Zenith Economic Quarterly

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Zenith Economic Quarterly

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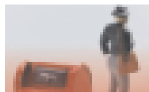

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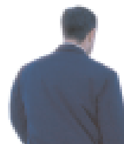

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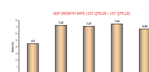

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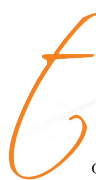
Regulatory Hues



The receding global economic meltdown at its worst phase—in late 2008 to early 2009—threw up a myriad of inefficiencies and outright lacunae in the structures for economy management in virtually all jurisdictions across the world. These weaknesses were most evident in the financial services industry—a sector that formed the root and channel for the cyclonic spread of the crises to all nooks and crannies of the globe. Thus, the subprime challenge in the housing/mortgage sector snowballed or spilled into the insurance industry, the credit markets (deposit money banks) and the capital markets. This became an instant pointer to the failings and failure of the institutional structures for regulation of the various segments of the financial markets. This in turn threw up the debate as to whether a unified or consolidated or multiple financial sector regulatory structure was most appropriate in preventing future crises in the sector. The treatise captioned: "Effective Financial Regulation Structures: Issues and Challenges", deals in-depth with the pros and cons of each of the options. In all, the author sums up that although there is no evidence that countries are converging towards a particular model, there are indications however, of a general migration towards reducing the number of separate agencies involved in prudential financial regulation.

In a similar piece, the policies and programmes of the Bretton Woods Institutions—the World Bank and International Monetary Fund—in the face of the global economic meltdown are examined. Specifically, the effectiveness of those measures (including pre-crises efforts) in dealing with the overall development challenges of the developing countries and emerging markets are analyzed. The extant weaknesses and constraints of the two global institutions vis-a-avis their aims and objectives are also extensively x-rayed. Also, the discourse titled: "Moving Beyond the Financial Crisis, Towards Democratic Development" points to the imperativeness and potency of private-public dialogue and collaboration in any meaningful post-crisis economic development. The author admonishes that the private sector must change its mentality and the manner it approaches reforms, insisting that rather than coming forward with a list of complaints, the business community should develop a set of concrete reform agenda and proactively advocate for their implementation. Nigeria-Thailand trade relations also came under review. In a piece, the author compares the demographics, peoples, manufacturing, agriculture, trading and services sectors of the two nations, exposing the gap that calls for further deepening of relations between Nigeria and the South-East Asian country.

The milestones and quantum leaps recorded by the telecom sector in Nigeria, once again, caught the attention of this journal, prompting an intense focus on the industry in the past one decade. The enthralling piece titled "The Nigerian Telecom Industry: Issues, Challenges and Prospects" deftly captures the colour and content of the explosion witnessed in the industry.

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There is also a panoramic analysis of the economy under the title: "Economy: Turning the Corner". Here, developments in key sectors of the economy during the first quarter 2010 as well as their impacts are captured. Completing the package is the monetary, credit, foreign trade and exchange policy guidelines for fiscal years 2010/2011; plus an update on economic indicators.

Enjoy your reading!

Marcel Okeke

from our mailbox

I am directed to acknowledge with thanks your letter dated 10th March, 2010 forwarding a copy of your January, 2010 edition of the Zenith Economic Quarterly (ZEQ) to the Nigerian Railway Corporation (NRC).

I am further directed to note that the NRC Management shall continue to appreciate the regular supply and addition of this invaluable publication, the ZEQ to the existing stock of professional and general purpose publications to the Corporation's library for the benefit of research, planning and the development of the rail transport sector in Nigeria.

Please accept the assurances of the Managing Director (NRC) highest regards.

W. A. Yinkore
For: Managing Director (NRC)
Nigerian Railway Corporation

I write on the directives of the Honourable Minister of State for Finance to acknowledge with special thanks, the receipt of the January 2010 edition of Zenith Economic Quarterly.

I am to further inform you that he is pleased to share from its interesting and insightful contents.

Please accept the Honourable Minister's warm regards.

Sunday Anueyiagu
For: Honourable Minister of State for Finance
Federal Ministry of Finance, Abuja

We wish to acknowledge with thanks the receipt of your January 2010 Edition of your Zenith Economic Quarterly.

The publication will in no small measure provide a veritable source of information on the Nigerian Economy to the Mission as well as to foreign investors in our host country.

Please accept the assurances of the High Commission's high esteem.

V. I. Ugochukwu,
For: High Commissioner
Nigeria High Commission, United Republic of Tanzania

I write to acknowledge with thanks the receipt of a copy of the January, 2010 edition of the Zenith Economic Quarterly (ZEQ).

The publication is quite informative and wide in its scope of coverage.

I am indeed grateful for your kind gesture.

Accept the assurances of my highest considerations.

Thank you.

Yours faithful,

Dame Elizabeth O. Agu
Branch Controller
Central Bank of Nigeria, Currency Centre, Delta State

I am directed to acknowledge with thanks, receipt of the January 2010 edition of your Economic Quarterly and we wish to acknowledge the invaluable resource of your economic analysis in the dispensation of our various assignments.

We look forward to more of such publications.

Warm regards.

Bankole I. Alayande
For: Ambassador
Embassy of the Federal Republic of Nigeria, Berlin, Germany

Reference to yours dated 10th March, 2010 on the above subject. I am directed to acknowledge receipt of 1 No. copy of Zenith Economic Quarterly (January 2010 Edition) journal with thanks.

We are very appreciative of your educative journal, hoping to receive more in future.

Thank you.

Yours sincerely,

Hauwa M. Mohammed (Mrs.)
For: Acting Director/Chief Executive
Scientific Equipment Development Institute, Minna

I am directed by the Central Working Committee (CWC) of Senior Staff Association of Communications, Transport and Corporations (SSACTAC), to acknowledge receipt of your letter of March 10, 2010 on the above mentioned subject matter together with a copy of the January 2010 edition of the Zenith Economic Quarterly.

SSACTAC appreciates your kind gesture of sending us the Quarterly which has been most useful and looks forward to receiving it on a continuous basis.

Please remain assured of our very high esteem and respects.

Yours faithfully,

Chile C. Ekeke
Ag. General Secretary
Senior Staff Association of Communications Transport and Corporations (SSACTAC)

This Chamber once again acknowledges, with deep gratitude and satisfaction, the receipt of a copy of the January 2010 edition of the Zenith Economic Quarterly.

Like its predecessor editions, this current one, with its incisive and educative contents, could not have come at a better time. Particularly, it has provided us useful follow up information and facts concerning the on-going recovery process in the nation's economy and across the globe-from the 2008 economic meltdown quagmire.

The Chamber is truly benefiting immensely from this unique publication, since we started receiving it. On this note, we remain eternally grateful, while urging you to keep the flag flying even higher.

Accept our sincere regards.

Yours faithfully,

Dominic Ajibo
Director-General
Onitsha Chamber of Commerce, Industry, Mines and Agriculture

> "The publication will in no small measure provide a veritable source of information on the Nigerian Economy to the Mission as well as to foreign investors in our host country."

I am directed to acknowledge receipt of your letter dated 10th March 2010, in which a copy of the January 2010 Edition of Zenith Economic Quarterly (ZEQ) was forwarded to the Mission.

This particular edition and the topics which it covered extensively x-rayed diverse prospects in the Nigerian economy. The leading role which your Bank is playing in the stability of the Nigerian Financial Sector will no doubt contribute immensely in Nigeria's economic growth and development.

I am to add that the Mission will continue to find your publications interesting as they are indeed valuable reference materials on contemporary global economic issues.

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

Chibuzo N. Oji
For: Ambassador
Embassy of the Federal Republic of Nigeria, Ouagadougou, Burkina Faso

I am directed to acknowledge your letter dated 10 March 2010 and to convey the Commandant's appreciation for the copy of your January 2010 edition of the Zenith Economic Quarterly (ZEQ) magazine. The magazine would further inform the Academy on the Nigerian economy in 2010 and beyond including roles of oil exploration and global financial crisis. This kind gesture will go a long way in promoting the existing cordial relationship between your bank and the Academy.

While thanking you once again for the kind gesture, please, accept the assurances of the Commandant's regards.

S. I. Alade
Commodore
For: Commandant, Nigerian Defence Academy, Kaduna, Nigeria

ECONOMY: Turning the corner

*** By Marcel Okeke**

An admixture of developments in the external and local environment influenced and shaped the Nigerian economy during the first quarter 2010— largely sign-posting a turn for the better from the ravages of the receding global economic meltdown. Consistently high and rising oil prices in the international market; relative peace in the Niger Delta region which conduced to steady oil and gas production; single-minded pursuit of reforms in the financial services sector (especially banking), and booming telecommunications industry were some of the drivers of the economy. Other factors that impacted the economy (negatively or otherwise) during the quarter include the non-approval of the 2010 Federal budget by the national assembly; bullish run in the stock market as well as political uncertainty engendered by virtual absence of a substantive president of the country and the run-up to 2010 general elections.

All these translated into a mixed outcome for the macro-economy by the close of the quarter under review. Thus, provisional data from the National Bureau of Statistics (NBS) show that the real Gross Domestic Product (GDP) grew by 6.68 per cent during the period, up from the 4.50 per cent recorded in the first quarter 2009—but less than the 7.44 per cent growth achieved in the last quarter 2009. The first quarter 2010 GDP growth therefore came shot of the NBS projected level of 7.53 per cent for the whole year. Regarding inflation, the level declined during the period, tending towards the 11.2

States' Budgets 2010

S/N	State	Budget (2010) N bn	Budget (2009) N bn	Recurrent Expenditure (2010) N bn	Capital Expenditure (2010) N bn
1	Abia	60.7	65.2	40	20.7
2	Adamawa	67.46	53.9	33.46	34
3	Anambra	67	74.95	27.49	39.5
4	Akwa Ibom	288.8	195.3	48.727	240.107
5	Bauchi	87.7	78.89	40.96	46.84
6	Bayelsa	178.52	160.8	116.47	62.05
7	Benue	89.49	51.12	-	-
8	Borno	85	74	24	64
9	Cross River	111	106.7	34.19	77.57
10	Delta	235.7	220.9	96.19	139.51
11	Ebonyi	76.205	73.05	28.881	47.323
12	Edo	99.25	75.54	38.71	60.54
13	Ekiti	67.5	65.7	30.5	37
14	Enugu	67.8	60.4	30.1	37.7
15	Gombe	55.4	51.64	24.6	30.7
16	Imo	127	135	-	-
17	Jigawa	70.9	76.7	29.6	39.5
18	Kaduna	196	153.1	42	52.99
19	Kano	110	108.7	48.96	61.62
20	Katsina	81.12	69	21.15	59.96
21	Kogi	78.66	77.9	41.9	36.6
22	Kebbi	75.6	61.4	23.5	52.04
23	Kwara	67	72.2	30.8	37
24	Lagos	429.5	405	178.82	250.8
25	Nasarawa	67.8	55.7	27.2	40.6
26	Niger	111	67.6	37.1	43.8
27	Ogun	100.73	100.2	47.44	53.29
28	Ondo	119	95	42.88	75.98
29	Osun	114.48	88.2	40.65	73.83
30	Oyo	142.06	128.8	57.01	87.67
31	Plateau	74.863	83	29.1	41.3
32	Rivers	429	432.2	90	339
33	Sokoto	75	54.7	28	47
34	Taraba	64	45	25.5	39.5
35	Yobe	62.42	46.47	19.54	42.88
36	Zamfara	73	59.4	35.965	37.097

Source: R&EIG

percent target. From 12.0 per cent at end-December 2009, the domestic price level index (year-on-year) remained stable at 12.3 per cent in January and February 2010; it dropped by 50 basis points to 11.80 per cent at the close of the quarter under review. This trend is attributable to a number of factors, namely, the continuing monetary contraction, the lingering delay in the passage of the 2010 federal budget and the improvement in the supply of petroleum products, among others.

On its part, the foreign exchange market remained generally stable during the quarter under review. At the Wholesale Dutch Auction Sales (WDAS), the review period opened with an exchange rate of N149.08/US$1 (1% commission inclusive) and closed at N149.78/US$1, with an average closing rate of N149.94/US$1 for the quarter. This, when compared with the average closing rate of N146.87/US$1 recorded during the first quarter 2009, represented a depreciation of N3.07 (about 2.0 per cent). At the inter-bank market, the average exchange rate depreciated marginally, from N150.35/US$1 in the fourth quarter 2009 to N150.43/US$1 in the first quarter 2010. In a similar vein, the premium between the WDAS average rate and the inter-bank market rate remained low at N1.98 in the first quarter 2010, while that between the WDAS average exchange rate and Bureau De Change (BDCs) rate narrowed from N4.58in the fourth quarter 2009 to N4.02 in the first quarter 2010. These largely indicate general stability of the Naira exchange rate in all segments of the market during the quarter under review.

During the quarter under review, the nation's stock of external reserves remained almost constant: standing at US$40.68 billion as at March 31, 2010. This represents a decrease of US$0.71 billion or 1.71 per cent relative to the level of US$41.39 billion as at end-February, 2010. It was US$40.06 billion in January, showing a decline of about US$11.0billion from its level of US$51.05billion a year earlier in 2009. On the other hand, the Debt Management Office (DMO) data show that Nigeria's external debt stock rose by about 6.10 per cent, from US$3.72 billion at December 2008 to US$3.95 billion in December 2009. A breakdown of the figure shows that 88.78 per cent of the amount is owed Multilateral Agencies while the balance, 11.22 per cent is owed Non-Paris Group of creditors.

All through the quarter under review, the price of crude oil remained high and kept rising in the international oil market. This trend was driven by forces such as improving expectations about global economic condition, weakening US Dollar against the Euro, concerns about Greece's fiscal problem, among others. The Organization of Petroleum Exporting Countries (OPEC) in its monthly oil report, April 2010 edition, said the OPEC Reference Basket (ORB) rose by US$4.22/b to average US$77.21/b in March, the highest since the onset of the financial crisis in September 2008. On the other hand, the ORB declined in February, fluctuating between US$69/b and US$76/b as against the range of US$71/b and

US$80/b in January. These price ranges are however above the 2010 Federal Government budget oil price benchmark of US$67/b—translating into more inflow into the excess crude account (soon to transform into Sovereign Wealth Fund).

THE CAPITAL MARKET

The capital market, by every measure, was reflective of the tangible economic recovery at the international and local level during the first quarter 2010. Specifically, improved corporate earnings and benefits released by quoted companies to the market during the quarter drove up investors' appetite. Low deposit rates and yields on government securities also necessitated the reallocation of funds from the money market in favour of the equities market. Low valuation of a number of stocks with good fundamentals was also an attraction for investors during the quarter. Investors' optimism was also boosted by the news of the passage of the Asset Management Company (AMC) by both chambers of the National Assembly. Consequently, all major indicators of the market showed considerable improvements when compared with the closing figures of December 31, 2009.

Specifically, the Nigeria Stock Exchange All Share Index (NSE ASI) closed the period under review at 25, 966.25 points, up from 20,827.17 points at the end of 2009—an appreciation of about 25 per cent. Similarly, the market capitalization which stood at N4.98 trillion at end-December 2009 rose by almost 26 per cent to stand at N6.28 trillion at the close of business on March 31, 2010. Total turnover during the first quarter 2010 was 26.9 billion shares valued at N191.8 billion exchanged in 614,949 deals, as compared to a comparable period in 2009 when turnover was 19.03 billion shares valued at 106.90 billion in 420,808 deals.

Expectedly, the banking subsector was the most active (measured by turnover volume) during the quarter under review, with traded volume of 5.82 billion shares valued at N59.05 billion exchanged in 90,254 deals. Still within the industry, Zenith Bank was the most active stock with transaction volume of 763.70 million shares followed by Access Bank with 559.10 million shares while First Bank of Nigeria placed third with 542.30 million shares. Also, in terms of market capitalization, Zenith Bank ended the quarter as the quoted firm with the highest capitalization (at N476.50 billion), followed by First Bank (N475.40 billion) and Nigerian Breweries (N465.10 billion). Over all, the banking sector accounted for about 35 per cent of the entire market capitalization of the NSE, followed by Food/Beverages & Tobacco with ten per cent and the Breweries, eight per cent. Also, of the 20 most capitalized stocks during the quarter under review, eight were banks—led by Zenith Bank.

In the bond segment of the capital market, so much liquidity in the financial market and investors' desire to continue to trade returns for safety led to increased subscription on the Federal Government of Nigeria (FGN) Bonds in the first quarter 2010 despite the low coupon that the bonds carried. Thus, total subscription on the FGN bond stood at N569.51 billion during the period under review, more than double the level of about N280.60 billion in the last quarter

Market Capitalization of Nigerian Banks as at End 31 March, 2010

COY	MARKET CAPITALIZATION (N)
ZENITH BANK	476,473,189,700.13
FIRST BANK	475,413,211,206.34
GTBANK	389,863,346,011.70
UBA	327,658,229,422.40
STANBIC IBTC	205,500,000,000.00
ACCESS BANK	184,261,676,450.33
FCMB	147,422,801,106.00
DIAMOND BANK	137,514,809,497.50
FIDELITY BANK	96,447,369,809.61
SKYE BANK	91,984,662,435.20
UBN	77,816,023,332.48
ECOBANK	50,454,348,737.58
OCEANIC BANK	48,887,012,268.00
INTERCONTINENTAL	39,983,231,753.36
AFRIBANK	36,473,498,143.67
STERLING BANK	34,674,132,664.20
BANK PHB	33,457,291,245.16
UNITY BANK	15,031,632,563.40
SPRING BANK	11,321,143,263.00
FINBANK	11,203,203,644.90
WEMA BANK	10,733,456,190.08

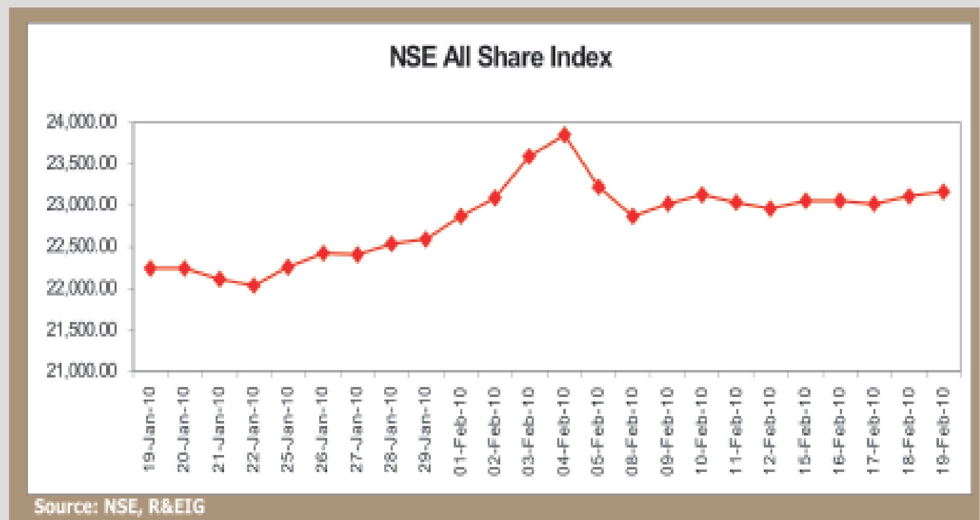
Source: NSE, R&EIG

2009. This trend reflected in consistent rise in the prices of bands at the secondary market all through the review period—trading at premium to its par value and resulting in low yields. This scenario was also further aided by the relatively low deposit rate that ruled among Deposit Money Banks (DMBs) during the quarter under review—a development that encouraged the non-bank public to patronize the FGN bond.

During the first quarter 2010, a number of quoted companies embarked on supplementary listing (issuing additional shares). Some of them include Ecobank Transnational Inc., Equity Assurance Plc, Nigerian Wire & Cable Plc, African Alliance Insurance Plc and African Petroleum Plc, among others. There were also fresh listings in the bond segment of the market—one corporate and one state government bond. These are the fixed rate 2014 (series 1) bond in favour of Guaranty Trust Bank Plc and the fixed rate redeemable development bond 2009/2014 in favour of Niger State Government.

BANKING AND FINANCE

Implementation of key planks of the ongoing reform in the banking sector continued with fervor during the quarter under review, with a number of banks publishing their 2009 annual reports and accounts in conformity with the



Source: NSE, R&EIG

'common-year-end' policy. The deposit money banks (DMBs) also busied themselves dismantling their automated teller machines (ATMs) located in places outside their business premises to meet the end-March 2010 deadline set by the Central Bank of Nigeria for that purpose. The necessary push and lobby to get the Asset Management Company (AMC) Bill passed into law by both arms of the National Assembly was also intensified during the quarter, just as the apex bank continued with its quantitative easing initiatives. In this regard, the CBN evolved a framework for the provision of a N500 billion facility through the Bank of Industry (BoI), to the DMBs for power projects across the country.

The process will entail investment by the DMBs in debentures issued by the BoI in accordance with Section 31 of the CBN Act 2007, for investment in emergency power projects dedicated to industrial clusters. This BoI facility shall be taken by the DMBs at a maximum interest rate of 1.0 per cent for disbursement as loans with a tenor of 10—15 years at concessionary interest rate of not more than 7.0 per cent. Under this facility, some power projects of the Federal Government will be covered subject to their being restructured into commercially viable ventures on which banks are willing to take credit risks. These include Lagos (500 MW); Kano (250 MW); Onitsha/Nnewi (200 mw); Port Harcourt/Aba (200 MW); Kaduna (225 MW); Funtua/Gusua/M-Fashi/Zaria (200 MW); Lokoja (200 MW); and Maiduguri/Gombe/Bauchi (200 MW). Also, other power projects currently being financed by banks may be financed from the fund.

