word "cabal" is 'a secret political group'. Although it has political connotation, the fact remains that in this jurisdiction, the word has assumed a larger-than-life image in our social and economic lexicon. But who are the cabals in relation to the petroleum industry and where are they? The answer to this question is not rocket science. The cabals are everywhere, but mostly in the monopolistic competition known as petroleum marketing companies.

Now, it is strongly alleged that it is the nefarious activities, frauds and scams of the oil marketing cabals and their collaborators within the various government offices that are responsible for the myriad of dislocations and distortions in the petroleum industry, hence generating tension and disenchantment within the polity.

Consider the following:

• Creating artificial scarcity through hoarding of petroleum products to maximize revenues and profit margins.

• Creating non-existent import documentation and receiving subsidy in respect of products that never arrived into Nigeria

• Padding of the landing costs of imported products through inflated, contrived, or fictitious demurrage and other associated costs which constitute the parameters for the fixing of pump prices.

• Quickly doing an upward adjustment in pump prices when the government directs as such, while refusing to comply with a directive by the same government for a downward review after negotiation with labour unions.

Comment

The government needs to be steadfast in investigating or dealing with confirmed cases of overpayment and other cases of economic sabotage.

The dictionary meaning of the word "cabal" is 'a secret political group'. Although it has political connotation, the fact remains that in this jurisdiction, the word has assumed a larger-than- life image in our social and economic lexicon.

SUBSIDY ON PHONEY IMPORTS OF PMS

This is where petroleum products are fraudulently certified as imported into Nigeria but is actually diverted to other countries in West Africa. Meanwhile, the documentation is perfected in concert with criminally minded elements in the relevant government offices. They not only collect the subsidy (which actually is outright theft), they also connive to collect demurrage on products

that never entered the Nigerian market. In other words, what we actually consume in Nigeria may not be up to half of what the records or statistics say we consume.

Comment

If you have been wondering why all manner of emergency businessmen and quick-fix contractors obtained licenses to import fuel, even without meeting the basic conditions of having tank farms and national spread of fill-

In view of the fraud, scams and other sharp practices that characterize the operations of the downstream sector of the oil industry, government wants to do away with discretionary interventions and all manner of interventions and administrative controls, such as fixing of pump prices that are responsible for those distortions.

ing stations, now you know. There was a stampede for the subsidy fund and the aroma was irresistible!

FRAUDULENT PETROLEUM EQUALIZATION AND BRIDGING

Another goldmine for the oil marketers which has been on for a much longer time is the Petroleum Equalization Fund (PEF). We shall take our bearing from the technical analysis presented by a renowned petroleum expert, **Ben Oguntuase**:

"PPMC used to have a network of pipelines and depots across the country. Supply envelops were created around each depot in a way that ensured that all parts of the country were covered. Each supply envelope is divided into zones. Actual transportation cost was calibrated according to zones within each supply envelope. The objective here was to ensure that products sell at the same price throughout each deport supply envelope regardless of the distance of consumption from supply."

Bridging: This is the system whereby products are moved by road across depots as may be permitted in what was meant to be exceptional cases such as when repair is being carried out on a pipeline or at a depot. Over the years and driven by fraudulent intent, what was essentially designed for ad-hoc purposes became the routine practice. Hence, products would be released from the Atlas Cove in Lagos, ostensibly for bridging, to say Kano or Sokoto, but would actually be sold at nearby stations while the documentation is perfected and bridging allowance is paid.

The products were also meant to be sold at equal prices in all locations nationwide. When the refineries were working and the pipelines/depots were also functional, the products were pumped through pipelines from the various refineries to the various depots from where they were picked for distribution within the supply envelope covered by each depot. In principle, the Eastern axis was meant to be supplied from the now obsolete Port Harcourt Refinery1. The Northern axis was expected to be served by the now thoroughly cannibalized Kaduna Refinery. The Midwest and Middle belt were expected to be served by the equally obsolete Warri Refinery while the Western axis was designed to be supplied from products shipped to Atlas Cove from Port Harcourt Refinery 2. This particular refinery was also equipped to export products to West African countries.

All marketers were given a price structure by PPMC which routinely (and frankly unprofessionally) decided the marketing margin and overhead allowance, the transportation allowance and the dealer's margin. Such a terrible system it was! The standard Transportation Allowance was decided based on what was required to move products from the depots to Zone 3 within the depot supply envelope. Transporters moving products to zones 1 and 2 are paid less than the standard allowance while the balance was meant to be paid into PEF by the marketer. Transporters moving products to zones 4 to 9 are paid the additional cost of transportation from PEF. Obviously, most of the consumption occurs in zones 1 to 3, usually up to 70%.

The Fraud: Sell all the products within zones 1, 2 and 3 but collect PEF allowance as if almost all products were sold in the outer zones. Apparently, this has been on for a very long time".

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


MANU-
FACTURER
LOAN

Recent Trends in Nigeria's Manufacturing Sector: Cause for Optimism?

*By **Sunday Enebeli-Uzor**

After several years of low industrial capacity utilisation, there are indications that the fortune of the manufacturing sector of the Nigerian economy is beginning to look up. According to the Manufacturers' Association of Nigeria (MAN), 240 new factories commenced operations in the last one year with a projected turnover of ₦140billion.

Also, the Central Bank of Nigeria's (CBN) *Second Quarter 2012 Economic Report* indicated an improved performance in industrial activities with estimated capacity utilisation rising to 56.0 percent. Similarly, the estimated index of manufacturing production, at 106.32 (1990=100), rose by 0.4 and 8.2 percent above the levels in the preceding quarter and the corresponding period of 2011, respectively.

After some deterioration in its global competitiveness rankings in recent years, Nigeria moved up to the 115th place this year, from 127th last year, according to the 2012-2013 *Global Competitiveness Report* of the World Economic Forum (WEF).

These positive developments in the manufacturing sector and global competitiveness ranking have been attributed mostly to a better business environment, rise in business confidence, and improved electricity supply.

Since the emergence of the modern economy, the manufacturing sector has played the role of the engine of growth and development. The sector acts as a catalyst that transforms the economic structure of countries from simple, slow-growing and low-value activities to more productive activities, bridging the income gap with the industrialised economies.

Economic literature is replete with evidence from developed countries like the United States of America, the United Kingdom, and emerging economies like China and India that shows the role of the manufacturing sector in the structural transformation of economies from a subsistence, low production and low income state to dynamic, diverse economies.

The manufacturing sector has the highest multiplier effects of all the sectors in a national economy because of its forward and backward linkages with the other sectors of the economy. Manufacturing is the major source of productivity gains and foreign direct investment, a major investment inducer, a prime creator of jobs and employer of labour. It is also the driver of research and innovation.

Manufacturing accounts for the largest share of the Gross Domestic Product (GDP) of leading economies of the world. It is also pivotal to broadening both the productive base of the economy and the revenue base of the government. In terms of global trade, manufactured goods constitute the bulk of world merchandise trade – 77 percent. Food and agriculture accounts for about 9 percent of global merchandise trade while fuels account for about 8 percent and ores and minerals represent 3 percent of global merchandise trade. The manufacturing sector is a major foreign exchange earner and a stable and reliable source of foreign exchange earnings for economies.

In Nigeria, the manufacturing sector's contribution to the Gross Domestic Product (GDP) has been abysmal – 4.16 percent in 2011, while agriculture which contributes 40.69 percent is the mainstay of the economy.

Empirical evidence shows that productivity is higher in the manufacturing sector than in the agricultural sector which party explains the paradox of impressive economic growth but high incidence of poverty in Nigeria. Comparative with agriculture, the manufacturing sector offers special opportunities for capital accumulation. Capital accumulation can be more easily realised in spatially concentrated manufacturing than in spatially dispersed agriculture.

Also, the manufacturing sector offers special opportunities for economies of scale, which are less available in agriculture or the services sector. Linkage and spillover effects are stronger for manufacturing than for agriculture or mining. Evidence also shows that as per capita incomes rise, the share of agricultural expenditure in total expenditure declines and the share of expenditure on manufactured goods increases. Therefore, countries specialising in agricultural and primary production will not profit from expanding world markets for manufactured goods.

From the foregoing, Nigeria's quest to be among the top 20 largest economies of the world by the year 2020 as enunciated in the Vision 20:2020 depends to a significant extent on the transformation of its manufacturing sector.

The Vision 20:2020 plan ambitiously seeks to have a technologically driven and globally competitive manufacturing sector, with a high level of local content and contributing a high proportion of the national GDP. Among several other objectives, the plan seeks to grow local content in manufacturing by 5 percent annually, to enable the country reach 60 percent by the year 2015 and 80 percent by 2020.

The vision also seeks to reduce the percentage of imported manufactured goods to 20 percent by year 2020; increase the share of manufactured goods in exports to 35 percent in 2020; and increase manufacturing value added per capita to at least 40 percent by 2020. The Vision 20:2020 plan essentially seeks to have a vibrant manufacturing sector that will wean the country of total reliance on imports of manufactured goods and conserve scarce foreign exchange.

To be competitive in the modern knowledge-based technologically driven global economy, Nigeria cannot continue to be dependent on export of oil and gas – commodities that are prone to vagaries that are exogenous to the domestic economy.

http://www.bagco-ng.com/pages/weaving%205.jpg

Government Incentives to encourage Manufacturing

In a bid to encourage investments in the manufacturing sector to jumpstart industrial development in the country, the government has over the years introduced a number of incentives designed to stimulate vibrancy in the sector. These incentives are policy measures in the form of tax reliefs and allowances. Some of these incentives include the following.

Export Processing Zones: (Also known as Free Trade Zones) are clearly delineated and fenced industrial estates or enclaves within Nigeria. They are set up principally for manufacturing companies producing mainly for the export market, and normal customs regimes do not apply. The objective is to attract foreign investments and stimulate industrial production for export.

Companies operating in the zones enjoy duty free export production, elimination of all forms of bureaucracy, employment of foreign managers, and 100 percent ownership of business. Also, legislative provisions pertaining to taxes, levies, duties and foreign exchange obligations do not apply within the zones; repatriation of foreign capital investments are allowed in the zones at any time, with capital appreciation on the investments. Unrestricted remittance of profits, and dividend earned by foreign investors in the zones are also allowed while no import or export licenses are required.

Other peculiar incentives that Free Trade Zones enjoy are that up to 50 percent of products may be sold in the customers' territory against a valid permit and on payment of appropriate duties; rent free land at construction stage, thereafter rent shall be as determined by the Nigeria Export Processing Zones Authority; services such as warehousing, standard pre-built factories, transportation, sanitation, and canteen are available within the zones.

Nigeria's Export Processing Zones

S/N	NAME	LOCATION	STATUS	OWNERSHIP
1	Calabar Free Trade Zone (CFTZ)	CRS	Operational	Fed. Govt.
2	Kano Free Trade Zone (KFTZ)	Kano State	Operational	Fed. Govt.
3	Onne oil & Gas Free Zone	River State	Operational	Under Parallel Authority
4	Tinapa Free Zone & Tourism Resort	CRS	Operational	Private/Public
5	Snake Island Integrated	Lagos	Operational	Private
6	Maigatari Border Free Zone	Jigawa State	Operational	State
7	LADOL Free Zone	Lagos	Operational	Private
8	Airline Services Export Proc. Zone	Lagos State	Operational	Private
9	ALSCON Export Processing Zone	Akwa Ibon	Operational	Private
10	Ogun Guangdong Free Trade Zone	Ogun State	Operational	Public/ Private
11	Sebore Farms Export Processing Zones	Adamawa State	Operational	Private
12	Ibom Science & Tech. Park Free Zone	Akwa Ibom	Under Cons.	Public/Private
13	Living Spring Free Zone	Osun State	Under Cons.	State
14	Lekki Free Zone	Lagos State	Under Cons.	State/ Private
15	Brass LNG Free Zone	Bayelsa	Under Cons.	Public/Private
16	Abuja Technological Village Free Zone	Abuja	Under Cons.	Public/Private
17	Specialized Railway Industrial FTZ - Kajola	Ogun State	Under Cons.	Public/Private
18	Imo Guangdong FTZ	Imo State	Under Cons.	Public/Private
19	OK Free Trade Zone	Ondo & Ogun	Under Cons.	States/ Private
20	Lagos Free Zone	Lagos State	Under Cons.	Private
21	Kwara Free Zone	Kwara State	Declaration	State Govt.
22	Oluyole Free Trade Zone	Oyo State	Declaration	State Govt.
23	Koko Free Trade Zone	Delta State	Declaration	State Govt.
24	OILSS Logistics Free Zone	Lagos	Declaration	Private
25	Banki Border Free Zone	Borno State	Declaration	State

Source: Nigeria Export Processing Zones Authority

There are currently twenty-five export processing zones in the country since the commencement of the initiative and a number of successes have been recorded. The export processing zones provide good investment window for firms willing to take advantage of government's drive to encourage manufacturing especially for export. The export processing zones circumvent tough regulations and eliminate administrative bureaucracies and provide easy access to export channels.

Pioneer status: An incentive that grants tax holidays on corporate income to manufacturing exporters who export at least 50 percent of their turnover. It is a tax holiday granted to qualified or (eligible) industries anywhere in Nigeria and a seven-year tax holiday in respect of industries located in economically disadvantaged local government areas of the country.

