Zenith Economic Quarterly

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Housing Deficit in Nigeria:

CONFRONTING THE BEHEMOTH

Real Estate Sector: The Albatross on Speedy Global Economic Recovery

INSIDE

EDITORIAL
the constant challenge

PERISCOPE
economy: horde of policies, mixed results

POLICY
monetary, credit, foreign trade and exchange policy guidelines for fiscal years 2010-2011

GLOBAL WATCH
real estate sector: the albatross on speedy global economic recovery

ISSUES
liquidity support to banks: theory and contemporary practice

quality and internal control in banks: practical challenges (I)
- Chuks Nwaze

housing deficit in nigeria: confronting the behemoth

FOREIGN INSIGHTS
advancing democratic and market-oriented reforms in africa
- Ambassador Princeton N. Lyman

nigeria-turkey: targeting improved trade relations

FACTS & FIGURES
economic, financial and business indices

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Contents

4 **FROM THE MAIL BOX**
This contains a few of the acknowledgement/commendation letters from our numerous readers from across the globe.

5 **PERISCOPE**
This updates our readers with a panoramic analysis of development in various sectors of the economy during the period under review.

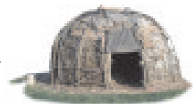
14 **POLICY**
Contained here is the continuation of the monetary, credit, foreign trade, and exchange policy guidelines for the fiscal years 2010/2011.

18 **GLOBAL WATCH**
This explores and analyses the challenges arising from housing, and the ways they have been impeding recovery from the global financial crisis.

29 **ISSUES (I)**
This examines the contemporary challenge of liquidity support to 'troubled' banks by apex regulatory banks in various jurisdictions, including Nigeria.

40 **ISSUES (II)**
The serial on quality and internal control challenges in banks now focuses on case studies of fraud cases in financial institutions.

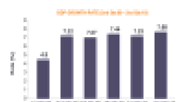
49 **ISSUES (III)**
This is an expose on the critical housing sector that has posed an unending challenge to the development process of the country.

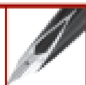


60 **FOREIGN INSIGHTS (I)**
This is a critical examination of the relationship between democracy and development; and the role of the business community in facilitating the development.

67 **FOREIGN INSIGHTS (II)**
The sizzling Nigeria—Turkey trade/business relations is analyzed; and imbalances identified.

76 **FACTS & FIGURES**
This contains economic, financial and business indicators with annotations.





The Constant Challenge

In the widely referenced 'hierarchy of needs' contained in his 1943 paper titled 'A Theory of Human Motivation', Abraham Maslow did not name housing or shelter among the physiological needs which, when not met, could hamper the functioning of human body. But he quickly pointed out that clothing and shelter provide necessary protection from the elements. In other words, shelter or housing ranks next to such physiological needs as breathing (air), food, water and sex which are considered as the literal requirements for human survival.

Societies, from the early man or pre-historic age, have been concerned with the housing of their members. This concern has continued in the modern world; and, in deed, the ability or otherwise of a society to provide 'decent' accommodation for its citizens has become one of the human development indices. And one of the most obvious consequences of urbanization, especially in developing economies, is often the shortage of 'decent housing' for a large chunk of the population. Nigeria is by no means an exception. In point of fact, the housing challenge has remained an ever-present one, from colonial days till date, seemingly defying solution. In our piece: 'Housing Deficit in Nigeria: Confronting the Behemoth', the author vividly captures Nigeria's odyssey in the housing realm. Instructively but interestingly, housing has always received a copious mention in all the development plans and annual budgets of the country. Yet, the housing deficit figure remains staggering at close to 20 million units. The Presidential Committee on Implementation of Affordable Housing estimates that about sixty trillion naira would be needed to effectively tackle the nation's housing deficit. On its part, the World Bank estimates that Nigeria requires over 720,000 housing units annually for the next 20 years in order to meet the housing needs of the country against the backdrop of rapid population growth and rural-urban migration rate of five per cent.

But Nigeria and, in deed, the developing world, is not alone in this housing quagmire. The lingering global financial crisis has its roots in housing—namely the subprime debacle of 2007/2008 in the United States of America. Our piece: 'Real Estate Sector: The Albatross on Speedy Global Economic Recovery', is an expose on how the issue of housing has, in large measure, impeded recovery from the global economic meltdown. Today, it is no longer only subprime borrowers that are facing tough times; about one in 10 houses now up for foreclosure in the US are owned by prime borrowers who are unable to pay their mortgage. As at June 30, 2010, about two million homes have been placed on foreclosure nationwide (in the US), with average foreclosure sales price of $178,000 down from about $227,000 a year earlier. Although the US housing challenge is of a different hue from that of Nigeria and others, the point remains that, as in Maslow's world, shelter is a critical issue.

However, after coursing through the intricate nexus between democracy and development, the author questions the assumption that democracy engenders development, buttressing his doubts with cases in many African countries.

Still related to the financial crisis is the issue of liquidity support to banks—the main purveyors of the global economic meltdown. The article: 'Liquidity Support to Banks: Theory and Contemporary Practice', examines the ways and methods of liquidity support for 'troubled banks', drawing profusely from recent developments across the globe. The lender-of-last-resort (LOLR) role of the apex regulatory bank vis-à-vis rescue liquidity provision in the face of crisis or liquidity squeeze is x-rayed. The author sums up that even the LOLR roles of the apex banks in various jurisdiction did not deviate from the primordial pattern encapsulated in the 'Thomas and Bagehort' principles.

Also, in another related title: 'Advancing Democratic & Market-oriented Reforms in Africa', the author focuses on the impact of the global financial crisis on the continent, arguing that it has not been as bad as expected. This scenario is attributable to such factors as the 'blessing' of the region not being integrated into the global financial system, low debt levels, sound economic policies of the past several years, better financial management, etc. However, after coursing through the intricate nexus between democracy and development, the author questions the assumption that democracy engenders development, buttressing his doubts with cases in many African countries. He rather posits that the business community has a great role to play through dialogue to keep political leaders focused on the desired direction for proper development.

Completing this package are sizzling and very informative pieces, including an insight into Nigeria-Turkey trade/business relations; case studies of fraud cases in banks; a panoramic analysis of the economy as well as annotated charts and indices.

Enjoy yourself!

Marcel Okeke

I am directed to acknowledge the receipt of your letter dated 10th June, 2010, under cover of which you forwarded to the Mission, a copy of ZEQ April 2010 Edition. Its focus on issues and challenges of financial regulation across the globe is timely in the light of the recent global economic melt-down. Also, its highlight of monetary, credit, foreign trade and exchange policy guidelines for fiscal years 2010 and 2011 are worthy of commendation. I wish to add that your publications are always informative and remain good reference materials to the Embassy.

Please accept, The Editor, the assurances of His Excellency's highest consideration and esteem.

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

Your letter on the above caption dated June 10, 2010 refers, please.

I write, on the authority of the Vice-Chancellor, to acknowledge with thanks, the receipt of a copy of the April 2010 edition of your magazine.

The publication is quite educative and informative and its wide scope of coverage particularly in banking business and economy is commendable, I wish to assure you that we will make the best use of the book.

While accepting our highest esteemed regards, we look forward to your continued mailing of future publications, please.

Thank you.

Musa Ibrahim Umar, MIPS
Senior Personal Secretary
For: Vice-Chancellor
Kano University of Science and Technology, Wudil

We acknowledge with thanks the receipt of your letter dated June 10, 2010 on the above subject and wish to express our profound appreciation to your organization for the kind donation of a copy of the April 2010 edition of your publication to Manufacturers Association of Nigeria (MAN).

We assure you that, the journal will be added to the collection in our library to provide information to the Business Community who make use of our library.

Accept our kind regards and best wishes.

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

We acknowledge with thanks, receipt of a complementary copy of your Zenith Economic Quarterly (ZEQ) for the month of April, 2010 sent to the Economic Adviser/Vice Chairman, State Planning Commission.

We also wish to inform you that after going through the publication we have observed great improvement in your effort to address monetary and financial development issues in Nigeria as your publication can now serve as a significant reference material in socio-economic research. We appreciate your good work, well done.

Thank you.

Ndem Ayara
Economic Adviser/Vice Chairman
State Planning Commission, Cross River State

I am directed by Mrs. Ifueko Omoigui Okauru, Executive Chairman Federal Inland Revenue Service to acknowledge with thanks the receipt of your April 2010 edition of the Zenith Economic Quarterly magazine.

> "Its focus on issues and challenges of financial regulation across the globe is timely in the light of the recent global economic melt-down. Also, its highlight of monetary, credit, foreign trade and exchange policy guidelines for fiscal years 2010 and 2011 are worthy of commendation. I wish to add that your publications are always informative and remain good reference materials to the Embassy."

She finds the magazine interesting and commended your effort.

Please accept the best regards of the Executive Chairman.

Innocent A. Ofikwu
For: Executive Chairman
Office of the Executive Chairman
Federal Inland Revenue Service, Abuja

We write to acknowledge our receipt of a copy of the April edition of your publication, Zenith Economic Quarterly, vol 5, no 2, 2010.

We appreciate your sending us this publication as it undoubtably enriches our teaching and research work in the relevant area.

We appreciate our continued inclusion in your mailing list.

Yours sincerely,

Nonye Okechukwu (Mrs.)
The Librarian
Lagos Business School, Pan-African University, Lagos

The University Librarian gratefully acknowledges the receipt of your recent generous donation of the following publication: Zenith Economic Quarterly, Vol. 5 No. 2 April, 2010. (1 issue).

We promise that this rich donation will be made available to our library clientele for research purposes.

We appreciate your regular contributions to the collection development of our University Library.

Yours faithfully,

Babatunde, S.A. (Mr.)
For: Dr. O. O. Adediji
(The University Librarian)
University of Lagos Library
Gifts and Exchange Unit

Economy: HORDE OF POLICIES, Mixed Results

* By Marcel Okeke

During the second quarter 2010 and, in fact, all through the first half of the year, a number of policies were put in place to drive the Nigerian economy forward, leading however, to mixed outcomes on various barometers. These policies were either sequels to or drivers of the ongoing reforms in sectors such as oil and gas, financial services, power/energy, aviation and public finance, among others. Political/constitutional and electoral reforms also rubbed off on developments and trends in the economy during the period. Thus, although the 2010 Appropriation Bill got presidential assent during the second quarter, its continued amendment by both the legislature and the executive arms of government lingered. An adjunct to this has been some collaboration between the Federal Ministry of Finance and the International Monetary Fund (IMF) to "restructure the country's public expendi-

ture pattern in order to make it more result-oriented." This derived from a World Bank study which noted that for every naira of public expenditure in Nigeria, the country got value for only 40 kobo. And in response to this, a Budget Monitoring and Price Intelligence unit was set up in the Office of the President.

In tandem with the restructuring in public finance and fiscal profile of the Federal Government, the Central Bank of Nigeria continued with its reforms in the financial services sector. It has put policies in place to eliminate universal banking and issued guidelines for the licensing of specialized institutions—including non-interest banks, primary mortgage institutions, micro-finance banks, development banks and discount houses, among others. The apex bank also saw through, the enactment of the Asset Management Corporation of Nigeria (AMCON) Act, via a presidential assent to the Bill approved by both chambers of the National Assembly. The CBN also set up a N500 billion intervention Fund; N200 billion of this would be for the re-financing and restructuring of banks' existing loans to firms in the manufacturing sector. N300 billion is to be applied to power projects.

The Federal Government during the quarter under review put in place policies and plans for the concessioning and rehabilitation of some airports across the country, just as it raised implementation panel for Abuja land reforms. The quantum and shares of revenues among the three tiers of Government during the period was also a great impact on the economy. In fact, the three tiers of government shared about N2.5 trillion during the first half of 2010 as against about N1.70 trillion they shared in the same period last year. Volatile oil prices in the international market and very slow pace of global economic recovery had negative impact on government revenues. Shortfall in the distributable revenue in the first quarter necessitated a drawdown from the Excess Crude Account (ECA) to augment disbursements in April and May to the tune of N339.6 billion and N27 billion respectively. In deed, fears engendered by the slowly but consistently declining oil prices for much of the quarter under review, compelled the review of the 2010 Appropriation Act soon after the presidential assent. Oil prices which crossed the $80 per barrel mark early in the year, had in the later part of the second quarter, come close to $70 per barrel—fast approaching the 2010 Appropriation Bill oil price benchmark of $67 per barrel. This apparently created a panic which

culminated in the reworking of the 2010 budget, a process that lasted all through the quarter under review.