In addition to the CBN's N200 billion SME Credit Guarantee Scheme (SMECGS) for real sector credit, the apex bank also sanctioned the extension of the N500 billion BoI facility to DMBs "for the purpose of refinancing/restructuring existing portfolios to manufacturers". Under this arrangement, N1 billion is set as the maximum loan size a bank may refinance for a single borrower. The core objective of the guarantee scheme is to fast track the development of SME/manufacturing sector, increase access to credit by promoters of SMEs and manufacturers and employment generation. Except trading, activities to be covered under the scheme include manufacturing, agricultural value chain, private educational institutions, processing, packaging and distribution of primary products, etc. Under the scheme, SMEs are defined as firms with assets not exceeding N300 million and labour force of eleven to 300 persons; and maximum amount to be guaranteed is fixed at N100 million.

One of the major policy shifts undertaken by the apex bank during the quarter under review was

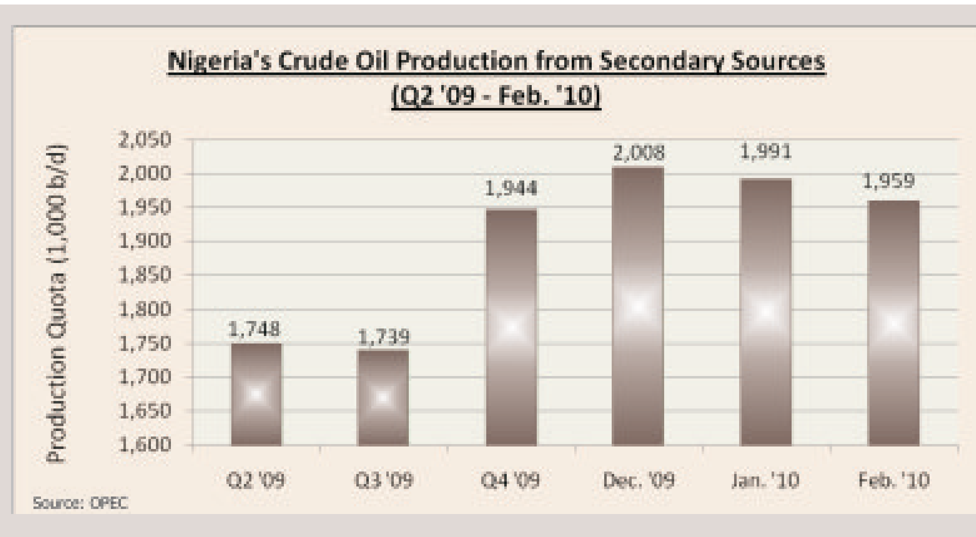
the adoption of a new banking model that will jettison the extant universal banking regime that has been in place in the past ten years. Specifically, the new model, according to the CBN will be "anchored on a financial holding company structure to protect depositors by ring-fencing banks from non-banking business". The apex bank is also working out guidelines and rules for margin trading and proprietary positions in the capital market "to protect depositors' funds from high risk transactions".

In the area of monetary development, the apex bank took a number of measures including retaining the monetary policy rate (MPR) at six per cent and the existing asymmetric corridor around the MPR at +2.0 per cent and -5.0 per cent. It also directed DMBs to submit their risk-based interest rate pricing model to it (CBN) every month as well as to state their loan pricing as "fixed spread above the MPR, to be adjusted along with the MPR movements". The apex bank also granted liquidity status to bonds issued by state governments, "subject to their meeting the eligibility criteria". Monetary development during the quarter also included the extension of the credit guarantee on all interbank transactions from March 31 to December 31, 2010, with the discretion to terminate the guarantee on a case-by-case basis.

Early in the quarter under review, the CBN withdrew the resident auditors it had deployed to the DMBs to give way for its new risk-based supervision. The examiners were deployed to the banks last year to effectively monitor banking operations on a daily basis. The apex bank also issued guidelines on "stored value/prepaid" cards—part of which is that "only deposit-taking banks or financial institutions licensed by the CBN with clearing capacity shall issue stored value/prepaid cards". Also, "no stored value/prepaid card shall be issued to a person without obtaining basic identification which includes name, phone number, and address of the person along with any of the following: any photo identification, passport photograph, or uniquely verified biometric identification."

In the face this surfeit of fresh policies and guidelines from the apex bank, the DMBs have been contending with their in-house strategy formulation and adjustments. For example, while some continued with their offshore expansion plan, others either tinkered with it or jettisoned such. Even local branch expansion efforts were in most cases whittled down, suspended or totally halted. However during the quarter under review, Ecobank Group opened a representative office in Johannesburg, South Africa—bringing its business offices in the continent to 750. Also, following approval by the Bank of Zambia, United Bank for Africa commenced operations at its Zambian subsidiary, the Group's first Southern African business office. In the efforts to strengthen

> Expectedly, the banking subsector was the most active (measured by turnover volume) during the quarter under review, with traded volume of 5.82 billion shares valued at N59.05 billion exchanged in 90,254 deals.



Relative peace in the Niger Delta, high and rising oil prices, the lingering challenge of poor power supply, passage of the Local Content Bill and discourse on the Petroleum Industry Bill (PIB) were some of the key issues that dominated this sector during the quarter under review.

intra-regional trade, the ECOWAS Bank for Investment and Development (EBID) during the review period signed a loan agreement to the tune of US$20 million with Nigeria Export Import Bank (NEXIM Bank)—for on-lending as foreign currency loans to potential applicants and beneficiary projects. NEXIMB also launched the ECOWAS Trade Support Facility (ETSF)—a window for the disbursement of its trade support funds. In a similar vein, the African Development Bank (AfDB) signed with Zenith Bank a US$50 million loan under its Emergency Liquidity Facility (ELF). Also, the European Investment Bank (EIB) signed a US$300 million infrastructure development loan with three Nigerian banks: First Bank of Nigeria, Guaranty Trust Bank and Stanbic IBTC.

OIL, GAS & POWER

Relative peace in the Niger Delta, high and rising oil prices, the lingering challenge of poor power supply, passage of the Local Content Bill and discourse on the Petroleum Industry Bill (PIB) were some of the key issues that dominated this sector during the quarter under review. Thus, as the price of oil was rising in the global market, production of the commodity remained robust and generally peaceful in Nigeria. In deed, the monthly production figures for December 2009, and January and February 2010 were almost the same—essentially due to the conducive environment sequel to the amnesty initiative for the restive youths in the Niger Delta region. Consequently, while the nation's crude oil production level stood at 2.008 mbpd in December 2009, it only dropped marginally to 1.991 mbpd in January 2010 and remained about the same in February, at 1.959 mbpd. These figures are only slightly below the 2010 Federal Government budget oil production benchmark of 2.35 mbpd. Remarkably, although the budget price assumption was US$67 per barrel, oil price had all through the review period remained within the US$70-85 per barrel range—implying improved revenue inflow for the country.

At the global level, the Organization of Petroleum Exporting Countries (OPEC) left the group's production output and supply quotas unchanged at its 156th meeting in Vienna, Austria, on March 17, 2010. That was the fifth consecutive time the 12-member body would be

taking such a decision in the face of market developments regarding oil. At the meeting, OPEC noted that while the global economy was clearly rebounding from the late 2008 and early 2009 recession, with continued positive signals from the manufacturing and service sectors, serious threats remained. It observed that although world oil demand was projected to increase marginally during the year, the rise would be more than offset by the expected increase in non-OPEC supply, implying that 2010 was likely to witness a decline in demand for OPEC crude oil for the third consecutive year.

Still in the local environment, one of the most significant developments during the review period was the passage into law of the Nigerian Oil and Gas Industry Content Development Bill by the National Assembly. Otherwise called the Local Content Bill, the law which has been in the works for over five years, seeks to mandate oil companies operating in the country to introduce local content in their exploration and production activities. Specifically, the new law provides for first consideration for Nigerian operators and Nigerian service companies in the award of contracts. It also provides for Research & Development (R&D) to be domiciled in the country for most projects and training opportunities for Nigerians. There is also the establishment of the Nigerian content monitoring board to make procedure, guide, monitor, coordinate and implement the provisions of the law. The new law also recognizes the Job Qualification Standard (JQS) where contractors will be jointly qualified; among other provisions.

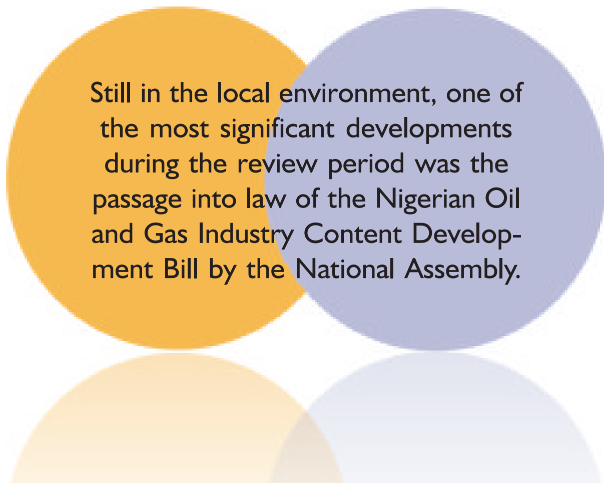
During the quarter under review, also, the challenge of crude oil refining, fuel supply and distribution as well as gas supply for electricity generation persisted. Although the Warri and Kaduna refineries which were undergoing a turn-around maintenance (TAM) got re-streamed in February 2010, they still produced at almost half capacity. Thus, fuel importation continued in meeting the about 30 million litres per day need of the country. At full capacity, the nation's four refineries (Kaduna, Warri and two in Port Harcourt) produce only 445,000 bpd—still a far cry from the total daily domestic need. In a similar vein, the persisting challenge of shortage of gas for electricity generation led to the setting up of a 'War Room' by the Nigerian National Petroleum Corporation (NNPC). In this regard, a gas-to-power target of 4,750 MW thermal generation by December 2010 was set at a Stakeholders' Forum on Gas to Power convened by the NNPC. The issue of gas flare-out date, one of the recurring decimals in the industry, remained on the table during the review period—with the Federal Government fixing a new deadline of December 2012. Deadline for gas flare-out had been fixed for December 2008, 2010, 2011; but is now further shifted by one year.

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

US Crude Oil Imports (Top 15 Countries)
(Thousand Barrels per Day)

	Country	Nov-2009	Oct-2009	YTD 2009	Nov 2008	YTD 2008
1	CANADA	1,984	1,858	1,927	2,028	1,949
2	MEXICO	951	1,015	1,099	1,296	1,192
3	**NIGERIA**	**948**	**853**	**748**	**775**	**927**
4	SAUDI ARABIA	837	938	998	1,487	1,514
5	VENEZUELA	809	879	983	1,080	1,040
6	IRAQ	458	499	460	476	636
7	ANGOLA	408	437	466	450	499
8	KUWAIT	287	104	188	292	207
9	BRAZIL	261	169	304	280	233
10	ALGERIA	219	327	272	381	319
11	COLOMBIA	216	282	261	160	181
12	RUSSIA	169	159	238	152	122
13	ECUADOR	150	174	182	222	210
14	EQUATORIAL GUINEA	136	32	95	124	75
15	LIBYA	116	67	66	63	71

Source: EIA



SECTION ONE

1.0 INTRODUCTION

The Central Bank of Nigeria (CBN) adopted a medium-term framework for the conduct of monetary policy in 2002 based on the premise that it impacts on the ultimate objectives of price and monetary stability with a lag. The adoption of a medium term framework was also intended, amongst others, to free monetary policy from overreacting to temporary shocks. In order to strengthen the relative gains of the previous years, the medium term framework would be retained in 2010/2011. Consequently, the present guidelines are designed for a two-year period, beginning January 2010 to December 2011. The purpose of this circular is to outline the Monetary, Credit, Foreign Trade and Exchange Policy Guidelines applicable to deposit money banks (DMBs) and other financial institutions in 2010/2011. The guidelines are subject to amendments in the light of developments in the financial system and performance of the economy during the programme period. Such amendments shall be communicated to the relevant institutions as supplementary circulars. The remaining part of this circular is structured as follows: Section Two reviews the developments in the economy and policy environment in 2009, as a background to policy measures for 2010/2011. Section Three outlines the monetary and credit policy measures and guidelines for implementation by banks and other financial institutions during the programme period. The foreign trade and exchange policy measures are highlighted in Section Four. The appendices contain prudential guidelines and reporting formats for banks.

SECTION TWO

2.0 REVIEW OF MACROECONOMIC AND POLICY ENVIRONMENT IN 2009

2.1 Macroeconomic Developments The macroeconomic outcomes in 2009 were influenced by developments in both the domestic and international economy. Overall, the Nigerian economy was relatively stable with mixed outcomes. The major challenge to monetary policy in 2009 was the management of tight liquidity in the banking system as against the issue of excess liquidity in the previous years. Specifically, growth rates in major monetary aggregates were below the programmed targets. In particular, the growth in credit to the private sector slowed significantly. Inflation rate (year-on-year) moderated substantially although it remained at double digit at the end of the year. The exchange rate, which remained relatively stable during the first and second quarters of the year, depreciated during the third and fourth quarters. Interest rates rose generally in 2009, influenced by the global financial crisis which precipitated tight liquidity conditions in the banking system. Crude oil production improved in the second half of the year following the amnesty programme implemented by the Federal Government in resolving the Niger Delta crisis. In addition, oil prices improved in the international oil market in response to economic recovery in most advanced and emerging market economies during the second half.

Provisional data from the National Bureau of Statistics (NBS) indicated that real Gross Domestic Product (GDP) grew by 7.07 per cent in the third quarter of 2009, compared with 7.2 per cent in the second quarter. The pro-

jected growth was driven mainly by the non-oil sector, particularly agriculture, which constituted 45.35 per cent of GDP and grew by 5.99 percentage points in the third quarter compared to 6.00 in the corresponding period of 2008.

A GDP growth rate of 5.86 per cent is envisaged for 2009 compared with 5.99 per cent in 2008. Output of Nigeria's crude oil declined in the first half of 2009, with an estimated total average daily production of 1.76 million barrels per day (mbd), but increased to 2.15 mbd in the third quarter of 2009. Aggregate crude oil production including condensates in the first half and third quarter of 2009, was estimated at 560.55 million barrels and 197.330 million barrels respectively. The increase was attributed to the relative peace being experienced in the Niger Delta Region as a result of the ongoing implementation of the Federal Government's amnesty programme. Allocation of crude oil for domestic consumption remained at 0.445 mbd or 134.84 million barrels for the first ten months of the year. In the international oil market, the average spot price of Nigeria's reference crude, the Bonny Light (37o API) which was US$53.65 per barrel in the first half of 2009, rose to US$78.61 in November, 2009.

Inflationary pressure moderated in 2009, as the inflation rate assumed a downward trend. The year-on-year headline inflation, which stood at 15.1 per cent at end-December, 2008, trended downward, from 14.4 per cent at the end of first quarter to 10.4 per cent by the end of third quarter 2009. However, it increased to 12.0 per cent by end-December 2009, reflecting increase in demand pressure due to festivities and the spate of fuel shortages linked to the speculation that petroleum products prices would be deregulated. The estimated Federal Government retained revenue and aggregate expenditure stood at N2,613.6 billion and N3,304.0 billion, showing increases of 18.2 per cent and 2.0 per cent, respectively, over the levels in 2008. Consequently, the fiscal operations of the Federal Government resulted in a lower than estimated deficit of N690.5 billion, compared with the budgeted deficit of N836.6 billion for the 2009 fiscal year. The growth in monetary aggregates moderated considerably in 2009. Relative to end-December 2008, the broad measure of money supply (M2), rose by 17.06 per cent to N10,730.79 billion at end-December 2009, compared with the growth of 57.78 per cent at the end of the corresponding period of 2008 and the indicative target of 20.8 percent for 2009 fiscal year. The moderation in narrow money (M1) was more pronounced, as it grew by only 2.26 per cent compared to 55.87 per cent for the corresponding period of 2008. The modest growth in broad money was attributable wholly to the increase in net domestic credit, which outweighed the declines in net foreign assets and other assets (net) of the banking system, respectively. Base money, at N1,668.52 billion as at end-December, 2009, was higher than the N1,549.00 billion recorded as at end-December, 2008. Compared to the indicative benchmark of N1,604.83 billion for 2009, base money outcome was 3.96 per cent higher.

Aggregate bank credit to the domestic economy (net) rose by 59.04 per cent at the end of the review period, compared with the growth of 84.2 per cent as at end-December 2008. The growth in aggregate bank credit to the domestic economy was also below the indicative benchmark of 86.97 per cent for fiscal year 2009. The moderation in the growth of net domestic credit, relative to the preceding year, was due mainly to the reduction in the growth of credit to the private sector as it grew by only 26.01 per cent compared to 59.38 per cent in 2008. Net claims on the Federal Government, however, increased by 26.64 per cent as against the decline of 31.21 per cent as at the end of the corresponding period of 2008. This notwithstanding, the Federal Government remained a net creditor to the banking system.

The global financial crisis, which started in 2008, affected the credit market adversely in Nigeria, as banking system's credit to the core private sector grew rather very slowly compared to the levels in 2008. Average monthly growth rate of deposit money banks' (DMBs) credit to the core private sector[1] was 1.86 per cent, compared with 5.13 per cent in the same period of 2008. In absolute terms, the average monthly increase in DMBs' credit to the core private sector stood at N142.32 billion, compared with N243.1 billion in 2008.

Available data on interest rates showed that in spite of the measures taken by the CBN to ease monetary stance and inject liquidity into the banking system, including reduction of the monetary policy rate [MPR], downward review of cash reserve ratio [CRR] and Liquidity Ratio [LR] to 1.0 per cent and 25.0 per cent, respectively, following the global liquidity crisis, both DMBs' lending and most deposit rates rose in 2009 relative to their levels at end-December 2008.

At 12.2 per cent at end-October 2009, average term deposit rates increased by 1.5 percentage points from 10.7 per cent at end-December 2008. Prime and maximum lending rates rose by 2.6 and 4.2 percentage points to 18.5 per cent and 22.7 per cent, respectively, during the review period. Consequently, the spread between the average term deposit and the maximum lending rates widened to 10.5 percentage points from 7.8 percentage points at end-December 2008.

1 Core Private Sector is private sector excluding state and local government

In the external sector, there was a significant moderation in the performance of the current account, nevertheless, the sector as a whole still recorded a modest improvement during the review period. Total exports, free-on-board (fob), decreased by 41.05 per cent to N2,934.19 billion (US$20.12 billion) by end-December 2009, compared with the level in the corresponding period of 2008. The development reflected the downward movement in crude oil prices, relative to the preceding year in the international market. The overall balance of payments position stood at N4,241.04 billion at end-December 2009 compared to N3,712.57 billion at the corresponding period of 2008, reflecting an increase of 14.23 per cent. The modest improvement in the overall balance of payment position was mainly from the capital and financial account which stood at N1,306.85 billion (US$8.96 billion) at end-December 2009 compared to negative N1,265.14 billion (US$10.74 billion) in 2008.

The current account surplus as a ratio of the Gross Domestic Product (GDP) stood at 11.87 per cent at end-December 2009 compared to 20.49 per cent in 2008 while the capital and financial account as a ratio of GDP was 5.29 per cent in 2009 compared to -5.21 per cent in 2008. External reserves which stood at US$53.0 billion as at end-December 2008 was US$42.38 billion as at end-December 2009, and could finance 20.8 months of imports which exceeded the six months of imports under the West African Monetary Zone (WAMZ) arrangement. During the year under review, the average exchange rate of the naira under the Retail Dutch Auction System (RDAS)/ Wholesale Dutch Auction System (WDAS) closed at N148.82 per US dollar, showing a depreciation of 20.1 per cent below the level in 2008. At the Bureaux de Change (BDC) segment of the foreign exchange market, the naira traded at an average exchange rate of N161.58 per US dollar during the review period, showing a depreciation of 25.3 per cent below the level in the preceding year. Consequently, the WDAS/BDC premium widened from 1.6 per cent in 2008 to 8.6 per cent during the year. The depreciation in all segments of the market reflected persistent demand pressure in the foreign exchange market, arising from the impact of the global financial crisis, which led to low foreign exchange earnings and decline in autonomous inflows.

2.2 Outstanding Macroeconomic Problems and Policy Challenges for 2010/2011

The current credit squeeze which manifested in sluggish growth in credit to the core private sector remains a big threat to domestic production. Thus, resolving the credit crisis will be a major challenge to monetary policy in 2010. Recent crude oil price volatility in the international market portends uncertainty in the revenue profile of the Federation and the external position. This poses a challenge to exchange rate policy. It is, therefore, of utmost importance that the on-going implementation of the Federal Government's amnesty programmes as well as reforms in the oil and gas sector are expedited and sustained. The major challenge to the external sector remains the need to diversify the economy away from excessive dependence on crude oil, in view of its volatile nature. Other challenges include persistent demand pressure at the WDAS and shallow interbank foreign exchange market. Fiscal policy in the coming year faces the challenges of developing the capacity for full implementation of the budget, narrow tax base as well as the sustenance of the amnesty programme and the implementation of the Niger Delta Master Plan.

Moreover, inflation is a major challenge due to the expected deregulation of the prices of petroleum products which is likely to impact on transportation and other costs. Some of the real sector challenges include poor state of electricity, roads, transportation and water infrastructure as well as inadequate supply and high cost of farm inputs, and poor post-harvest processing. In addition, weak technological base and effective demand for manufactured products, low level of manufactured exports and local raw material utilisation by industries, and insecurity of lives and properties are some of the downside risk that would constitute a challenge to monetary policy.