Currently, there are 71 approved industries with pioneer status and which can benefit from tax holidays. To qualify, a joint venture company or a wholly foreign-owned company must have incurred a capital expenditure of not less than ₦5,000,000 whilst that of qualified indigenous company should not be less than ₦150,000. Also to qualify, an application in respect of pioneer status must be submitted within the first year of commencement of commercial production otherwise the application will be time-barred.

The scheme is designed to encourage the establishment of export-oriented industries in Nigeria and enable them to make a reasonable level of profit within their formative years, and the profit so made is expected to be ploughed back into the business.

There are also several other generous incentives designed to encourage investment in the manufacturing sector. For instance, government offers 25 percent import duty rebate to ameliorate the adverse effect of inflation and to ensure increase in capacity utilisation in the manufacturing sector. The government also grants re-investment allowance to manufacturing companies that incur capital expenditure for purposes of approved expansion of production capacity; modernisation of production facilities; and diversification into related products. This incentive is aimed at encouraging reinvestment of profits.

Also, dividend from companies in the manufacturing sector with turnover of less than ₦100million is tax-free for the first five years of their operation while companies with turnover of less than ₦1million are taxed at a low rate of 20 percent for the first five years of operation if they are into manufacturing. Profits of companies, whose supplies are exclusively input to the manufacturing of products for exports, are excluded from tax.

As a means of encouraging industrial technology, companies and other organisations that engage in research and development activities for commercialisation enjoy investment tax credit on their qualifying expenditure. Companies engaged wholly in the fabrication of tools, spare parts and simple machinery for local consumption and export also enjoy investment tax credit on their qualifying capital expenditure while purchasers of locally manufactured plants and machinery are also entitled to investment tax credit on such fixed assets bought for use.

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To provide access to finance for manufacturers, the federal government established the Bank of Industry (BOI). The bank has recently undergone institutional, operational and financial restructuring to enable it efficiently deliver on its mandate as a development bank. As the name implies, the bank was set up principally to provide long term financing to the industrial sector of the Nigerian economy. The institution was designed to transform the industrial sector and integrate it into the global economy by providing financial and business support services to attain modern capabilities for the production of goods that are competitive in both the domestic and external markets.

The bank is intended to be a one-stop financial institution for manufacturers. The bank's authorised share capital was initially set at ₦50billion in the wake of the reconstruction of Nigeria Industrial Devel-

http://www.fauske.com/sites/default/files/Manufacturing%20Industry%20Low%20Res.jpg

opment Bank (NIDB) into the Bank of Industry (BOI) in 2001. This has however been increased to ₦250billion due to current realities and the country's growing economic profile.

Another financial incentive to encourage the manufacturing sector is the currency retention scheme of the government. This scheme is operated by banks and allows exporters to retain 100 percent of their foreign exchange earnings in their domiciliary accounts in any authorised bank of their choice. The objective is to enable exporters to have foreign exchange at their disposal which can be utilised for export-related activities and exporters are free to convert their foreign exchange earnings to the Naira equivalent at the prevailing rate of exchange. There is also a tax relief on interest income incentive which attracts favourable tax treatment on interest accruing from loans granted by banks in aid of export activities. The objective of this scheme is to encourage banks to grant credit facilities to Nigerian exporters. The facility is extended to all banks granting loans for export activities and covers interests accruing from such loans.

The Nigerian government also guarantees access to land in any state of the federation for any company incorporated in Nigeria for industrial purposes and such companies are required to abide by the regulations on the use of land for industrial purposes and with environmental regulations.

To safeguard investments in the country, the Nigerian government also commits itself to guarantees against expropriation. The government guarantees under section 25 of the Nigerian Investment Promotion Council (NIPC) decree that no enterprise shall be nationalised or expropriated by any government of the federation, unless the acquisition is in the national interest or for public purpose; and no person who owns either wholly or in part, the capital of any enterprise shall be compelled by law to surrender his interest in the capital to any other person. This guarantee is an essential safeguard to assure both local and foreign investors that their investment will not be expropriated by the government.

Challenges of the Manufacturing Sector in Nigeria

The manufacturing sector like other sectors of the Nigerian economy has some challenges impeding against its optimal performance. Industrial capacity utilisation, even at the present 56 percent is way too low for the economy and underscores the horrendous scale of industrial recession that has hit the sector.

Principal amongst the challenges facing the sector as enunciated by the Manufacturers Association of Nigeria (MAN) is lack of critical infrastructure especially electricity. Prior to the recent improvement in electricity supply in the country, manufacturers virtually depended on private generators for power supply. Private power generation account for about 30 percent of manufacturers' cost of production and this impacts negatively on their profitability and competitiveness.

Persistently high inflation rate is considered most unfavourable to the manufacturing sector because it is a disincentive to savings and investment, and ultimately economic growth. Persisting double-digit inflation rate leads to short-term investments as long term investment cannot be undertaken in a situation of uncertainties.

Also, incidences of multiple taxation and levies by the various tiers of government, and unfavourable ECOWAS Common External Tariff (CET) policy are also bemoaned by MAN as factors that have impeded the growth of the manufacturing sector. Proliferation of smuggled substandard goods into the country is also a serious threat to the manufacturing sector and a menace to the economy.

Most manufacturing firms in the country operate with antiquated plants and machinery which do not support the production of standard contemporary products. In today's global world of free flow of information, consumers have full knowledge of the state-of-the-art products and will not settle for second best. Developments in technology and innovation in the country over time have not been commensurate with the fast pace of industrialisation in a dynamic global economy. Some firms still have plants and machinery procured several decades ago in their production lines and maintaining such outdated plants and machinery has become a serious drain pipe on profitability.

The Protection Argument

Manufacturers also contend that the government has not protected them against stiff competition with their international competitors. The domestic infant industry protection (protectionism) versus free trade argument is one of the most debated topics in economic discourse. Proponents of protectionism posit that the comparative advantage argument for free trade has lost its legitimacy in a globally integrated world—in which capital is free to move internationally. They believe that by imposing high tariffs on imported commodities (or even out right prohibition), domestic industries will grow and become self-sufficient within the international economy. It is argued that domestic infant industries cannot compete with international competitors that are more established. In effect, exposing domestic infant industries to competition with foreign competitors is akin to a day old-chick and an eagle engaging in a flying competition.

Proponents of the free trade argument on the other hand criticise protectionism as harmful to the people it is meant to help. They contend that the gains from free trade outweigh any losses; as free trade creates more jobs than it destroys because it allows countries to specialise in the production of goods and services in which they have a comparative advantage. They also argue that protecting domestic industry amounts to anti-globalisation.

The argument appears to be somewhat settled in favour of free trade at least in the academia based on the preponderance of supporting theories. In reality however, countries at the forefront of the free trade crusade have in the past used some form of government regulations to discourage imports and protect domestic industries from foreign take-over or competition.

The conditions that prevailed in the world order that culminated in the General Agreement on Tariff and Trade (GATT) of 1944 have changed fundamentally. There is now mounting criticisms of the World Trade Organization (WTO) with some calling for its abolition and suggesting either unilateral or regional trade agreements as more efficacious in achieving lower trade barriers. Some believe that the WTO still exists for political logic only.

While these controversies rage, there is no gainsaying the fact that for

http://d1dep6bscgu00w.cloudfront.net/wp-content/uploads/2012/10/Man-Diesel-Petrobras-Sign-Gas-Turbine-Maintenance-Agreement-Brazil.jpg the sake of strategic national interest, it is only expedient that countries, especially industrially weak ones should adopt some protective measures to shield the productive base of their economies from stiff international competition. It is however imperative to add that when domestic infant industries are protected for too long, they could become inept 'aged-infants.'

Plagued by Dutch disease?

The manufacturing sector of the Nigerian economy has been performing sub-optimally for a long time in spite of the preponderance of raw materials in the country and the diverse incentive packages. Several studies have discovered a relationship between the decline in manufacturing and the discovery of crude oil in commercial quantity in the late 1950s. Whilst correlation may not necessarily mean causation, it will not be out of place to believe that the manufacturing sector got ensnarled with the infamous Dutch disease (an economic concept that explains the apparent relationship between the exploitation of natural resources and a decline in the manufacturing sector).

The theory has it that an increase in revenues from natural resources reduces the industrial capacity of a nation's economy by raising the exchange rate, which makes the manufacturing sector less competitive and public services entangled with business interests. The phenomenon was first observed in the Netherlands and the term Dutch disease was coined in 1977 by *The Economist* to describe the decline of the manufacturing sector in the Netherlands after the discovery of a large natural gas field in 1959.

The manufacturing sector's contribution to the Nigerian economy has remained insignificant as the sector contend with myriads of challenges leading to massive under-capacity utilisation. These have painfully resulted in the relocation of the processing lines of some prestigious companies to neighbouring countries in the recent past while a number of others have closed shop. The resultant effect of these is enormous loss of jobs and a decline in government revenue which has aggravated the country's unemployment situation and exacerbated government's fiscal deficit. The unfortunate incidence of mass importation of nearly all goods and commodities into the country gets worse as products from West African neighbours find their way into the Nigerian market.

Electricity is Crucial

The epileptic state of electricity supply has been most inimical to the manufacturing sector as lack of stable supply of electricity features as the common denominator amongst the challenges enumerated by manufacturers in the country. For a long time until recently, maintenance and modernisation of the nation's electricity infrastructure has been grossly inadequate. This scenario has culminated in the use of private power generation by manufacturers. Private power generation accounts for about 30 percent of manufacturers' cost of production and this has severe negative impact on the competitiveness of Nigerian products and the profitability of manufacturing companies.

Empirical evidence suggests that growth in energy use is closely and positively related to growth in industrialisation. For instance, a recent study by the United Nations Industrial Development Organization (UNIDO) concludes that energy infrastructure in an economically meaningful sense helps to explain why some countries have managed to industrialise while others have been less successful. In other words, energy infrastructure is crucial and holds one part of the key that brings development and prosperity.

From the foregoing, recent improvement in electricity supply and the ongoing privatisation of the entire power sector (generation and distribution) are welcome developments for the manufacturing sector. The government intends to achieve a target of 40,000MW of electricity generation to meet the Vision 20:2020. The Power Sector Reform Roadmap recognizes the link between electricity supply and economic development. There is positive momentum in the ongoing power sector reform and it is believed that the dark days of epileptic electricity supply will soon be over and the manufacturing sector would have surmounted its major challenge.

The recent rise in the number of new factories commencing operations in the country, relatively better electricity supply, improved capacity utilisation and index of manufacturing production, and the surge in global competitiveness ranking are reasonable cause for optimism in the manufacturing sector while hoping that the industry would continue to build on these new gains – going forward.

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

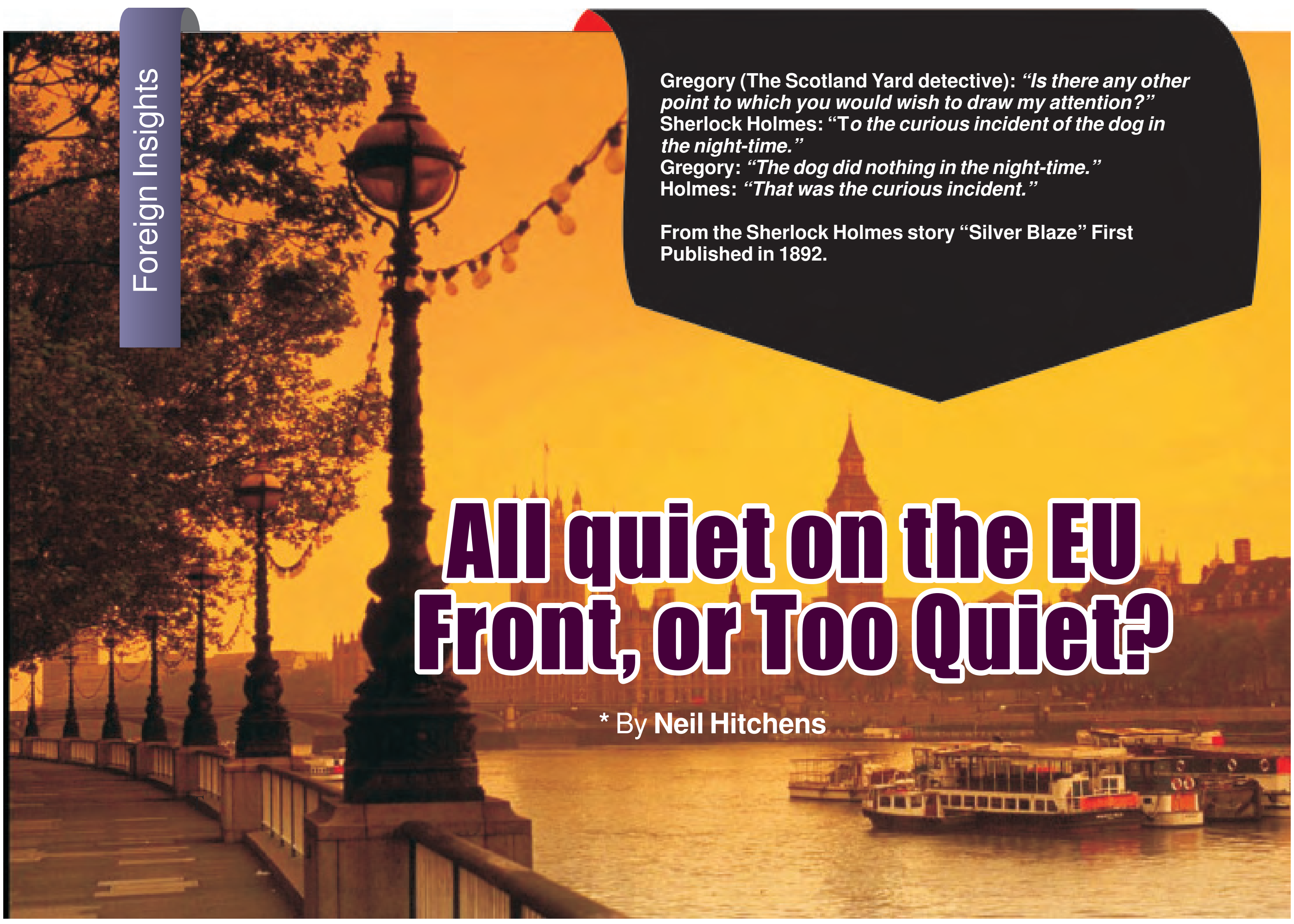
Foreign Insights

Gregory (The Scotland Yard detective): ***"Is there any other point to which you would wish to draw my attention?"***
Sherlock Holmes: "T*o the curious incident of the dog in the night-time."*
Gregory: ***"The dog did nothing in the night-time."***
Holmes: ***"That was the curious incident."***

From the Sherlock Holmes story "Silver Blaze" First Published in 1892.