Allied to the issue of oil prices was the challenge of gas pricing, for which a new policy characterized by sectoral differentiation in pricing got approved during the quarter. The new gas pricing policy which would become operational during the third quarter 2010 is an integral part of the effort at tackling the power challenge in the country. A Presidential Task Force on Power (PTFP), headed by Professor Barth Nnaji was also put in place to come up with expeditious approaches to dealing with the power/ energy challenge. The panel has one year to finish its work.

These policies and measures determined or influenced economic trends and indices during the period under review. Thus, while the inflation rate, Gross Domestic Product (GDP), exchange rate and the capital market improved somewhat during the period, external reserves, oil prices, external debt, local debt, interest rates among others took undesired or unexpected turns. Specifically, figures from the National Bureau of Statistics (NBS) show that Nigeria's GDP grew by 7.68 per cent during the second quarter 2010, a modest improvement over the 7.23 per cent in the preceding quarter. It stood at a mere 4.50 per cent in the first quarter last year. Similarly, inflation trend moved in the desired direction, declining (year-on-year) from 12.50 per cent in April 2010 to 11.0 per cent in May, and to 10.30 per cent in June.

In spite of this apparently cheering trend, the Central Bank of Nigeria reckoned that inflationary risk remained a threat in the months ahead due to the expansionary stance of the 2010 budget, the planned public sector pay rise, recapitalization of 'rescued banks', among other factors. On the other hand, crude oil prices which stood above $80 per barrel for the greater part of the first quarter 2010, hit $83 per barrel in April; plunged to $74 per barrel in May, but closed the second quarter at about $73.5 per barrel. This yo-yo movement in prices of crude, in large part, created the panic that prompted the continued tinkering with the 2010 Appropriation Act, in order to hedge against possible further crash in the course of the year.

On the other hand, the Naira exchange rate against the dollar and other major currencies was generally stable all through the period under review. Thus, the average exchange rate of the naira against the dollar in April 2010 stood at N147.89/$1; it dropped slightly to N148.32/$1 in May and remained almost unchanged at N148.22/$1

...while the inflation rate, Gross Domestic Product (GDP), exchange rate and the capital market improved somewhat during the period, external reserves, oil prices, external debt, local debt, interest rates among others took undesired or unexpected turns.

at the end of June. On the other hand, the nation's stock of external reserves maintained its decline during the period under review. From $40.68 billion at end-March 2010, it hit $38.70 billion in May and dropped further to $37.40 billion at the close of the second quarter. This level of stock, according the CBN however, is still sufficient to finance 16 months of imports, in excess of the internationally minimum acceptable level of three months import cover for a country's external reserves. Unlike external reserves, the nation's external debt kept an upward trend during the first half 2010, due to disbursements from multilateral creditors. Data from the Debt Management Office (DMO) show that Nigeria's external debt stock as at end-March 2010 stood at $4.306 billion, up from $3.947 billion in December 2009. Also, the domestic debt stock which was N3.228 trillion as at December 2009 rose by 7.40 per cent to hit N3.466 trillion as at March 2010.

THE CAPITAL MARKET

Volatility (though with periodic gains) prevailed in the capital market during the second quarter and, indeed, all through the first half of the year. Specifically, the Nigeria Stock Exchange All Share Index (NSE ASI) closed the half year at 25,384.14 points, up

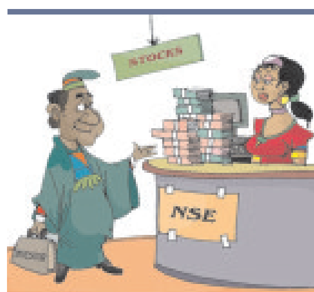
The new gas pricing policy which would become operational during the third quarter 2010 is an integral part of the effort at tackling the power challenge in the country.

MARKET CAPITALISATION OF NIGERIAN BANKS AS AT 30TH JUNE, 2010

RANK	EQUITY NAME	MARKET CAPITALISATION (₦)
1	ZENITH BANK PLC	433,271,614,302.00
2	FIRST BANK OF NIG. PLC	429,764,550,994.86
3	GUARANTY TRUST BANK PLC.	388,231,143,020.55
4	U B A PLC	278,854,398,414.90
5	STANBIC IBTC BANK PLC	188,812,500,000.00
6	ACCESS BANK PLC.	144,894,836,979.90
7	FIRST CITY MONUMENT BANK	135,050,895,276.60
8	DIAMOND BANK PLC	109,288,085,442.75
9	SKYE BANK PLC	93,259,009,144.00
10	FIDELITY BANK PLC	77,362,708,051.41
11	UNION BANK NIG.PLC.	67,278,436,839.54
12	ECOBANK NIGERIA PLC	65,235,772,717.40
13	OCEANIC BANK INTERNATIONAL	36,665,259,201.45
14	INTERCONTINENTAL BANK PLC.	28,855,822,916.34
15	BANK PHB PLC	26,806,142,985.58
16	AFRIBANK NIGERIA PLC.	26,575,485,636.28
17	STERLING BANK PLC.	22,990,457,527.35
18	UNITY BANK PLC	16,357,953,083.70
19	WEMA BANK PLC.	10,217,424,642.48
20	FINBANK PLC	8,695,023,724.40
21	SPRING BANK PLC	7,132,320,255.69

Source: R& Eig

from 20,827.17 points at the end of year 2009, representing an appreciation of about 22 per cent. Also, market capitalization shot up from N4.96 trillion as at end-December 2009 to N6.17 trillion at the end the first half 2010—a jump of about 25 per cent. The month-on-month performances of the indicators really show varying outcomes of marginal growth and declines all through the period. The state of the market reflected some recovery in the macro economy, both at the global and local level. Quoted companies also released improved earnings and benefits during the period.



The market was also influenced by the low valuations of a number of stocks that have good fundamentals as well as the passage of the much awaited Asset Management Corporation of Nigeria (AMCON) Bill into law—a development that boosted investor confidence. On the other hand, the protracted debate and continued tinkering with the 2010 Appropriation Act (which caused delay in its implementation) and delay in the release of guidelines for some bank operations detracted from the activity of the market.

NSE data show that a total of 27.95 billion shares worth N245.18 billion were traded in 559,533 deals during the second quarter 2010. This is as against 26.38 billion shares worth N188.506 billion traded in 604,030 deals during the first quarter. Also, the most actively traded stock in the half of the year was Zenith Bank with 3.31 billion shares exchanging hands. Others include First Bank (3.22bn), UBA (2.33bn), GTBank (2.18bn), and Finbank (2.02bn). Zenith Bank also ended the quarter with the highest market capitalization of N433.271billion, just like it was during the end of the first quarter with a value of N476.50billion. On the whole, in terms of sectoral contribution to market capitalization as at June 30, 2010, the Banking sector led others, accounting for about 41.40 per cent; followed by Food/Beverages and Tobacco sector which achieved 15.20 per cent.

The only new listing in the market during the second quarter 2010 was Union Homes Real Estate Investment Trust Plc; while Aboseldehyde Plc and Afprint Plc were delisted from the official list of the NSE. There were also a number of supplementary listings, including Cadbury Nigeria Plc, African Petroleum Plc, First Bank Plc, Tourist Company of Nigeria Plc, African Alliance Insurance Plc, among others. Two companies changed their names during the period namely, Chevron Nigeria Plc which changed to MRS Oil Nigeria Plc and National Sports Lottery which became Secure Electronic Technology Plc.

In the bond window of the capital market, investors' desire to continue to trade returns for safety led to increased subscription on Federal Government of Nigeria (FGN) bonds in the first half of the year. This was in spite of the lower rates of yields compared to the corresponding period in 2009. Owing to this trend, prices of bonds at the secondary market maintained an upward trajectory most of the period, trading at premium to par value and resulting in declining yield. By the close of the first half of the year, the Debt Management Office (DMO), on behalf of the FGN, had offered a total of N460 billion worth of FGN Bonds, 44 per cent higher than the N320 billion offered during the corresponding period in 2009. Similarly, total subscription in the first half 2010 stood at N1.05 trillion, up by 67.50 per cent from N627.48 billion the same period last year.

The subsisting low deposit rate in the banking industry all through the period under review impacted the bond market. The non-bank public took increasing interest in the FGN bonds offered by the DMO, thereby opening the market up to more retail investors as opposed to institutional investors. Also, various state governments continued to indicate interest in the bond market, even as the regulatory authorities to encourage issuance of corporate bonds by blue chip business entities.

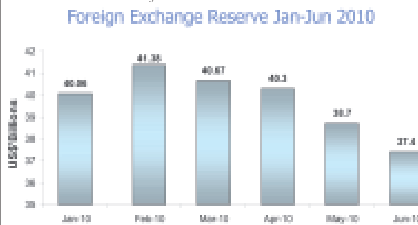
BANKING AND FINANCE

Generally good second quarter results by deposit money banks (DMBs), signing of the Asset Management Company of Nigeria (AMCON) Bill, fresh prudential guidelines and discourses on re-capitalization of 'rescued banks' were some of the features that dominated the banking and finance industry during the second quarter 2010. In deed all the DMBs that published their mid-year results reported improved performances: better turnover, positive profit before and after tax. This is a sharp departure from the year-end 2009 position when most of the banks, especially the 'rescued' ones recorded huge losses. The new trend marked by upswing in profit and liability, though with diminished loan portfolio, would get better as banks' appetite for risk asset creation improve with the inauguration and activities of the AMCON during the year. Meanwhile, current reports show that seven Nigerian banks still number among the top 1000 banks in The Banker 2010 global bank ranking. They are: First Bank, Zenith Bank, GTBank, Fidelity Bank, FCMB, Skye Bank and Diamond Bank.

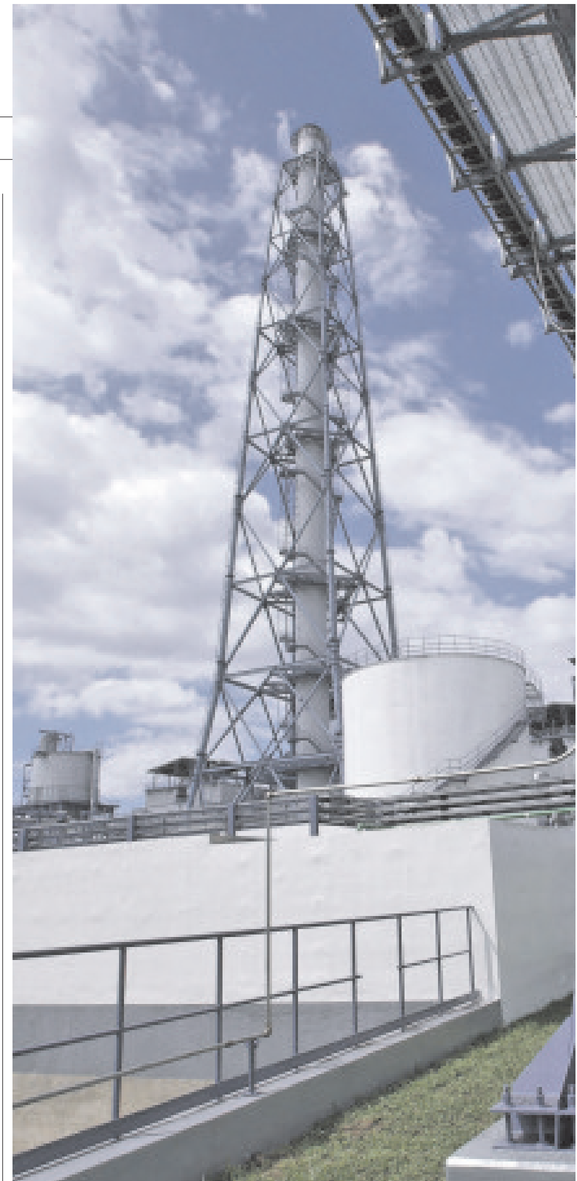
One of the outcomes of the July 2010 Monetary Policy Committee (MPC) meeting was the postponement of the take-off date for the new prudential guideline issued by the CBN. The new guidelines address issues like risk management, corporate governance, know your customer (KYC), anti-money laundering, counter financing of terrorism. Other issues addressed include peculiarities of different loan types and financing of different sectors of the economy as well as credit/loan limits to some categories of customers. Regarding specialized financial institutions, the apex bank came up with a structure giving new minimum paid-up capital requirements as follows: non-interest bank (regional)—minimum paid up capital of N5billion; non-interest bank (national)—N10billion ; primary mortgage institution—N5billion. But as a transition arrangement, the apex bank will provide guidelines for the recapitalization of existing specialized institutions that will be affected by these increases in minimum capital requirement.