Other challenges to effective monetary policy management include the bridging of liquidity shortfall in the system as well as banks unwillingness to extend credit to the economy. The preponderance of toxic assets in the banks' balance sheets will also negatively influence the transmission mechanism of monetary impulses to target variables. Weak micro finance institutions undermine the flow of resources to the micro, small and medium enterprises which are the backbone of most economies. The challenge posed by cross border supervision of Nigerian banks in other countries is increasing as more Nigerian banks extend their reach into more countries. Other challenges include over dependence on the banking sector for financing economic activities, dearth of private sector initiated financing instruments (such as Bankers' Acceptances and Commercial Papers), a shallow bond market, and non-availability of long term funds for investment. Thus, the thrust of policy is to remedy these challenges in order to free monetary, credit, foreign trade and exchange policy to impact positively on economic growth and development.

(To be continued next edition.)*

Surviving Tough Times: Bretton Woods Institutions AND EMERGING ECONOMIES

* By Eunice Sampson

Current Tough Times & Emerging Economies

Like other nations, emerging markets and developing economies are currently faced with varying degrees of harsh economic conditions brought on by the global financial crisis.

In most of these countries, foreign exchange earnings have dropped; commodity prices are yet to recover to their pre-crisis levels; foreign reserves have dipped; investment inflows have been stalled; national growth has slowed down and so has government spending. Meanwhile there is a sharp rise in unemployment, budget deficit, illiquidity, among others.

Thanks to the now fully entrenched globalization, this is not the first time emerging economies are finding themselves in such a situation; and it will definitely not be the last.

It is to confront situations as these that the Bretton Woods Institutions (the International Monetary Fund, IMF, and the World Bank) were set up at the end of the financial crises of the 1940s, with a mandate to, among others, bail out affected economies, and very importantly,

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IMF Headquarters, Washington, D.C.

Today, the IMF has 183 member countries and with a mandate to promote international economic cooperation and stability in areas such as trade, monetary policies, exchange rates, among others.

tackle issues that result in periodic global economic recessions.

While virtually all economies are faced with tough times right now, developing countries deserve some priority attention given their peculiar economic vulnerability and fragility. This is where the Bretton Woods institutions come in.

The Bretton Woods Institutions: Who They Are

The Bretton Woods Institutions (BWIs) are the World Bank and the International Monetary Fund (IMF). They are post world war institutions conceived at an international conference of 43 countries in Bretton Woods, New Hampshire, USA in July 1944.

The World Bank Group, originally established to finance the reconstruction of war-torn Europe, has a mandate to reduce global poverty by promoting economic growth and prosperity in the least developed nations.

Over the years, the Bank has embarked on diverse development projects in low income economies and advanced credit to home governments for the same purpose. It is estimated that the low income economies together owe the World Bank about $200billion.

On the other hand, the IMF was institutionalized on December 27, 1945 following the signing of its articles of agreement by 29 countries at a conference of Bretton Woods. The Fund fully launched its operations a year and half later, on March 1, 1947. Today, the IMF has 183 member countries and with a mandate to promote international economic cooperation and stability in areas such as trade, monetary policies, exchange rates, among others.

The Fund is most known for its advisory function to member countries on economic policies. It also provides funding to member countries experiencing balance of payments problems, a

function that has earned it wide criticisms.

The World Bank and IMF complement each other in many aspects; especially in what is called "cross-conditionality," whereby governments wishing to borrow from the Bank first subscribe to and meet IMF-initiated reforms. In some instances, certain World Bank expectations must also be met before IMF assistance could be rendered to economies in need.

The World Bank and IMF complement each other in many aspects; especially in what is called "cross-conditionality," whereby governments wishing to borrow from the Bank first subscribe to and meet IMF-initiated reforms.

IMF; Global Economic Crisis and Indebted Countries

Low and medium income economies have been impacted by the global economic crisis especially in areas such as credit crunch, current account deficits, drop in commodities value, fall in capital inflows and remittances, resulting in liquidity squeeze.

In March 2009, the World Bank warned of a financing shortfall of between $270 billion and $700 billion in developing countries following a sharp drop in access to credit.

To meet these challenges, the IMF in 2009 set aside about $283 billion under its Flexible Credit Line initiative, accessible for borrowing to member countries that might need financial help. The Special Drawing Rights is open to high income member countries without the usual pre-conditions; while $20billion is also set aside specifically for the low income countries.

In October 2009, the US Center for Economic and Policy Research published a detailed report on IMF lending and advisory activities in some of the world's troubled economies. The report entitled "IMF-Supported Macroeconomic Policies and the World Recession" reviews the Fund's activities at this period of global economic turmoil.

Some of the countries that have benefited from IMF's lending and advisory services in this crisis period include:

Iceland: Iceland was one of the first European countries to officially go into a recession during the ongoing crisis. The fallout of the crisis led to failure of its top three banks; a sharp rise in fiscal deficit, dramatic surge in public sector debt, over 70 percent fall in the value of the local currency and an 80% wipeout of the equity market, among others. The IMF came to the rescue in November 2008 with the approval of a two-year, US$2.1 billion facility to Iceland, under the Stand By Arrangement (SBA). The fiscal intervention was meant to halt further fall of the Krona, enthrone flexible exchange rate regime and an effective liquidity management including restriction policies on capital flows.

Republic of Congo: Economic turbulence during this crisis period compelled Congo Brazzaville to sign a Poverty Reduction Growth Facility (PRGF) with the IMF in December 2008. A 3-4% annual cut in non-oil deficit; elimination of fuel subsidies; enhanced tax revenue; restraint on wages, suspension of development spending and MDG targets, reduction in external tariffs from 30 to 20%, were some of the price Congo had to pay in exchange for a fiscal bailout.

Costa Rica: The country witnessed months of contractions in economic activities and a 4.8% fall in GDP year-on-year in first quarter 2009. To boost the economy, Costa Rican authorities introduced a fiscal stimulus in January 2009. This was followed in April 2009 by a US$735 million SBA package from the IMF in efforts to alleviate the economic hardship occasioned by the global financial crisis. This was tied to a condition of

tighter monetary policies.

Ukraine: Following a sharp fall in export; GDP and industrial output, The Fund on November 4, 2008, approved a two-year SBA of US$16.4 billion for Ukraine. This followed a request from the country, backed by a policy program designed to stabilize the financial system and manage the trade crisis brought on by situations in the global markets. Lending conditions include monetary policy tightening; flexible exchange rate; inflation-targeting regime, prudent fiscal stance; low deposit interest rates, among others. The implementation of these stringent measures culminated in a controversy between the country's helmsmen, President Yushchenko and Prime Minister Tymoshenko and the refusal of the Fund to disburse the second tranch of the SBA fund following budgetary disagreements.

Guatemala: High exposure to the United States' economy left Guatemala highly vulnerable to the global financial crisis. GDP growth slowed from 6.3 percent in 2007 to 4 percent in 2008 and barely 1 percent in 2009. Exports, capital flows and international remittances, which together constitute the nation's mainstay, also fell drastically; leaving Guatemala with no other option but to seek precautionary assistance from the IMF. On April 22 2009, it entered an 18-month, Stand-By Arrangement with the Fund for a US$935 million facility, to boost the confidence of investors and cushion the effect of the global crisis.

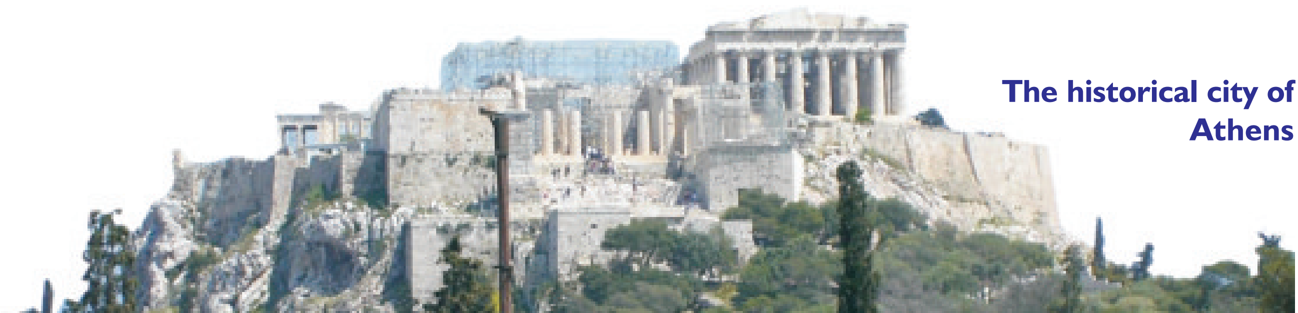
Ghana: The effects of the financial crisis slowed Ghana's capital inflows and accelerated investment outflows to the point that an IMF intervention was required. On July 16, 2009, Ghana, which had earlier concluded a three-year PRGF agreement in 2006, returned to the Fund for a fresh Poverty Reduction and Growth Facility of about US$602.6 million to avert systemic crisis. The first tranch of about US$105.2 million was disbursed immediately.

Greece: Following an economic turmoil that threatened to engulf the whole of the Euro zone, the IMF in May 2010 approved a three-year €30 billion Stand-By Arrangement for Greece. About €5.5 billion was made immediately available in a package of €10 billion set aside by the Fund for the country in 2010. The IMF support is part of a larger €110 billion (about US$145 billion) relief initiative brokered by the EU, IMF and the European Central Bank and amounts to an unprecedented 3,200 percent of Greece's IMF quota. The SBA package is built around Greece authorities' economic recovery program that focuses on restoring fiscal sustainability, boosting external competitiveness, and safeguarding financial sector stability. The financial bailout has raised some eyebrows, first for the enormous amount

Mayan Market, Guatemala

www.siena.edu/pages/2514.asp

Critics argue that IMF's structural adjustment policies are not in place to correct difficult economic conditions, but to ensure that the borrowing countries are able to repay their debts. By implication, these countries are forced to further lower the standard of living of their people to make more resources available for debt servicing.



The historical city of Athens

www.guardian.co.uk/business/2009/nov/30/greec

involved and also for the relatively mild lending conditions attached.

Malawi: On December 3, 2008, the Fund approved a one-year Exogenous Shocks Facility (ESF) of about US$77.1 million (75% of the country's quota) for Malawi. The move which was the first ESF-supported program to be approved by the IMF's Executive Board was made to support the country's efforts to deal with the trade shock triggered by the global recession and commodity price crisis. In September 2008, the ESF was modified by the IMF for faster and easier access by economies in distress. Conditions attached include monetary policy tightening; exchange rate flexibility; increase in short-term interest rates; lower inflation rate, among others.

Hungary: Reduced access to foreign capital triggered financial services crisis in Hungary owing to the global credit crunch. From a balance of payment surplus of €10.6 billion in 2008, a deficit of €6 billion was recorded in 2009 following a drastic drop in the country's export demand. In November 2008, the IMF agreed a 17-month SBA facility with Hungary to cushion the negative impacts of the global economic crisis. The facility was targeted at lowering deficit down to manageable levels through a tightening of fiscal budget; wage freeze; elimination of 13th month salary and pension; cut on spending on social amenities, among others.

> The IMF has been blamed for Argentina's economic crisis, especially for its faulty advice to government immediately before the crisis. The Fund had in the early 1990s endorsed the country's unilateral currency peg, one of the key factors responsible for the eventual meltdown.

Côte d'Ivoire: Recent political turmoil and global recession has taken a toll on the country's economy and reduced its ability to meet external financial obligations. The Executive Board of the IMF on March 27, 2009 announced a three-year facility of about US$565.7 million under the Poverty Reduction and Growth Facility for Côte d'Ivoire. The facility is "to support the authorities' economic program aimed at achieving sustainable growth, reducing poverty, and advancing the country's economic reform agenda" and allows Côte d'Ivoire to draw about US$241.1 million immediately. The lending, which IMF said could qualify Côte d'Ivoire for debt relief under HIPC came with preconditions such as tax reduction on cocoa (its economic mainstay) from 32 to 22%; new taxes on food and fuel; drop in profit tax from 27 to 25%; rise in pro-poor expenditure to be financed with proceeds from a cut in electricity subsidy, among others.

www.knospe-aba.com

image30.webshots.com

www.geraldbrimacombe.com/Argentina

upload.wikimedia.org/

> In 1991, Argentine's currency, the peso was pegged at par with the US dollar (1 dollar = 1 peso).

Criticisms of Bretton Woods Institutions

Since the outset of the current crises, the IMF and World Bank have lent over $50 billion to emerging markets and developing economies to help cushion the effect of the economic meltdown. They are also offering policy advice to economies in efforts to ameliorate the impact of the crisis.

In September 2008, the IMF said it revamped its Exogenous Shocks Facility, designed to help low-income countries cope with emergencies caused by events beyond their control.

In October 2008, the Fund launched the Short-Term Liquidity Facility (SLF) designed to help emerging markets with sound policy records through temporary liquidity problems resulting from the current crisis. Other relief

programs are also in place to reach developing economies whose track records may not be so favourable.

But over time, the efforts of the two institutions in tackling economic crises, either of national or global scale, have received more criticisms than tributes.

On its part, the World Bank has been criticized for the nature of development projects it embarks on through subsidiary institutions such as the International Bank for Reconstruction and Development, IBRD and the International Development Association, IDA. Some of these projects are said to defy environmental concerns and the welfare of the local populace. In some instances, indigenous people already economically downtrodden are forced to forfeit their means of livelihood to these projects.

Also, the Bank's policy of carrying out projects in collaboration with the private sector has been criticized for its exclusion of the state in vital projects with national implications, like water resources, healthcare, education, among others.

The World Bank has also been given knocks for failing to alleviate global poverty to tolerable levels, after over six decades of trying.

The IMF on the other hand is widely perceived to have failed in its mandate of helping low income economies manage their short term balance of payment challenges.

The Fund has been criticized severely for funding preconditions which compel low income economies to cut spending on social services and infrastructure development. Under the Structural Adjustment (SAP) programs, spending on basic essentials like health and education are compromised. Governments are forced to reduce their traditional role as biggest spender on the provision of social amenities.

The future of these all-important institutions depends on how effectively they succeed in reversing these unfair policies.

The stringent funding conditions under the SAP initiative is a key reason human rights activists accuse the Fund of impoverishing millions in low income nations.

Critics argue that IMF's structural adjustment policies are not in place to correct difficult economic conditions, but to ensure that the borrowing countries are able to repay their debts. By implication, these countries are forced to further lower the standard of living of their people to make more resources available for debt servicing.

The need for IMF assistance has exposed several Afro-Asian countries to undue control by the Bretton Woods institutions. With the nature of these loans and the strings attached, the IMF has been accused of constituting a drain pipe through which scarce resources in developing region are siphoned to the developed western economies.

More often than not, policy advice offered by the World Bank and IMF fail to resolve the economic problems at hand. The IMF has been accused of giving faulty economic policy advice to developing countries that compound rather than improve their situation.

Both Bretton Woods institutions have also been criticized for their administrative structures dominated by industrialized countries, their biggest sponsors. The current decision making structures make it difficult for the voices of the less developed economies to be heard in matters that are critical to them.

Efforts by the Bretton Woods institutions, especially the IMF, to reform their policies and practices have also been greeted with disdain. For example, the IMF in 1999, among other reform initiatives, replaced the notorious Structural Adjustments Program with the Poverty Reduction Growth Facility (PRGP). This move has

been dismissed as a mere repackaging of the same old stuff as far as impact on the poor is concerned.

Failings of IMF/World Bank: Practical Examples

The Case of Malawi:

The motive of the IMF as a poverty reduction institution has come under questioning since the 1980s following persistent failures of its poverty reduction initiatives.

In the criticisms of the Bretton Woods institutions and their impoverishment of low income economies, one of the most cited cases is that of Malawi.

In March 2002, the Malawian government announced a major famine. About 70% of the population was threatened with starvation. The fact that the country's grain reserves had recently been sold out in the international market in compliance with IMF structural adjustment directives aggravated the impact of the famine.

Following IMF's SAP directives, the Malawian government deregulated and liberalized the country's grain market, making it difficult to hedge the effects of the famine when it struck. Western economies and the IMF had suspended aid to Malawi until the SAP policies were implemented.

Reports by Jubilee Research in 2002 accused the IMF of forcing the Malawi government to sell its surplus grain in favor of foreign exchange just before a famine struck to ensure that its debt is repaid**.** Worse still for a fragile economy like that of Malawi and one plagued persistently by food insecurity, all farming and food subsidies were removed, allowing the market to determine demand and supply for food.

As a result of these policies, about 7 million of the total 11 million population were severely exposed to hunger. Schools were closed owing to a sharp drop in attendance. The hospitals were littered with malnourished children while cholera outbreaks became endemic. The IMF and western governments blamed the crises on mismanagement by the Muluzi government.

The Malawi case is another reason the Bretton Woods institutions are accused of exacerbating poverty in low income economies through stringent policies that forcefully integrate them into the international markets when they are least prepared for it.

The Case of Argentina:

After years of economic prosperity and high investors' and lenders' confidence, Argentina from late 1999's, under a military dictatorship started exhibiting symptoms of economic problems – budget deficits; high unemployment rate; (put at almost 20%);

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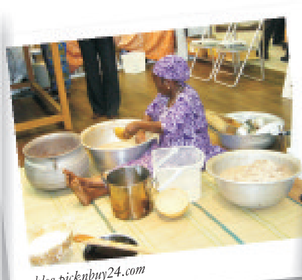

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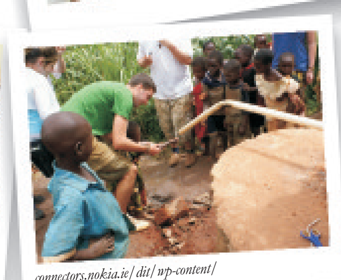

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negative GDP growth (by 4% in 1999); industrial recession and salary reductions. By 2001, the situation had reached an alarming dimension.

Prior to this, huge debts had been acquired much of it spent on over zealous projects, wars and takeover of private debts. By 2002, Argentine's unsustainable debt burden brought on the biggest default in modern history.

The immediate causes of the final economic collapse however were the banking crisis which followed government's appropriation of banking resources to finance its budget deficit and fallouts of IMF- advised currency peg.

The crisis was further heightened by a new government policy known as the ***corralito,*** which restricted the amount that bank depositors could withdraw to $250 per month.

The destructive public riots and outcry that followed led to the resignation of President Fernando de la Rua, and Argentine's Minister of the Economy, Domingo Cavallo.

The IMF has been blamed for Argentina's economic crisis, especially for its faulty advice to government immediately before the crisis. The Fund had in the early 1990s endorsed the country's unilateral currency peg, one of the key factors responsible for the eventual meltdown.

In 1991, Argentine currency, the peso was pegged at par with the US dollar (1 dollar = 1 peso). The failure of the peg marked the origin of the crisis since Argentine export became more expensive and uncompetitive in the international market, and stalling economic growth drastically. In response to the crisis this generated, the IMF recommended a major cut in government spending, leading to cut in wages and pensions, unemployment, liquidity squeeze and high interest rates.

While the IMF blames corrupt and irresponsible political leadership for the crises, many blame the crisis on IMF's faulty policy advice, especially the currency peg; and for not insisting on fiscal tightening during Argentinas' economic boom years in the mid 1990s, long before the crisis started.

Owing to the experience of Argentina and other developing economies, the IMF has repeatedly been accused of using its policies to protect and propagate the political and economic agenda of its biggest donors, the industrialized countries of Europe and America.

IMF/World Bank Borrowing: Questionable Clauses

The IMF and World Bank provide financial assistance to needy countries, but apply neo-liberal economic ideology as preconditions.

Some of their most unpopular preconditions include:

- Privatization, liberalization and deregulation
- Cut in government spending (on infrastructure, agriculture, health, education, etc)
- Removal of subsidies and protection of local industries
- Increase in export of available commodities
- Currency peg/ devaluation
- Flexibility of the labor market
- Removal of local regulations and standards that could deter foreign investors

Often these conditions are attached without due regard for the borrower countries' individual circumstances. And they have been criticized for keeping the low income economies perpetually dependent on their western counterparts and perpetually poor.

The future of Bretton Woods Institutions

No doubt, there are some fundamental flaws in the principles guiding the activities of the Bretton Woods institutions.

Since the emergence of today's modern economic order, every single country has tried to manipulate the value of its national currency to increase its competitiveness in the

Going forward, another issue that calls for urgent review is the strangling preconditions the Fund imposes on borrowing economies. . Perhaps one of the most offensive of such conditions is the cut on government spending and removal of subsidies and protection of the local industry.

export market and reduce its balance of payment deficit.

Though this issue is within their purview, the fact that the Bretton Woods institutions have not been able to do anything about it over the decades is bad enough. Worse still is the imposition of currency peg by the IMF on developing countries seeking financial aid. This places them at a disadvantage at the stiffly competitive export market. For countries already faced with severe economic conditions, this could only do more harm than good. The future of these all-important institutions depends on how effectively they succeed in reversing these unfair policies.

Aside from currency manipulation, another area of great concern is the global balance of payment disequilibrium.

It is worth recapping here that one of the two key figures that conceptualized the IMF/World Bank vision, British economist John Maynard Keynes, had then made a recommendation that was more or less thrown out for lack of relevance. Keynes had proposed that the IMF be vested with greater responsibilities and authority, including the power to enforce agreed global monetary polices.

In "System of Bretton Woods: A lesson from history," Sabine Dammasch writes*: "In case of balance of payments imbalances, John Maynard Keynes recommended that both sides, debtors and creditors, should change their policies. Countries with payment surpluses should increase their imports from the deficit countries and thereby create a foreign trade equilibrium".* Keynes far back then, warned that it was wrong to see trade imbalance as a problem only of the deficit country.

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Today, while some countries enjoy massive surpluses, others wallow in huge deficits while the Bretton Woods institutions look on helplessly. Perhaps, powerful countries now reeling in huge deficits, including the United States, would be wishing Keynes' advice was heeded after all.

The institutions should be more assertive in addressing imperfections in the global economic system and map out strategic policies to address global monetary instability which is a major reason for the periodic global recession.