All quiet on the EU Front, or Too Quiet?

* By **Neil Hitchens**



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The dominant story this past quarter for markets continues to be the much sought after outcome of the seemingly endless Euro-Zone Crisis. So far, well, over 20 summits seem to have failed to move the process much further. What, though, is of extreme interest, is that for the past few months everything seems to have gone quiet after the head of the ECB, Mario Draghi's famous, or infamous, speech on July 26th that he would do "whatever it takes" to preserve the Euro. After that, as with Sherlock Holmes' dog question, it is significant that nothing further has really been publicly said, seen or done.

Immediately after the speech, equity markets, then biased towards a Euro-Zone break-up scenario, rallied sharply on this unexpected sentiment. Interestingly, equally as shocked were Draghi's aides and colleagues, none of whom suspected such a promise could, or indeed, would, be uttered. However, as with all matters concerning the Euro and the ECB, the truth is somewhat ignored in all of this rhetoric. No-one was in any position to guarantee "whatever it takes" and the words were a gamble setting off weeks of frenzied backroom diplomacy which would severely test the relationships of the main protagonists in the euro zone crisis.

Jens Weidmann, head of the powerful Bundesbank, is a vocal critic of Draghi's plan, as he believes and practices the German mantra that such a move will compromise the ECB's independence. Additionally he and the rest of the German nation are still fixated by that Teutonic taboo – Inflation - and the political consequences that the hyperinflation of the 1920s caused in the 1930s. Yet, it was critical that Draghi got Germany on board. As Europe's biggest economy, Germany has the unenviable role as the Euro-Zone's paymaster in a crisis.

No Germany, no Euro. If Draghi's policies ran up against a German wall, they would surely fail.

In the end, Draghi won over everyone except Weidmann. Crucially he secured the backing of Europe's dominant leader, German Chancellor Angela Merkel, who has been walking a tightrope since the Euro crisis erupted in late 2009, using tough rhetoric to appease an electorate deeply sceptical about supporting crisis-hit euro members like Greece, while nudging bailout deals through parliament to keep the single currency intact.

Merkel faces a tough re-election battle in 2013 and is loath to see the Euro zone explode on her watch and as such a lifeline was critical. In the end it came in the form of a promise of unlimited bond purchases by the ECB from nations in trouble, but only on condition that any ECB bond buying be tied to an aid program involving the notoriously tough IMF.

In 2011, the ECB had bought Italian bonds only for Italy's then-prime minister, Silvio Berlusconi, to drop reform promises days later and as such, they were in no mood to have this experience repeated. To stop such a recurrence, it was agreed that countries who wanted the ECB to intervene must first sign up to a formal aid program. Then, and only then, would IMF involvement be sought and bond purchases restricted to maturities of up to 3 years. The ECB could choose to sell as well as buy bonds - a veiled warning to countries that it might pull the plug if they failed to deliver on their promises.The new initiative just needed a name. Initially dubbed "Outright Open Market Operations" or (OOMO), the ECB board ditched that for "Monetary Outright Transactions" (MOT), before settling on the more grammatical "Outright Monetary Transactions" (OMT) shortly before the program was unveiled.

So, on October 4th Draghi spoke at the monthly ECB press conference and announced "Under appropriate conditions, we will have a fully effective backstop to prevent potentially destructive scenarios."He stated the volume of bond purchases would be unlimited.

Unsurprisingly Euro zone blue chip stocks soared to levels not seen since March and the Euro extended its upward march. A week later, Germany's Constitutional Court gave a green light for Europe's new bailout fund and Dutch voters handed pro-European parties a sweeping election victory.

After three years of seemingly constant crisis, can Europe breathe again?

Maybe not!

It is far too early to hail Draghi's plan as a solution to the crisis.

The ECB has not yet bought any bonds and its members are already sending conflicting signals over how the plan can be implemented.

Many questions remain unanswered about whether the ECB is really prepared to put their money where their mouth is and buy a genuinely unlimited amount of bonds.

A bigger question is the real impact of Draghi's plan on German voter sentiment. At the inception of the Euro, the ECB was sold to sceptical Germans as a carbon copy of the Bundesbank, inflation fighting measures and all. Germans feel betrayed; many convinced the ECB has been taken over by a cabal of dovish southerners.

Still, the one precious commodity

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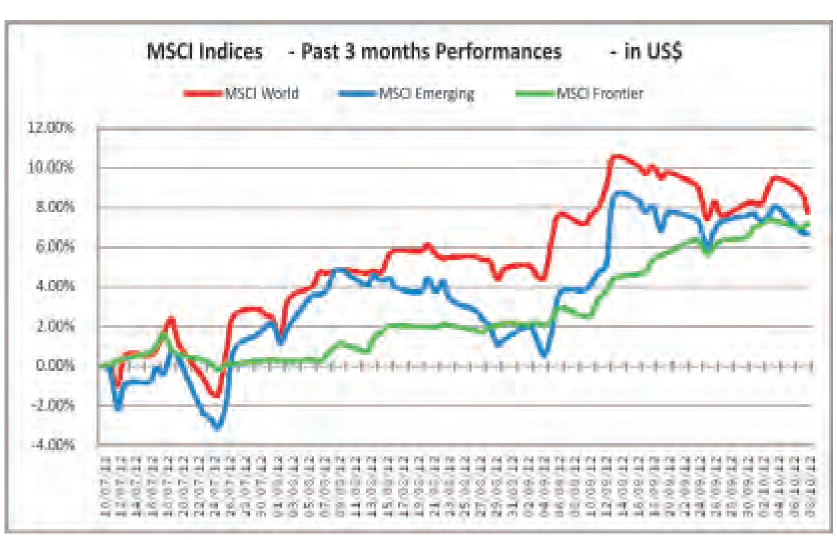

Source: MSCI Barra & Bloomberg

that Draghi has bought Europe is time. This allows politicians more space to attempt to sort out the mess. Whether they actually find a definitive solution is another question. Frau Merkel's election fate depends on the next 4 months!

Equities – after a quiet summer, where next?

Market activity for most of the summer period was extremely quiet. In Europe the market did perk up from the end of July after Draghi's Speech, but in the UK the distraction of hosting the Olympics was a major factor in a somewhat unexpected downturn in overall economic activity. Generally the sense was one of markets grinding slowly higher more in the absence of any new bad news rather than because there was anything too wonderful to excite market participants.

All three Index baskets that we track have had a positive past three months. In both the MSCI World and Emerging Indices, volatility remained heightened and, for once, the Frontier markets have had a far smoother uplift.

This all round positive and quietly strong market performance shows in the individual indices. Of the 93 indices we follow there were positive returns over the past three months in 76 markets, 81.7% of the total, which statistically is very high number and falls in only 17 / 18.3%. The best performing market has been Venezuela, +35.6%, not a market that many follow and even fewer are permitted to invest in, where the re-election of President Chavez has, for now, reinvigorated Venezuelan nationalism. This was closely followed by Athens, +35.3%, a move more on the back of positive short-term optimism based on nothing more than there being no recent additional surprises. Third, we are pleased to show, was the Nigerian stock market, +24.8%, where banks were especially popular.

The worst performances came from areas that overall had previously proved to be somewhat populist but where most rational investors would only invest a miniscule proportion of their money, if any. Losses in markets such as the Ukraine, -18.3%, Mongolia,-17.5%, Cyprus, -12.0% and Zambia, -11.9% all showed that thinly capitalised exchanges only need a small proportion of their overall capital to be sold or withdrawn for losses to be magnified disproportionately. Again, all these four markets are areas that at present we would never countenance any investment, no matter the possible short term and explosive gains that may be achieved. To reiterate a point we continually tell our investors, there is no well-balanced reason to be invested in any small or smaller index merely because it is a component that tacit index-followers demand be included in your portfolio merely because 'it is there'. That is the worst possible reason to invest. If a market looks bad, smells, bad and trades badly, then there is an investor accident waiting to happen.

In the large capitalised global indices,there has been a more concentrated series of returns. The Dax is still benefitting from the flow of capital into German equities noted previously. An 18.1% return is slightly surprising and caution would dictate that some profit taking is almost inevitable during the fourth quarter. However, any sign of new or unexpected problems in Southern Europe is likely to see further capital inflows. The only negative return came from Japan where the Topix, -4.1% and the Nikkei 225, -1.5%, both continue to show the negative impact of the worsening Sino-Japanese relations. Indeed, the possibility of the dispute over the Senkaku Islands (as they are named by Japan) / Diayo (in Chinese) lurching into a small armed conflict over this territory continues to worry the wider world. Hopefully sanity will prevail.

A small nugget of interest in equities is that it is claimed by many, who probably should know better, that stocks always decline during the summer so you should sell your equity holdings before everyone goes away – on or before May 31st – and then when everyone returns in the Autumn – September 1st – you can buy them back again more cheaply.

Sounds good, doesn't it? Many

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believe this to be true – even experienced investors.

Wrong!

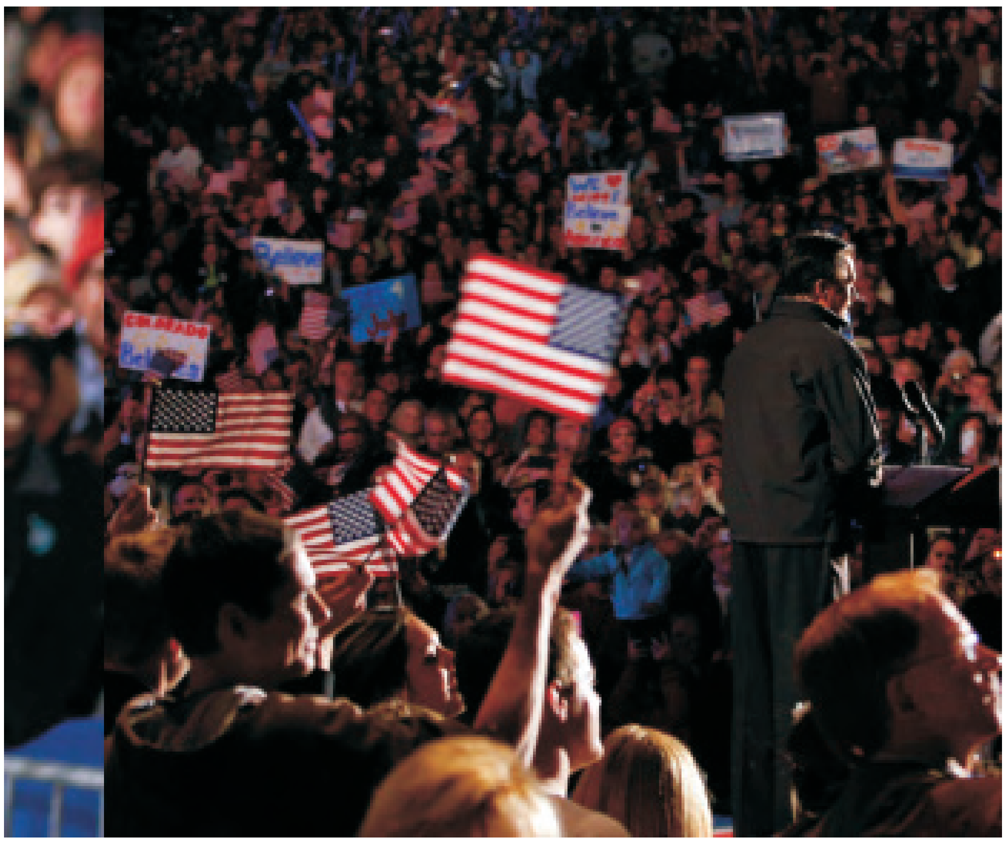
Over the past 50 years if you had *not* sold in May and still 'gone away' you would have lost money in 24 of those years but *made* money in 26 – including 2012. The average gain in the S&P 500 for the 3 month summer period from May 1963 to September 1st 2012 was +0.4%. That does not sound too positive but once you factor in the additional dealing costs of selling and buying back the difference begins to grow between holding, reaping the gain, selling and losing it. Admittedly there have been some very bad years such as 2002 when during this holding period the market declined -15.7% but this is evened out with years such as 2009, +13.8%. However, 2012 with a return in the S&P 500 of +7.35%, far from being the exception, is just better than normal.