The Asset Management Company of Nigeria (AMCON) received presidential assent during the period under review following the approval of its Bill by the two chambers of the National Assembly. Sequel to this, the CBN and the DMBs entered into an

Source: National Bureau of Statistics



Source: CBN



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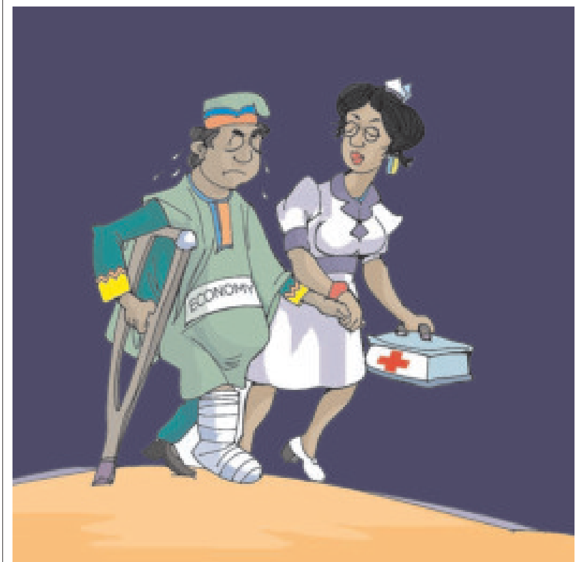


agreement to contribute N1.5 trillion over the next 10 years (as a sinking fund) to fund the Company. Under the initiative, the apex bank will provide N500 billion, while the banks will pool the rest. Although the CBN is yet to make public the mode for raising the start-up capital of the asset management company, its data show that the eight 'rescued banks' have a total non-performing loan (NPL) of about N2.2 trillion, while only N1.5 trillion is expected to be recovered.

In moving forward with the reform of the banking sector, the CBN also ruled out the liquidation or nationalization of the 'rescued banks'; it, instead, enjoined existing shareholders to get fully involved in their recapitalization efforts. The apex bank also gave some respite to two other banks (Wema and Unity banks) which it had earlier given up till June 2010 to fully recapitalize. It extended their deadline by three months. Following the CBN's directive, Unity Bank during the quarter under review, placed a rights issue of 23.4 billion ordinary shares of 50 kobo each at N1.00 per share. On its own part, Wema Bank got its shareholders' approval to shore up its capital base by N49 billion—a sum the bank says shall be made up by 71.4 per cent from foreign investors and the rest from the local terrain.

While these two banks and the 'rescued banks' are mandatorily shoring up their capital base, others are also doing so as a strategy to reposition for the new banking structure being proposed by the apex bank. In this regard, the International Finance Corporation (IFC) recently announced its intention to inject about $300 million into nine Nigerian banks. The nine banks were selected based on acknowledged good corporate governance practices, their long term partnership with the IFC and proven 'strength'. They are United Bank for Africa, Zenith Bank, First Bank, GTBank, Ecobank Nigeria, Access Bank, First City Monument Bank, Diamond Bank and Stanbic IBTC Bank. On its part, Wema Bank has also got the approval of its shareholders to obtain a regional banking license under the CBN's new licensing model. Ecobank Transnational Incorporated (ETI) has also increased its equity holding in its Nigerian arm—Ecobank Nigeria Plc, from 71 per cent to 85 per cent.

Further to its abolition of the universal banking regime, the apex bank has issued a fresh guideline, detailing the scope, conditions and minimum standards for merchant banks' regulation, going forward. The guidelines contain the method of obtaining a merchant bank license, permitted activities for merchant banks, prohibited activities for merchant banks as well as minimum standards for their operation. Some highlights of the guidelines include provisions that a merchant bank cannot take a deposit less than N100 million from any natural or legal person; must maintain a minimum paid-up capital of N15 billion, and cannot accept any deposit withdrawable by cheques, among others.

On the lingering issue of 'margin loans' and non-performing loans (NPLs) in the industry, the Financial Services Regulation and Coordination Committee (FSRCC) directed operators to open dedicated margin accounts and also set limits on banks' aggregate exposure to margin lending. Specifically, the FSRCC has directed that banks' aggregate exposure to margin lending shall not exceed 10 per cent of total loans and advances. Banks with exposure in excess of the 10 per cent limit are required to submit to the CBN clear plan on how they intend to wind down their exposure in compliance with the prudential limit. Also, banks' shares shall not be used in margin trading, but would continue to be used as collateral for lending. The FSRCC further stipulates that operators shall be required to open dedicated margin trading accounts and are to observe at all times a maintenance margin limit of 120 per cent. They are also required to appoint Margin Compliance Officers, among others.

OIL, GAS & POWER

The amnesty granted the restive youth in the Niger Delta by the Federal Government continued to have a wholesome effect on oil operations in that region during the quarter under review. There was also

change of baton at the highest level of leadership in the Nigeria National Petroleum Corporation (NNPC); a new minister, in person of Mrs. Diezani Alison-Madueke, ex-staff of Shell Petroleum Development Company of Nigeria (SPDC) was appointed. The lingering controversy between the Federal Government and major upstream oil companies regarding the content of the Petroleum Industry Bill (PIB) also raged on during the quarter. The multinational oil companies continued to oppose the enactment of the law on the ground that it would work against their investment interest. On the other hand, the Federal Government and some industry experts believe that the PIB would restructure the entire petroleum industry for greater efficiency and transparency.

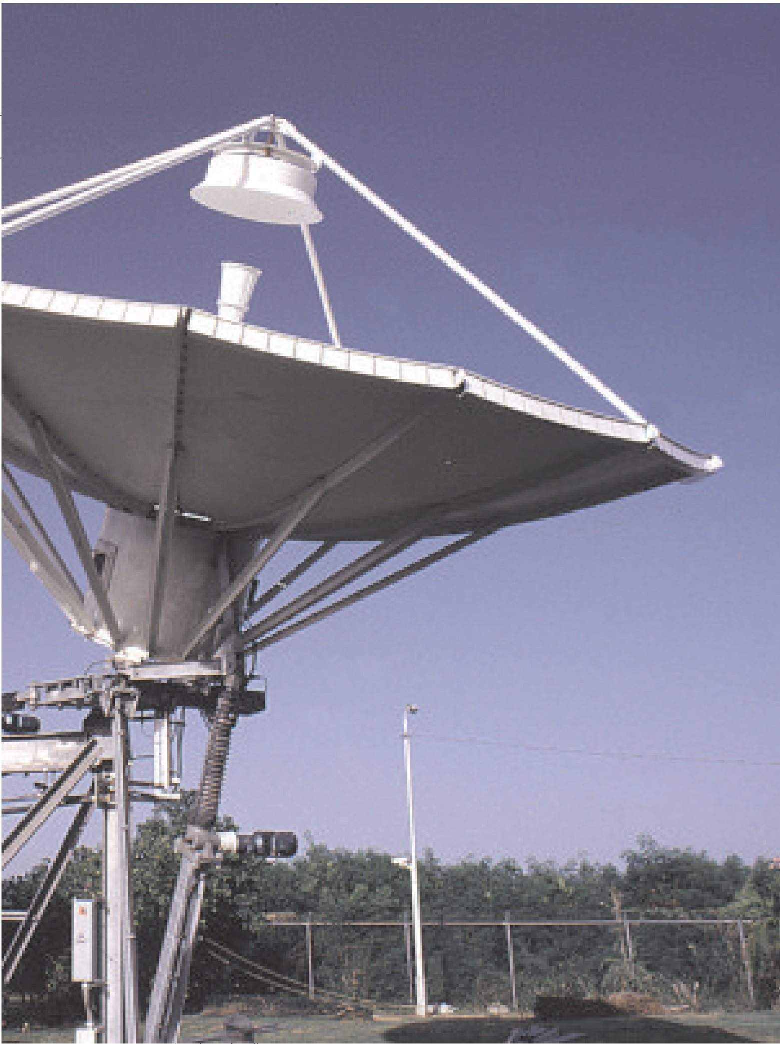
Also, apparently due to concern about the future of the industry, the Federal Government embarked on the audit of oil and gas reserves of all oil exploration and production companies in the country during the period under review. The exercise, according to the NNPC was aimed at validating and authenticating the reserves figures submitted to the Department of Petroleum Resources (DPR) by oil companies. The Organization of Petroleum Exporting Countries (OPEC) of which Nigeria is a member allocates quota to member-states on the basis of their proven reserves, among other factors. The current OPEC quota for Nigeria is 1.7 million barrels per day. In a related move, the Federal Government also commenced steps to ensuring the use of real-time gas monitoring. This involves gathering information and data through periodic or continuous measurement in the field to know the current/actual gas utilization. The Federal Government last year awarded contract for the real-time monitoring technology to an indigenous firm—Riverman Technology Limited. The entire process will entail migrating from dependence on data provided by operators to a state certifying these data online real-time from the DPR's locations. It spans three phases, from 2009 to 2011, and will cover all gas terminals, gas gathering and processing plants, onshore flow stations, gas transmission systems and injection manifolds.

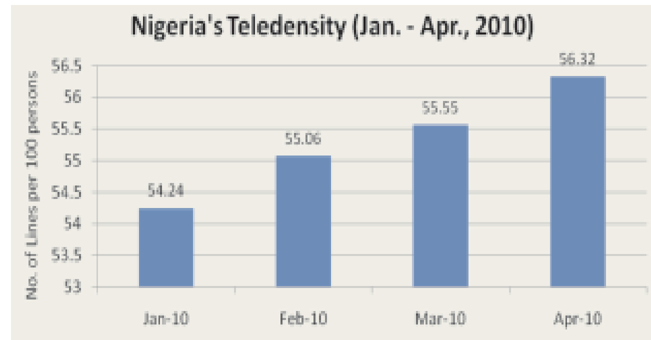
The raging controversy on subsidy on refined petroleum products continued during the period under review; just as the nation's four refineries continued to operate at below20 per cent of installed capacity. Government only succeeded in removing the subsidy on Dual Purpose Kerosene (DPK)—a measure which has made independent marketers stop the importation of kerosene for domestic utilization due to a pricing they considered unprofitable. In a similar vein, the Federal Government reviewed gas tariff during the quarter under review, such that by the end of this year, the price of gas to power would increase to $1 per mmbtu, based on electricity generation threshold of 4,700 megawatts. By the end of 2011, the price would increase to $1.50 per million btu, then to $2 per million btu by end 2013; and beyond 2014, it will be indexed to inflation rate. And according to the Minister of Petroleum Resources, Mrs. Diezani Alison Madueke, "this change in gas pricing is a major milestone in the repositioning effort in our gas sector and the effective take-off of the gas master plan…with the power sector consuming over 75 per cent of the planned domestic supply, its is essential that we get the commercial framework right to ensure sustained supply".

The berthing of MainOne submarine fiber optic cable whose first phase cost about $240 million was a key feature of the industry during the period under review.