In discussing the future of Bretton Woods institutions, another critical issue is how the current debt owed by low income economies could be treated. The World Bank and IMF should consider the option of using their reserves and profits to write off or reduce debts owed them by the highly indebted poor countries. The conditions for determining countries that qualify for debt forgiveness should also be broadened and made more flexible to accommodate more low and medium income economies.

Going forward, another issue that calls for urgent review is the strangling preconditions the Fund imposes on borrowing economies. Perhaps one of the most offensive of such conditions is the cut on government spending and removal of subsidies and protection of the local industry.

It must be stressed here that the industrialized countries are where they are today because during their stage of nation-building, governments took full responsibility for financing the development of every segment of the economy. Urging low income economies to do the opposite at this critical stage of their evolution is tantamount to sentencing them to unending poverty and underdevelopment.

The IMF/World Bank must map out strategies to reduce global poverty and the current enormous gap in the distribution of global resources. They must work to sharply increase the flow of resources to regions where they are desperately insufficient to counter rapidly spreading poverty and economic imbalance. If this comes in the form of enhanced debt forgiveness, grants, aids, FDI, etc., so be it.

(*Eunice Sampson; Deputy Editor, Zenith Economic Quarterly)

Effective Financial Regulation Structures: Issues and Challenges

* By Mukhtar Adam

The recent financial crisis that affected the major economies of the world has opened a new debate on the effectiveness of existing financial sector regulations. As the financial crises exposed some weaknesses in the existing financial regulations, the financial regulation community, governments and policy makers are reviewing existing institutional structures of regulation in the financial sector. An important aspect of the current review of the financial sector regulatory structures, which was prompted by the collapse of major banks in the US and the UK, is whether a unified or consolidated financial sector regulation is more appropriate in preventing future financial sector crises. Interestingly, both the UK fully unified regulatory framework and the US multiple-regulatory framework came under serious criticism in the light of the 2007/2008 banking crises. This has therefore prompted active consideration of an optimal design of institutional structures for financial regulations.

An important aspect of the current review of the financial sector regulatory structures, which was prompted by the collapse of major banks in the US and the UK, is whether a unified or consolidated financial sector regulation is more appropriate in preventing future financial sector crises.

Thus, here, we would discuss the importance of effective institutional structures in banking regulation, highlighting the consequences of weak institutional structure. We would proceed to outline and briefly explain the three main models of institutional structures of financial regulation, noting the main characteristics and discussing the advantages and disadvantages of each of the models. We will conclude by exploring the possibility of an optimal financial regulatory model.

THE IMPORTANCE OF EFFECTIVE INSTITUTIONAL STRUCTURES IN FINANCIAL REGULATION

Rapid integrations of financial markets, increased level of cross-border financial transactions, and continuous innovation of financial products, have led to the growth of large, diversified and complex financial conglomerates. These financial conglomerates carry out different financial activities some of which are outside the scope of the existing financial regulations and supervision. For example, some large financial institutions in the developed markets, as part of their expansion and risk management strategies, have created hedge funds, financial derivatives and special purpose vehicles (SPVs) into which risky assets of banks are kept. Some of these new products and entities have no specific regulatory oversight. This has, therefore, created a situation where some activities of large financial institutions are unregulated, which is a threat to global financial stability. A critical aspect of ensuring effectiveness in the financial regulatory system is to ensure that, the institutional structures of regulatory agencies are appropriately designed.

An effective institutional structure is the one that can adapt to the changing nature of the financial institutions, financial product innovation, changes in financial market operations and dynamics, changes in technology and above all, ensure financial stability. In additions to these, an effective financial regulation structure will ensure that, all the objectives of financial regulation are met effectively without unnecessary duplication, overlap and confusion. A typical financial sector is made up of banking, insurance, and securities firms whose regulatory objectives differ. In the event that the activities of these different sub-sectors overlap or a large organization has all three activities in its group, an effective regulatory structure should ensure that, all these activities are properly supervised. This may necessitate unified regulation or a very high level of coordination among different regulatory agencies. Again, an effective regulatory structure must ensure that supervisory authorities and responsibilities are clearly defined both in normal times and during crises period.

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World Bank Group Headquarters, Washington, D.C.

source: www.diversededucation.com

Also, a financial regulatory structure that is designed to reflect the structure of the regulated market will most likely be effective, in the sense that, regulation will move alongside the regulated market, thereby reducing instances where regulation lags behind the growth, development and innovation in the regulated market. This however, requires a well articulated statute, law or act that gives the regulatory institution the required

level of independence, power to make decisions and changes (where necessary) as well as effective enforcement powers.

An institutional structure for financial regulation that is not effective in its design or not changed to meet the changing needs of the regulated market is bound to result in regulatory failure, which may lead to financial sector crises and possibly destabilize the financial system. Also, in a situation where several agencies are in charge of financial regulation, and their activities are not well coordinated, two possible situations are bound to happen. The first is duplication of regulatory responsibility and its attendant cost to the regulated market. The second is regulatory gaps where some financial institutions or products are left outside the purview of all regulatory agencies. Any of these two situations could lead to regulatory failure.

An extraordinary form of multiple-agency regulator model is the US system of financial regulation which comprises of over one hundred state and federal regulatory agencies with frequently overlapping responsibilities and jurisdictional boundaries. These agencies together, regulate banks, insurance companies, securities firms and financial services and products in the US.

MODELS OF INSTITUTIONAL STRUCTURES FOR FINANCIAL REGULATION

The institutional structure of financial regulations currently used by most countries evolved alongside the evolution and development of financial markets rather than as a result of coordinated effort of setting up a regulatory framework that meets all regulatory objectives. Major factors that influence the choice of a particular design of institutional structures for financial regulation include; the decision and preference of political authorities, the nature and size of a country's financial sector and the practices that have built up in a country's central bank. Internationalisation of financial services, emergence of large financial conglomerates and lessons from financial crises in other countries are some external (international or regional) factors that have equally influenced the choice of financial regulatory structures among countries. This therefore explains why there is a wide range of models to institutional structures across the world, with no single model considered as the optimal or best for all countries.

Despite the differences in institutional structure for financial regulation among countries, almost all countries provide regulation for banks, insurance companies and securities firms. Also, three major models of institutional structure for financial regulation can be observed among the various models used worldwide. These are; the

Federal Reserve Building, 20th Street & Constitution Avenue, NW Washington, D.C.

Multiple-agency Regulator Model; the Unified Regulator Model; and the Common Regulator Model. The nature and characteristics of each of these three broad models, their advantages and disadvantages are given below.

The Multiple-agency Regulators Model

This model requires that, each type of financial sector activity is regulated by specific or specialized agency. For example, in Nigeria, Ghana and most Anglophone West African countries, the three major financial sector activities are regulated by entirely independent agencies. In the case of Nigeria, the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) jointly regulate banks, while the National Insurance Commission (NAICOM) regulates insurance companies and the Securities and Exchange Commission (SEC) regulates securities firms and other public companies.

An extraordinary form of multiple-agency regulator model is the US system of financial regulation which comprises of over one hundred state and federal regulatory agencies with frequently overlapping responsibilities and jurisdictional boundaries. These agencies together, regulate banks, insurance companies, securities firms and financial services and products in the US. Within the US fragmented system, as many as five agencies (The Federal Reserve Board- Fed, The Federal Deposit Insurance Corporation-FDIC, The Office of the Comptroller of the Currency, The Office of Thrift Supervision, and National Credit Union Administration) are responsible for regulating depository institutions at the Federal level. Also at the federal level, the Securities and Exchange Commission (SEC) supervises the five major stock exchanges in the US while other exchanges are supervised at the state level. Insurance companies in the US are regulated at the state level by various state insurance regulatory agencies. The US financial regulatory structure, indeed, represents the most extreme form of fragmented regulatory structure in the world, with a complicated web of multiple federal and state regulations. The complication in the US financial regulatory structure also reflects how complex the US financial services sector is organized. The complex nature of the organization and regulation of banks in the US is a product of history and

Insurance companies in the US are regulated at the state level by various state insurance regulatory agencies.

Central Bank of Nigeria, Abuja.

tradition rather than a product of coherent institutional design (US Treasury Department, 2008 Chap. III: p. 32). Though it is not the main focus of this paper, a brief description of the organization of the US financial services sector is worth presenting.

The US financial services sector provides four major types of financial services namely, payment and liquidity, credit, investments and transfer of financial risk services. Each of these services is delivered by different type of financial service providers, thereby creating several different regulations within the financial services sector. Within this wide range of financial services comes depository institution (banks) which are also organized in a very complex and layered manner. The US banking sector is also based on a dual licensing system where banks could obtain license either at the state or at the federal level. Depending on their intended focus, banks in the US have the flexibility of applying for and obtaining a specific banking license (charter), such as commercial charter, a thrift charter, a credit union charter, or an industrial loan company charter. By selecting the charter that suits them, US banks effectively determine their primary regulators and the regulatory regime that govern their operations.

Before the enactment of The Gramm-Leach-Bliley Act of 1999 ("GLB Act"), there was strict separation of commercial and investments banking activities, such that banks licensed as commercial could not undertake any investment banking activity. US banks were also restricted with respect to the geographical boundaries in which they operate. These product / services and geographic restrictions were, however, relaxed following the passage of various Acts aimed at making financial services delivery more flexible. For example, The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, was passed to remove the geographic restrictions and therefore allow interstate banking whiles GLB Act was passed to ease the restriction on

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The 2008 Northern Rock Tower Building, at Regent Centre in Gosforth.

the range of financial services that can be offered by a single or a group of financial institutions.

Under the GLB Act, qualifying institutions are allowed to participate in commercial banking, merchant banking, full-scale securities underwriting and dealing, and insurance underwriting under one holding company, generally known as Bank Holding Company (BHC). The GBL Act also vested the regulation of BHCs in the Federal Reserve and also empowered it to determine the financial services or complementary financial service that BHCs could offer through their banking and non-banking subsidiaries but left the regulation of subsidiary companies under BHCs with their respective functional regulators. BHCs are usually created as shell organizations that own and manage subsidiary banking or non-banking companies as allowed by regulations and they usually source for funds from stockholders and creditors and use the proceeds to acquire shares in other companies, make loans and purchase securities. BHCs that hold at least 80% of subsidiaries' shares are required by law to file consolidated tax returns.

Advantages of the multiple-agency regulator model

One advantage associated with this model is that it allows clarity of objective, focus, responsibility and accountability. Because there are several different activities in the financial sector, it is difficult for a sole regulator to strike a balance between the different objectives of regulating each sub-sector. For example, in regulating insurance companies, the main focus is on the liability side of the balance sheet whiles the focus of banking regulation is more on the asset and adequacy of capital. Regulating securities firms focuses more on conduct of business and consumer protection rather than prudential. Adopting the multiple-agency regulator model will therefore ensure that, the objectives of each agency are clearly and unambiguously specified. This will also keep each agency focused on her objectives and be held responsible in the event of any regulatory failure. The incidence that led to the collapse of UK's Northern Rock and subse-

Bank of England

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quent freezing over of inter-bank lending in the UK is an example of lack of clarity of objectives and responsibility of both the FSI and the Bank of England.

A second advantage of this model is that it allows various specialized regulatory agencies to build the skills and expertise required for effective regulation in their sub-sectors. Because the financial sector is itself very specialized and each sub-sector is so distinct and specialized, highly specialized systems, knowledge, human resource capacity and information technology are required by each specialized agency to discharge its regulatory mandate. This partly explains why many countries use specialized agencies to regulate each financial sub-sector. It is worth mentioning that, in a report published in March 2008, the FSI admitted that, lack of risk management expertise and inadequate training contributed to the regulatory failure that led to the 2007 / 2008 financial crises.

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A third advantage of this model is that, it is more efficient as compared to other models. In a unified regulatory system, the sole regulator is more likely to be rigid and bureaucratic as its scope of operations broadens and line managers are unable to understand the range of operations within each of the regulated markets. This also, creates a distance between the regulator and the regulated market. With specialized regulatory agency model, the regulator tends to grow alongside the growth of the regulated market and tendencies of bureaucracy and losing touch with the market are very rare. In addition, specialized regulatory agencies become more efficient in regulation as they try not to over burden the regulated market. This also enables regulators contribute significantly to the growth and development of their respective regulated market. For example in the US multiple-agency system, the five major federal agencies responsible for depository institutions do not depend on federal appropriation for funding. Rather, each of the agencies finances their operations through fees and charges on their regulated entities. This therefore, makes the regulatory agencies more interested in the growth and developments of their regulated entities.

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In addition, specialized regulatory agencies become more efficient in regulation as they try not to over burden the regulated market.

Disadvantages of the multiple-agency regulator model

One major disadvantage of this model is that, it does not provide for effective consolidated supervision. Most of the large financial institutions started with providing one type of financial service, say banking or insurance, and gradually moved into providing other services, and eventually became financial conglomerates. A typical financial conglomerate for example has a commercial banking, investment banking, insurance, securities trading

and other ancillary financial services outfits. In this case, having several different agencies supervising the different components of this conglomerate will mean that, no agency is responsible for assessing the systemic risk of the whole conglomerate. In the event that the conglomerate collapses, no single agency will take the responsibility for regulatory failure. The advent of universal financial services entities has therefore made the multiple-agency model for financial regulation less attractive. In a paper delivered on 23 October 2009, the Chairman of the US Federal Reserve Bank (Fed), acknowledged that, the risk of individual subsidiaries of a large financial conglomerate cannot be adequately evaluated through supervision focused on individual subsidiaries. He pointed out that the Fed is working towards more consolidated supervision of systemically significant financial conglomerates. This is a clear pointer that, even the US has realized the flaws in this model and has started working to reduce the negative impact of these flaws.

A second disadvantage associated with this model is that, it creates room for regulatory arbitrage. As financial institutions become more sophisticated, they have exploited the regulatory gap often created by the multiple-agency regulatory system to avoid regulation or reduce regulatory burden. For example, most large banks have been found to have created SPVs into which risky toxic assets have been shifted. Normally, these entities are created in a way that they fall under the supervision of less burdensome regulator or jurisdiction with weak financial regulation. This form of regulatory arbitrage has contributed to the US financial crises that started in 2007.

Duplication of regulatory efforts is another disadvantage associated with this model. Where several agencies are responsible for different parts of an entity's activities, it is common to see the same regulatory 'diagnoses' carried out on one entity by different regulatory agencies. This results in waste of regulatory effort and additional cost of compliance to the regulated market. Aside this, the aftermath of the 2007 financial crises revealed that a number of regulatory agencies in the US were unclear about their responsibilities, which resulted in some aspect of regulation being ignored while some were duplicated. This partly explains why there was confusion among the various regulatory agencies in the US as to who was responsible for preventing the 2007 financial crises.

> A typical financial conglomerate for example has a commercial banking, investment banking, insurance, securities trading and other ancillary financial services outfits.

Despite the serious flaws associated with this model, it is important to mention that, this model is widely used mainly because, the institutional structure of financial regulation currently used in most countries, reflects the historical evolution of their respective financial sectors. For most countries, regulatory institutions are formed at intervals to initially provide for the regulation of banks, insurance companies and then other sub-sectors as and when they evolve. In some cases, regulatory agencies are established as part of measures to resolve crises in that country or prevent the occurrence of crises that have hit some countries. In the US for example, each of the five federal agencies responsible for regulating depository institutions were created in response to significant events in the country's financial history. In Nigeria also, the NDIC was created to prevent or reduce the then frequent collapse of banks in the country.

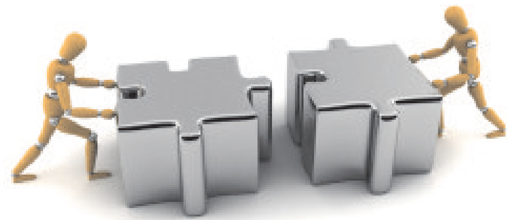
This indeed is one of the most radical changes in institutional structure worldwide. Other countries where the unified model are used include; Denmark, Iceland, Japan, Norway, Korea and Sweden. Australia has been named as the perfect example of the twin peak model.

The Unified Regulator Model

This model can be broken down into two sub-models. The first sub-model, which focuses on the institutions being regulated, requires merging all existing regulatory institutions into a single institution to undertake both prudential and market conduct supervision of all institutions and products in the financial sector. This sub-model is also known as the 'full unified' model. With the second sub-model, which focuses on the objective of regulation, one agency is responsible for prudential regulation of all financial sector activities whiles another agency is responsible for supervising market conduct. This second sub-model is known as the 'twin peaks' model.

A perfect example of the full unified model is the Financial Services Authority (FSA) of the UK which was established in 1997 with the mandate of regulating all activities in the financial sector. Accordingly, all the specialized regulatory agencies in the UK were abolished to give the FSA full responsibility for financial sector regulation. The creation of the FSA also resulted in Bank of England losing her regulatory powers over banks in the UK. This indeed is one of the most radical changes in institutional structure worldwide. Other countries where the unified model are used include; Denmark, Iceland, Japan, Norway, Korea and Sweden. Australia has been named as the perfect example of the twin peak model.

• Japan



With the second sub-model, which focuses on the objective of regulation, one agency is responsible for prudential regulation of all financial sector activities whiles another agency is responsible for supervising market conduct.

Advantages of the unified regulator model

The strongest argument for this model is that, it reduces and possibly eliminates opportunities for regulatory arbitrage. Supervising a large financial conglomerate on a consolidated basis ensures that, the regulator sees the total picture of the conglomerate. This makes it difficult for large firms to 'shield' any part of their operations from regulation. Consolidated supervision of financial conglomerates also allows for adequate risk evaluation of the entire conglomerate for more informed decision.

A second advantage of this model is that, it reduces and possibly eliminates regulatory gaps. In a multiple-agency regulatory system, some aspects of the regulation may be left uncovered with each of the multiple agencies either unaware of the gap or anticipating it will be addressed by a counterpart agency. In the event that there is a crises and the cause of the crises is attributable to that gap, no single regulator can be held responsible. With a unified regulatory system however, there are no such tendencies or they are at the barest minimum. For example, the FSA

of the UK took full responsibility for regulatory failure that resulted in the collapse of Northern Rock and the subsequent freezing over of the inter-bank market in the UK, except for the delay in providing emergency liquidity support, which was clearly the responsibility of the Bank of England.

Other advantages of this model include; reduced cost of regulation and cost of compliance, improved mechanism for quick decision making and reduce conflict particularly in crises period, improved acquisition, deployment and retention of skills and expertise.

Disadvantages of the unified regulator model

One of the disadvantages of this model is that, it results in lack of clarity of regulatory objectives and lack of focus on the part of the regulator. For instance, a sole regulator of the financial services may focus more on meeting its prudential regulatory objectives and pay less attention to conduct of business or consumer protection aspects of its responsibility. Also, in a situation where one sub-sector dominates the entire sector, a sole regulator may neglect the other sub-sectors. For example, one of the reasons cited as contributing to the 2007 financial crises in UK was that, the transition to a unified regulatory regime weakened the regulator's focus on banking supervision and the specific challenges associated with the regulation and supervision of banks.

A second disadvantage is that, the sole regulator may not have the required specialized knowledge, expertise and experience to supervise each of the institutions that fall under its jurisdiction. For example, the FSA in its March 2008 report, acknowledged that, high staff turnover in directly supervising Northern Rock significantly contributed to the regulatory failure.

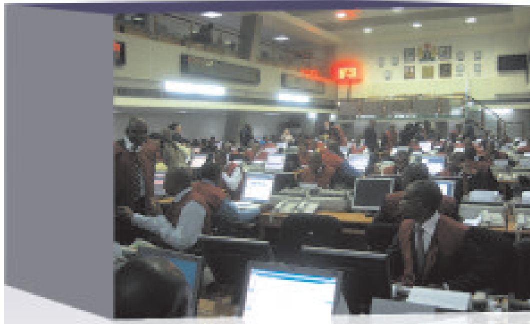
Another disadvantage is that the model is prone to moral hazard, in a sense that, the public may assume that all creditors of all institutions under the sole supervisor have the same level of protection in the event of financial distress. In practice, however, the type of safety net provided for banking creditors, for example, differs from that provided to creditors of insurance and securities firms. If not clearly communicated to the investing public, the expectation gap may create a serious problem in resolving financial crises. It may further reduce public confidence in the financial system and make the country less attractive to investors.

El Bosque Consumer Bank headquarters, Chile

Taking a clue from the UK and in line with the strength of arguments for consolidated financial regulation, some countries have altered their existing institutional structure of financial regulation to reduce the number of agencies involved in financial regulation. However, the most common trend among these countries is more integration in prudential supervision with less emphasis on integration of conduct of business supervision. This therefore makes the twin peak model a powerful model that countries are more likely to look towards.

The Common Regulator Model

With this model, one regulator is responsible for at least two of the three major financial sectors whiles another regulator takes care of the other. For instance, in a country that uses this approach could give banking and insurance supervision to one regulator whiles regulation of securities firms is handled by another agency, say a SEC. Alternatively, regulation of banks could be vested in one agency, say the central bank whiles insurance and securities firms are regulated by one agency.


The Nigerian Stock Exchange

Different combinations could be adopted by different countries under this approach depending on country specific factors, but in most cases, banking supervision is vested with the central bank. A study conducted by Llewellyn (1999) as cited in Abrams et al (2002) from Courtis (1999), indicates that, in Chile, South African and the Slovak Republic, the securities and insurance sub-sectors have a common regulator while banks are regulated by a specialist agency. The study also indicates that in nine other countries, banks and securities firms have a common regulator while insurance companies are regulated by a specialized agency. In some 13 countries, according to the study, banking and insurance have common regulators while securities firms are regulated by specialized agencies.