The US Election

In the U.S., the gloves are off and the quadrennial mudslinging has begun in earnest. The Presidential Election is now only a short time away and there are some serious problems for the incumbent; unemployment and housing are acting as lightning conductors for adverse public opinion and already it is statistically too close to call.

While we are forbidden to endorse either candidate, the recent surge for Mitt Romney has put him into a dead-heat tie with President Obama.

Certainly, whatever the result on the night of Tuesday November 6th, it will be extremely close and the final outcome will hinge on a few states with a recount a distinct possibility in at least 3 states. Whoever wins, it is likely to be by the slimmest majority since George W. Bush beat Al Gore in 2000 – the result then hinging on the "hanging chad" debacle in Florida.



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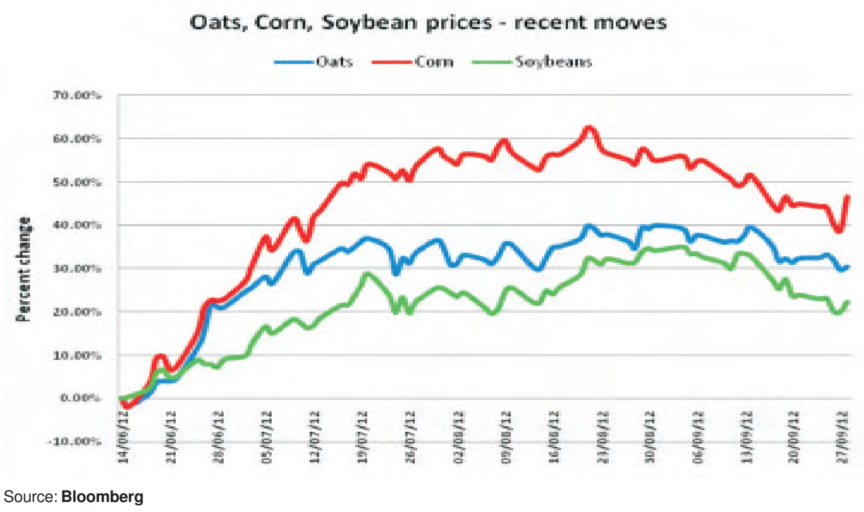
Agriculture – US drought had a disastrous effect on crop prices

The drought that hit the United States during the summer continues to squeeze crop prices. Around 64% of the contiguous U.S. was in drought at one stage, the highest recorded levels since 1956. Despite rain fall in September, crop yields were decimated and the impact of this is spread rapidly away from a purely agricultural 'softs' predicament, to have a direct impact on other areas of the agricultural industry such as ethanol production and the livestock sector.

The current U.S. ethanol directive – the Renewable Fuel Standard - requiring that a minimum of 9% of corn-based ethanol production is added to petroleum/gasoline is a measure that probably should be reviewed or suspended, given the continued squeeze on crop prices. The recent rainfall, while encouraging, is no drought buster. Analysts now expect final production levels to be even lower than the recently downgraded USDA (United States Department of Agriculture) forecasts.

Corn rose at one stage well over 60%, peaking at 838 cents a bushel. Even now, the price is still at around 750 c. Such a move has led to a significant rise in the costs of animal feedstuffs with a consequent roll-through of inflationary pressures down the chain of food production. Similar but not such extreme moves were also seen in Oats, the bedrock of any porridge, peaked at a rise of over 40%, with a similar move in Soybeans.



Source: **Bloomberg**

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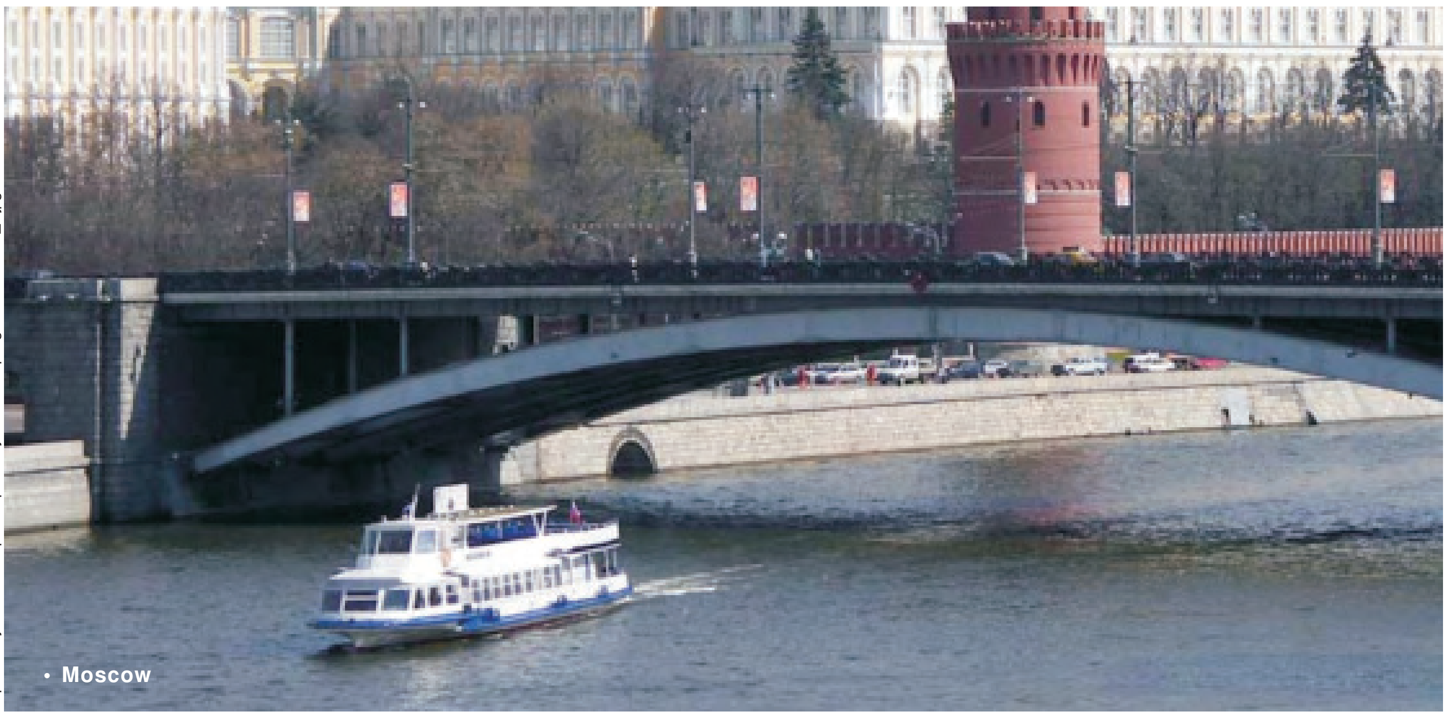
Many consumers are growing angry, believing that the US ethanol policy itself has led to higher corn prices, tightening supplies and increasing vola-



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tility. A further problem has been confirmation of the expected downgrade of the Russian harvest prospects and the possible suspension of international exports. While spot prices are slipping back as the harvest in the US begins to come in, we are unlikely to see any return to lower prices in the short-term. While the exact inflationary impact from this remains to be seen, there is no doubt that the US economy in this Election Year, will experience inflationary turbulence. Not quite what the President had hoped for given the current tightness of the opinion polls.

Gold – US QE measures have put some zip into the Gold price

After the 13th September announcement that the Federal Reserve was going to continue its Quantitative Easing program, demand for gold, already strong on the back of further global tensions and indifferent US economic releases, saw the price push closer to the recent highs around $1,800=. However, the price of the yellow metal is now starting to be agitated from many sides; Labour unrest in South Africa is growing and at one stage in September upwards of 40% of the countries' entire gold production had stopped. Add in the increasing tensions between Iran and Israel, which is worryingly impatient to bomb the Iranian nuclear facilities at Natanz and Fordow and you could well end up with a perfect storm of bad news - a strong positive for Gold.

Central banks globally are now turbo charging their printing presses in the hope that more liquidity is the key to future economic health – this, unfortunately is unlikely to be the case in the longer term without stoking some serious inflationary fires in the coming quarters. Its potential as a store of wealth is again being reassessed as just

Source: Bloomberg

about all countries are vainly trying to weaken their currencies against each other – something of an overall slight impossibility.

In Europe, just when you thought the final, final line in the sand had been drawn and everyone was going to start pulling the Euro back from the abyss, Catalonian secessionist forces have appeared almost out of nowhere just as Spain was trying its hardest not to bow to the inevitable and ask for a full blown bail-out. The price of gold in Euros hit an all-time high of €1,378.41 on October 1st.

Given the ability of the European authorities to manage to snatch defeat from the jaws of victory, the price of gold in US Dollars is more than likely to rise to test the old $1,900 highs quite soon. Add in the increasing likelihood of some serious economic growth over the next few years – highly likely outside of Southern Europe – then $2,500 has to be viewed as a target for 2014-15, maybe earlier if geopolitical tensions erupt in the Gulf, or there is serious and sustained labour unrest in Southern Africa.

In the US at the Republican Party convention and for the first time in over 30 years, talk of a return to the gold standard became part of mainstream politics in America. It became official policy to support the creation of a new commission to look at re-establishing the link between the US Dollar and gold. The proposal evokes memories of a similar commission set-up by President Reagan in 1981; then only 10 years after Richard Nixon had finally removed the link in the light of the 1971 oil crisis.

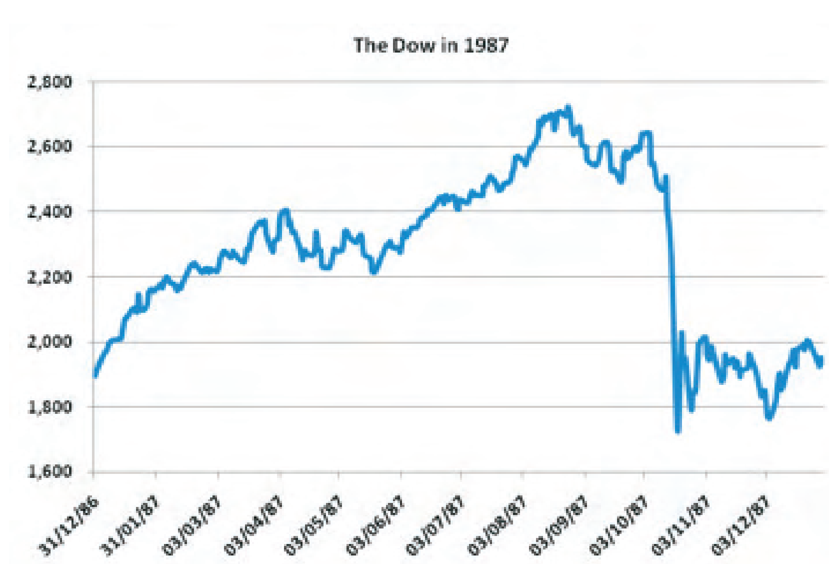
There are though too many practical problems to return to a fully-fledged gold standard and the commission is likely to return to an exactly similar conclusion as in 1981 to maintain the status quo. The key problem will be at what price in gold the US could peg its currency. Great Britain in 1925 returned to the gold standard it left in 1914, at 1914 prices. This was probably the biggest mistake the then Chancellor of the Exchequer, Winston Churchill, could have made as it ignored the high inflation in the intervening years. The result was a vast overvaluation of the Pound with consequential deflation and high unemployment.

For the US, there is no 'correct' price at which to theoretically return – whatever price is set whether it is $2,000 or $5,000 an ounce, markets will test this level and it will collapse much as pegged currencies always fail eventually.

This does not mean there could theoretically not be a "back-door" gold standard. Central Banks are already doing this by rebuilding their stockpiles of gold. Two decades of heavy government selling globally has been reversed and in 2010 Central Banks became net buyers of gold and the momentum has built since. Gold will probably end up being used as "good" collateral by global central banks, as opposed to the alternative and rather shaky collateral offered by sovereign debt.

2012 – The 25th Anniversary of the 1987 'Black Monday' stock market crash

History, as they say, is all around us – every day is the anniversary of some event, meaningful or meaningless, for everyone. In financial markets, the focus for market shifting and significant events continues to be fixated on the month of October and this month, October 2012, is the 25th anniversary of the great 1987 crash – Black Monday - that for those of us who were there at the time seemed to be literally the end of the world, as we knew it.



Source: Bloomberg

However, with hindsight and rationality, the reasons for its occurrence became clearer and its lessons continue to resonate – especially as history while not repeating itself exactly at the present, most certainly has a very familiar feeling.