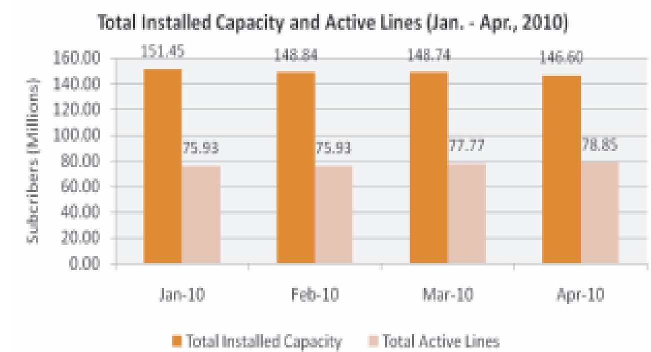
TELECOMMUNICATION

A number of operational issues dominated the telecommunications sector during the quarter under review. These include the engagement in lottery activities in the guise of products promotions by most operators; challenges of SIM card registration; the berthing of MainOne submarine fiber optic cable, among others. Specifically, the industry regulator—National


www.jamaicatradeandinvest.org



Source: Nigerian Communications Commission



Source: Nigerian Communications Commission

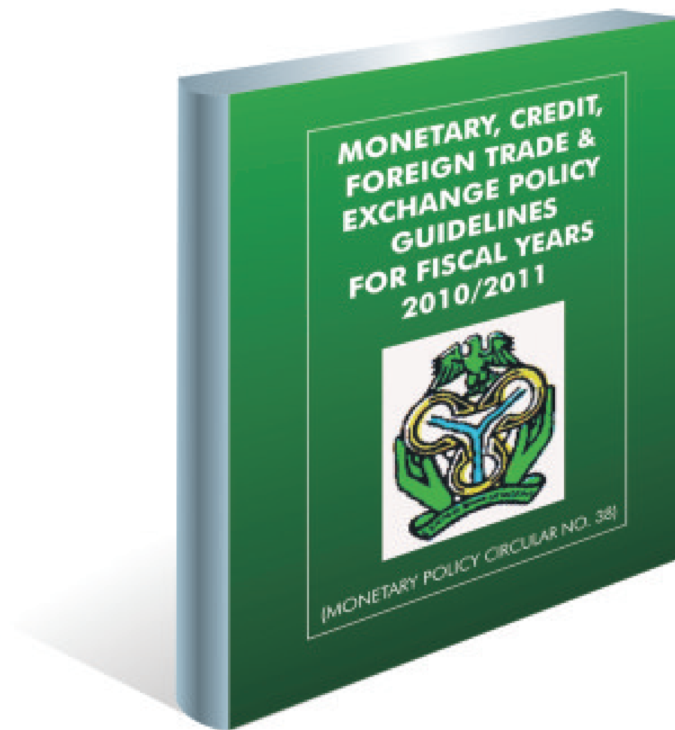
Communication Commission (NCC)—ordered all operators during the period to stop engaging in promotional activities that verge on lottery. There has been public outcry about the manner and spread of the promo activities of the operators to which many unsuspecting members of the public claimed to have lost money—by patronizing them.

On the directive of the NCC, the operating companies also commenced subscriber identification module (SIM) cards registration: the first phase covering only new subscribers coming to their networks. The mode of registration of existing subscribers is yet an issue between the operators and the NCC. So far, the major challenge has been in the rural areas where most residents hardly have the requisite personal identification materials like drivers' license, company ID cards with pension or tax number, international passports, etc.

The berthing of MainOne submarine fiber optic cable whose first phase cost about $240 million was a key feature of the industry during the period under review. The project which arrived Ogombo Beach in Lagos for shore-end laying, involves the laying of about 7,000 kilometers of submarine optic fiber cable between Lisbon in Portugal, Accra in Ghana, and Lagos in Nigeria. Globacom's under sea cable had earlier berthed late last year. The 9,800 km-long cable from UK through Mauritania, Morocco and 16 West African countries was anchored at its landing station in Lekki, Lagos. These optic fiber cables are expected to provide high speed internet services and make telecom services much faster and cheaper for consumers.

The NCC's data also show that the industry maintained its growth trajectory during the quarter. There were 78.85 million active telephone lines relative to industry installed capacity of 146.60 million as at April 2010. The active lines were made up of mobile GSM: 69.64 million, representing 88.33 per cent; mobile CDMA: 7.74 million representing 9.82 per cent; and fixed wireless 1.45 million representing 1.85 per cent. NCC data also show that teledensity (the number of phone line per 100 persons) rose from about 54.24 in January to 56.32 in April.

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



SECTION THREE

3.0 MONETARY AND CREDIT POLICY MEASURES IN 2010/2011

3.1 Objectives and Strategy of Policy

The primary objective of monetary policy in 2010/2011 shall be the maintenance of price stability in accordance with the CBN Act, 2007. Specifically, the monetary authority shall strive to achieve government's overall inflation objective during the period, through effective monetary management in order to provide a conducive environment for sustainable growth. In addition, the CBN shall continue to ensure banking soundness and financial sector stability as well as enhance the efficiency of the payments system. In particular, the Bank shall continue to seek effective enforcement of the financial market rules to foster the right market expectations. As in the previous years, the broad measure of money supply (M2) shall continue to be monitored along with other money market indices. Consequently, during the two-year period, an average growth in M2 of 28.16 per cent shall be maintained, translating to a maximum increase of 29.25 per cent and 27.07 per cent in 2010 and 2011, respectively.

3.2 Policy Measures

The conduct of monetary policy shall continue to be proactive. This will involve discretionary management of the CBN's balance sheet, in order to ensure that the operating variables are within the programme targets. The monetary policy rate (MPR) shall remain the Bank's policy rate which shall be adjusted from time to time by the Monetary Policy Committee (MPC) in response to prevailing liquidity conditions and the stance of monetary policy. The primary instrument of monetary policy shall be Open Market Operations (OMO), supported by reserve requirements and discount window operations for enhanced effectiveness. The CBN's intervention security would be issued, as the need arises, to complement OMO and its effectiveness in liquidity management. Private sector issued instruments as may be approved by the CBN would be eligible at the CBN discount window, pursuant to the Bank's role as the lender of last resort. However, in view of the CBN guarantee of the interbank lending transactions, Expanded Discount Window (EDW) shall remain discontinued.

3.2.1 Open Market Operations

The Bank shall continue to use OMO as the major instrument for the conduct of monetary management in the secondary market, using both direct auctions and two-way quote trading, and on the basis of need for intervention. Government securities of appropriate tenor would be used in the market to support the liquidity management objectives of the Bank. Authorised dealers in money market instruments (appointed deposit money banks and discount houses) shall continue to act as intermediaries. The conduct of OMO shall be complemented by repurchase agreements (repo/reverse repo), with the applicable rates based on market conditions and the subsisting MPR. To strengthen inter-bank operations and facilitate market development, the Bank would announce, daily, the shortage/ surplus in aggregate liquidity while appropriate measures would be taken to achieve equilibrium in the system.

3.2.2 Reserve Requirements

Reserve requirement shall continue to serve prudential and liquidity management policy objectives.

3.2.2.1 Cash Reserve Ratio (CRR)

The minimum cash reserve requirement had continuously been reviewed from the 2002 dual CRR regime of 9.5 per cent and 12.5 per cent to a uniform level of 9.5 per cent, effective January 2, 2004. In response to the impact of the global financial crisis on the Nigerian economy, the CRR was reduced from 4.0 per cent to 2.0 per cent on September 18, 2008 and subsequently to 1.0 per cent on April 14, 2009. The aim was to improve liquidity in the banking system which would impact positively on DMBs ability to extend credit to the real sector of the economy. The cash reserve requirement shall continue to complement OMO towards the achievement of monetary stability. The computation/calculation of the CRR shall continue to be based on individual banks' total deposit liabilities, less domiciliary accounts. The CBN shall continue to ensure the effective administration of the CRR through timely application of this instrument. The computation is done fortnightly and no changes are presently being contemplated to this prudential requirement. DMBs are therefore mandated to ensure timely rendition of daily and monthly returns to the CBN, failing which appropriate sanctions shall be applied.

3.2.2.2 Liquidity Ratio (LR)

The current minimum liquidity ratio of 25.0 per cent shall remain in force in 2010 subject to review as appropriate. The basis for the computation of liquidity ratio is specified in the CBN Circular ref **BSD/DO/CIR/GEN/ VOL.02/044 dated January 29, 2009.** The requirement that discount houses should invest at least 60.0 per cent of their total deposit liabilities in Government Securities shall continue to apply in the 2010 and 2011 fiscal years. Similarly, the ratio of individual bank's loan to deposit ratio shall be retained at 80.0 per cent.

3.2.3 Discount Window Operations

In pursuit of the objective of maintaining monetary stability and the need to promote the development of the money market, the discount window operations shall continue to be administered to provide liquidity to needy banks in accordance with the CBN's role as the lender-of-last-resort. To this end, transactions at the window shall be in the form of overnight facility, backed by borrower's holdings of government debt instruments and other eligible securities approved by the CBN. Consequently, the Bank shall continue to provide Standing Facilities (Standing Lending Facility and Standing Deposit Facility) to provide overnight accommodation for authorized dealers in the discount window who are either in temporary shortage position (in case of Standing Lending Facility) or surplus position (in case of Standing Deposit Facility). The applicable rates to the Standing Facilities shall be determined by the Bank from time to time.

3.2.4 Interest Rate Policy

Interest rates shall continue to be market-driven in fiscal years 2010 and 2011. The level and direction of interest rate movements shall continue to be influenced indirectly by the CBN through proactive adjustment to its MPR, to reflect the prevailing market conditions. The procedures for interest rate determination by banks in 2010 and 2011 are as follows:

a) Banks shall continue to pay interest on current account deposits at rates negotiated between them and their customers. Where deposits for special purpose are held for more than seven days, banks shall pay interest on such deposits at a rate agreed between the banks and their customers.

b) The reducing balance method shall continue to be used for calculating interest charges on loans repayable instalmentally. The use of any other method, whatsoever, for loans payable in agreed installments, such as the discount method of the simple interest straight line method that would result in a higher effective rates than the contracted rate, is disallowed.

c) Statements of account shall be rendered promptly, to

each account holder, on monthly basis and shall include the following:

i. Commission on turnover (COT); and

ii. Rates of interest on over-drawn account, the amount and the period.

d) Interest on savings shall continue to be calculated on the customer's account as at the end of each month and any accrued interest paid shall be reflected at the time of calculation.

e) The amount of deposits in a personal savings account on which interest is payable shall not be subjected to any ceiling.

f) Banks shall continue to design their pass books in such a way that the following information shall be clearly shown when calculating the interest earned on savings deposits: interest rate applied, amount of savings on which the calculation is based, and the period for which interest is calculated.

g) The Inspectorate Department of each bank shall continue to have the responsibility for cross-checking bank charges and interest rates payable on deposit accounts. Where the Inspectorate Department of a bank discovers non-payment or under-payment of interest on deposits or other entitlement or excessive interest and bank charges, a return thereon shall be made to the Central Bank. Underpayment and/or excessive interest and other charges shall be refunded with interest at the prevailing CBN monetary policy rate, along with a letter of apology to the customer within two weeks. Any bank which fails to refund excess charges or under-payment of interest on deposits within two weeks of the discovery of such error shall, in addition to the refund to the customer, be liable to a penalty amounting to 100.0 per cent of the amount involved.

h) Banks shall, in accordance with the provisions of BOFIA CAPB3, Law of the federation of Nigeria, 2004 and amendments to Monetary Policy Circular No. 30 of 1996, continue to display at their offices, their current lending and deposit rates, as well as publish such rates weekly in the national newspapers.

3.2.5 Remittance of VAT and Duty Collections

The requirement that banks should remit VAT and custom duties collected on behalf of the Federal Government to the CBN within seven (7) days is hereby reviewed. Henceforth banks are required to remit VAT and custom duties by the next working day. Accordingly, banks that keep such collections beyond the stipulated period shall pay interest as may be determined by the CBN. In addition, such collection not remitted within the stipulated period, shall form part of the banks' deposit base for the purpose of computing both their CRR and LR.

3.2.6 Framework for Determining Banks' Cost of Funds

Deposit money banks shall, in computing their cost of funds, employ the weighted average cost of funds computation framework. The cost items in this framework shall include banks' interest cost on the different types of deposit liabilities, borrowings from the inter-bank funds market, payments in respect of deposit insurance premium and costs due to reserve requirement. For the avoidance of doubt, overhead costs are excluded in this framework.

3.2.7 Federal Government of Nigeria Bonds (FGN Bonds)

In line with the commitment of the Federal Government to develop the bond market and also achieve its fiscal objectives, the floatation and re-issue of Federal Government Bonds, which was introduced in 2003, shall continue to be determined by the Debt Management Office (DMO) in collaboration with the Bank, during the period. The use of this instrument is expected to deepen the financial markets and encourage the government to source its long term financing needs from the capital market.

3.2.8 Opening and Maintaining Minimum Balances on Savings and Current Accounts

The Bank hereby notes with satisfaction efforts made by the deposit money banks in the area of deposit mobilization, where small amounts (in some cases zero balances) were required for the opening of bank accounts, as well as the simplification of account opening processes, without compromising the Know Your Customer (KYC) principles. Nonetheless, some DMBs have continued to require high minimum amounts for savings and current accounts opening. Although the CBN has since discontinued the policy of stipulating a mandatory minimum amount for opening a savings deposit account, banks are enjoined to support and encourage small savers by avoiding the stipulation of unduly high minimum amounts for opening and maintaining savings account.