Advantage of the common regulator model

The most pronounced advantage of this model is that, it tends to strike a balance between the fragmented and unified models. By consolidating the regulation of some sub-sectors and leaving others for specialized agencies, this model, would result in reducing regulatory arbitrage and regulatory gaps and also facilitate consolidated risk evaluation of all entities that fall under a common regulator. Because, the number of sub-sectors under a common regulator is likely to be less than that of a unified regulator, regulatory objectives are more easily defined and focused upon. Development, deployment and retention of specialized regulatory skills and expertise are other advantages that a common regulator stands to benefit from.

Disadvantage of the common regulator model

One key disadvantage of the common regulator model is that, it does not provide for a fully consolidated supervision of large financial conglomerates. Consider for instances a large financial conglomerate that is made up of banking, insurance and securities outfits. Adopting the common regulator model implies that two of the outfits would have a common regulator whiles the last one has a specialized regulator. In this instance, the common regulator may not be able to undertake a consolidated risk evaluation of the entire conglomerate without stepping outside its jurisdictional boundaries. This then brings us back to the issue of regulatory arbitrage and regulatory gap associated with the fragmented system.

With the common regulator model, holding any particular regulator responsible for regulatory failure is difficult because, the activities in modern day financial sector are so interrelated that, crises in say the banking sub-sector might have started from the securities sub-sector.

CONCLUSION

From the above discussions, we have pointed out that, each of the three broad models of institutional structure for financial regulation have strengths and weaknesses with no single model considered as the optimal institutional structure. Rather, the models discussed above represent a spectrum of alternatives with considerable variation within the spectrum and even within a particular basic model. Various surveys have also indicated that countries have adopted different models that suite their country specifics. Although there is no evidence that countries are converging towards a particular model, there is however, evidence of a general migration towards reducing the number of separate agencies involved in prudential financial regulation.

(• Mr. Mukhtar Adam is a staff of Zenith Bank Plc)

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Quality & Internal Control Challenges in Banks: ILLUSIONS & DECEPTIONS

By Chuks Nwaze

n the last part of this serial, we dwelt extensively on the importance of physical security as a vital component in the desire of any organisation to maintain a fraud-free environment and avoid service failure.

In this edition, as part of my commitment to give unique value at all times to readers of this serial, I will serve you with the truth which is not usually told about banking, 'the news-behind the news', which the general public has no access to, but which they need to know about in order to make optimum judgment as stakeholders. For the bankers themselves, this particular edition is 'a must-read'.

We are also going to puncture many of the views and opinions held by laymen and other on-lookers concerning the banking industry. Some of these are long-held mind-sets which are probably difficult to change, while others are simply based on misinformation or misunderstanding of what is going on inside the hallowed edifices of banks.

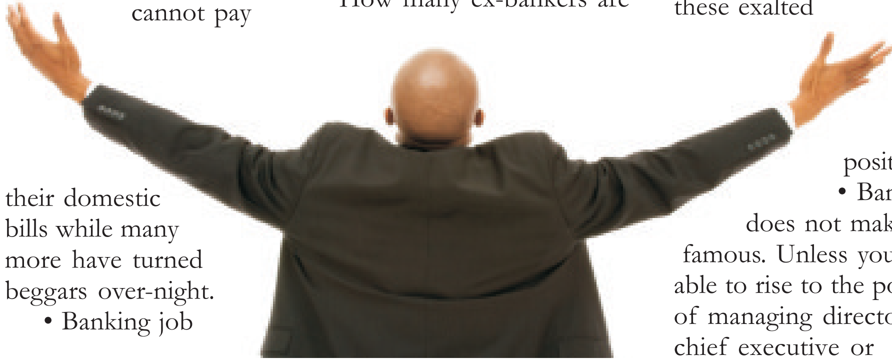
As the reader will judge for himself, many of these wrongly held views also have something to do with the spate of fraud in banks.

"BANKING IS THE BEST JOB"

It never ceases to amuse me that this is the opinion of many people regarding the ladies and gentlemen in trendy suites, silk ties and leather shoes who are sweating every minute of the working day, even with the air-conditioners blowing on their faces inside the banking halls.

While it is understood that exceptions exist with regards to a handful of bankers where management policy, operating environment and other factors have combined to achieve a goal congruence between staff and bank, I wish to submit that "all that glitters is not gold" for the following reasons.

- Banking as a vocation does not guarantee your future as there is neither pension nor gratuity. When 'your services are no longer required; that is the end of the road; God save your soul if you are no longer within the age bracket to look for another job or you do not possess special skills or qualifications for that purpose. Many ex-bankers today cannot pay their domestic bills while many more have turned beggars over-night.


source: office.microsoft.com

- Banking job gives you a wrong impression about yourself and the rest of the society. This is because while the job lasts, you live a good life, wear the best dresses, eat in the best places, live in the best houses (not your own), and ride the best cars (official cars). You think you have made it, which is very far from the reality, but this point will never dawn on you until 'your services are no longer required.'
- Banking does not make you rich or wealthy. How many ex-bankers are governors, senators, honourable members of federal house of representatives or state houses of assembly, ministers, state commissioners, local government chairmen, etc. The very few ex-bankers within this bracket did not stay long in banking before branching out to launch themselves into the path of success from where they got money to fight for these exalted positions.
- Banking does not make you famous. Unless you are able to rise to the position of managing director, chief executive or chairman of a bank, nobody recognizes a banker, whether retired or serving, when he enters a gathering. Even with his impeccable dressing, he does not stand a good chance of being called to the high table unless he is related to the celebrant. Bankers are obviously happy with this situation as they would not be able to dole out cash if accidentally called upon to do so, which is also why you are less likely to see a banker in a launching ceremony.

> **...while the job lasts, you live a good life, wear the best dresses, eat in the best places, live in the best houses (not your own), and ride the best cars (official cars).**

> How many bankers can build a house without loan, even at very senior levels? Very few. However, they are very good at buying shares where only little money is required at regular intervals.

• Bankers are not good investors. How many bankers can build a house without loan, even at very senior levels? Very few. However, they are very good at buying shares where only little money is required at regular intervals. The reason for this is not far-fetched: Bankers use their emoluments to finance flamboyant lifestyles, pursue short-term goals and fall prey to 419 operatives who understand their predicament and cash in on it.

• Bankers are prone to domestic instability. Due to the nature of the job which requires more than 100% of their time, bankers do not have time left for their families. The typical banker leaves his house by 6.00a.m, while the children are still asleep and comes back home by 10.00pm, when the children have gone to bed. Take a census of the children of bankers, they go from one private school to another, from primary to university level as they are often not good enough to compete in the public domain. Bankers are also prone to broken homes because of the temptations they fall into, which distract their attention from their own families.

• It is ironical that although bankers do not command tangible visibility, they also draw undue attention to themselves, obviously due to their artificial lifestyle; the flashy cars, the trendy dressing, the choice residential areas etc, most of which are funded with all manner of loans such as personal loan, furniture loan, compassionate loan, car loan, salary advance, accommodation loan, consumer loan etc. Hence, on pay day, the average banker is an unhappy person as he has no salary to collect after deductions.

> **Bankers are prone to domestic instability. Due to the nature of the job which requires more than 100% of their time, bankers do not have time left for their families.**

Meanwhile, outsiders are not aware of this, friends are not aware, family members are not aware; they all make demands.

The above is by no means exhaustive but it is clear enough that the allure of banking is an illusion, which hardly gives long-term happiness to active or retired practitioners. This state of affairs is obviously not good for the industry as it breeds tension, fear and anxiety in the generality of staff.

"HELP CUSTOMER FOR THE RAINY DAY"

It would seem that the bankers themselves are rather too busy to appreciate the intricacies of the world around them or even the mindset of the customers they serve on a daily basis. They build castles in the air and erect mansions on a sinking sand, thinking it is a solid ground.

The banker often goes out of his way at the risk of his job to assist a customer in the hope that the customer will reciprocate the gesture on a rainy day, or in times of need, but rarely does this expectation come to pass. The banker is often disappointed but he has only himself to blame. Bankers should appreciate the following about customers:

• The customer is not friendly with you as a

source: office.microsoft.com

...on pay day, the average banker is an unhappy person as he has no salary to collect after deductions. Meanwhile, outsiders are not aware of this, friends are not aware, family members are not aware; they all make demands.

person but your office. The moment you leave that office, his next friend is your successor. How many customers have visited you in your house when 'your services are no longer required' or when you are in police custody? Even when you are on leave, they only ask after you if they are not getting what they want and they are aware that you are coming back.

• Excessive gratification by a customer is a pointer that he may be committing fraud which you are not aware of, or he is about to tempt or entice you into an unholy alliance or to relax your guards.

• On balance, you are better off loosing a customer and retaining your job by keeping to the operational standards of the bank than assisting a customer and losing your job in the hope that he will come to your aid. This might just be a mirage; don't be deceived.

It is an illusion to think that your conscience is clear and that another person is seeing it. It is much better to work hard and establish your innocence and be a free man than perish with a clear conscience.

"MY CONSCIENCE IS CLEAR"

This is the sing-song of people, especially staff, who have done something wrong and are being investigated or have been apprehended.

It is an illusion to think that your conscience is clear and that another person is seeing it. It is much better to work hard and establish your innocence and be a free man than perish with a clear conscience.

The following additional comments support this assertion:

• In our everyday lives, appearance is more important than reality. The prisons are filled with people with clear conscience but who could not prove it and nobody believes them. Even if the judge is aware of what is in your mind, he will not act on the basis of that; he will ask for evidence .

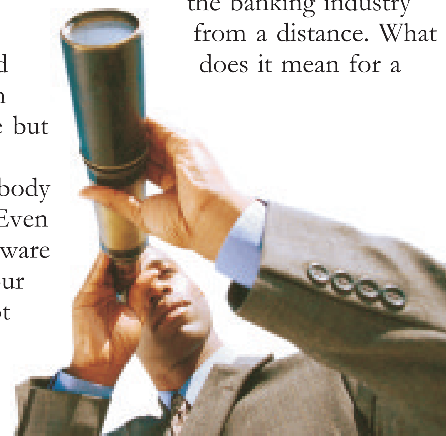
• If you get arrested with an armed robber in his residence, you must prove that you are neither an armed robber yourself, nor an accomplice, otherwise you may be incarcerated with him, even if you are innocent. The question you must answer satisfactorily is: What were you doing in his residence?

• The same principle applies to the working environment. It is not enough to say that you are working hard, or that you have no hidden agenda or fraudulent intent. This fact must be obvious to onlookers, including your boss.

Remember that if there is a conflict between your actions and your utterances, the conflict will always be resolved in favour of your actions. This is the truth about our daily existence.

"THE BANK IS DOING WELL"

This is a popular statement usually made by those who are watching the banking industry from a distance. What does it mean for a



source: office.microsoft.com

bank to be "doing well"?. Is it any of the following:

• Profits declared or published. This does not often tell the true story about the health of the bank because of the culture of "window-dressing". This criterion is deceptive.
• Number of employment tests conducted. Again, employment tests do not say much about the number of people actually being employed. Some banks conduct aptitude tests on a monthly basis but nothing happens after that. Even interviews are conducted regularly but how many are actually being employed?
• Image making. Is it the volume of advertisements in print, electronic media or bill boards? If anything, this may even be a pointer to trouble. Why does a bank that is doing well need excessive advertisements? A good product sells itself. Some weak banks even go a step further by buying staff buses. Unknown to the general public, however, they are only strong on the road.
• Outrageous emoluments. Although high pay is often linked to good performance, this is not the case. In fact, banks that are not doing well but imitate others by paying well often find themselves in trouble and are forced to embark on retrenchment, re-engineering, re-alignment, right sizing etc. Hence, high pay is also deceptive and does not tell the whole story.

source: office.microsoft.com

The greatest folly that some banks embark upon to their ever-lasting regret is the acquisition of landed property, especially the usually expensive corporate head office, with depositor's funds. They do this in flagrant disregard for the standard matching principle, which stipulates that such assets should be funded...

It needs some empirical analysis by a knowledgeable person to say whether a bank is doing well or not. In other words, what you are looking at is often illusory.

HEAD OFFICE BUILDING

The greatest folly that some banks embark upon to their everlasting regret is the acquisition of landed property, especially the usually expensive corporate head office, with depositor's funds. They do this in flagrant disregard for the standard matching principle, which stipulates that such assets should be funded only with equity capital and reserves (i.e shareholders funds).

Of course, the resultant liquidity mismatch soon strangles them to premature distress and possible liquidation. There is enough lesson to be learnt from the fate that befell some banks between 1989 and 1998 and the expensive offices built by them especially in Lagos. These edifices have since been occupied by new tenants today, long after the withdrawal of their banking licenses by regulatory authorities.

Why do banks do this? Is it that they do not know the proper thing to do or that they are in a hurry to create a false impression in the mind of the

general public in return for cheap patronage? Let the reader be the judge.

Once again, I want to state categorically that banks that are built to last and outlive the owners do not finance fixed assets, capital investments or corporate head offices unless they are using equity or reserves which must have been genuinely accumulated over time. Cosmetic endeavours only serve short-term purposes. They are deceptive.

AESTHETICS

The uninitiated will never stop wandering why banks place so much emphasis on very beautiful and alluring office premises, both interior and exterior. You do not need to go far in search of the answer: To hide whatever problems that they have from the public. In fact, if you are not a banker, or a well informed person, you will not know the difference between bank A which is technically dead and bank B which is a strong bank.

The situation is often laughable. 'Bank A' is having liquidity crisis, yet when you enter any of its branch offices, you are overwhelmed by the architectural beauty; the brand new split unit air-conditioners are dripping water outside while well-dressed drivers are standing beside a fleet of glittering official cars.

You venture to enter the banking hall and you are arrested by the serenity and interior décor before you notice the fact that the young ladies and gentlemen with smiles on their faces are wearing the same colour of dresses as stipulated by the dress code. Worse still, you tune your radio or television set and you are inundated with advertisements about the strength of the bank and the impeccable service delivery.

You venture to enter the banking hall and you are arrested by the serenity and interior décor before you notice the fact that the young ladies and gentlemen with smiles on their faces are wearing the same colour of dresses as stipulated by the dress code.

source: google.com

But these are mind-bending scenarios carefully put together to create the effect you are getting and encourage you to deposit money which is immediately used to pay staff salaries or pay another depositor who has waited patiently for a long time. Of course, when you return in a few days time to make some withdrawal, you are told to drop your cheque or withdrawal slip and come back.

You will never know the true state of affairs until much later because of the illusions and deceptions already created in your mind and which you are seeing. This is what you will see when you go to 'bank B' which is very sound. However, the balloon has been deflated with the consolidation and capitalization programme as well as the more recent actions of the regulatory authorities which has separated the men from the boys.

THE CAPITAL MARKET (IPO) DECEPTION

With the exception of a few banks which have made their marks on the sands of time with a track record that everybody is seeing, it would seem that there was a grand deception that characterised the Initial Public Offers (IPOs) that several unhealthy banks embarked upon even prior to the CBN- induced capitalization programme.

What reasons were the erring banks giving for going to the capital market? In other words, what did they say they wanted to do with the money?

The standard reasons were as follows:

1. To up-grade information technology capability
2. To carry out branch expansion
3. To provide working capital.

Do you know any of those weak banks that gave a different reason from the above for going to the capital market? We are now left to conclude that those category of banks were approaching the capital market for the same reason. But could that be the case or were there some undisclosed agenda?

The truth of the matter is that most of the banks were technically insolvent and the shareholders no longer had anything to hold on to; in fact they were even indebted to the depositors. This situation was caused by several years of accumulated losses which were dressed-up as profits, coupled with non-performing loans that were presented as performing as well as recurrent expenses that were treated as assets.

Thus, the only way to continue in business was to seek for injection of fresh capital which the existing shareholders did not have. Hence, the money had to be sourced from the general public which did not know the facts; since the banks concerned were involved in similar practices, they gave the same reasons. That was the deception.

...the verification being carried out by the CBN had to do with the sources, propriety or admissibility of the funds that were garnered by the various banks that went to the capital market or did private placement.

In the meantime, it is cheering news that the issue of size has been addressed as twenty four 'big' banks have scaled the hurdle, mostly as consolidated entities. What remains to be looked into is the problem of 'strength' which is obviously more important.

"CAPITAL BASE HAS BEEN RAISED TO N25 BILLION"

If this is a generalized statement, then nothing can be farther from the truth. I suspect that the regulatory authorities smelt foul play, hence, they had to conduct capital verification in the course of the previous consolidation.

However, there were indications that the verification being carried out by the CBN had to do with the sources, propriety or admissibility of the funds that were garnered by the various banks that went to the capital market or did private placement. If that was all that the CBN intended to do, then the major problem was not addressed.

The fundamental issue to be attacked is the accounting manipulation of the books of the banks to show figures that do not exist, just as they do on a yearly basis in respect of published accounts under the fashionable guise of 'window-dressing'. If this is not already being done, then there is an urgent need for the verification and certification of the financial and accounting records of banks to ensure that the share capital figures being advertised are genuine.

It is hoped that the CBN will finally nail the coffin of 'window-dressing' or manipulation of records by some of the banks. The CBN should be able to hook on directly to the 'on-line' computer system of banks and obtain information or verify figures contained in their returns. But you can trust the 'geniuses' in those banks. Which hurdle is too difficult for them to overcome if they have managed to navigate the turbulent waters of consolidation/ capitalization and remain in business.

"CONSOLIDATION WILL CREATE BIGGER BANKS"

This is a logical statement, but in our own environment, what is logical and what is practicable might be strange bed fellows. In the same manner that architectural beauty does not necessarily mean a strong house, the statement needs to be qualified by answering the following questions:

- Which banks consolidated and what was the state of their 'health' prior to consolidation?
- What is the post-consolidation capital base and has it been satisfactorily and comprehensively verified?
- Is there any strong or dominant force in the group or are they all carcasses of dead animals?
- Was due diligence conducted on all or any of the group members?

However, if the issue is "bigger" banks, as contained in the title of the statement, then there is nothing to worry about. Irrespective of the banks that merged, consolidation will produce bigger banks in terms of:

- Greater number of branches
- More staff, numerically
- Greater assets and liabilities (irrespective of quality).

The obvious implica-

> Which banks consolidated and what was the state of their 'health' prior to consolidation? What is the post-consolidation capital base and has it been satisfactorily and comprehensively verified?

The icing on the cake is when the 'big man' gets a banking licence and calls on him to come and head the new bank, perhaps at the age of 35 years when his peers are still at manager or deputy manager level.

tion of the above is that strength and size are different things; in fact, they have very little in common in the present circumstances. It is evident nonetheless, that the regulatory authorities are desirous of creating not only bigger but also stronger banks in the economy but we are not yet there.

"BIGGER BANKS WILL FINANCE BIGGER PROJECTS"

It has already been established from the above discussion that the emphasis should be on "stronger banks" not "bigger banks". The issue is 'strength' not 'size'.

Only stronger banks will finance bigger projects. 'Size' only is of no use. It is deceptive. The CBN is fully aware of this, hence they came up with the programme of consolidation and capitalization to attack the twin problem of proliferation and under-capitalization that was the bane of the banking industry.

In the meantime, it is cheering news that the issue of size has been addressed as twenty four 'big' banks have scaled the hurdle, mostly as consolidated entities. What remains to be looked into is the problem of 'strength' which is obviously more important.

How can a consolidated bank with more than N25 billion capital base be having liquidity problems? Are these the kind of banks that will finance bigger projects? Surely, something must be wrong somewhere which needs to be corrected.

THE 'WHIZ KID' SYNDROME

Unknown to onlookers, one of the major factors that contributed in no small way to the failure of our banking system in the very recent past is the issue of 'whiz kid' bankers; these are young men who rose to the pinnacle of their career without passing through the mill and maturity required to maintain the integrity of the profession. This is without prejudice to the few individuals who are genuinely gifted within the system.

source: office.microsoft.com

The concept of 'whiz kid' has to do with a special talent, knowledge, ability or skill acquired by an individual at an early age which gives him an edge over his peers. In our own banking environment, however, the concept has been bastardized. The aspiring 'whiz kid' simply has a father, uncle, in-law or any other major contact who is a major player in the economy. This gives him access to huge deposits, which he moves from one bank to another as he changes job to the highest bidder, gaining accelerated promotion in the process.

The icing on the cake is when the 'big man' gets a banking licence and calls on him to come and head the new bank, perhaps at the age of 35 years when his peers are still at manager or deputy manager level.

Obviously, this 'whiz kid who is now a chief executive officer has not settled down to learn the rudiments of banking! He is more of a businessman than a professional. The truth of the matter however, is that banking is a profession and not a business. This realization is central to the long-term survival of our financial system as well as the banking profession itself.

(Chuks Nwaze is Managing Consultant, Control & Surveillance Associates Ltd.)*

The Nigerian Telecom Industry: Issues, challenges & prospects

* Sunday Enebeli-Uzor

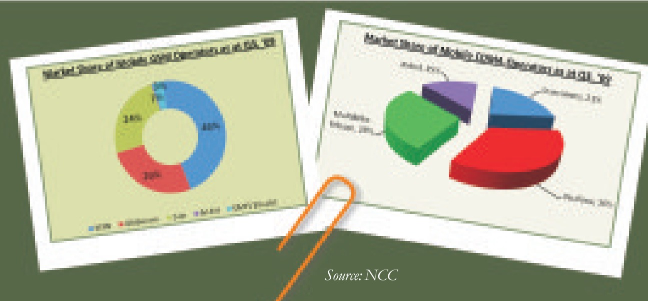
The Nigerian telecommunications industry has grown exponentially since 2001 following the issuance of Global System for Mobile communication (GSM) licences to three operators at a cost of $285million each. Today, it has evolved to become one of the fastest growing in the world and Africa's biggest telecom market. As at February 2010, Nigeria had over 77 million active telephone subscribers, from about 200,000 prior to 2001. Teledensity – the number of telephone lines per 100 people in a country, has risen to 55.04 as at February 2010 from 0.62 in 2001. The positive impacts of the telecom revolution on the economic and social lives of Nigerians have been far reaching. Nigerians have embraced mobile telephony with great enthusiasm and it has affected virtually every facet of life, redefining both the economic and social spheres of the national life. It has also transformed the information economy, enabling Nigerians and Nigerian businesses to compete more effectively in the global market place.