A year before, during 1986, the US economy began to cool rapidly from its earlier fast-paced recovery, to a slower rate of expansion resulting in a "soft landing" – where the economy and inflation fell to more muted but still economically positive levels. On the back of this benign period, equity markets rose rapidly and the Dow Jones peaked on August 25th at 2,722.42. At the time, it was 'confidently' prophesied by some that the Dow would hit 3,000 by year-end. From this August peak, markets drifted slightly and had fallen around 3% by the end of September. On October 14th a far larger than expected US trade deficit combined with some injudicious comments by the then Treasury Secretary, James Baker, that the US dollar was seriously overvalued, led to foreign selling of dollar assets.

http://www.chicago-usa.net/wp-content/uploads/2011/11/federal-reserve-bank-of-chicago.jpg

In the days between the 14th and 19th October 1987 US Indices fell over 30%, the Dow falling -22.6% on Monday the 19th – "Black Monday" – the greatest one day closing percentage loss ever seen, beating the -12.82% loss seen on a previous 'Black Monday', October 28th 1929. The markets had been in free-fall since the Asian opening earlier that morning, where losses were accelerated by news that the US had fired upon an Iranian oil platform in response to an earlier Silkworm missile attack on a US flagged ship. What is sometimes, rather conveniently, forgotten is that after the slump to the low of 1,738.74, the Dow then almost immediately started to rally.

By the beginning of November the Dow was back above 2,000, a rise of +15.8% from the closing lows of October; it then fell again by -9.0% during the month but finally ended the year at 1,938.83 a *net rise* for the year of +2.26%. Many feared at the time that this would trigger a recession, similar to the 1929 crash. This time, because the Federal Reserve had painfully learnt from its previous mistakes, it ensured continuing monetary liquidity. As the Fed was seen as a source of constant support to the financial system, a crisis was averted. It was also fortunate that President Reagan had recently appointed Alan Greenspan as Chairman of the Federal Reserve – probably the most influential Chairman there has ever been.

Since then, as can be seen in the graph, the Dow has risen +8.13% a year, on a pure point to point measurement (2,168.57 on 31st December 1987 to 13,473.53 on 9th October 2012) – if you reinvested the dividends that were paid out by the 30 constituents net of tax, the returns increase to +9.43% (+10.94% gross).

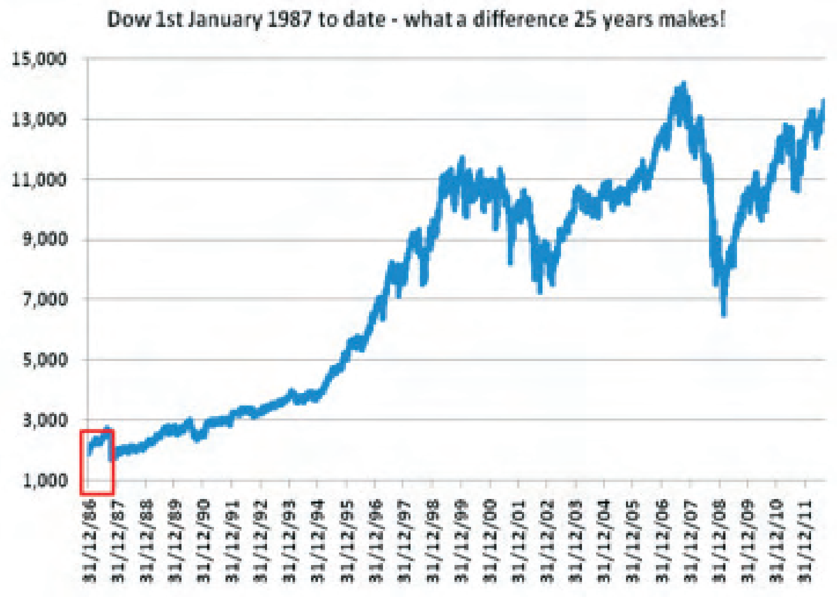
Do we think that the Dow, or indeed the S&P 500, is too high? The Dow is currently only 691 points or 5.13% off the all-time high of 2007; the S&P 121.50 points or 8.42% off record levels.

Our internal indicators pointed to the first signs of a sea change in attitude to equities at the beginning of August and the subsequent steady rally on the back of what has been some slightly unexceptional US economic figures masks what, to some, is a glaringly obvious state of affairs. The US economy is growing - it is back as the global engine of growth.

Given the low current yields in the US Treasury market, where the 5 Year Note currently yields 0.625% (Price 100=), the average dividend yield on the Dow of 2.52% is looking especially attractive – equity yields currently range from 4.77% for AT&T **(T:US)** to 0.43% for Bank of America **(BAC:US)**. If you also factor in the high likelihood of meaningful capital gains to be had in the next 5 years on the Dow when compared to the precisely 'Zero' capital gains to be had by holding the current 5 year Treasury Note to maturity, the signs are there that a meaningful move back to equities may be about to happen.

It is thus highly likely that the Dow will register a new high within the next

four months – the 15,000 level will have to wait, but as this is only +11.6% from current levels we could potentially see this level either by Q4 2013 or Q1 2014.



Source: Bloomberg

The next 25 years - Equities or Bonds?

By the time we get to the Golden Jubilee of the 1987 crash in October 2037, a mere 9,120 or so days' time, where are you likely to have made more money?

Certainly, the case for equities is growing more compelling but again - as we have warned before – you need to have a careful and skilful guide for this.

However, as we caution, seemingly endlessly, you will need a mixed portfolio with the bond and equity elements varying in line with the then prevailing market conditions. Certainly some of the recent issuance of perpetual (irredeemable) corporate bonds recently coming to the market, which yield substantially more than the US 30 Year bond's current 2.81% are well worth locking into now for yields of at least double this. As many irredeemable bonds have coupon re-sets 5 or 10 years hence that will be re-fixed from future [higher] benchmark levels, logic has it that such coupons can only rise.

With the Dow Jones Index, if you factor in even some low or middling average rates of return for the next 25 years, just the point-to-point returns certainly add up, thanks to probably the most important invention of the past 800 years – compound interest. Even a 3% average growth rate will give us a Dow level of 28,134.37 by 2037. Add just one per cent to the growth rate (4%) and suddenly your 13,437.13 level moves to 35,821.19 a full 27.32% higher than the 3% rate returns. Crank it up to a 6% annual rate and you are looking at a final figure of 57,670.42!

As 2037 will be when your writer is [currently] meant to have just retired, he will be very happy for the markets to continue at their recent 8% annualised average growth rate.

Dow 92,023.85 anyone!

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

Discourse

The Extended corporate IDENTITY MIX

* By Olutayo Otubanjo, PhD

Today, the concept of corporate identity is pursued, especially among industry practitioners, as a broad and multidisciplinary phenomenon. Unfortunately, the multidisciplinary nature of this discipline is only captured by a few authors within the corporate identity discipline (Birkigt and Stadler, 1986; Balmer, 2002). This paper adds to these works by offering 'an extended corporate identity mix' comprising organization storytelling, core competence, visual style, and buyer value. Additionally, the study demonstrates how these components serve as channels through which a firm's personality is conveyed to stakeholders.

Views on corporate identity mix

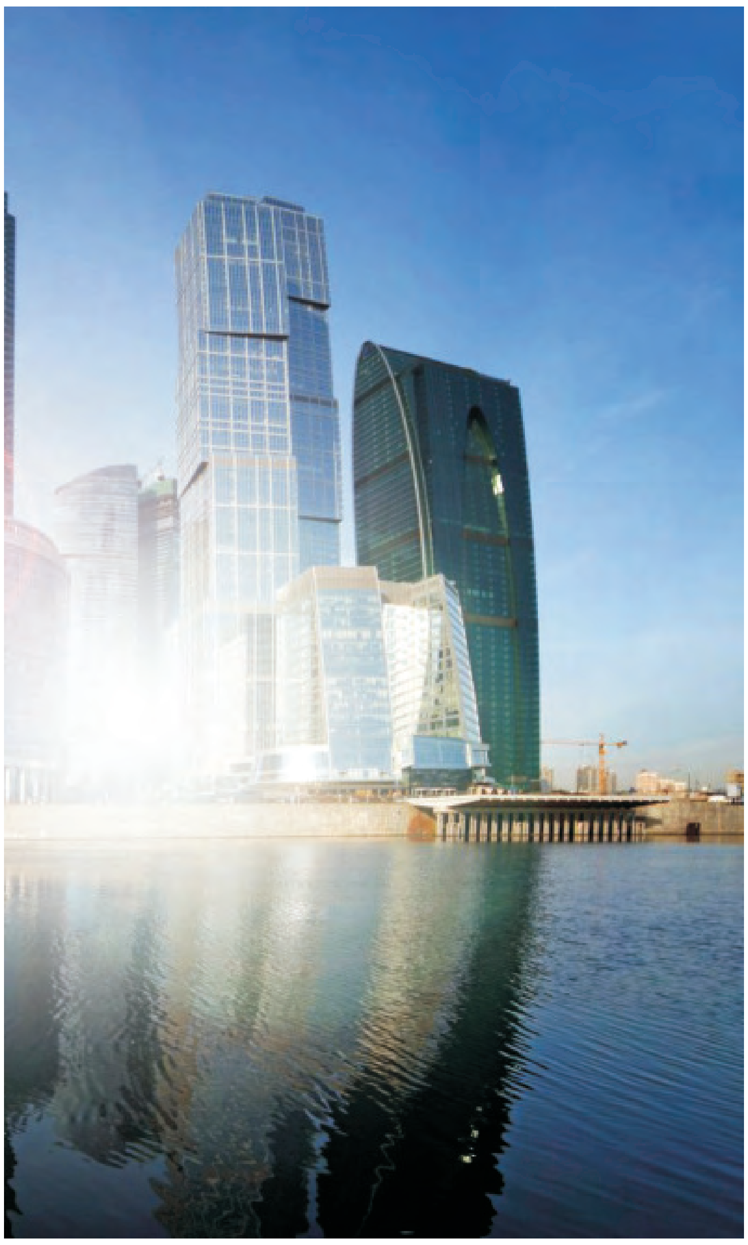
Meaning: the literature of corporate identity mix owes much to Birkigt and Stadler's (1986) theory which narrowed the concept down to how a firm's personality is expressed through Symbolism, communication and behaviour. Following the publication of this influential work, many leading corporate identity authors belonging to the marketing mindset have since attempted to clarify the meaning of corporate identity mix from the perspective of this philosophy. For instance, Van Rekom et al. (1991) see corporate identity mix as having to do with "the self-presentation of an organization. It consists of the cues which an organization offers about itself via its behaviour, communication, and symbolism, which are its forms of expression."

Van Riel and Balmer (1997) concurred with these views when they described corporate identity mix as "the way in which an organization's identity is revealed through behaviour (and) communications, as well as through symbolism to internal and external audiences." Similarly, Otubanjo and Cornelius (2008) agreed that corporate identity mix is a philosophy reflective of the channels through which a firm's personality is conveyed to stakeholders. Some of these channels include 'who/what you are', 'what you stand for,' etc.

Channels or elements of corporate identity mix

A few studies have been put forward in literature to explicate the channels or elements of corporate identity. The author will in the paragraphs that follow discuss these in details:

Birkigt and Stadler's (1986) theory of symbolism, communication and behaviour: symbolism refers to a set of visual identities that business organizations deploy either at corporate or product level to denote ownership and achieve differentiation. More importantly, it helps firms to express the nature of their personalities to stakeholders. Communication on the other hand represents the very many


http://www.picturesoftheplanet.com/cache/places/russia-pictures/international-business-center-moscow_950_watermark.jpg

ways in which firms convey their entire personality to stakeholders. This may be through corporate advocacy advertising and corporate public relations. Behaviour denotes the ways that firms convey personalities through actions as well as through non-verbal behaviour, which can be planned or unplanned (Otubanjo et al, 2010).

Balmer and Soenen's (1998) theory of mind, soul, and voice: is to some extent grounded on Birkigt and Stadler's (1986) theory of symbolism, communication, and behaviour. For these authors, the 'mind' represents the vision, philosophy, strategy, performance, brand architecture, ownership, and history. The 'soul' denotes values, sub-cultures, employee anities, and internal images. The 'voice' on the other hand reflects a firm's total corporate communication activities comprised of controlled and uncontrollable communication, indirect communication, symbolism, employee and corporate behaviour. These concepts provide channels through which a firm's personality is conveyed internally and externally.

Balmer's (2002) strategy, structure, communication, and culture perspective: this theory builds on Balmer and Soenen's (1998) work of the mind, mind soul and body. For Balmer (2002), strategic conscious decisions made by senior management in the past could impact on the firm's personality today. These include management vision and philosophy, corporate strategy, service, product and financial performance, the corporate brand covenant and corporate architecture, and the nature of corporate ownership. Structure for Balmer (2002) reflects how a firm conducts its multiple relationships with subsidiaries, business units as well as alliance or franchise partners. Communication refers to the multi-faceted ways in which firms convey strategic intentions to stakeholders. Culture is a way of life in many organizations. According to Balmer (2002), culture is "that 'soft', subjective, albeit important, elements which are at the centre of an organisation's corporate identity".

Benefits and limitations of corporate identity mix literature

Existing literature on corporate identity mix (Birkigt and Stadler, 1986; Balmer and Soenen, 1998; Balmer, 2002) contributes immensely towards a deepened understanding of the nature of corporate identity and other concepts of corporate personality. Contributions made by authors towards this concept have equally enhanced managerial understanding of the concept and how to better manage it. However, a number of elements, which equally serve as important channels through which the personality of firms are conveyed, are left out. The absence of these elements in existing literature motivates the need to offer a new set of channels which are of course consistently deployed by firms in the marketplace. These elements include organizational storytelling, core competence, corporate advertising and visual style.