(To be continued next edition)

Real Estate Sector: The Albatross on Speedy Global Economic Recovery

* By Eunice Sampson

The pathetic story of 70-year old grand-mother named Aida, evicted from her home amid tears and trauma came to public notice last September.

THE CASUALTIES

Disneyland, since inception in 1955 has hosted about 600 million visitors, making it the most visited park in the world. The lavishness, fun and laugher the Resort is synonymous with stands it out as "the happiest place on earth".

Disneyland is located in Anaheim Orange County, Southern California. Ironically, this is the same county Aida had her home before the current economic meltdown. Though neigbhours with Disneyland, there's nothing 'happy' about Aida's situation right now; if ever again.

The pathetic story of 70-year old grandmother named Aida, evicted from her home amid tears and trauma came to public notice last September. The ugly drama that followed the foreclosure of her home-of-many-years, and her eventual forceful eviction drums home the many ugly sides of the global economic crisis – from a human angle.

www.vaseemansari.blogspot.com

At the inception of the crisis in August 2008, the international media was agog with the heartbreaking story of one of its earliest victims, a 53-year-old mother, Carlene Balderrama who on July 22, 2008 committed suicide in Massachusetts following a foreclosure order on her home.

Media reports say that Carlene had faxed a note to her mortgage company, PHH Mortgage Corp., shortly before she pulled the trigger. The note, which must have been treated by her mortgage firm as nothing but an empty threat, warned that "by the time you foreclose on my house I'll be dead".

Carlene and 70 year old Aida are not the only casualties in the ongoing housing sector crisis. All over the world, it has claimed many homes, many lives, many jobs, and many, many dreams; leaving nations, families and firms as victims.

On the neck of the global economy, the real sector crisis has become an albatross that has refused to be disengaged.

The global financial meltdown started around August 2007 in the United States following credit crisis

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In the US, there were about 11 home construction firms in the list of Fortunes 500 companies just before the recession (2007); but none in the latest rankings (2009).

20 Most Profitable Companies in the World – Where are the Construction/Mortgage Firms?

Rank	Company	Global 500 Rank	2009 Profits ($ millions)	Profits % change from 2008
1	Gazprom	50	24,555.7	-17.8
2	Exxon Mobil	3	19,280.0	-57.4
3	Industrial &Commercial Bank of China	87	18,832.2	18.1
4	BP	4	16,578.0	-21.6
5	China Construction Bank	116	15,627.9	17.3
6	Petrobras	54	15,504.0	-17.9
7	Barclays	96	14,648.3	82.3
8	Microsoft	115	14,569.0	-17.6
9	Wal-Mart Stores	1	14,335.0	7
10	Vodafone	80	13,782.3	165.6
11	Procter &Gamble	66	13,436.0	11.3
12	International Business Machines	48	13,425.0	8.8
13	Goldman Sachs Group	134	13,385.0	476.4
14	Merck	294	12,901.3	65.2
15	AT&T	21	12,535.0	-2.6
16	Royal Dutch Shell	2	12,518.0	-52.4
17	Banco Santander	37	12,430.3	-4.3
18	Wells Fargo	46	12,275.0	362.3
19	Johnson &Johnson	108	12,266.0	-5.3
20	Bank of China	143	11,867.5	28.2

Source: CNN; Fortune

www.guarinopr.com

www.neytri.com

www.jonathannicholas.com

in the subprime mortgage sector. Interestingly, three years on, efforts to resolve the setback has been slowed down by the persistent instability in the housing industry.

The subprime mortgage boom while it lasted led to a house-buying frenzy; millions of which have since been foreclosed.

But it is not only subprime mortgage borrowers that are now facing the music. About one in 10 houses now up for foreclosure in the United States are owned by prime borrowers who are unable to pay their mortgage, no thanks to the prolonged recession.

The corporate world is also feeling the pains. The latest ranking of the world's 20 most profitable companies (see table) exhibits two distinct features – the near-absence of the global lending powerhouses and construction companies; and the negative (-) growth in profitability (year-on-year) recorded by virtually all top companies, with the exception of the Chinese firms and a few others. The sizeable drop in profit is irrespective of the sectors they play in.

In the US, there were about 11 home construction firms in the list of Fortunes 500 companies just before the recession (2007); but none in the latest rankings (2009).

Real estate, the same sector where the crisis

began, remains unfortunately, the sector with the slowest recovery; and for its colossal size, is hindering progress in other sectors. It is classically ironic that the sector has become both the biggest originator and victim of the lingering global economic crisis.

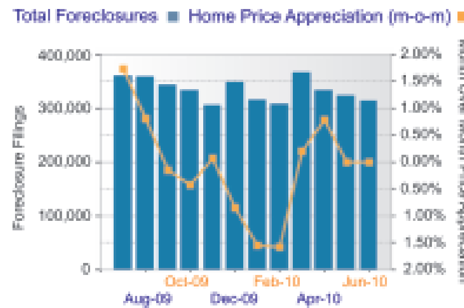
SIGNS OF PERSISTING DISTRESS

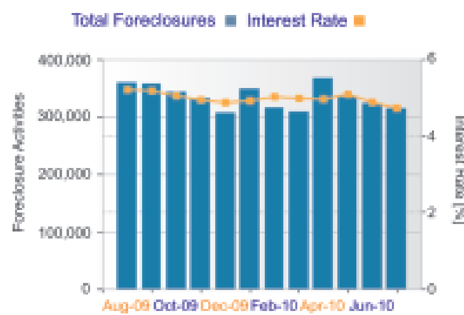
Record Low rates

At the current rate of below 5% (July 2010) the US mortgage market rate is at record low levels, compared for example with the position during October 1981 when mortgage rates peaked at 18.2%. As an analyst estimated, that meant monthly payments of US$1,523 then, compared with today's US$556 for a US$100,000 mortgage loan.

However, there is growing optimism in many quarters that rates would rise soon if economic recovery is sustained. Economists predict that rates as high as 7.5% to 8% is achievable from end 2010. But this could come with its own setbacks. A sudden jump in rate from the current near 50-year low of 4.57% level for a 30-year fixed rate mortgage is sure to result in further defaults as borrowers would have to adjust their mindsets and spending habits to accommodate the higher rates. This could throw up another cycle of loan defaults.

Give and take, the recent conclusion of Federal Reserve Bank's purchase of mortgage backed securities (valued at $1.2 trillion) and the acceleration of the 10-year yield, coupled with the slow but growing economic recovery statistics are sure signs that interest rate hike is imminent.





Source: Realty Trac

Foreclosures and Foreclosures!

Especially in the United States, there are more homeless people today than during any other economic recession.

About 31% of residential sales made during Q1 2010 were houses on foreclosure; a far cry from the 1-2% range for a normal housing market. Worse still, these properties were sold off close to 30% below their market value.

The U.S. foreclosure rate during the first quarter was one filing for every 138 households. Year-to-date, filings for foreclosure climbed to nearly one million in April.

The worst foreclosure rates in the country are in the states of Nevada and California. Nevada had the worst record in March 2010 with one in every 76 housing units facing foreclosure. By June 2010, one out of every 17 housing units in Nevada has re-

Another bad news for the lending institutions is that at the end of the first quarter, over 10% of all outstanding loans have witnessed at least one month of payment default; while about 4.6% of loans were in the foreclosure process, a record high in the US mortgage market.

ceived at least one foreclosure notice. In **California**, **69,114** of properties were up for foreclosure by June 30, which is **one** out of every **193** households.

As at June 30, about 2,070,784 homes (year-to-date) have been placed on foreclosure nationwide, with average foreclosure sales price of $178,000 down from about $227,000 a year earlier. In June alone, a total of 313,841 housing units were placed on foreclosure. At this pace, the total number of houses on foreclosure in 2010 is expected to top 3 million by December.

Another bad news for the lending institutions is that at the end of the first quarter, over 10% of all outstanding loans have witnessed at least one month of payment default; while about 4.6% of loans were in the foreclosure process, a record high in the US mortgage market.

Failure of Financial Institutions

The mega financial institutions may no longer be failing at the record pace witnessed in 2008; but a lot of the small Main Street banks still battle bankruptcy threats and regulatory actions.

Updates from the US Federal Deposit Insurance Corporation show that 17 community banks failed in July alone (as at July 23). Eight more banks failed in June and 14 in May. April and March saw the highest number of casualties with 23 and 20 failed community and savings banks, respectively. There were eight failures in February and 15 in January 2010. Year-to-date, a total of 115 grassroots financial institutions have failed (as at July 23, 2010).

The biggest of these failures were Westernbank of Puerto Rico with an estimated $11.94 billion assets and $8.62 billion deposits; Amcore Bank, National Association, Rockford, IL with an estimated $3.8 billion in assets and $3.4 billion in deposits; La Jolla Bank, FSB, La Jolla, CA with approximately $3.8 billion in assets and $2.8 billion in deposits; Midwest Bank and Trust Company, Elmwood Park, IL with about $3.17 billion in assets and $2.42 billion in deposits; and many others. The banks have since been closed

There are fears that the expiration of the homebuyer tax credit in April would lead to major fall in home sales from the end of the third quarter; a trend that could negatively impact industry employment.

down by the FDIC and their deposits taken over by viable banks.

On a positive note, fewer non-bank mortgage institutions closed down this year than since the current crisis begun.

Job losses

With about 246,900 staff in its payroll in May 2010, there was only a marginal layoff of about 700 staff in the mortgage sector from the April position of 247,600. Though this is significantly lower than the February 2009 employment level of 271,600, it is however an indication that the spate of job losses could be decreasing considering the woeful industry performance recorded in May.

In the sister construction industry, June 2010 data shows that 22,000 construction workers lost their jobs in June after 35,000 were laid off in May. This job loss is significant bearing in mind that US unemployment rate dropped to 9.5% in June from a high of 10.2% last October.

There are fears that the expiration of the homebuyer tax credit in April would lead to major fall in home sales from the end of the third quarter; a trend that could negatively impact industry employment. This is why pressure groups and some legislators lobbied for the extension of the program till September.

Mortgage Sales

Industry data for May shows that new home sales fell by 33% after the boom in April buoyed by the homebuyer tax credit program.

Reports from the National Association of Realtors show that sales of newly constructed single-family homes dropped to a seasonally adjusted annual rate of 300,000 in May from a 446,000 rate in April, the lowest rate since September 1981. Sales of existing single-family homes fell 1.6% in May following the expiration of the tax credit, lower demand and a continuing flooding of the market with foreclosed houses.

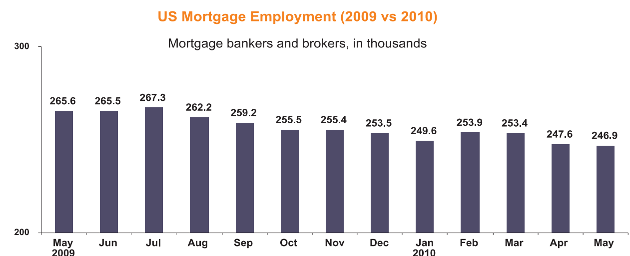
Mortgage Lending

According to latest US Federal Reserve statistics, 51 million American households owe mortgage and other financial institutions over $10.2 trillion in mortgage debt. Since a substantial portion of these loans have gone delinquent, it is no wonder that many financial institutions are closing shops while those still in business are cutting down on lending.