In about a decade, the hitherto moribund industry has grown to become the toast of investors from all over the globe and a major contributor to the GDP, and well-being of the citizenry. Since the liberalisation of the telecommunications industry, there has been a paradigm shift in the trend of Foreign Direct Investment (FDI) inflow into the Nigerian economy. FDI inflow which before now was almost exclusive to the extractive sector (oil and gas) has significantly changed, even though a greater proportion of FDI inflow still goes to the oil and gas sector. As at end 2009, the telecom industry has attracted over $18billion Foreign Direct Investment into the economy. Consequently, the contribution of telecommunications to the nation's GDP improved significantly from 0.62 percent in 2001 to 3.67 percent in 2009. Investments in the sector have also had multiplier effects on other sectors of the economy by triggering an economic chain which has impacted positively on the economy as an aggregate.

The industry has significantly generated employment opportunities in the economy with over 8,000 Nigerians in direct employment, and over three million indirect employments. The top category of indirect employment encompasses individuals who are engaged in equipment sales, infrastructure deployment, advertising, marketing and public relations, and security — individuals involved in the protection of operators' base stations. The second category of indirect employment include persons involved in mobile service reselling, recharge card distributors, retailers, phone booth and umbrella kiosk operators, and street vendors.

In the Mobile GSM segment of the Nigerian telecom market, MTN – the South African telecom firm is the market leader with 46 percent of active GSM lines in the country as at end of third quarter 2009.

The telecom market is dominated by Mobile GSM with over 67.8 million active GSM lines, accounting for about 88 percent of the market as at February 2010.

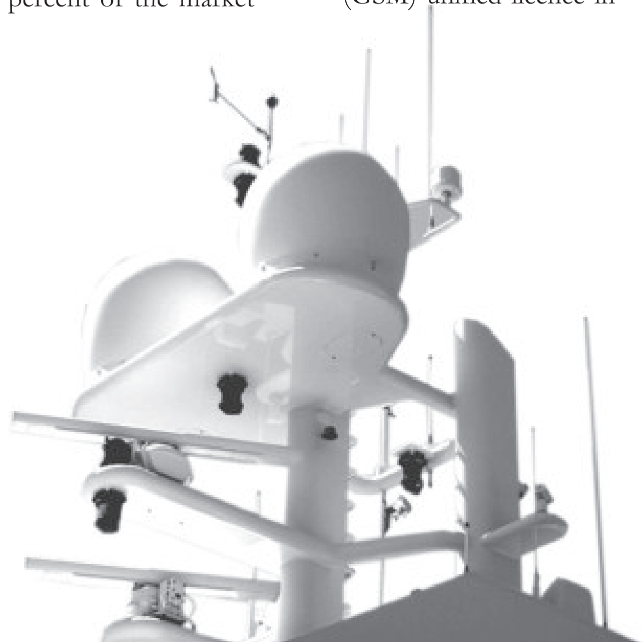


Source: NCC

Market Share and Structure

The telecom market is dominated by Mobile GSM with over 67.8 million active GSM lines, accounting for about 88 percent of the market as at February 2010. Mobile Code Multiple Division Access (CDMA) ranks second in market dominance with about 7.7 million active lines, representing about 10 percent of the total market share. Fixed Wired/Wireless has the least market share with about 1.4 million lines, accounting for about 2 percent of the market share. Total active telephone lines in Nigeria as at February 2010 stands at over 77 million from about 200,000 before 2001, while total installed capacity is now over 148 million.

In the Mobile GSM segment of the Nigerian telecom market, MTN – the South African telecom firm is the market leader with 46 percent of active GSM lines as at end of third quarter 2009. MTN is among the first recipients of Global System for Mobile communication (GSM) unified licence in



February 2001 following the liberalisation of telecommunications in Nigeria. The company launched full commercial operations in August 2001 beginning with Lagos, Abuja and Port Harcourt. Globacom – an indigenous telecom operator and second national carrier ranks second in the GSM segment of the market with 26 percent of the market share. Globacom received its licence as the fourth GSM operator and second national carrier in September 2002. In August 2003, Globacom launched Glo Mobile in Nigeria, pioneering per second billing and introducing lower tariffs.

Kuwait-owned Zain (formerly Econet Wireless, later Vmobile, Celtel) ranks third in market dominance of the GSM segment with 24 percent market share. Zain's licence (then Econet Wireless) is amongst the first to be issued by the Nigerian Communications Commission (NCC) in February 2001, while operations commenced in August 2001. Emerging Markets Telecommunication Services (EMTS), trading in Nigeria as Etisalat – the country's newest GSM operator and holder of the 5th GSM licence controls 3 percent of the GSM market. EMTS is a Nigerian company incorporated under the laws of Nigeria in partnership with Mubadala Development Company and Etisalat of the United Arab Emirates. It acquired the Unified Access licence from the Federal Government in January 2007 and launched services in October 2008. The company's licence includes a mobile licence and spectrum in the GSM 1800 and 900 MHz bands which it obtained at the cost of $400million. Etisalat has been providing telecommunications services in the United Arab Emirates and the Middle East since 1976 and has a 40 percent stake in EMTS and operates the Unified Access Licence in Nigeria.

Source: NCC

Globacom received its licence as the fourth GSM operator and second national carrier in September 2002. In August 2003, Globacom launched Glo Mobile in Nigeria, pioneering pay per second billing and introducing lower tariffs.

The least market share of 1 percent in the GSM segment is controlled by the state-owned M-Tel. M-Tel is amongst the first recipients of unified licence in February 2001. The operator commenced operations in October 2001 and since then, it has been grappling with several technical difficulties which are essentially

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GLO1 submarine cable landing in Lagos. Nigeria, Africa

due to bureaucratic delays and these have impeded its rollout across the country. The moribund state of the parent company – NITEL and its several botched privatisation efforts has no doubt inhibited the potential of the firm.

In the mobile Code Multiple Division Access (CDMA) segment of the Nigerian telecom market, Visafone – an indigenous telecom operator, is the market leader with 36 percent of the market share. Visafone, one of the newest entrants in the market received its Unified Access Service Licence in August 2007 from the Nigerian Communications Commission (NCC) and launched operations in February 2008. It grew fast to become the market leader in the CDMA segment and in 6 months of operation, it had over 1 million subscribers on its network thus achieving an unprecedented feat in the industry as the fastest growing mobile telephone company in Nigeria.

Multilinks-Telkom with 28 percent ranks second in market share in the CDMA segment of the market. It received the Unified Access Licence in 2006 and was acquired by Telkom (Proprietary) International Limited as a wholly owned subsidiary of Telkom South Africa in January 2009. Starcomms with 21 percent occupies the third place in the CDMA segment of the telecom market in Nigeria. Starcomms commercially launched operation in 1999. The company received the Unified Access Licence in 2006 from the Nigerian Communications Commission. ZOOMmobile (formerly Reltel) controls 15 percent of the CDMA segment of the market having commenced full commercial operations in November 2001 under a

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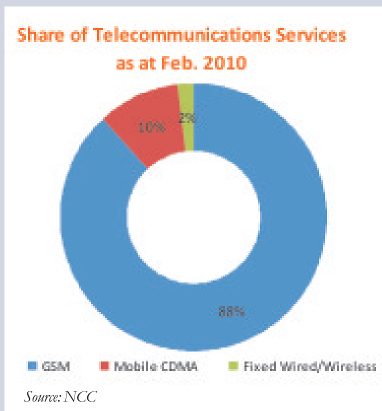
nationwide CDMA licence for wireless telecom services.



Source: NCC

The Regulatory Environment

Telecommunication facilities in Nigeria predate the country's independence. The colonial administration launched public telegraph services connecting Lagos by submarine cable along the coast of West Africa to Ghana, Sierra-Leone, Gambia and on to England in 1886. From 1960 till 1995, telecommunications was made up of two departments; the Department of Post and Telecommunications (P&T) – responsible for internal network, and the Nigerian External Telecommunications (NET) Limited, in charge of external telecommunications services. In 1995 however, the Post and Telecommunications Department was divided into Postal Division and Telecommunications Division. The Telecommunications Division was merged with the Nigerian External Communications Limited (NET) to create the Nigerian Telecommunications Limited (NITEL). NITEL was charged with the responsibility of harmonising the planning and coordination of the internal and external telecommunications services, rationalise investments in telecommunications development, and provide easy-access, efficient and cost

In the mobile Code Multiple Division Access (CDMA) segment of the Nigerian telecom market, Visafone – an indigenous telecom operator, is the market leader with 36 percent of the market share.

effective services to the nation.

The Nigerian Communications Commission (NCC) decree No.75 of 1992 established the Commission to regulate the telecommunications industry in Nigeria. This was as a result of the ineptitude of the state-owned monopoly – the Nigerian Telecommunications Limited (NITEL) to revolutionise the industry and meet the nation's telecommunications needs. The enactment of the decree heralded the liberalisation of the telecomm industry. The Commission was therefore saddled with the responsibility of providing adequate and efficient telecommunications services locally and internationally at affordable prices. In discharging its duties, the Nigerian Communications Commission (NCC) has become the model regulator of telecommunications in Africa. The Commission has received accolade from the International Telecommunication Union (ITU). It has performed its function as a motivator/impartial umpire sensibly and transparently in an investor-friendly legal and regulatory framework. This has engendered confidence in the sector which continues to attract new investors while older operators continue to expand. One area the NCC has met the expectations of stakeholders is its enforcement of best technical standards and mediation in inter operator issues especially interconnect termination rates and interconnectivity.

www.sekhonconsulting.com

The Commission on its part subjected itself to assessment by the various stakeholders (individual consumers, corporate consumers, service agents, and service providers) in the industry in 2006. The findings of the survey gave the Commission a resounding pass mark in several key parameters of assessment. However, telecom consumers think the regulator has not done so well in enforcing tariff reduction in the market. Although the NCC has reiterated that it cannot by fiat fix the tariff regime in the industry, it promised to continue to ensure that consumers get value for money while investors get reasonable return on investment. The Commission has also been criticised for being too concentrated on telephony and its seeming neglect of other aspects of communication such as internet regulation which is responsible for the relatively low penetration in the country.

Infrastructure Challenges – Co-location as the panacea

The major challenge telecom operators have encountered in the country is the dearth of infrastructure to support the industry. Telecom sector, being capital-intensive requires enormous investment to build the requisite infrastructure for its optimal performance. Due to lack of these infrastructures, telecom operators were at inception left to build their own masts, towers, and cell sites. The cost of building and maintaining infrastructure, and the incidence of various taxes associated with their siting combine to push up the operating cost of telecom operations in the country. Besides the huge cost outlay of infrastructure, the unrestricted preponderance of telecom masts and towers have somewhat defaced the airspace, in addition to other environmental concerns.

A sure way to reduce the burden of cost of setting up and maintaining infrastructure in the industry is for the operators to explore the possibility of infrastructure co-location. By co-locating their facilities, the telecom operators will harness various economic advantages that will culminate in cost reduction. The operators can therefore concentrate their attention on their core duties of providing quality services instead of dissipating energy in infrastructure management. Co-location will eliminate the need for telecom operators to maintain in-house expertise to build, operate and service site infrastructure as these would have been outsourced to infrastructure providers. Infrastruc-

ture sharing will also make entry easier for new entrants in the industry while also minimising the environmental impact of over-proliferation of unsightly telecom infrastructure, especially masts and towers that have somewhat defaced the aesthetics of the airspace. The two options available to operators for co-location are operator to operator agreement which involves an operator offering other operators a space in its location to share infrastructure. Third party service provider can provide a site and facilities, for example a tower for one or more operators to mount their equipments like radios and antennas.

The co-location concept has started receiving attention in the industry following the entry of a number of co-location infrastructure providers notably Helios Towers Nigeria (HTN) and IHS Nigeria Plc. Helios Towers recently secured a $30million loan from the African Development Bank Group to finance the Helios Shared Telecom Infrastructure Project in Nigeria. The project consists of a nationwide expansion of a shared telecommunication infrastructure network. Helios Towers also last year secured a $100million investment from the World Bank's International Finance Corporation (IFC) as part of a $250million capital injection that will help the company increase its network to 2,000 sites nationwide. Industry analysts put the nation's base stations requirements at 40,000, whereas there are currently 16,400 base stations made of 14,000 and 2,400 for GSM and CDMA operators respectively.

Besides the shortage of physical infrastructure, there are still a number of challenges facing the Nigerian telecom industry. For instance, the dearth of requisite technical manpower poses a serious challenge and this has led to the predominance of foreigners in the industry. Being a relatively new bourgeoning industry, the nation's educational sector has not kept pace with producing manpower for the industry. The prevalence of foreign nationals in the industry has obvious adverse effects on the economy especially the repatriation of wages. Wages that would have been domesticated are repatriated to the home country of expatriate workers thus creating a leakage in the economy. Another challenge operators face is the incidence of multiple taxation. Inadequate power supply is also a major challenge for operators as almost all the cell sites in the country are powered by electric generators.

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Interconnectivity and Tariff issues

Two main challenges telecom consumers faced at the onset of mobile telephone roll out in the country are interconnectivity amongst operators and high tariff regime. Although the former has with time somewhat been ameliorated, the later is still a cause for concern as it is generally believed that mobile telephone tariff in Nigeria is high. The operators claim that the cost of providing telephone services in the country is enormous, considering that almost all the cell sites run on electric power generators. The cost of fuelling and maintaining these generators push up the operating cost which in the long-run is transferred to subscribers as high tariff. Industry analysts claim that cost of power accounts for over 30 percent of the total cost incurred by operators. The operators also are saddled with the responsibility of building and maintaining their infrastructure whereas in the other climes, these infrastructure already exist. The regulatory agency for the industry – the NCC, has been called upon severally to prevail on the operators to reduce their tariff. The NCC however insists that it cannot fix tariff for operators as this will discourage investment in the industry. It however says that its duty is to ensure that subscribers are not ripped off by operators while operators also get reasonable return on investment to encourage further investment in the industry. The NCC has demonstrated its preference to allow market forces dictate the tariff regime.

The outcry of subscribers concerning high tariff and quality of service has at several ocassions attracted the attention of the nation's legislature especially the upper chamber in the exercise of its oversight functions. The nation's Senate has tried to prevail on the operators to improve the quality of their services and reduce their tariff by 10 percent. The supervisory ministry for the industry – Ministry of Information and Communications has also on several occasions called for the reduction of tariffs in the country. Although these efforts have not yielded the desired outcome, moral suasion is still the most appropriate means to engage the operators as any method otherwise could be counterproductive.

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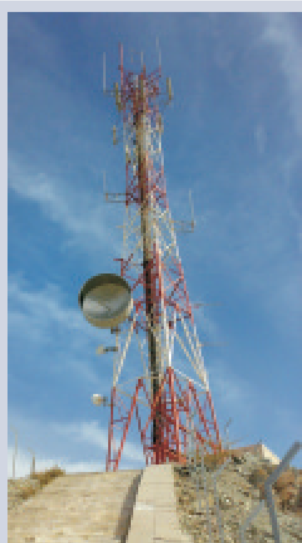
SIM Registration and Number Portability

In a bid to sanitise the industry, the Nigerian Communications Commission (NCC) recently introduced two reforms – SIM registration and number portability. The NCC had initially set commencement dates of January 2010 and May 2009 for SIM registration and mobile number portability respectively. But technical hitches have delayed both exercises from taking off. Consequently, the commencement dates have been moved several times. The SIM registration exercise requires new subscribers who wish to purchase and activate mobile phones to have their photographs and finger prints taken by their operators for proper identification. Existing owners of active telephone lines which are not properly registered will also be required to submit themselves for the same purpose in the near future. Currently, a SIM (subscriber identity module) for prepaid phone users are completely anonymous, allowing phone scams and other associated crimes to go unchecked and difficult to trace. While post-paid subscription require strict compliance with documentation for identity verification purposes, prepaid users are completely anonymous; and a huge chunk of phone subscribers are on prepaid packages.



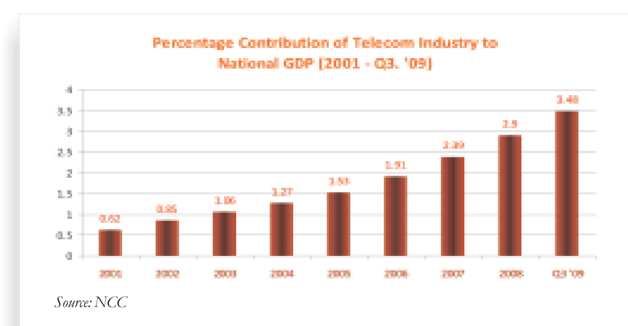
There is a huge gap between urban dwellers and those living in the rural communities. Telephony has been overly concentrated in urban areas, leaving out rural dwellers who also crave to be connected.

Number portability (NP) allows for convenient switching between service providers without changing telephone number. It offers immense benefits to subscribers as they can more easily change service providers without having to notify all their contacts of a number change. Telecom service providers have not been favourably disposed to number portability at least for now and are asking for time to enable them resolve issues of interconnectivity, robust infrastructure and billing method before implementation. They argue that it took South Africa 12 years to implement number portability, and that the United Kingdom introduced number portability many years after the launch of its GSM. The NCC however admits that the technical and operational aspect of its implementation can be quite challenging but insists on number portability as a means of enforcing quality of service, customer care, wider network coverage, low tariff, and value added services for subscribers.

Going Forward: More room for growth

At 55.04 teledensity, and a population exceeding 150 million people, the telecoms industry still has enormous room for growth. Although the Nigerian Communications Commission has ruled out issuing new licences for now, it however says if there are new technologies and market niches where new operators want to fill, they will be brought on board. Existing operators still have a large market to cover as barely half of the market size has been reached. Enormous oopportunities also abound in the provision of infrastructure and other fixed assets for the purpose of co-locating operational facilities as operators are beginning to embrace the concept. Another major area of opportunity for investors in the Nigerian telecom market is in the provision of Fixed Wire/Wireless lines. As at February 2010, active Fixed Wire/Wireless lines stood at about 1.4 million, accounting for only about 2 percent of total active telephone lines in the country.

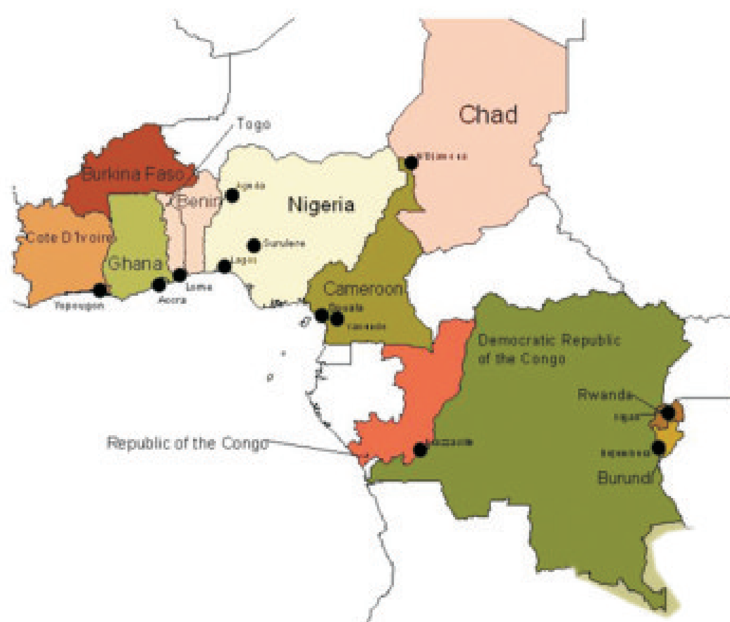
Local production of telecom accessories is one area that is yet to be explored in the Nigerian telecom market. Presently, almost all the accessories used in the industry are imported. The government has also sought to actively encourage the production of telecom accessories in the country. Since the exponential boom of the telecom industry in Nigeria, there exists an asymmetry among telephone users across the country. There is a huge gap between urban dwellers and those living in the rural communities. Telephony has been overly concentrated in urban areas, leaving out rural dwellers who also crave to be connected. Rural telephony therefore is still an untapped segment in the telecom market and holds enormous opportunities.



Source: NCC

Telecommunications is perhaps the most functional and reliable public social infrastructure in Nigeria today. It now lies at the heart of the information economy which and has redefined the social and economic landscapes. Telecommunications has enabled Nigerian businesses to compete effectively in the global economy. The country is strategically positioned in the global telecom market because of its size, and Nigerians have embraced mobile telephony with the greatest fervor. The socio-economic impacts of mobile telecommunication have been revolutionary and the industry is yet to reach its peak.

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



Private-Public Dialogue in West Africa: Moving Beyond the Financial Crisis Toward Democratic development

*** By Dr. Charles Mensa**

The Financial Crisis in West Africa

Although the impact of the financial crisis in West Africa has not been as severe or as immediate as in the United States or Western Europe, it has affected local economies, governments, and citizens alike. To better understand the effects of the crisis, it is important to properly recognize the regional context.

West Africa is not well integrated into the world economy. Its trade and economic structures still resemble those that were in existence during the colonial period, with the region largely seen as a supplier of natural products and raw materials. Today, the bulk of the region's economies still focus on exporting cocoa, timber, gold, and similar goods.

West Africa is not very integrated into the global financial system, so a severe global financial crisis did not have an immediate impact and, at first, was not as dramatic as in other regions. After some delay, however, the financial crisis has begun to have an impact on West African economies – namely through remittances, manufacturing, and financing for business.