Organizational storytelling

Stories are fundamental ways through which we understand the world (Bruner, 1990; Jameson, 1985; Tenkasi and Boland, 1993). Organizational storytelling is a comprehensive narrative history about the origin, strategic intention and other landmark achievements of an organization. Storytelling has been used in several cultures to convey stories from generation to generation about remarkable events in the lives of people in societies and it has been most useful in societies with little or no means of recording events (Johansson, 2004).

Corroborating these views, Jabri and Pounder (2001) averred that storytelling serves to "express the richness and diversity of human experience and thus challenge simplistic analyses of management issues such as change that can result from adherence to narrow, mechanical models of human nature". It is a powerful tool used to evoke and heighten emotions. According to Adamson et al. (2006) "a good story always combines conflict, drama, suspense, plot twists, symbols, characters, triumph over odds, and usually a generous amount of humour - all to do two things: capture your imagination and make you feel. It draws you in, places you at its centre, connects to your emotions, and inserts its meaning into your memory".

Storytelling is an integrative tool of corporate strategy. Stories create the experience of enhancing understanding of 'who and what' the organization is at corporate level. The use of stories has enhanced effective communication of organizational history to stakeholders (particularly the external ones) and has enabled organizations to capture stakeholders' imaginations and interest and provide the stimulus to pursue mutual understanding between organizations and stakeholders. Storytelling makes remarkable events in the history of organizations easier to remember and more believable. They are a powerful means of communicating organizational values, ideas, and norms to stakeholders. Stakeholders see themselves in stories and unconsciously relate it to their experience (Morgan and Dennehey, 1997).

Stories entertain, evoke emotions, trigger visual memories, and strengthen recall about symbolic events in the lives of organizations. They function as rhetoric for business organizations (Boje, 1995). As Brown (1990) argued, storytelling enhances the construction of various organizational activities and serves the purpose of explaining why specific decisions were taken in regard to certain business activities. Most importantly, stories are unique. They seek to differentiate the organization, and position it as poles apart from others with similar business interests. They demonstrate that the institution is unlike any other (Martin, Feldman, Hutch and Sitkin, 1983).

Zemke (1990) put forward four important characteristics of organizational storytelling. First, the story must be concrete and talk about real people, describe real events and actions, be set in a time and place which the listener can recognize and with which he or she can identify. The story must be connected to the organization's philosophy and/or culture. Second, stories must be common knowledge in the organization. Stakeholders must not only know the story, but know that others know it as well and follow its guidance. Third, the story must be believed by the listeners. To have impact and make its point, a story must be believed to be true of the organization. Fourthly, the story must describe a social contract. (i.e., how things were done or not done in the organization) and must allow the listener to learn about organizational norms, rewards and punishments without trial-and-error experiences.

In the same vein, Brown (1990) contends that organizational stories must first, reduce uncertainty for organizational stakeholders by providing reliable accounts of information about the organization and second, organizational stories must manage meaning by framing events within organizational values and expectations. Third and most important of all, organizational stories must identify why organizations and its members are special or unique.

Mogens Holten Larsen (2000) argued that what makes organizational storytelling different from all other corporate communication tools is not just its ability to construct the strategic intentions of the organization but its capacity to incorporate the core competencies, philosophical beliefs and values of that organization. It also provides deeper and strategic information about organizations; it is also a simple yet effective framework for guiding the activities of organizations and their members.

Many organizations have employed the use of effective storytelling to create bond among employees on the one hand and also to build trust between the organization and employees on the other. Organizational storytelling is a very good vehicle for assuring the continued delivery of top quality goods and services, for peddling confidence and

also for building corporate reputation among stakeholders.

Mogens Holten Larsen (2000) averred that organizations that utilize legitimate reputation to explain its strategic intentions, through its contributions to society and commitment to adding value, create a very strong opportunity for strategically positioning itself, no matter how competitive the market place may be.

Many modern day successful business organizations employ the use of storytelling not just to convey information about landmark events about their organizations to internal and external stakeholders but most importantly, to differentiate and distinguish themselves from others operating within their market space. Mogens Holten Larsen corroborates this view while contending that the incorporation of the origin of organizations, strategic intentions and core competencies and all the words and visual images constructed in organizational stories provide a fundamental platform on which organizations differentiate themselves from others with similar business interests.

Take the case of 3M as an example. The organization differentiated itself strategically in the market place by using storytelling to explain remarkable milestones in its history, drawing from recollections of major participants in these milestones. The construction of such organizational stories helped 3M in understanding the many sources of its innovative culture, together with the challenges it faced in achieving buyer value (Porter, 1985) and differentiating itself from competitors. A full text of 3M 248 page organizational story has been published and is found at www.3m.com/about3M

Core competencies

The concept of core competencies, developed originally by Prahalad and Doz (1987), proposes that organizations should base their strategies around their core technical, competencies (Hussey, 1998) to transform, re-engineer business processes and achieve competitive advantage (Hamel and Prahalad, 1994).

What, therefore, is a core competence? A core competence is a collection of various organizational skills and technologies (Hamel and Prahalad, 1996) representing the integration of various skills which differentiate organizations from competition. Core competence involves the harmonization and integration of various streams of technologies and the use of such technologies to deliver customer value (Prahalad and Hamel, 1990). Corroborating this view, Hamel and Henee (2000) added that the concept of core competence when applied adds disproportionately to customer value and enables the delivery of highly valued benefits to customers. It is the collective learning relating to the coordination of diverse skills and the integration of multiple streams of technologies (Prahalad and Hamel, 1994).

The integrated skills that lead to the emergence of core competencies are enhanced as they are shared among employees and do not diminish with use. Core competencies bind existing businesses and offer a guide to patterns of diversification and market entry. Hamel and Prahalad gave a summary of the meaning of core competence in their 1996 classic and best seller text: "A core competence is a bundle of skills and technologies that enables a company to provide a particular benefit to customers. At Sony, for example, that benefit is 'pocketability' and the core competence is miniaturization. At Federal Express, the benefit is on-time delivery and the core competence, at every high level, is logistics management. Logistics are also central to Wal-Mart's ability to provide customers with the benefits of choice, availability and value. At EDS, the customer benefit is seamless information flow and one of the contributing core competencies is systems integration. Motorola provides customers with benefits of 'untethered communications', which are based on Motorola's mastery of competencies in wireless communications."

Figure 1: 3M Innovation story
http://multimedia.3m.com/mws
mediawebserver?777777XxamflVO&Wwo_Pw5_W7HYxTHfxajYv7HYv7H777777

Hamel and Heene (2000) theorised core competencies into three main categories, namely market access competencies, integrated related competencies and functionality related competencies. Market access competencies involve the development of skills that put organizations in close proximity with stakeholders. Integrated related competencies relates to quality management, cycle time management, just in time, inventory management and other skills that enable the delivery of products and services speedily with reliability and efficiency. Functionality based competencies however, encourage investment in products and services with unique functionality which invests the product with distinctive customer benefits. Functionally related competencies assume greater importance than the other two types of core competencies given the convergence of organizations around universally high standards of product and service integrity and the movement towards alliances, mergers and acquisitions and most importantly, transformation and change.

Rapid and dramatic changes in technology, government policy and business practices make the functionality based competence prone to change. Within a short period however, what constitutes a distinct functionality based competence to an organization becomes a generic competence common to all operators. This makes the transformation of competencies increasingly inevitable to organizations that seek market dominance and strategic competitive advantage. Core competencies, if identified, provide essential platforms for the rejuvenation, restoration and renewal of organizations towards market competitiveness. The process of transformation allows the appraisal of core competencies and its future prospect in terms of durability.

The appraisal exercise is tantamount to the establishment of the core corporate identity (Hussey, 1998) which includes the strategic intent, unique combination of skills together with abilities and experiences matched to opportunities that exploit strengths in identities and correct its weaknesses. The transformation of core competencies, which competitors find difficult to imitate (Hussey, 1998) therefore requires commitment of resources. A significant amount of funds must be committed to skills identification and development throughout the competence transformation exercise.

While the commitment of large investment to the identification of core competencies is deeply appreciated, organizations must continuously sift out homogeneous competencies or generic identities (Olins, 1989; Olins, 1978) common to the industry and commit greater attention to the development of unique skills, which competing organizations find difficult to imitate. The transformation of core competencies presents another form of signification. By transforming the core competencies of organizations, especially the functionality based ones (Hamel and Heene, 2000); identity signals of transformation (founded on re-engineering, re-structuring) and renewal are communicated to stakeholders who, in turn, process and develop an image based on the transformative signals received.

http://farm4.staticflickr.com/3249/2478939068_829c43e13d_b.jpg

Corporate advertising

Modern advertising campaigns were originally developed to persuade and drive consumer purchase of a specific brand or service. However, with the arrival of modern business organizations and the jostle for leadership and market supremacy in various industries, another type of advertising called corporate or institutional advertising (Schumann et al. 1991) emerged to promote and (Garbett, 1981) signify the differences between organizations and competition and most importantly, build favourable corporate images about organizations in the minds of stakeholders. For this reason, organizations, particularly those in the financial services industry, have committed billions of pounds to corporate advertising campaigns. The committal of such huge investment into corporate advertising campaigns demonstrates the key role corporate advertising plays in the signification of organizational differences.

But what is corporate advertising? Aaker (1996) defined it as messages sponsored and communicated by organizations through the media to persuade consumers' perceptions of an organization and its products and

their intentions to purchase the products. It is a 'catchall' term (Garbett, 1981) used to describe all forms of advertising that promote organizations as opposed to its products or services. The use of the word 'catchall' by Garbett suggests that over the years, organizations have attempted to signify their differences through various forms of corporate advertising campaigns and most importantly, there have been changes in the methodologies adopted by organizations in the signification of these differences.

After the Second World War, governments in western countries began to relax and dismantle controls on marketing activities. Restrictions on hire purchase of goods and services were lifted in 1954 in Britain, giving impetus and greater demand for goods and services in the marketplace. In addition, the media witnessed an unprecedented rise in the advertising of retail goods and groceries particularly between 1952 and 1954, (Nevett, 1982) further stimulating the demand for goods and services. Within a short period, fiercely competitive battles for market leadership rose and the desire to signify organizational goodwill and commitment to good public service as opposed to products, emerged.

The aim of this new wave of communications was not only to signify organizational differences but to build favourable corporate image, achieve greater consumer patronage (Schumann et. al, 1991) and maintain market dominance. This type of advertising was called 'corporate' or 'institutional advertising'. In the following decades, there was, however, a change in the degree of use of corporate advertising as the 1960s and mid 1970s witnessed a lull in its use (Crane, 1980). By the late 1970s and towards the late 1980s, however, the socioeconomic environment of business witnessed a massive change. Socioeconomic institutions including governments, religious bodies and even academic institutions suffered a huge loss in public trust and credibility. The private sector was not spared. Businesses, particularly publicly quoted organizations, declined in public confidence and credibility (Sethi, 1978) and there was the urgent need to counteract public scepticism of the social role of institutions and businesses through corporate led campaigns.

There was a rising desire to take public opinion on controversial issues of social importance and engage and shape public discourse through various corporate communications campaigns (Sethi, 1978). Hence the use of corporate advocacy advertising emerged. Cutler and Muehling (1991) defined corporate advocacy as a special form of advertising in which organizations express their opinions on controversial societal issues in order to sway public sentiment and court good corporate image. It is a competitive tool created by organizations with the ultimate aim of shaping public opinion to create a business environment more favourable to their position.

Since the late 1970s organizations have become increasingly active, adding their voices to social issues of national and even international importance. In fact, many organizations have gone beyond the political realm, adding voices to legislative issues (Lord, 2000) either through direct or indirect lobbying (Armey, 1996; Kuntz, 1995). By adding their voice to issues of social and environmental concerns, organizations shape public policies, reduce uncertainties in the business environment, reduce existing threats and create trust among stakeholders. By adding voice and signifying support to prevailing social issues, many organizations have (in the process) courted public support for their businesses, achieved competitive advantage (Lord, 2000), differentiated themselves from competition and secured impeccable corporate image.

Although the use of corporate advocacy advertising continues to dominate the media, an addition to the discipline of corporate advertising called 'market preparation' advertising, which gives greater emphasis to corporate identity emerged in the early 1990s. Three multidisciplinary factors explain the reasons why many organizations turned to the use of market preparatory advertisements. First is that corporate marketing led factors of shortening product life cycles, the desire among corporations for differentiation, merger and diversification/consolidation activities, and high rates of media inflation. Other factors include the redefinition of businesses from a marketing perspective, increasing recognition of the value of integrated marketing communications, finer approaches to segmentation, rising incidence of crisis situations among corporations(Marwick and Fill, 1997), a rise in product innovation and reorientation of corporations towards customer service (Schmidt, 1995).