First quarter 2010 reports show that there is double digit drop (y-o-y) in the mortgage lending activities of the top 10 US industry lenders, with their total lending value dropping from its first quarter 2009 position of $322billion to $238billion in the first quarter of 2010. Also, the total volume of loans disbursed dropped from about 1,482,370 to

Western Bank, Puerto Rico

www.upload.wikimedia.org



Source: Bureau of Labor Statistics / Mortgagestats.com

Residential Lenders Ranked by Total Value of Loans (Q1 2009 vs Q1 2010)
Dollars in Millions

Rank	Company	Location	2010Q1	2009Q1	Change	Market Share
1	Wells Fargo & Company	San Francisco, CA	$77,090	$102,782	-25%	23.90%
2	Bank of America	Charlotte, NC	$71,530	$89,256	-20%	22.18%
3	Chase	Iselin, NJ	$32,763	$38,983	-16%	10.16%
4	Ally Bank/Residential Capital, LLC (GMAC)	Bloomington, MN	$12,968	$13,196	-2%	4.02%
5	CitiMortgage, Inc.	O'Fallon, MO	$11,064	$24,472	-55%	3.43%
6	U.S. Bank Home Mortgage	Bloomington, MN	$8,980	$13,431	-33%	2.78%
7	PHH Mortgage	Mt. Laurel, NJ	$7,825	$8,896	-12%	2.43%
8	SunTrust Bank	Richmond, VA	$5,646	$13,578	-58%	1.75%
9	Provident Funding Associates	Burlingame, CA	$5,327	$11,012	-52%	1.65%
10	Branch Banking & Trust Company	Wilson, NC	$5,155	$7,682	-33%	1.60%

Source:mortgagestats.com

Residential Lenders Ranked by Total Volume of Loans (Q1 2009 vs Q1 2010)

Rank	Company	Location	2010Q1	2009Q1	Change	Market Share
1	Wells Fargo & Company	San Francisco, CA	361,538	461,781	-22%	27.23%
2	Bank of America	Charlotte, NC	335,482	404,871	-17%	25.27%
3	Chase	Iselin, NJ	152,844	190,414	-20%	11.51%
4	Ally Bank/Residential Capital, LLC (GMAC)	Bloomington, MN	57,314	61,164	-6%	4.32%
5	U.S. Bank Home Mortgage	Bloomington, MN	47,871	67,323	-29%	3.61%
6	CitiMortgage, Inc.	O'Fallon, MO	47,854	120,043	-60%	3.60%
7	Branch Banking & Trust Company	Wilson, NC	32,814	46,170	-29%	2.47%
8	PHH Mortgage	Mt. Laurel, NJ	32,619	39,348	-17%	2.46%
9	Quicken Loans Inc.	Livonia, MI	26,886	31,193	-14%	2.02%
10	SunTrust Bank	Richmond, VA	24,245	60,063	-60%	1.83%

Source:mortgagestats.com

1,119,467 during the same period.

Profitability of Mortgage lenders

In Q1 2010, US mortgage lenders' profit per loan advanced was $606, about 40% drop from the $1,088 recorded per loan in Q1 2009 and the $890 recorded in Q4 2009.

The drop in profit per loan is however preferable to the losses industry lenders suffered in the previous years. In 2006 for example, they lost $50 on every loan originated and $560 loss on every loan originated in 2007. This improved to a marginal profit of $305 per loan in 2008 and a 272% leap to $1,135 on each loan originated in the year 2009.

The recent impressive rise in profitability was due to a drop in loan production expenses since there are now more requests for refinancing than new mortgages or originations – a reason also why income from originations in 2009 dropped to $4,820 per loan, from $5,023 per loan in 2008.

Moreover, the massive government interventions, including the underwriting of 96.5% of mortgages during first quarter 2010, after a similar gesture of up to 90% in 2009, have helped to reduce the nightmares faced by the mortgage lenders.

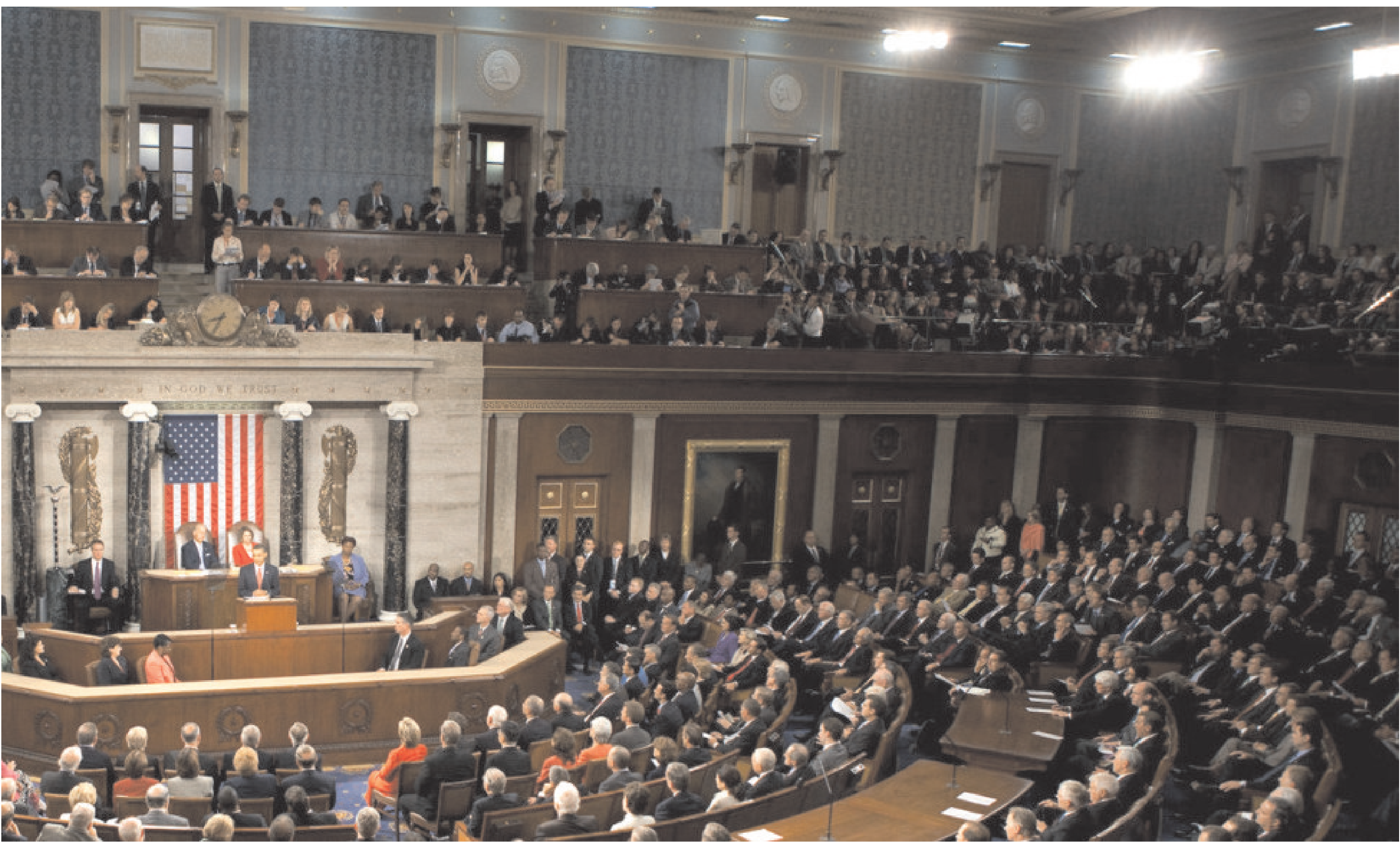
On Thursday July 15, the US Senate passed the historic Dodd-Frank Wall Street Reform bill. The bill was signed into law by President Barak Obama a week later with a promise that "the American people will never again be asked to foot the bill for Wall Street's mistakes".

GOVERNMENT ACTIONS

Financial sector Reforms

On Thursday July 15, the US Senate passed the historic Dodd-Frank Wall Street Reform bill. The bill was signed into law by President Barak Obama a week later with a promise that "the American people will never again be asked to foot the bill for Wall Street's mistakes".

The Act stipulates the strictest consumer financial protection ever and the setting up of a new watch-dog that would safeguard consumer interest, which is henceforth paramount. It also provides for the removal of regulatory clauses that treat mega companies as sacred cows that must never be allowed to fail. Henceforth, any firm (no matter the size)



www.newsy.com

that fails to play by the rules or goes bankrupt as a result of mismanagement will be wind down.

The Act which puts an end to the bailout of mismanaged institutions using tax payers' money is seen as revolutionary in efforts to curb the excesses of financial services institutions which have been blamed for the economic recession.

Sanctions on Industry Abuses

Goldman Sachs on July 15 agreed to pay a record $550 million settlement of civil charges pressed against it by the US Securities and Exchange Commission. Among other disclosure abuse charges, the SEC accused the investment banker of misleading clients that lost $1 billion on a subprime collateralized debt obligation known as ABACUS. The firm was also placed on a permanent injunction from violating antifraud laws.

Not surprisingly, Goldman Sachs' second quarter profit reported a week later plummeted 82% with net income also falling to $613 million, or 78 cents a share, from $3.44 billion, or $4.93, a year earlier.

In a similar development, Countrywide, the biggest mortgage servicing company in the United States was on July 6 fined $108 million as settlement after they were accused of collecting exorbitant charges from borrowers struggling to save their homes from foreclosures. The fine which will be used to pay back the overcharged homeowners is the largest settlement ever paid by a mortgage servicing company.

Some regional banks including Security State Bank of Scott City and First Security Bank & Trust Company, Norton have also recently been issued warning sanctions in efforts to check sharp practices in the financial services sector.

Financial Bailouts

Statistics by Moody's Economy.com reveal that of the nearly 52 million U.S. homeowners with a mortgage, about 13.8 million, or nearly 27% now owe more on their mortgage than their houses are worth. To stem this tide, in February 2009, President Barack Obama unveiled an ambitious $75 billion plan to keep as many as 9 million Americans from losing their houses to foreclosure.

The $75 billion Homeowner Stability Initiative provides a set of incentives to mortgage lenders in efforts to convince them to assist about four million borrowers on the verge of monthly mortgage payments to sustainable levels, defined as not more than 31% of homeowners' income. The stability fund would be drawn from the $700 billion financial

services industry bailout passed by the US Congress in October 2008.

Also, the First-time Homebuyer Tax Credit which expiry date was extended in July by two months is another effort by government to boost volume of activities in the mortgage sector while also putting a roof over the heads of low income Americans that could not afford their own home.

The program provides $8,000 for some first-time buyers and $6,500 for certain current homeowners. Single beneficiaries must be on income bracket of up to $125,000 and married couples with incomes of up to $225,000. The maximum cost of the house that could be purchased under the scheme is $800,000. The program initially set to expire by April 30, 2010 has been extended by one year for members of the armed forces, and till September 2010 for other intending beneficiaries who have already initiated but are yet to complete the house purchase process.

While it lasts, the initiative has been a major boost to the mortgage sector, raising volume of activities and curbing job losses. Fears are already rife that the end of the program could result in a further slump in the mortgage and construction sectors and further slow the course of economic recovery.

Outside the United States

Even though they all feel the pinch of the financial crisis in the United States, most Asian economies aside from Japan have enjoyed relative stability in their mortgage sectors. But the same cannot be said about Canada and the European Union where there have been varying degrees of housing sector recession.

Worst hit are the UK, Greece and Spain in Europe and the United Arab Emirates in the Middle East, which huge exposure to the construction industry and spectacular housing sector boom got it badly scorched by the global credit crunch. Like the United States, these economies are now characterized by low lending rates; low housing demand; mounting housing supply and a sharp drop in the costs of houses.

www.everynation.org

In Europe, the case of Spain is worth mentioning as the economy faces a housing recession as bad, if not worse than that of the United States. With a huge mortgage market relative to GDP, Spain's economy currently bends double under the heavy weight of housing sector recession. Spanish housing developers' indebtedness to the financial services sector is now put at about 30% of GDP, with no immediate hope of recovery. With banks now refusing to lend, the situation is pushing up the cost of credit for the entire economy while the alarming rate of default has caused a sharp drop in banks' credit ratings. Five out of the seven European banks that failed the recent stress test are Spanish banks.

Even though they all feel the pinch of the financial crisis in the United States, most Asian economies aside from Japan have enjoyed relative stability in their mortgage sectors.

With unemployment level now at about 20%, a negative (-) 3.6% GDP in 2009; and debt to GDP (public + private sector debts) of 350%, the housing bubble has burst in Spain and a speedy rebound in this sector would be the only way out.

HOPE IN THE HORIZON?

No doubt, in the last two years the global economy has made remarkable progress in its path to recovery. After a rollercoaster ride beginning in early 2008, the all-important financial services sector has witnessed relative rebound. For example, all top US financial institutions (including Citigroup and Bank of America) returned to profitability by the end of first quarter 2010 having paid back their bailout funds.