According to the Bank of Ghana, remittances fell by

10 to 15 percent over the last year. This trend has been similar for other countries in West Africa as nationals abroad who send money home to support their families have been victims of recession lay-offs in their adoptive countries. Remittances play an important role in shaping economic conditions in Africa – in Ghana alone they amount to approximately $5 billion per year.

Although manufacturing in West Africa has not developed to its full potential – the region still primarily relies on exports of natural resources rather than more developed value-added products – it still has suffered as a result of the recent global economic downturn. Exporters of natural resources as well as existing manufacturers have been negatively affected by the financial crisis, especially those manufacturers who focus on producing goods for exports.

The weaknesses in financing for business have been particularly damaging to the prospects of recovery. Many financial institutions in West Africa are closely tied to parent companies in Europe. As the likes of Barclay and Société Générale deal with the aftermath of the financial crisis, they have cut lending not only at home but in African countries as well, making it harder for new and existing businesses to access credit and financing.

source: www.guardian.co.uk

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In isolation, these three factors may not seem significant. Yet, combined they have been powerful enough to slow down the growth of West African economies, create high unemployment, and force governments to cut back on key services.

Perceptions of Democracies and Market Economies

Beyond the immediate economic impact on countries in West Africa, the crisis has a potential to change attitudes towards democracies and market economies. History shows that when a country suffers from a crisis – especially an economic one – democratic and economic freedoms are often among the first casualties.

In times of economic uncertainty there are always those who question the ability of democracy to solve the crisis and the power of the market economy to build prosperity. They claim that the

democratic and market system itself is to blame for the current dire situation. This line of thought overlooks the concrete issues that caused the crisis and that can be addressed through reform.

As the crisis starts unfolds, some immediately posit that if a dictator had been in power, things would have been better. They argue that in a crisis strong leaders must run governments and economies and make tough decisions. When times are difficult this is precisely what politicians who are not interested in competitive politics, or who have lost elections, say.

Despite such voices, citizens of West African countries are not yet demanding change away from the market economy and democratic government towards some form of a dictatorship.

Despite such voices, citizens of West African countries are not yet demanding change away from the market economy and democratic government towards some form of a dictatorship. While West Africans recognize some shortcomings of the market economy exposed in the financial crisis, they are not arguing for abandoning it altogether. Additionally, there is no significant push against democracy. They are, however, discovering a place for a stronger role of government.

There is one key difference between a strong man argument and stronger governments. The latter does not require the former. Stronger governments arise from strong institutions that make things work regardless of who is in power. In the end it is the institutions that endure; it is the institutions that outlive particular leaders, strong or weak.

Dealing with the Crisis: Public Sector Responses

Government leaders in West Africa have to understand two things regarding the financial crisis: it has largely been caused by the outside factors, and that economies in West Africa have been affected differently from those in the United States or Europe. The public sector response in West African countries cannot simply copy policy solutions adopted elsewhere. In the case of the United States and Europe, for instance, governments stepped up to boost aggregate demand through increased spending, but in

West Africa's leaders have been made to believe that there is no role for governments when it comes to business; they should just leave business alone and the private sector will build everything their countries need.

African countries, few have the same capacity.

Some governments have relied on the International Monetary Fund and World Bank loans to meet the challenge of boosting demand and expanding credit. As West African countries are looking for international agencies to borrow from, their internal debt crisis only worsens. It may not be the most appropriate solution but under the circumstances few other immediate options exist.

Increasing government spending is one type of a response. As the governments borrow more, it is increasingly evident that West African economies have not grown as much as they should have, even after decades of borrowing money and taking instructions from international financial institutions. There must be a better choice to deal with long-term growth issues, not just the immediate needs of alleviating the effects of the crisis.

In this regard, West African economies should look to what East Asian countries have done over the long-term. This does not mean copying exact policies, but rather learning valuable lessons from their overall development strategy by asking the right questions: How did they grow their economies? Why have they been so successful? East Asia has a number of interesting answers.

The major lesson is that the region's governments have been active in developing their economies. In Africa, governments have often misinterpreted the advice from the international community to advance free markets. They took it to mean that they should abdicate their responsibilities, sit back, and watch the economy run itself. That is not how market economies work. To function properly, economies need infrastructure – both physical and institutional – that must be provided by governments.

At the other end of the spectrum some African governments exercise too much control over the economy, such as Zimbabwe or Ethiopia. Excessive interventionism and a constricting grip on the economy has been a common theme in many countries, undermining competitiveness and entrepreneurship. The key is finding a balance – proactive governments to create institutions that allow a market economy to function without stifling economic potential.

There are many institutional changes that governments in West Africa will have to undertake to help the private sector grow. The most important one is a mentality change.

West Africa's leaders have been made to believe that there is no role for governments when it comes to business; they should just leave business alone and the private sector will build everything their countries need. This is a mistaken approach. East Asia has shown that there is a constructive role for government and that, in fact, the market economy needs effective government to create a business-friendly climate, provide rule of law, and encourage entrepreneurship. That is the lesson many African countries still have yet to learn.

Building Stronger Economies for the Future

As a result of poor governance and stifled markets, Africa remains plagued with lost economic potential. Gold may be sitting in one region while there is a port just 100 miles away with no railroad to connect them. When African governments hear of free markets, some of them think it is the role of a private company to develop the infrastructure to move that gold to the port. Governments,

however, must be more proactive and facilitate the development of the infrastructure necessary for economic activity: roads, railroads, ports, and airports.

Areas that the private sector does not have the capacity to develop, but are necessary for the economic development of countries, demand government leadership. Governments must be more responsible for leading, not simply sitting back and doing nothing. Part of this is recognizing the needs of the private sector, especially the small and medium-sized enterprises (SMEs) that often contribute most to job creation even as they face the burdens of weak infrastructure, overregulation, and limited access to credit.

There are many institutional changes that governments in West Africa will have to undertake to help the private sector grow. The most important one is a mentality change. Fifty years ago, African governments looked for a foreign investor to request a concession to mine gold or some other commodity in exchange for a percentage of profits as royalties. They did not feel that they needed to shape the conditions conducive for development of local businesses. Decades have passed and many governments have not changed.

The global financial crisis has clearly demonstrated that the time to act is now. There must be more value added locally to natural resources through domestic industries to transform those resources into more advanced products. Rather than exporting raw cocoa or rubber, West Africa should be exporting chocolate or tires. That is the key to creating better jobs, acquiring technical know-how, and developing competitive economies that can better handle future crises.

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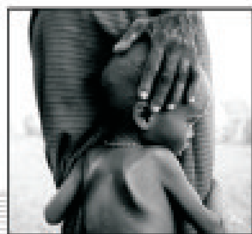
Governments can do much to support the development of the manufacturing base. They should facilitate growth by providing tax exemptions to businesspeople, especially on the importation of equipment to build factories and turn raw materials into manufactured products. Governments should also work with banks to provide loans for manufacturing companies at a discounted rate. In Ghana, and many neighboring countries, borrowing from a bank carries an interest rate of about 35 to 40 percent. Few enterprises – and certainly no SMEs – can afford that, especially



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given short repayment schedules. In some countries such as Liberia, citizens do not even have the ability to borrow. Banks may only take deposits and buy government bonds, preferring not to risk loans to the private sector at all.

Governments will have to learn what kind of incentives they can offer to create a private sector that can grow and become a foundation for a strong manufacturing base in the region. Locally owned SMEs are the key but they must become sustainable and employ more people. Making access to credit easier is crucial to increase the competitiveness of the SME sector. Multinationals are unlike SMEs; they have no need to borrow domestically so high local interest rates do not affect them. As the economy worsens, multinationals do not suffer as much as SMEs. With much deeper pockets and with ability to borrow back home, they gain a competitive edge. Better access to local lending is needed to level the playing field.

The Role of Private-Public Partnership

One common problem of advancing public-private partnerships in West Africa comes down to unmet and poorly communicated expectations. The region's governments often expect the private sector to address all economic development

source:google images

challenges. On the other hand, the private sector expects governments take on a greater burden of development and reform so that it can survive and grow. The two sides frequently do not talk to each other, or if they do, they fail to discuss the issues productively.

The government, the private sector, and the public must work together. Although stakeholders have tried for 50 years, they have met with only small successes.

Governments must learn to appreciate and understand the problems of the private sector and also recognize their own responsibilities. Efforts must move beyond the conversations between ministries and business executives and think more constructively about engaging the broader business community into a closer dialogue with political parties and parliaments.

Voluntary business associations, chambers of commerce, and independent economic think tanks can be important conduits in this dialogue. Individual businesses – and especially SMEs – lack the capacity to communicate their needs and concerns to policymakers. When they join a larger business organization, they gain a voice in democratic discourse they would otherwise lack and together they can advocate for change.

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Associations are a beneficial advocacy tool for several reasons. First, advocacy through well-functioning associations has to extend beyond

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This is the essence of private-public partnerships: coming together to figure out solutions to common problems. It does not mean a focus on individual projects, such as building one road or a school or a hospital. The focus must be on building lasting organizational relationships, not just personal contacts.

source:www.buildafrica.org

interests of an individual company (often called rent-seeking) and has to focus on identifying common barriers to doing business. This is a prerequisite to building broad-based coalitions for reform. Second, well-functioning associations can gain greater visibility in the policymaking process than any individual company, because they can have what companies do not – hundreds and hundreds of voices all supporting the cause. Finally, associations help de-personalize advocacy, deflecting attention from individual companies towards broader issues.

Too often the private sector will log complaints about inefficiencies or poorly functioning services in their country, with the expectation that the government will improve or fix it. The private sector must change its mentality and the manner in which it approaches reform. Rather than coming forward with a list of complaints, the business community should develop a set of concrete reform recommendations and proactively advocating for their implementation.

source:educatingafricaschildren.org

In Ghana, an example of how the private and public sectors can talk constructively developed in the run-up to the 2008 elections. The Institute for Economic Affairs organized a number of pre-election presidential and parliamentary debates where candidates could openly discuss their platforms and focus on issues that matter to the public and the business community. Over 10 million people watched the presidential debates on television and about 8 million listened over the radio, with close to 650 people attending the debates in person.

This is the essence of private-public partnerships: coming together to figure out solutions to common problems. It does not mean a focus on individual projects, such as building one road or a school or a hospital. The focus must be on building lasting organizational relationships, not just personal contacts. The focus must be on achieving a systemic change. We need the private sector and governments to learn how to work together to solve some of the broader institutional problems, so that they become partners in growing stronger economies, creating jobs, nurturing wealth, and building a brighter economic and democratic future.

We are grateful to CIPE for permission to publish this article.

(Dr. Charles Mensa is the founder and chairman of The Institute of Economic Affairs (IEA), Ghana. He is also the CEO of Volta Aluminium Company (VALCO) the largest aluminum smelter in sub-Saharan Africa, the chairman of Barclays Bank of Ghana, and of the University of Cape Coast.)*

Nigeria - Thailand TRADE RELATIONS: BRIDGING THE GAP

*** By Charles Ujomu**

Thailand undoubtedly has one of the most proactive and ambitious trade policies not only in Asia but in the world. The country has aggressively pushed to increase its share of the world's trade market (especially exports) by means of establishing a healthy collection of bilateral as well as regional Free Trade Agreements (FTAs). At present, trade relationships between Nigeria and Thailand are concentrated on rice exports, as Nigeria is consistently a top three importer of Thai rice and indeed the biggest African importer of the product. Currently, some Thai companies are planning to invest in the power and gas sector in Nigeria. These companies plan to construct power, petrochemical and fertilizers plants among others. Nigeria, the 7th largest proven reserves of Natural Gas (LNG) in the world, is naturally seen as a good market for the export of Liquefied Natural Gas to Thailand especially as this caters for the Thai's manufacturing industry. Interestingly, a good relationship between the two countries would be a great complement as both Nigeria and Thailand stand to mutually benefit from each other in varied and diversified ways. Already, Nigeria is considered as an alternative market and a jump of point for Thailand based companies seeking to expand their markets in Africa. Economic experts are of the view that medical, manufacturing, hospitality and tourism and agriculture sectors among others are other potential investment areas that both countries could explore.

Nigeria Vs Thailand: Physical and Demographic Features

Thailand, a Southeastern Asia country, covers the area of approximately half a million square kilometers, a size comparable to that of Spain. Nigeria is about 1.8 times bigger than Thailand in terms of total land square kilometers. Thailand's population is around 66.40 million, and according to the Institute of Population and Social Research Mahidol University, almost 15 percent of whom work and reside in Bangkok.

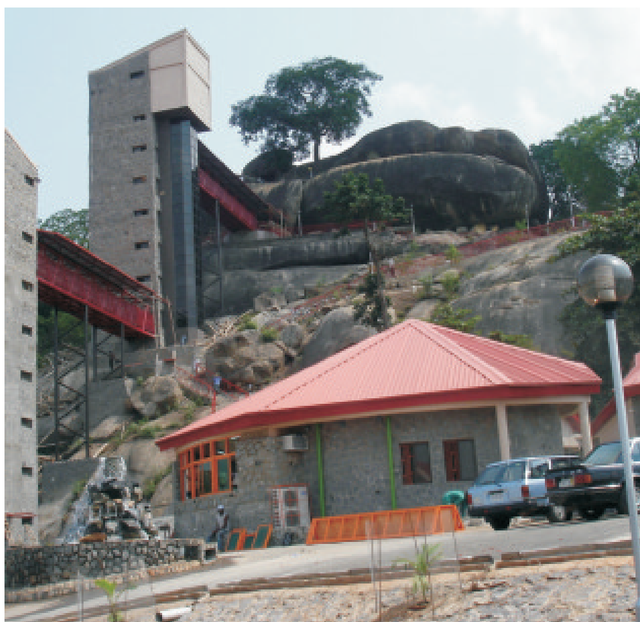
Change in demographic structure is a major factor contributing to human resources development which in turn strengthens economic development. One striking feature of the Thai demographic structure is its changing nature. The country's demographic structure is changing to aging society in the near future of 20 years. Also, the fertility rate has slowed down, dropping from about 6 percent in 1965 to a current position of 1.6 percent. The country's birth rate fell from 35 per 1,000 population in 1976 to 12.5 per 1,000 population in 2009. Thailand's highly successful government-sponsored family planning programme has resulted in a dramatic decline in population growth from 3.1 percent in 1960 to less than 1 percent (0.6 percent) today. The continuous rise in the country's life expectancy is a positive reflection of Thailand's efforts at public health education. Nigeria with a total fertility rate of 4.91 children born per woman compared to Thai's 1.65 has a population growth rate that is over 3 times higher than that of the Thais. The Nigerian health care system is laden with challenges like poor infrastructures as a result of long years of neglect of the institution and maladministration among others. Nigerian government is however embarking on various reforms in the country's health sector in a bid to reposition it and give it a global status.

Life Expectancy at Birth

Year	Nigeria	Thailand
2003	51.01	71.24
2004	46.74	71.57
2005	46.74	71.95
2006	47.08	72.25
2007	47.44	72.25
2008	46.53	72.83
2009	46.94	73.10

Source: indexmundi

Thailand's population is relatively homogenous and unlike Nigeria, more than 85 percent speak a dialect of Thai and share a common culture. The country's population is mostly rural, concentrated in the rice-growing regions of the central, northeastern and northern areas. This is however changing as Thailand continues to industrialize, its urban population is on the rise. It is also important to note that all Thai population is under the universal health care coverage policy. All children in the country have access to free medical services and they include: disease prevention, curative and rehabilitation and health promotion among others. Thai's average life expectancy at birth of about 70 years is not unconnected to her relatively robust health care system. Unlike Nigeria, hospitals in Thailand are technically supported by the Departments of Medical Services and Mental health. The departments give help to children with physical and movement disability and also assist children with



Olumo Rock, Abeokuta, Nigeria

intellectual, learning disability and behavior problems. In Thailand, there are district hospitals that take major role in community based rehabilitation by cooperating with local authority, some existing groups, schools and social welfare workers in communities to improve the quality of life of the people.

Nigeria Vs Thailand: Economies

The roots of Nigeria and Thailand economies are firmly planted in their rich natural resources and agricultural advantages. The two countries, no doubt, share some similarities in these areas and their economies have over the years evolved immensely in various aspects. Thailand boasts of a well-developed infrastructure, a free-enterprise economy, pro-investment policies and robust export industries. From a primitive agricultural economy, Thailand is quickly becoming a newly industrialized country. The success story of the continuous and extensive growth of the Thai economy in the last five decades is attributed to several factors. High employment and productivity, capital accumulation and technological progress, international trade and foreign direct investment among others have helped the Thai economy grow over time. Agriculturally, Nigeria has been a fertile land and one of the major cash crop producing lands of Africa. About two-third of the country's rural population is dependent on agriculture with it serving as the major source of income for them. The presence of wide natural resources in Nigeria has continuously attracted foreigners and traders from different parts of the world into the country. The rich deposits of oil and petroleum have also served as the major revenue source for the country over the years.

Traditionally, Nigeria's and Thai's economies are agrarian in nature. Thailand's agricultural sector has since expanded to cope with the demands of its newly industrialized status. About 42.4 percent of Thailand's labour force is employed in agriculture compared to Nigeria's 70 percent. Thai agriculture has a clear advantage over other newly industrializing economies due to its large portion of land allocated for cultivation, a climate suited to the growth of a wide variety of crops and high quality strains of

Physical & Demographic features

Index	Nigeria	Thailand
Population (millions)	149,229,090	66,404,688
Total Fertility Rate	4.91 Children Born/Woman (2009 est.)	1.65 Children Born/Woman (2010 est.)
Population Growth Rate (%)	1.99%	0.60
Life Expectancy at Birth:		
Total Population (years):	46.94	73.36
Male (years):	46.16	71.02
Female (years):	47.76	75.82
Land Area:		
Total (sq. km)	923,768	513,120
Land (sq. km)	910,768	510,890
Water (sq. km)	13,000	2,230
Land Boundaries (km)	4,047	4,863
Irrigated Land	2,820	49,860

Source: World Fact Book 2009

Thailand boasts of a well-developed infrastructure, a free-enterprise economy, pro-investment policies and robust export industries. From a primitive agricultural economy, Thailand is quickly becoming a newly industrialized country.

agricultural products. Agricultural contribution to the national income or gross domestic product of the Thai economy has dropped from about 40 percent in the 60s to 12.3 percent. This contribution consistently declined due to the intense and rapid growth of the manufacturing sector. These figures however do not indicate a weakening of the sector's importance to the Thai economy, but more a strengthening of the industry and service sectors. Agriculture still accounts for 4 of the country's top exports— rice, canned fish, frozen or chilled shrimp, and rubber— and continues

GDP Real Growth Rate

Year	Nigeria	Thailand
2003	3.00 %	5.20 %
2004	7.10 %	6.70 %
2005	6.20 %	6.10 %
2006	6.90 %	4.50 %
2007	5.30 %	4.80 %
2008	6.40 %	4.80 %
2009	5.30 %	2.60 %

Source: index-mundi

to serve as the foundation of booming manufacturing ventures such as food processing. Processed food such as canned fruits, vegetables, seafoods, and ready-to-eat meals, also enjoy a healthy domestic market, along with sugar and flour.

Although Nigeria depends on the oil industry for its budgetary revenues, the country is still an agricultural society. Of about 150 million population, the sector employs about 70 percent but they engage in agricultural production at a subsistence level. The contribution of agriculture to GDP in Nigeria has drastically dropped especially in the last 5 decades. This decline began with the advent of the petroleum boom in the early 70s. This has brought about a distortion and invariably produced adverse effects on the levels of production for both cash crops and food. Poor incentives to farmers by the country's successive governments have not only made agricultural work unattractive but have reduced the fortunes of the sector in the country. As a result, food production could not keep pace with its increasing population hence the increasing reliance of food imports. This also reflects the huge import bills of about $3 billion annually. The current administration has however made agriculture one of the highest priorities of its economic policy and it is expected that this would impact positively on the growth of the industry in the future.

Thailand's increasingly diversified manufacturing sector is the largest contributor to the country gross domestic product. The country's industries contribute about 44 percent to its national income and employ an approximately 19 percent of the country's labour force. Some of the industries products are computers and electronics, furniture and wood products, canned food, plastic products and jewelries among others.

Thailand's increasingly diversified manufacturing sector is the largest contributor to the country's gross domestic product. The country's industries contribute about 44 percent to its national income and employ approximately 19 percent of its labour force. Some of the industries products are computers and electronics, furniture and wood products, canned food, plastic products and jewelries among others. High-technology products such as integrated circuits and parts, hard disc drives, electrical appliances, vehicles, and vehicle parts are now leading Thailand's growth in exports. In the 60s, the first move into Thailand's industrialization started which was charac-

Key Economic Indicators: Nigeria and Thailand

Indicators	Nigeria	Thailand
GDP (PPP, US$)	357.2 billion (2009 est.)	538.6 billion (2009 est.)
GDP - Real Growth Rate (%)	5.0 (2009 est.)	-2.8 (2009 est.)
GDP Per Capita (US$)	2,400 (2009 est.)	8,100 (2009 est.)
Labour Force (million)	47.33 (2009 est.)	38.24 (2009 est.)
Labour Force By Occupation:		
Agriculture (%)	70	42.4
Industry (%)	10	19.7
Services (%)	20	37.9
Investment (% of GDP)	17.1	21 (2009 est.)
Inflation Rate (%)	11.50 (2009 est.)	-0.9 (2009 est.)
Oil Proved Reserves	32.82 billion	441 million
Natural Gas Production	34.10 billion cu m	28.76 billion cu m
	5.21 trillion cu m	317.1 billion cu m
Natural Gas Proved Reserves		
Current Account Balance (US$ billion)	-9.39 (2009 est.)	20.29 (2009 est.)
Exports (billion f.o.b.)	45.43 (2009 est.)	150.9 (2009 est.)
Exports Commodities	Petroleum and Petroleum Products 95%, Cocoa, Rubber	Textiles and Footwear, Fishery products, Rice, Rubber, Jewelry, Automobiles, Computers and Electrical Appliances
Exports Partners	US 42%, Brazil 9.5%, India 9%, Spain 7.3%, France 5.1% (2009 est.)	US 10.9%, China 10.6%, Japan 10.3%, Hong Kong 6.2%, Australia 5.6%, Malaysia 5% 131.5 (2009 est.)
Imports (billion f.o.b.)	42.1 (2009 est.)	131.5 (2009 est.)
Imports Commodities	Machinery, Chemicals, Transport Equipment, Manufactured Goods, Food and Live Animals	Capital Goods, Intermediate Goods and Raw Materials, Consumer Goods, Fuels
Imports Partners	China 16.1%, Netherlands 11.3%, U 9.8%, UK 6.2%, South Korea 6.1%, France 5.1%, Germany 4.4% (2008)	Japan 18.7%, China 12.7%, Malaysia 6.4%, US 6.3%, UAE 5%, Singapore 4.3%, south Korea 4.1% (2009 est.)