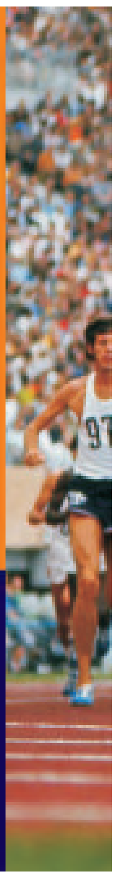
Second are socio-economic factors of the unification of Europe, challenges of economic recession, value change and related increase in environmental awareness, opportunities and challenges of the European market (Schmidt, 1995) and privatisation and divestment of government stocks (Wilkinson and Balmer, 1996).

Third are business and strategy-induced factors of globalisation of markets and production, stiffer competition, rising cost of business operations and crises in many areas of industry. Others include increased desire for re-engineering and many other factors, which place severe challenges on corporations' national and international competition more than ever before (Schmidt, 1995). The main aim of this sort of advertisement is to convey information relating to reputation derived from its history, core competencies and contributions of the organization to stakeholders. More importantly, it is designed to signify organizational differences and court a favourable image for its users.

Visual style

The use of strong visual identity styles first attracted the attention of business organizations in 1908 when Allgemeine Electrizitats Gesellschaft (AEG) a German electrical appliance manufacturing organization designed a visual style (i.e logos/signage, uniforms, business cards, letterheads/stationery designs, vehicle liveries, company reports, promotional materials and internal memos etc.) to unify its array of product lines, integrate its operations into a monolithic identity, build a powerful corporate identity, differentiate itself from emerging competitors and build a stable but conservative visual image. The use of conservative visual styles continued unabated until the late 1950s and over this period a series of conservative visual identity styles were designed for Studebaker cars and Greyhound buses (Carls, 1989).

Between the late 1950s and mid 1970s, however, the effects of competition began to bite heavily and the need to exhibit very strong unified identity globally using word-marks emerged, paving the way for the relegation of conservative visual styles (Carls, 1989). The word-mark style of design allows the full spelling of the name and cements corporate names in the minds of stakeholders. Many organizations, particularly those in the United States, Britain and Japan constructed their visual corporate identities drawing heavily from the Swiss Modernist School of Design, which advocated the use of word-marks using Helvetica typeface/letters, grey or blue colors and clinical images in-



IBM
http://www.africabusinesssource.com/wp-content/uploads/2009/08/prnphotos080682-ibm-logo.jpg
Federal Express
http://www.logodesignsense.com/blog/wp-content/uploads/2011/02/Federal-Express-Logo.jpg
Apple
http://th08.deviantart.net/fs71/PRE/i/2010/199/f/f/Apple_Computer_Inc__by_Quadrafox700.jpg
Shell logo
http://www.yourlogoresources.com/wp-content/uploads/2011/08/shell-logo.jpg
Munich 1972
http://cdn.bleacherreport.net/images_root/slides/photos/000/616/623/1972s_emblem_bjpg_display_image.gif?1294278021
Prudential Logo
http://www.saigon-gpdaily.com.vn/dataimages/original/2011/01/images195522_prudenti.jpg

corporating the organization's brand name into a uniquely styled type font treatment to construct desired images in the minds of stakeholders.

Fonts like script font were commonly used to signify formality or in fact corporate re-structuring. Bold fonts like IBM proclaimed strength and power and slanted thick type fonts like FedEx conveyed motion or movement or speed. Hand-drawn letters, characters or symbols were designed to intrigue target audiences and arrest interest. Besides the intentions of organizations, the main objective of the word-mark is to construct a formal identity of speed and dynamism, symbolize presence in the marketplace, achieve maximum visual effect, cement brand name in the minds of stakeholders, differentiate its users from competitors and achieve a strong corporate image.

These new approaches to visual style took on a more solid, well grounded and well balanced appearance to project and signify desired organizational messages and differentiate the organization (Carls, 1989). Within the same period, many small, medium-sized, young enterprising organizations emerged as powerful competitors challenging bigger ones with a new sense of corporate identity accompanied by very strong competing corporate messages that made them stand out in the market place. These new organizations adopted idiosyncratic artistic flair to corporate identity design, challenging the cold rationalism of the older conservative generation (Carl, 1989). For example, the Apple user-friendly, postmodern identity was designed to convey the notion of high technology to challenge IBM's new corporate identity, which conveyed a message of speed and dynamism.

Again during this period, a new wave of identity construction emerged and organizations began to adopt the use of glyphs to represent themselves graphically. They are less direct than straight text, leaving room for broader interpretation of what the organization represents. They are iconic, compelling and uncomplicated. They are used to convey literal or abstract representation of organizations. During this period, however, glyphs were not generally used for logos, but as communication devices, such as the 1972 Olympic event icon (a crown of ray of lights) representing the spirit of the Munich Olympic Games – light, freshness and generosity. Glyphs provided organizations with the most impact and enhanced the creation of a sophisticated, intellectual corporate identity for those that adopted it. Shell and the Munich Olympic glyphs (below) were designed by Raymond Loewy in 1971 and Otl Aicher in the late 1960s respectively to give distinct identities to its promoters.

http://www.colorsport.co.uk/media/cms_uploads/images/Shorter_Marathon_4_1972Csp.jpg

Beginning in the 1980s, organizations began to express corporate visual identities either through passive or active visual identity programs. Under passive corporate identity programs, firms developed single and uniform marks for every application. The same logo accompanied by the same color and typestyle appears on all business cards, stationery designs, vehicle liveries, company reports, promotional materials and internal memos.

Many large organizations like AT&T lost confidence in their old globe symbol styled logo which had all the hallmarks of standardized passive corporate identity style of approach and embraced the flexible visual approach offered in active identity programs that allowed the flexible construction of their identity. The active identity program allowed organizations to maintain greater flexibility and less rigidity in their visual applications. Many organizations that adopted this approach expressed their corporate identity in a series of compatible, but non uniform ways. It allowed organizations to change and evolve without the need to rid its entire visual identity as change evolved over time.

Increasingly, the use of active identity programs rose among very big organizations, presenting themselves with more diverse visual identities (Carl, 1989). As much as the active approach allowed for greater flexibility, it also came with several challenges which managers found difficult to implement. For instance, the AT& T active identity program came with as many as 24 versions and a complex set of rules to ensure proper usage. Despite these rules and intense monitoring, confusion led to frequent and costly misuse of the active programme. This became a real problem for AT&T managers to deal with and the problem is reflected in the publication of articles discussing the use of the logo with employees. (See http://www.bellsystemmemorial.com/pdf/att_globe.pdf accessed, January 2006)

http://www.technobuffalo.com/wp-content/uploads/2012/07/ATT-GNOC-composite.jpeg

Buyer value

The differentiation of organizations through products and services is achieved when products or services offered for sale are deemed to add value to customers. However, the extent to which organizations can differentiate themselves through their products remains an important issue. Product differentiation allows firm to command premium price, sell more products at specific prices, and maintain customer loyalty even during market turbulence.

Since the 1940's, customer value was predominantly equated to price. Several attempts were made during these periods to reduce product pricing to achieve differentiation from competitors. Given the rising level of competition and lower market entry barriers in many industries, the trend began to change. Right from the 1970's value adding became a more complex issue and organizations responded with equally more sophisticated methods. Besides offering products at reduced prices, emphasis was laid on shopping convenience and timing. Many organizations were positioned differently through corporate communications conveying messages relating to the benefits of convenience of speedy services.

The economic recession of the 1980's fuelled the emergence of a new set of conservative and cautious spending consumers replacing the hedonistic, shop-'til - you-drop philosophy that blossomed earlier in the decade (Levere, 1992). The majority of organizations that attempted (in the years that followed) to differentiate themselves by providing superior customer value to customers did so narrowly. The provision of higher buyer value was approached by tinkering with the physical aspects of organizational products or marketing practices (Porter, 1985) or at best bringing prices down to achieve greater sales volume. During that period, many business organizations invested huge sums of money,

For instance, the AT& T active identity program came with as many as 24 versions and a complex set of rules to ensure proper usage. Despite these rules and intense monitoring, confusion led to frequent and costly misuse of the active programme.

time and effort in the visual designs on their products to distinguish them from those belonging to competing organizations. Organizational products and services were converted into branded portfolios through various marketing communications efforts and many business organizations competed by building and maintaining product or service quality at reduced prices, rationalizing their product portfolios and improving supply-chain management (Maklan and Knox, 1997). Although, these efforts yielded returns, they were, however, short lived.

Various environmental trends including the explosion of the mass media in the early 1990s cum other integrated marketing communication practices (Belch and Belch, 1995) together with rapid technological advancements enhanced greater customer awareness and customers began to demand greater value for money more than ever before. Consequently, many business organizations that could not meet 'customer value' demand suffered huge losses in market share as customers refused to accede to premium products offered for sale by many industry leaders (Maklan and Knox, 1997). As a result, business organizations began to take a second but critical look at their value chain practices. Today, businesses now search for new opportunities to achieve, retain, upgrade and leverage competitive advantages (Yonggui Wang et al. 2004) and differentiate products effectively through buyer value. According to Levere (1992), "many organizations are responding to this increased demand for value by adopting innovative marketing strategies or by using a previously established value orientation to win new customers while maintaining their traditional customer base."

Conclusion

This paper makes an attempt to broaden our academic and managerial understanding of the concept of corporate identity by extending the concepts of corporate identity mix. Previously, existing works failed to recognize the role of these five new emerging phenomena in conveying a firm's personality to stakeholders. Specifically, previous works (Birkigt and Stadler, 1986; Balmer and Soenen, 1998; Balmer, 2002) champion the positioning of symbolism, communication, behaviour, mind, soul, and voice, strategy, structure, and culture as dominant elements of corporate identity mix. However, contributions emerging from this study indicate that the elements of corporate identity mix are not limited to what is obtainable in academic literature. This study provides evidence to suggest that the concepts of organization storytelling, core competencies, corporate advertising, visual style and buyer value, in addition to existing elements; equally serve as channels through which a firm's personality can be conveyed effectively to stakeholders. These contributions are unique given that these new concepts are yet to appear in literature as channels or elements of corporate identity mix.

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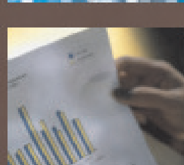
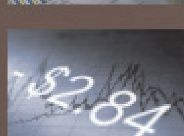




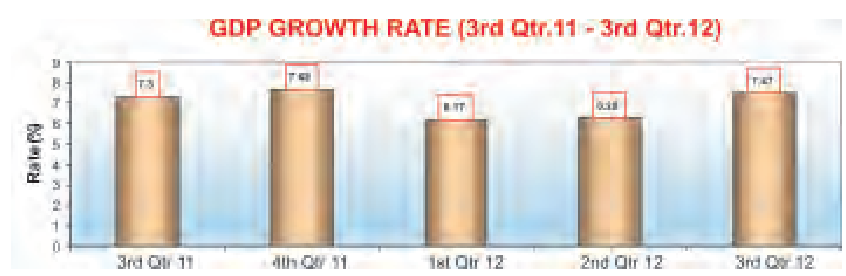
Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian economy grew impressively in the third quarter 2012. Some of the indicators grew more strongly than expected and others showed modest pick up. Gross Domestic Product (GDP), for instance grew at a brisk pace than in the preceding quarter. Inflation figure was well-behaved, easing all through the period. The foreign exchange reserves witnessed some improvements, mainly driven by higher prices of crude oil. The nation's currency, the naira, remained steady against other major world currencies. The Monetary Policy Rate remained steady all through. In the capital market, the bulls roamed the terrain once again. Crude oil price in the international capital markets surged, despite cooling global demand.

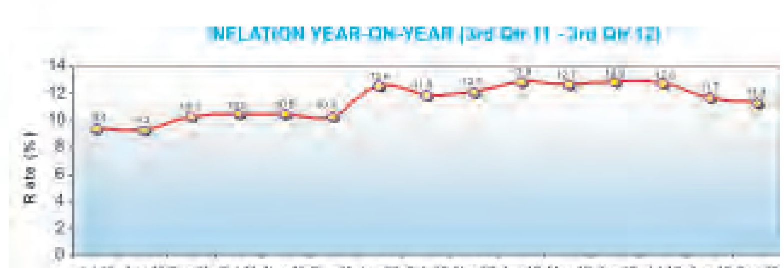
GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) in the third quarter was estimated at 7.47 percent, a marked improvement when compared to the preceding quarter. Real GDP growth was mainly driven by the non-oil sector. Despite extensive and abnormal flooding in Adamawa, Kano, Plateau, Yobe, Katsina, Kaduna, Nasarawa, Gombe Taraba, Benue, Kebbi, Niger and Borno states in the north, as well as Ebonyi, Oyo, Lagos, Cross River, Edo and Delta states in the south, early harvest from improved variety crops in the northern region has ensured agriculture as a major contributor to GDP. For the oil sector, the dividends of the Amnesty Deal with the Niger Delta militants continued to yield positive results with output jumping 3 percent between July and August. The outlook for 2012 remains favourable with real GDP remaining robust at 6.77 percent.