The story is the same in the UK where some banks, including Lloyds Banking Group, have started repaying the borrowed taxpayers' money. And in the European Union, the fact that only seven out of the 91 banks failed the stress test carried out on them in July is an indication of the extent of recovery in the global banking system.

On July 15, 2010, JPMorgan Chase reported that its mortgage banking related income rose by an impressive 200% in the second quarter to $364 million. Total mortgage revenue also rose to $2.05 billion in second quarter compared to $1.9 billion same quarter in 2009. The company also saw a 77% rise in its overall earnings relative to its 2009 position.

While the financial services provider is not sure this feat could be sustained in the coming quarters, it is at least a breath of fresh air.

Another top US mortgage lender, **Branch Banking & Trust Company** (BB&T) on July 22, reported impressive earnings for Q2 2010 with net income of $210 million compared with $121 million earned during the second quarter of 2009, an increase of 73.6%. The growth was driven by prime auto, C&I and prime mortgage.

While the financial services provider is not sure this feat could be sustained in the coming quarters, it is at least a breath of fresh air.

Also, home sales figures from the US Commerce Department released on July 26, 2010 showed a 23.6% rebound in June compared with the all-time low sales recorded in the preceding month of May; giving the industry another reason to hope for a turn around.

In the UK, the trend was the same as mortgage lending rose by 15% in June to an estimated £13.1billion from £11.4billion in May. Reports from the **Council of Mortgage Lenders** also showed gross lending rising 7% higher compared to June 2009 when mortgage lending stood at £12.2billion.

www.en.wikipedia.org

"ON A FINAL NOTE ...."

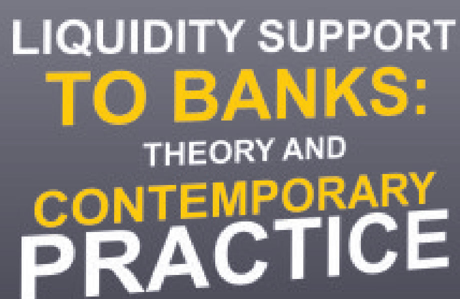
Despite the encouraging signals here and there, not even the most far-sighted of economists can assertively predict the exact direction of the mortgage sector in the short to medium term. As governments and regulatory authorities do their best to undo the damages, the general attitude remains that of 'wait and see'.

But all said, it is not surprising that the crisis has permeated the global economy this much, considering the size of the US economy and the importance of the mortgage and construction sectors as major economic pillars in all nations of the world. In the United States, these sectors are particularly very critical, creating jobs for millions of Americans and jointly contributing about 24% of national output. Perhaps even more critical is the direct role these sectors play in the day-to-day wellbeing of the human race.

But like the case of the Albatross in Samuel Taylor Coleridge's 'The Rime of the Ancient Mariner', the 'bird of fortune' has been slaughtered and now its carcass hangs on the neck of the entire global economy – perhaps as penance for the sins of crafty and unscrupulous financial services operators in the 'Wall Streets' of this world.

"In the end, all of us are paying a price for this home mortgage crisis; and all of us will pay an even steeper price if we allow this crisis to deepen". US President Barack Obama; February 18, 2009; Phoenix, Arizona.

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



LIQUIDITY SUPPORT TO BANKS: THEORY AND CONTEMPORARY PRACTICE

* By Mukhtar Adam

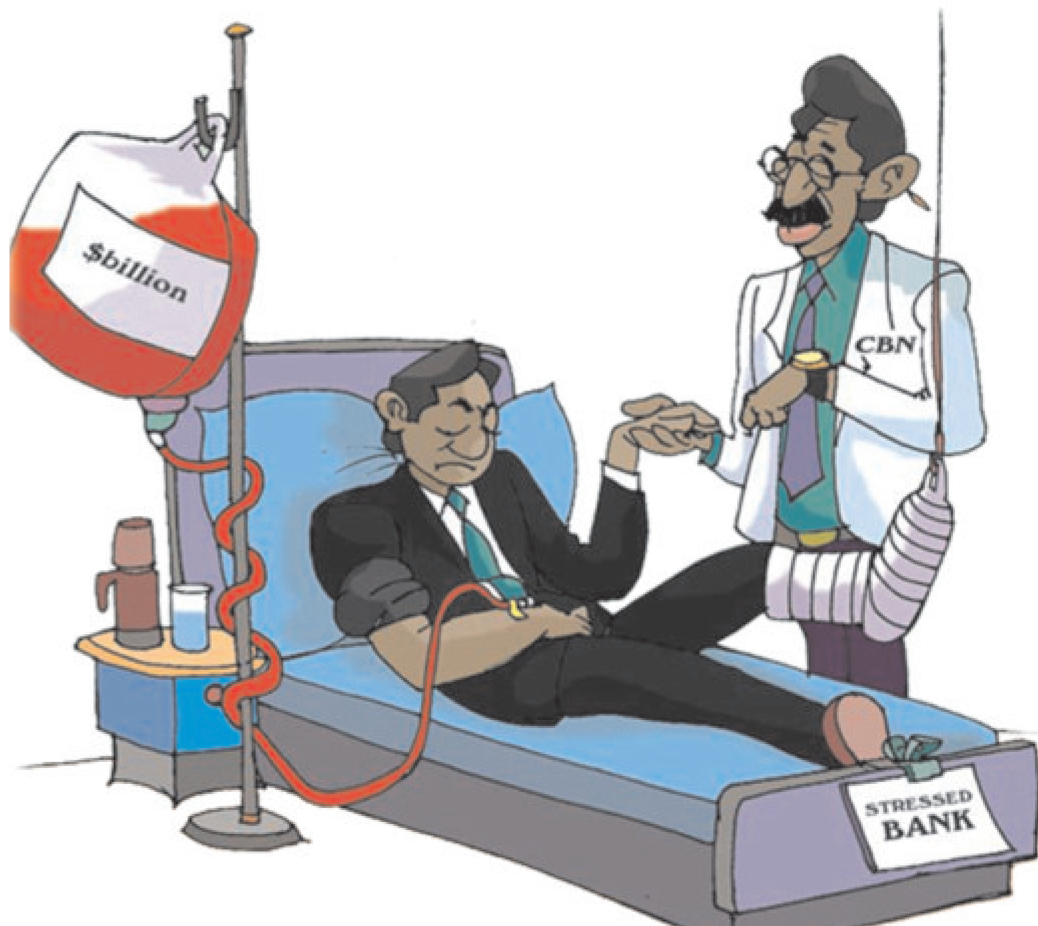
Recent developments in the global financial market have prompted renewed interest in banking regulation and supervision. More critical to the ongoing debate on banking regulation is the use of public funds to provide financial safety net for banks. Traditionally, bank supervisors have used Lender-of-Last-Resort ('LOLR') among other tools to provide emergency liquidity support to banks having liquidity challenges. In this discourse, we will discuss the concept of 'weak bank', identify some of their characteristics, noting steps that can be taken to return a weak bank to a normal position. Secondly, we will focus on the concept of LOLR by identifying and discussing the key principles underpinning the concept. The practical approach to providing LOLR would then be discussed in more details and thereafter a very recent development in Nigeria would be presented. Thereafter, we would identify and briefly discuss how some recent developments in the financial markets have challenged the traditional principles that have guided supervisors in discharging their roles as LOLR.

The combined effect of liquidity and quality of assets drives the Capital Adequacy Ratio (CAR) of a bank. CAR is generally used as a first step in determining the health of a bank.

THE CONCEPT OF WEAK BANK

Defining a weak bank can take various forms. From supervisory point of view, weaknesses in a bank are usually viewed from the perspective of liquidity, quality of assets and management, and earnings capacity. The combined effect of liquidity and quality of assets drives the Capital Adequacy Ratio (CAR) of a bank. CAR is generally used as a first step in determining the health of a bank. In its report titled 'Supervisory Guidance on Dealing with Weak Banks' published in March 2003, the Basel Committee on Banking Supervision (BCBS) defined a weak bank as "one whose liquidity or solvency is or will be impaired unless there is a major improvement in its financial resources, risk profile, strategic business direction, risk management capabilities and/or quality of management". The definition of a weak bank as put forward by the BCBS focuses on long term liquidity problem and solvency threat, as a result of a worsened liquidity problem and other factors, rather than problems (liquidity or otherwise) that are temporary in nature. From this definition we can outline the possible symptoms of weaknesses in a bank as: inadequate financial resources, poor and/ or deterioting asset quality, absence of a long-term sustainable business strategy, poor management and weak risk management and internal control policies, procedures and practices.

In practice, inadequate financial resources manifest through poor treasury



and liquidity management which results to a bank being a permanent borrower from the interbank market. Inadequate financial resources could also occur where a bank undertakes a highly aggressive expansion strategy, thereby growing its operations beyond its financial capability (this phenomenon is usually called over-trading). Weak credit management processes and procedures and more importantly management override of controls in the credit approval process and insider lending have seriously affected the quality of risk assets of a number of banks. Also, management appetite for high risk in terms of lending to risky ventures and untested markets has contributed to poor quality of risk assets. Bank supervisors have used various methods to check or foresee the occurrence of inadequate financial resources and poor and / or deterioting asset quality in banks. Principal among these methods is continuous monitoring or reports sent to the supervisor by banks. Generally, supervisors set limits to guide banks and also to signal the supervisor on potential problems in a bank. Such limits include; liquidity ratio, cash reserve requirements, single obligor limits, insider and related party lending limits, sector or industry concentration limits, loan deposit ratio and above all minimum CAR.

Quality of a bank's management and its risk management and internal control processes, procedures and practices are other criteria that the BCBS have identified as important in determining the health of a bank. Though not quantitative and therefore difficult to measure, supervisors have devised innovative approaches to dealing with such issues. The quality of management of a bank starts from the quality and composition of the Board of Directors. In this regard, some supervisors insist on certain number of independent directors on the board of banks and in most cases, the supervisor's approval is required for the appointment of directors and senior management staff. Some supervisors have laid down criteria and specific requirements for appointing directors and senior management staff of banks. All these are carried out to en-

Inadequate financial resources could also occur where a bank undertakes a highly aggressive expansion strategy, thereby growing its operations beyond its financial capability (this phenomenon is usually called over-trading).

sure that those in charge of managing banks have the required character, attitude, skills and competencies to do so. Concerning risk management of banks, supervisors often determine the risk management framework to be used by banks and monitor the banks to ensure that, the framework is used as it is intended to be. Generally, supervisors adopt risk management framework that is in line with those set out by BCBS such as Basel II. Supervisors also require banks to have certain minimum internal control structures in place, such as having an audit committee which directly reviews the work and reports of the internal auditor. The level, experience, skills and competencies of the internal auditor is of great importance to the supervisor and in most cases, supervisors set out the criteria for appointing internal auditors, the scope of their work and their reporting lines. All these are put in place to assist the supervisor determine possible qualitative challenges.

If after assessing a troubled bank, the supervisor concludes that it is still solvent, the supervisor can take the following corrective actions; ask shareholders to inject fresh capital, suspend the voting and other rights of shareholders to stop distribution of profit or withdrawal of funds from the bank, remove directors and management or provide emergency liquidity support as a 'Lender of Last Resort" LOLR. However, if the supervisor concludes that the bank is facing a threat of insolvency, it could ask the bank to merge with a healthier bank, arrange for another bank or investors to acquire the weak bank or allow the bank to fail. In some instances (discussed later in this paper) the supervisor would provide LOLR support or other forms of interventions to a bank in imminent danger of insolvency to ensure that the bank does not fail.

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LENDER-OF-LAST-RESORT AND ITS APPLICATION

Lender of last resort ("LOLR") is a concept used to describe an emergency liquidity support that a central bank provides to an individual bank facing liquidity crises and has not succeeded in obtaining a "liquidity bail out" from all possible sources. As the name implies, if the central bank also refuse to provide such emergency liquidity support, the bank in question is bound to fail. Technically, LOLR is defined as; "the discretionary provision of liquidity to a financial institution (or to the market as a whole) by the central bank in reaction to an adverse shock, which causes an abnormal increase in demand for liquidity that cannot be met from an alternative source" Freixas et al 1999 cited in He 2002, p.110). As noted in this definition, providing emergency liquidity support by way of LOLR is at the discretion of the central bank, which has to satisfy itself that, such liquidity support cannot be met from other sources. Throughout the history of banking, central banks have served as LOLR to banks at one point or another. Key principles that have guided banks in effectively discharging their role as LOLR were earlier postulated by two separate authors: Henry Thornton

Concerning risk management of banks, supervisors often determine the risk management framework to be used by banks and monitor the banks to ensure that, the framework is used as it is intended to be.