Source: CIA Fact book

terized by import substitution. Hence, a new Industrial Promotion Act in the country in the early 70s indicated a shift in government policy to an export-oriented economy. This new focus began the rapid diversification of the sector which brought about the emergence of many industries. On the other hand, Nigeria's manufacturing industry has been adversely affected over the years and its capacity utilization remains low due to several factors. High cost of production that result from poor infrastructure, power failure and inadequate finance among others have hugely slowed down the sector's contribution to the country's gross domestic product.

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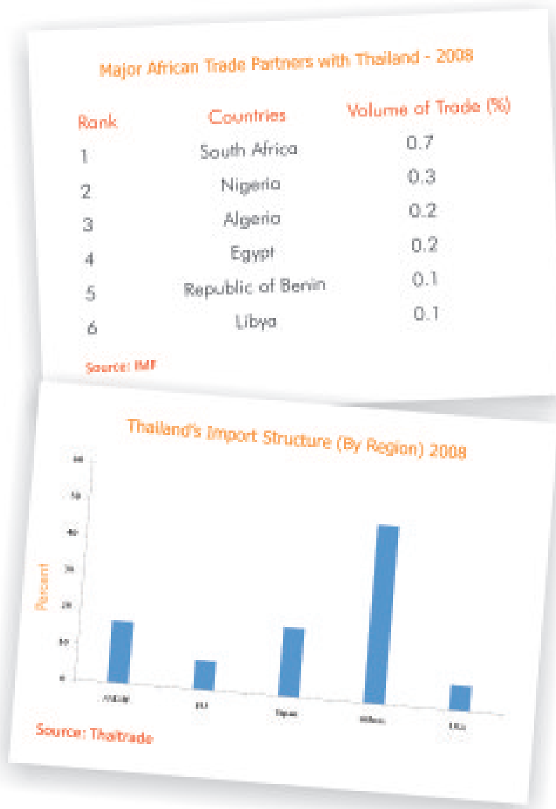
Nigeria's services sector, the second largest employer of labour in the country, faces some challenges that have over the years affected the output of the industry. Poor power generation and 'brain drain' among others are affecting the potentials of the industry. Nigeria's services industry includes among others financial services, health related services, hotels and restaurants. Thailand's services sector on the other hand is experiencing steady growth, with boom especially in the tourism industry. The presence of the multinational corporations and their activities in the country are key growth impetus that has helped expand the industry and consistently boost the level of investments in the country.

Nigeria Vs Thailand: Trade Relations

The trade scenario of Nigeria has received a great impetus for some time now due to the establishment of bilateral ties with other countries. The country's international trade plays an important role in its entire economy and efforts are being made to extend trade relationships and diversify exports. Nigerian exports currently remain dominated by oil and petroleum products while the country's imports include machinery, manufactured goods, chemical product and transport-related and food items. Among Thailand's major trade partners, Nigeria ranked 32nd in the



Major African Trade Partners with Thailand - 2008

Rank	Countries	Volume of Trade (%)
1	South Africa	0.7
2	Nigeria	0.3
3	Algeria	0.2
4	Egypt	0.2
5	Republic of Benin	0.1
6	Libya	0.1

Source: IMF

Source: Thaitrade

Thailand's major trade partners, Nigeria ranked 32nd in the world and 2nd in Africa behind South Africa at the end of 2008. Further analysis shows that while South Africa's trade volume with Thailand in 2008 was approximately 0.7 percent of the total world trade volume, Nigeria's recorded a 0.3 percent (about 602.6 million euro).

world and 2nd in Africa behind South Africa at the end of 2008. Further analysis shows that while South Africa's trade volume with Thailand in 2008 was approximately 0.7 percent of the total world trade volume, Nigeria's recorded a 0.3 percent (about 602.6 million euro). Algeria, Egypt, Republic of Benin and Libya are other key African trade partners with Thailand. The above analysis is a reflection of a huge trade gap between Nigeria and Thailand and further indicates a need to build robust trade relations between the two countries.

There exists a wide gap between Nigeria and Thailand in the area of trade (exports and imports). Despite Nigeria being the largest importer of Thai rice, the volume of exports and imports between them is currently very low. The need for Nigeria to broaden its economic ties with Thailand even far beyond trade is highly pertinent especially as both countries could create a platform for this robust relationship. Apparently, bridging the bilateral trade between the two countries would not only make Nigeria a multiple export product country but it would help enhance the level of trade between Nigeria and Thailand. Interestingly, increasing Thailand investments in power generation, infrastructure, and agro-allied businesses among others is considered imperative as this would improve the country's industrial base.

Nigeria-Thailand economic ties need to hit a new height, stemming from the current trade agenda of Nigerian administration to build or further solidify existing socio-economic relations with countries across the globe. This upgrade should be viewed as a necessity that would boost healthy bilateral economic ties between the two countries.

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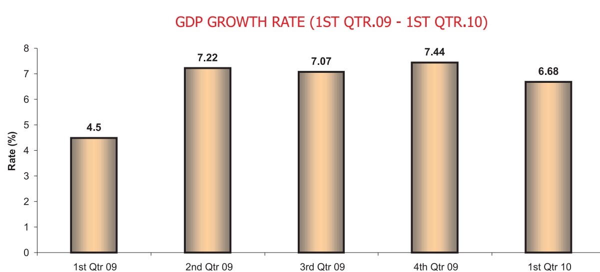
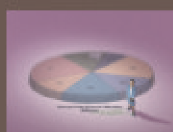
Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian economy in the first quarter 2010, recorded a 'mild recovery' in several parameters. Some of the indicators got off to a promising start, while others, are still finding their bearings. Inflation, for instance, eased in the first quarter; while the Monetary Policy Rate remained steady all through. The nation's currency, the naira, was stable against other major world currencies. In the capital market, stock prices surged, after a prolonged slumber, with the bulls dominating activities. Gross Domestic Product (GDP), however, contracted slightly, but still higher than expected. A lifeline for the nation, the foreign exchange reserves, shrank during the quarter. In the international crude oil market, prices wobbled up and down but recovered to record some highs.



Source: CBN, National Bureau of Statistics

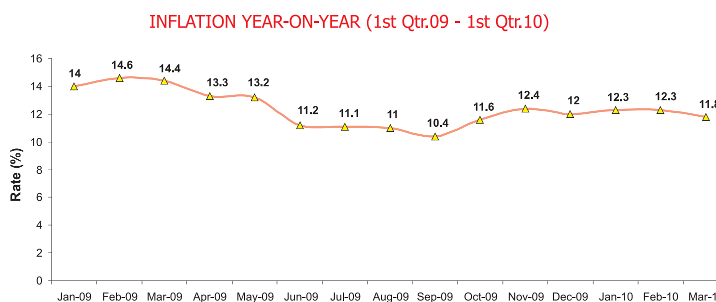


GROSS DOMESTIC PRODUCT

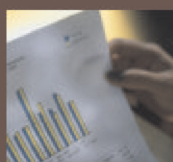
Gross Domestic Product (GDP) began the first quarter with a seasonal dip at 6.68 percent, slumping from the 7.44 percent recorded in the preceding quarter. Real GDP growth continued to be driven by the non-oil sector. Despite being the period of land preparation and planting season across most parts of the country, agriculture continued its dominance as major contributor to GDP. For the oil sector, the benefits of the amnesty deal embraced by the Niger Delta youths have continued to yield positive returns, with production jumping by 30.4 percent between February and March. Real GDP for 2010 has been projected at 7.53 percent, a marked improvement when benchmarked against the 6.6 percent recorded last year.

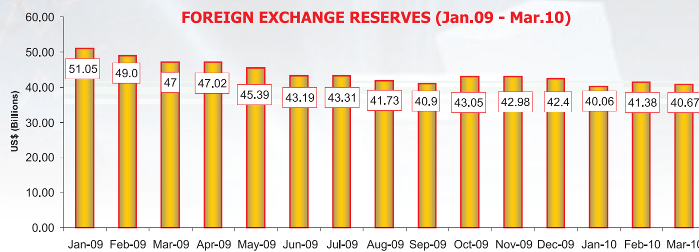
INFLATION

The Year-on-Year (y-on-y) inflation, showed signs of improvement in first quarter 2010, easing for three straight months to 11.8 percent in March. The headline rate was inches away from the authority's target for 2010. Despite the slowdown however, inflationary pressures resurfaced earlier in January, surging to 12.3 percent due to fuel scarcity that lingered across the country. The authorities intervened in February to rein in prices by setting up the 'NNPC War Room' to create a balance in the downstream sector. In fact, inflation retreated southwards in March due to the combined effects of greater availability of petroleum products, weaker demand and the delayed passage of the 2010 budget, amongst others. However, soaring prices of some staples like rice, yam, meat, sea food and vegetables post a major challenge during the period. In the months ahead, inflationary risk remains a threat due to the expansionary stance of the 2010 budget and the spending spree associated with upcoming elections across the country.



Source: National Bureau of Statistics

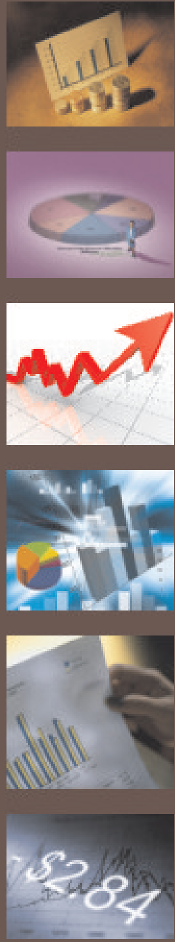




Source: CBN

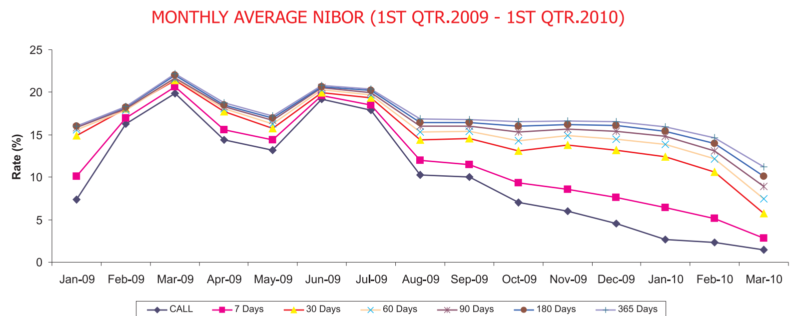
EXTERNAL RESERVES

Movements in the nation's external reserves were mixed in first quarter 2010, clawing back initial losses in the first half but shrinking in the second half of the period. The reserve, which had earlier rocketed to an all-time high of $64billion, entered a freefall in August 2008 when crude oil prices plummeted in the international markets. Despite the drainage however, the CBN successfully fixed some leakages, with outflows slowing to $138million in the fourth quarter of 2009 from a whopping $5.6billion recorded in the first quarter of that year. In fact, it recorded inflows of $100million in January 2010. The stock of external reserves however slid downwards to US$40.6billion as at end March 2010, capable of financing up to 17 months worth of imports. In the near to medium term, the authorities project improvements in the stock of external reserves as a result of rising prices of crude oil in the international markets and improvements in output due to relative peace in the Niger Delta.



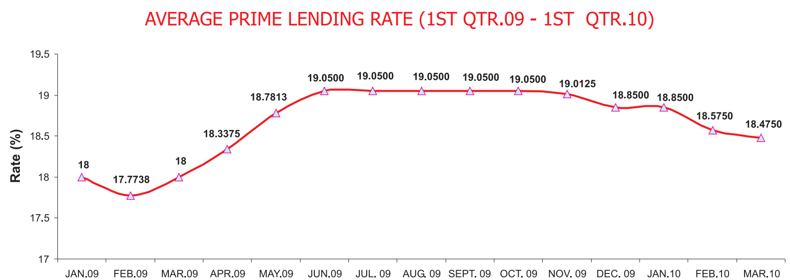
INTEREST RATE

In a rare move to boost real sector activities, the CBN opted to leave interest rate unchanged in first quarter 2010. The Monetary Policy Rate (MPR) has remained steady at 6 percent for three consecutive quarters to stem the rising tide of the cost of funds.



Source: Financial Markets Dealers Association of Nigeria (FMDA)

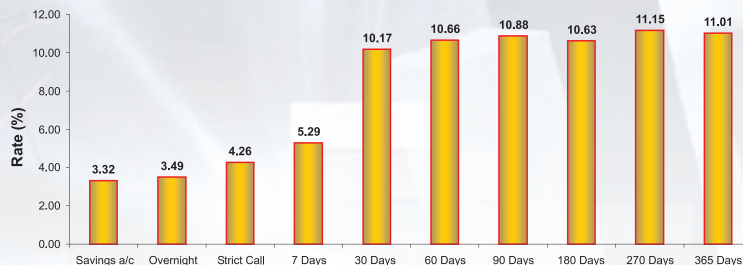
The average interbank rates crashed across most tenors as a result of excess liquidity in the financial system. After the dust settled, the rate on the call tenor dropped sharply to a 2 year low of 1.1 percent. Rates on the longer term tenors witnessed major downswings due to the CBN extending the guarantees on interbank placements until end December, 2010. For instance, the rate on the 90 Days tenor plunged to a four year low of 7.4 percent in March from 16.1 percent in January. The downward spiral continued in February and March as the market was awash with mixture of liquidity



Source: Financial Markets Dealers Association of Nigeria (FMDA)

inflows, trickling down from $3billion withdrawn from the Excess Crude Account and N329billion Statutory Revenue Allocation shared among the three tiers of government.

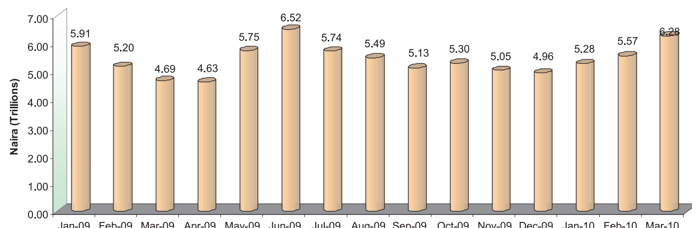
MONTHLY AVERAGE DEPOSIT RATES (1ST QTR.10)



Source: Financial Markets Dealers Association of Nigeria (FMDA)

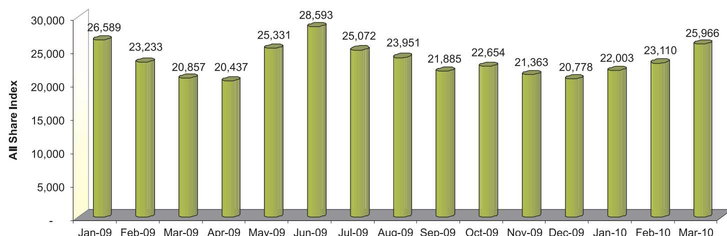
In terms of cost of borrowing, the average Prime Lending Rate (PLR) retreated marginally due to improved confidence in the market. Despite the easing, rates remained at elevated levels, hovering around 18 percent during the quarter, compelling the CBN to relax some of its policies to bolster lending. It lowered the Standing Deposit Facility from 2 percent to 1 percent. Returns on the average deposit rate plunged across most investment horizons. Yields on the 180, 270 and 365 Days slipped by 239, 242 and 223 basis points, respectively, during the quarter.

NSE MARKET CAPITALISATION (1st Qtr.09 - 1st Qtr.10)



Source: Nigerian Stock Exchange

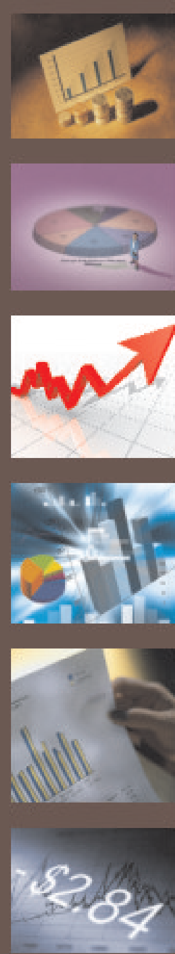
ALL SHARE INDEX (ASI) (1st Qtr.09 - 1st Qtr.10)



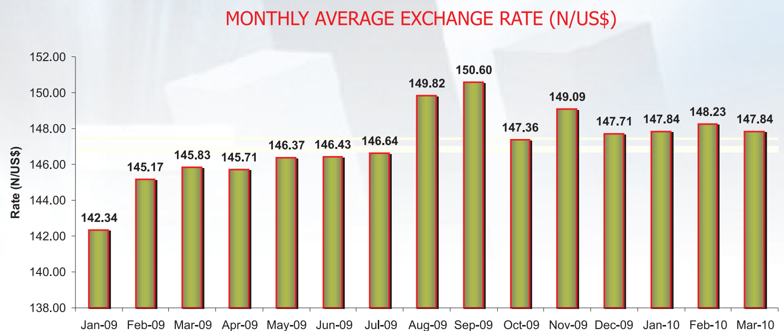
Source: Nigerian Stock Exchange

CAPITAL MARKET

The capital market kicked off the first quarter 2010 in an upbeat note rebounding to fresh new highs amidst surging stock prices. The All-Share Index (ASI) and market capitalization breached levels reminiscent of an earlier bull run last year. In terms of quarter-on-quarter performance, the benchmark index propelled to 25,966.26 and N6.28trillion, respectively, from 20,827.17 and N4.98trillion in the preceding quarter. The market climbed with little interruption during the quarter rediscovering its price momentum, with sharp pick up in activity. Investors who caught the tide early in the quarter turned some of their fortunes around with impressive returns. Market sentiments were further boosted with the passage of the Asset Management Company (AMC) Bill by the House of Representatives. Investors however remained 'cautiously optimistic' over the strength of the fragile recover in anticipation of the common year end results of deposit money banks. Despite the mistiness however, risk appetite remained as Oando's Rights Issue of 1 for 3 shares at N70 per share was 128.20 percent subscribed. Also, a number of quoted companies such as Nestle and Nigerian Breweries, among others, paid impressive dividends of N10.60 and N0.89 per share, respectively.



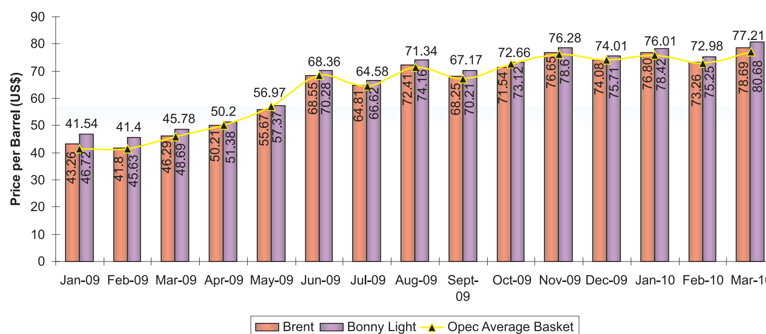
EXCHANGE RATE



Source: CBN

The nation's currency, the naira, remained 'range-bound' around CBN's target in the first quarter of 2010, holding firm against other major world currencies. The naira, performed positively during the quarter, remaining stable at about N147/US$. It lost only 2 percent of its value, compared to 25 percent in the same period last year. Although earlier in January, the nation's currency was on the back foot with minor pressure coming from fuel importers and manufacturers, the market was nevertheless swamped with liquidity during the quarter. In its twice weekly auctions, the apex bank offered about $5.7billion and sold $5.3billion against $3.6billion demanded during the period. The continued clarity of expectations and stability of the naira kept the premium low between the official and interbank market at 1.3 percent, with little room for arbitraging opportunities. As at end March 2009, the WDAS average exchange rate stood at N149.78/US$, while the interbank market rate averaged N150.43/$.

OIL PRICES: MONTHLY AVERAGE PRICE MOVEMENTS (1ST QTR.09 - 1ST QTR.10)



Source: Energy Information Administration

OIL

Crude oil prices in the international market hit minor turbulence in first quarter 2010, plummeting in January but recovering to reach fresh highs despite the sea-saw trend. It shrugged off earlier losses, surging to about US$84 per barrel, its highest since October 2008. Crude oil prices in the first quarter withdrew as far as $70 per barrel, the level at which the last slide bottomed out back in December 2009. Despite the hitches however, crude oil prices have made remarkable recoveries since bottoming out at $32 per barrel over a year ago, rebounding to close the quarter at $83.8 per barrel. Nigeria's brand of crude oil, bonny light, squeezed out about US$2 in the first quarter, trading in a band of $72-$84 per barrel. Industry analysts attributed the increase in prices to harsh weather conditions in February, increased demand from Asia's powerhouse economy – China and the gradual improvements in the global economy. In its 156th Meeting in Austria, OPEC members decided to leave oil production ceiling unchanged, despite mounting inventory buildups in the US and OECD member countries. In the upcoming quarter, industry analysts are projecting crude oil prices to remain within the range of US$83-US$85 per barrel.