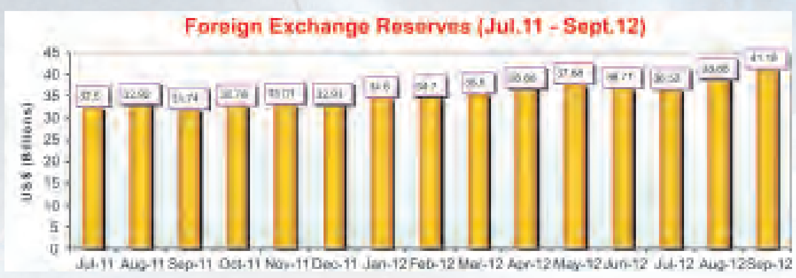
Source: National Bureau of Statistics

INFLATION



Source: National Bureau of Statistics

The Year-on-Year inflation rate unexpectedly eased in the third quarter 2011, pushed lower by slowing food prices. The headline inflation rate ended the quarter at 11.3 percent in September. Inflationary pressures moderated earlier in July due to deceleration in imported food inflation such as rice, preserved milk and tea, coffee and chocolate. The harvest of early maturing crops such as vegetable, yam, potatoes as well as processed food, fish, sea food; meat; and yam flour also pulled inflation lower. Inflation eased significantly in August due to the harvest of early maturing crops such as vegetable, yam, potatoes as well as processed food, fish, sea food; meat; and yam flour. However, the pace of the slowdown reduced slightly in September due to impact of floods on the production of certain crops as well as movement of food products to markets across the country. Despite the challenges, the impact on food prices was not as severe due to the relative stability of the naira. Core inflation also dropped slightly in September. Inflationary risks remains a threat in the months ahead due to expected rise in consumer spending in the run up to the festive season.



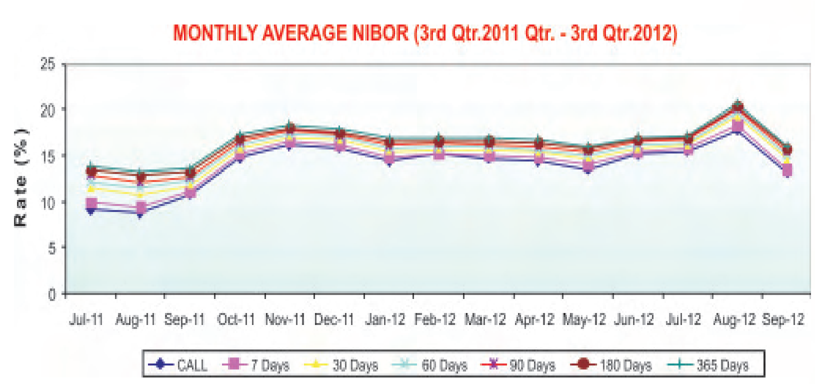
Source: Central Bank of Nigeria

EXTERNAL RESERVES

The nation's external reserves touched it's strongest in almost two and half years in the third quarter 2012, owing in part to sharp pickup in crude oil receipts and output. External reserves recorded impressive gains during the quarter, expanding about $4.4billion to $41.1billion. It was however, a nervy start for the reserves, shrinking slightly in July. The leakage was nevertheless short-lived, as foreign investors piled into the naira as they seek a haven from the global financial crisis. It propelled the reserves back up to $41.1billion, capable of financing up 12 months worth of imports. In the near to medium term, the authorities project improvements in the stock of external reserves as result of higher crude oil prices and output.

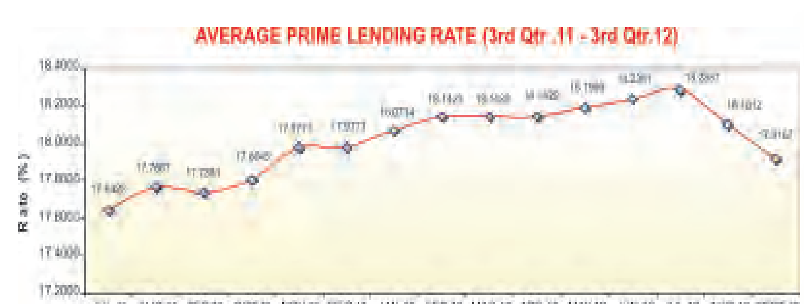
INTEREST RATE

As expected, the CBN threw in no surprises and left interest rate unchanged in its September 17th and 18th Monetary Policy Committee meeting. It was the sixth consecutive hold since the Monetary Policy Rate (MPR) was raised by 275 basis points from 9.25 percent to 12.0 per cent in October 2011, citing inflationary pressures.



Source: Financial Markets Dealers Association of Nigeria (FMDA)

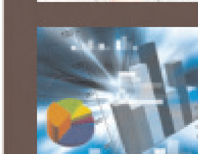
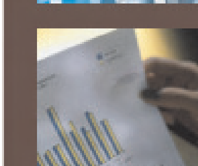
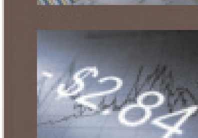
The average interbank rate witnessed significant rate swings in the third quarter 2012. Volatility was higher on shorter term tenors due to repayment of Repo borrowings to CBN as well as restraining net interbank placers from accessing the Repo/Lending windows.

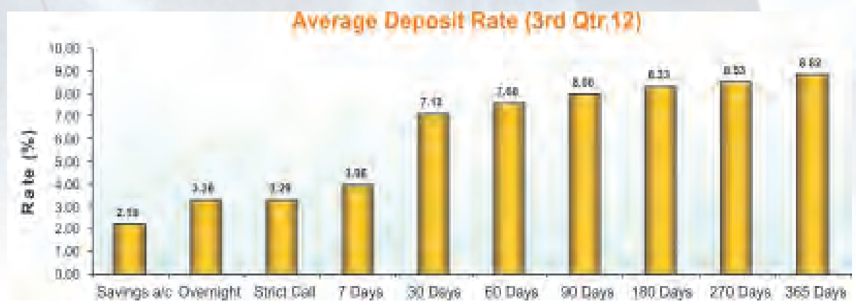


Source: Financial Markets Dealers Association of Nigeria (FMDA)

For instance, rates on the call and 7 Days tenors hit as high as 31.93 percent and 31.90 percent, respectively, in August and as low as 10.50 percent and 10.83 percent in September. Rates eased in September



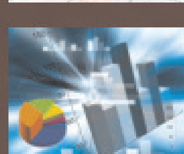





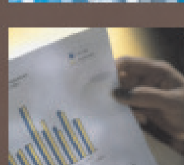


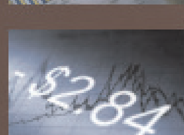
Source: Financial Markets Dealers Association of Nigeria (FMDA)

due to N675billion inflows from Statutory Revenue Allocation and maturing Treasuring Bills.

The average Prime Lending Rate (PLR) remained relatively stable during the period, hovering around 18 percent as at end September 2012. Returns on the average deposit rate went up slightly across most investment horizons, with volatility higher on the overnight and 180 Days tenors.

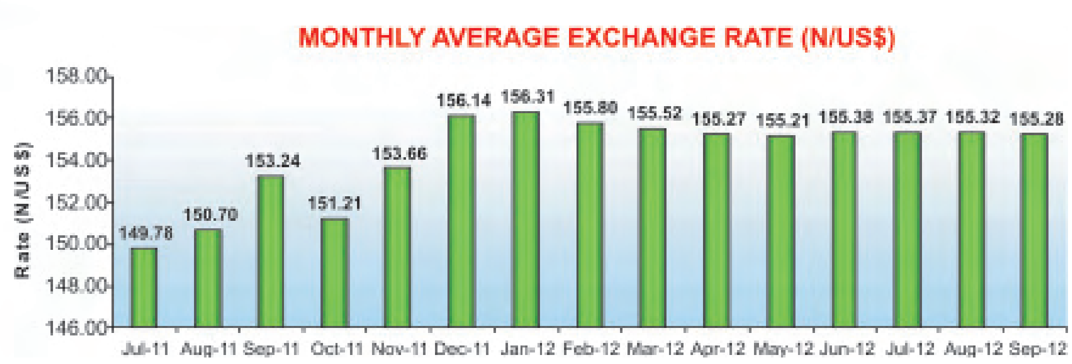






EXCHANGE RATE

The nation's currency, the naira, ended the third quarter virtually unchanged, holding firm against major world currencies. It consolidated its gains, finishing the period comfortably at $X/NY. The naira witnessed some volatile movements against the US dollar, hitting a three and half month high in the interbank and official markets. Earlier in August, the nation's currency met minor headwinds with pressure coming from downstream oil companies and importers. It however drew strength from foreign investors pouring funds into government securities combined with sales from the oil majors. To keep a lid on speculations, the CBN lowered the Net Open Position to 1 percent from 3 percent of shareholders fund. In its twice weekly auction, the CBN offered about $5.65billion and sold $5.34 against the $1.81billion demanded during the period. With clarity of expectations, the premium between the official and interbank rate narrowed to 1.1 percent as at end September 2012, compared to 4.2 percent in September. . In the months ahead, the naira is projected to draw strength in the short-medium term due to higher crude oil prices in the international market.

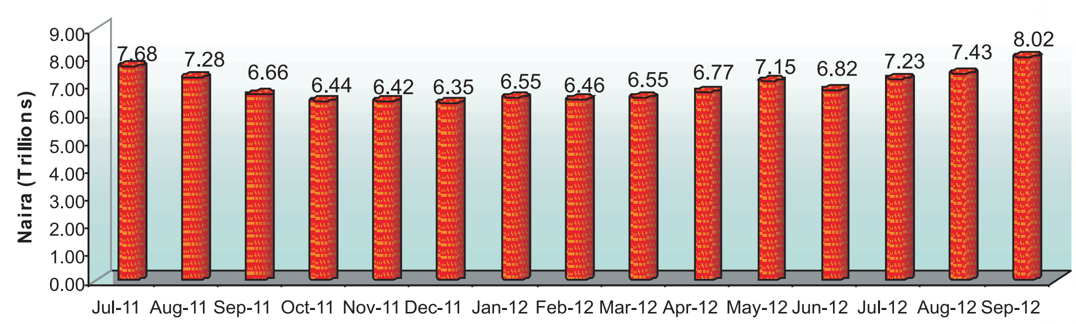


Source: Central Bank of Nigeria

CAPITAL MARKET

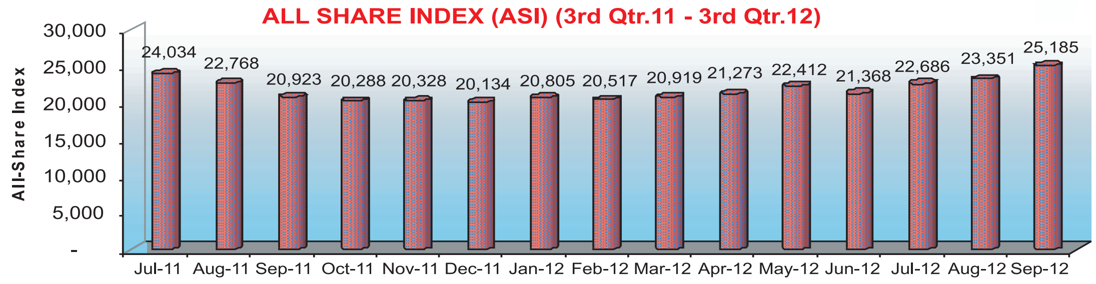
The capital market ended a bullish third quarter on a high, signaling that the worst might be over. It reversed direction to post solid gains as the All Share Index and market capitalization finished strongly at 26,011.63 and N8.28billion, respectively, from 21,599.57 and N6.89billion in the preceding quarter. After its impression run, sentiments gradually tilted towards the market as a large number of stocks traded around their 52 weeks high. Bargain hunters took positions awaiting release of more second quarter results, helping the market return almost 20 in the first nine months. However, investors remained cautiously optimistic, with a large number sitting on the fence, trading again once the dust has settled. On a brighter note, investors gave thumbs up to the NSE on the commencement of Market Making on September 18th, 2012. To shore up liquidity, sixteen equities were initially offered on which market making is allowed. Market sentiment climbed higher as a number of quoted companies such as Flour Mills of Nigeria; Seven-Up Bottling Company; Presco; Conoil and PZ Cussons paid impressive dividends of N1.60; N2.00; N1.00; N2.50 and 43kobo, respectively. In the international capital market, investors positioned funds on Nigeria other frontier markets' Eurobonds as global central banks embark on bond buying programmes.

CAPITALISATION NSE MARKET CAPITALISATION (3rd Qtr.11 - 3rd Qtr.12)



Source: Nigerian Stock Exchange

ALL SHARE INDEX (ASI) (3rd Qtr.11 - 3rd Qtr.12)



Source: Nigerian Stock Exchange

Oil

Crude oil prices gained strength in the third quarter 2012 buoyed by efforts among global central banks to stimulate flagging economies. Oil prices gained nearly 15 percent in the third quarter, its best showing in 1-1/2 years, following a steep 20 percent second quarter drop. It was an up and down ride for oil prices, hitting $114 a barrel in May and tumbling about 30 percent to an eight months low in June. Nigeria's brand of crude oil, bonny light, rebounded sharply by about $25, its strongest quarterly performance in 2012. It traded in a band of $98-$117 per barrel. Industry analysts attribute the rebound to Iran's inability to export oil at normal levels as result of sanctions imposed in July; fears over possible conflict between Israel and Iran; the summer driving season in the northern Hemisphere and higher consumption in the Middle East for electricity generation. In an Energy Debate organized by the German Council on Foreign Relations and Wintershall Holdings GmBH, in Berlin, Germany, on September 28, 2012, OPEC revealed that market is currently well supplied and that speculations has been behind much of the price volatility.