(1807) and Walter Bagehot (1873).

For over two centuries, the work of Thornton and Bagehot have influenced policies and guided central banks in discharging their duties as LOLR. From their work, they noted that; central banks should only provide emergency liquidity support to troubled banks that have good collateral (usually papers acceptable to the central bank) and that such funds should be provided at a punitive rate. They also noted that, during panic period, the central banks should lower its standard of determining the quality of collateral and argued that, banks that are unable to provide such collateral, should be allowed to fail. Another important issue noted by both Thornton and Bagehot is that stakeholders of banks should know, with certainty, the supervisors' policies and possible steps that would be taken to resolve bank crises including provision of emergency liquidity support. In their views, such knowledge and certainty will promote confidence in the banking system and assure depositors and other stakeholders that, in the event of a panic, the supervisor would step in as a LOLR in a predetermined manner. In applying these principles, it is important that a distinction is made between; a bank that is illiquid but solvent and a bank that is illiquid and possibly insolvent. This distinction and the actions required in each case are discussed below.

LOLR to Illiquid but Solvent Bank

Typically the asset side of a bank's balance sheet comprises of illiquid assets such as loans while the liability side is mainly short term unsecured deposits. This balance sheet composition therefore makes banks highly susceptible to depositors run in the sense that, if large number of depositors runs to the bank for their money at the same time, but the bank does not have enough liquidity to settle these depositors, the bank would put in a very difficult situation. Such liquidity crises, does not necessarily mean the bank is insolvent, though it could lead to insolvency if the bank does not get out in good time. A bank that finds itself in such a liquidity crisis could resolve it by negotiating with major depositors not to withdraw their funds or by obtaining liquidity from the interbank market. If all these fail, the bank could approach the supervisor for support.

Negotiating with depositors: Because depositors are widely scattered and uncoordinated, a small panic on a bank usually results in depositors run-

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Because depositors are widely scattered and uncoordinated, a small panic on a bank usually results in depositors running to cash out at the earliest opportunity, since each depositor believes all other depositors would equally run to cash out.

ning to cash out at the earliest opportunity, since each depositor believes all other depositors would equally run to cash out. The problem gets worse if depositors that first run to the bank are not paid or the payment is delayed. However, if the first few depositors are promptly paid, the news spread very fast and the panic reduces, thereby reducing the number of depositors run. Also, a bank facing depositors' run could negotiate with its large depositors to leave their funds for higher interest rates. This approach sometimes works because most large institutional depositors are more informed about the bank's health and

www://lh6.ggpht.com

condition than small and fragmented depositors, and can therefore decide not to withdraw their funds based on their assessment of the bank's solvency.

Interbank takings: The actions of other banks could also resolve or compound an individual bank's liquidity crises. For instance, other banks that have placements with the troubled bank could decide not to call up their placements and better still some banks with excess liquidity can place with the troubled bank to ease the liquidity problems in order to prevent loss of confidence in the banking sector. In doing all these, other banks would first of all, convince themselves that the troubled bank is solvent and that, the liquidity problems is just a temporary situation. In practice however, other banks rarely provide emergency liquidity support to a troubled bank, even when they do, such support is usually limited because of the difficulties in determining the solvency of the troubled bank and fear of general liquidity squeeze. In some cases, other banks would not lend to a troubled bank and some may even call up their placement with the bank because they perceive the troubled bank as not so important to the whole financial system to cause a loss of depositors confidence by it failure. Yet still, some banks take advantage of depositors run on the troubled bank by chasing the deposits withdrawn from the troubled bank.

Supervisors' support / intervention: Following the propositions put forward by Thornton and Bagehot, a central bank that is approached by a troubled bank for emergency support must first determine if the bank is still solvent despite its liquidity crises. In practice however, it is usually difficult to properly assess the solvency of an illiquid bank within the

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very short time that the liquidity support is desperately required. Supervisors therefore, use the information available to them and some level of judgment and discretion to presume the solvency or otherwise of an illiquid bank. In the event that the troubled bank is presumed to be solvent, the supervisor would provide LOLR support as a temporary measure of assisting the troubled bank to overcome depositors panic, avoid 'fire sale' of assets and above all return the bank to normalcy.

A supervisor that finally decides to offer LOLR support to a troubled bank could do that in two ways. First, the supervisor could lend to the interbank market expecting that, the market would in turn lend to the troubled bank. The supervisor would adopt this approach with the aim of injecting liquidity into the whole banking system to counteract withdrawal of liquidity resulting from run on the illiquid bank and some other banks due to depositors panic. The second approach is to lend directly to the troubled bank. A supervisor would normally adopt this approach if the interbank market is considered inefficient in the sense that the market might not lend to the troubled bank even after the supervisor has injected more liquidity to the market expecting that it would reach the troubled bank.

LOLR to Illiquid and Possibly Insolvent Bank

From the face of it, it seems counter-intuitive to provide emergency liquidity support to a bank that has been assessed as possibly insolvent and on the verge of collapsing. However, providing LOLR support to a possibly insolvent bank becomes very necessary and rational in order to prevent broader financial instability. This arises when, in the assessment of the supervisor; the failure of a particular illiquid and possibly insolvent bank will certainly cause instability in the financial sector due to the size of the bank and its economic and political relevance. In this instance, the supervisor has a duty to ensure that, that bank

It has been argued that the failure of such a bank, despite its possible insolvency, will affect a large number of depositors thereby causing loss of confidence in the banking system.

does not fail. That is to say such a bank is 'too big to fail', because its failure will have a ripple effect on the financial system and certainly the whole economy.

It has been argued that the failure of such a bank, despite its possible insolvency, will affect a large number of depositors thereby causing loss of confidence in the banking system. Also, other banks that have placements with the troubled bank will equally be affected and if within the same period, depositors of those other banks run for their money, it could put such banks in serious liquidity crises, thus creating a general banking crises. In such a situation, banks would be forced to halt granting new loans, halt disbursement of loans already approved and even try to recover existing loans, To avoid all these undesired systemic consequences arising from the failure of one bank, the supervisor would assess the overall cost and if deem fit rescue the in-

solvent bank.

Aside providing direct emergency support (LOLR) to illiquid, possibly insolvent but large and systemically important bank, there are other ways a supervisor can rescue such a bank. One way is to identify a sound bank to take over the assets and liabilities of the troubled bank at a nominal fee. In this case, the supervisor succeeds in rescuing the troubled bank without providing LOLR support. An example is the take-over of Baring Bank in 1995 for 1Pounds Sterling by Dutch Financial Conglomerate ING. A second way is to nationalize the bank (if it is a private bank) by injecting in public funds and taking over management of the bank.

SOME PRACTICAL LESSONS FROM NIGERIA

From the above discussions it is important, at this juncture to relate the literature on LOLR to some recent developments in the Nigeria banking sector. In August 2009 and October 2009, the Central Bank of Nigeria (CBN) announced the dissolution of the boards of five and four banks respectively, following an audit exercise carried out on all the twenty four deposit-taking banks in Nigeria. Major reasons cited by the CBN for its actions were; liquidity crises and poor risk asset quality in those banks.

Concerning liquidity crises in the affected banks, the CBN noted that, these banks together, have been utilizing about 89% of the money made available to the interbank market through an Expanded Discount Window (EDW) which was an indication of liquidity difficulties. Also, the CBN noted that, these banks were heavily exposed to two sectors that were in difficulties (the capital market sector and middle market in the oil and gas sector) aside the issue bordering on insider lending. Based on the assessment of the CBN, the combined effect of liquidity challenges and poor asset quality of these banks put them under serious threat of insolvency. The CBN however, noted that, due to the number of banks affected and their relevance, rescuing them is less costly to the financial system and the entire economy than allowing them to fail. The CBN therefore intervened by dissolving the boards of these banks and setting up new ones to manage them until they are returned to sound financial health. The CBN also injected a total of Naira 600 billion (approx. $4 billion) into these banks.

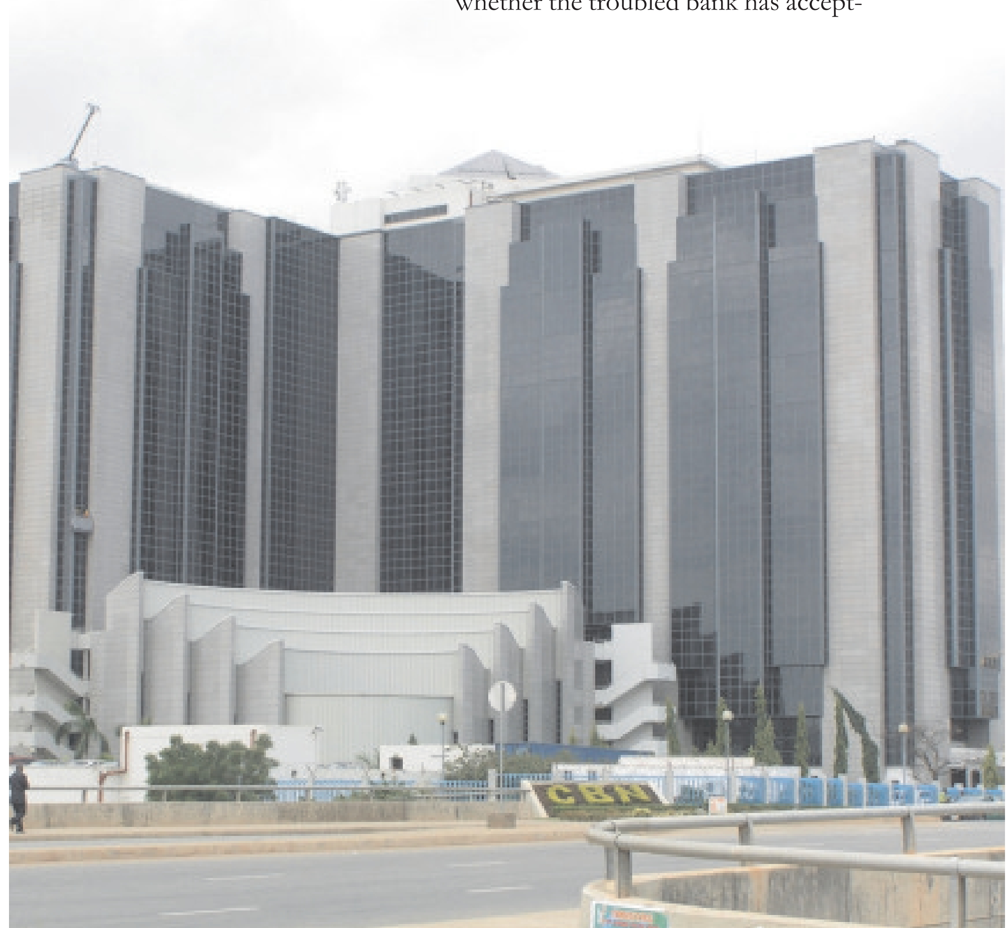
It is clear from the above that, having confirmed that some Nigerian banks were facing liquidity challenges, the CBN went a step further to assess the solvency of these banks and concluded that they faced the threat of insolvency. However, the CBN went ahead to inject funds into these banks as a LOLR because in the assessment of CBN the affected banks together, represents significant portion of the entire banking system and therefore, allowing them to fail would cause instability in the financial system.

RECENT DEVELOPMENTS AND THEORETICAL FOUNDATION OF LOLR

The principles of providing emergency liquidity support earlier put forward by Thornton and Bagehot have been used by supervisors for about two centuries. In recent times however, bank supervisors' have changed their approach to LOLR in order to accommodate certain developments in the financial markets. Some of these recent developments are briefly discussed below.

Providing LOLR for Systemic Reasons (too big to fail)

Most countries have some specific banks that are very large and strategically important to the economy that their failure would result in instability in the financial system. Such banks are considered 'too big to fail' and the supervisor is duty bound to ensure that these banks do not fail. In the event that a bank with such characteristics is in liquidity crises, the supervisor would provide LOLR irrespective of whether the troubled bank has accept-



able collateral or not. In this instance, Thornton and Bagehot's principle which requires that LOLR should be provided only to banks that have acceptable collateral would not be applicable.

Change in the Composition of Bank's Liabilities
In recent times, the liability sides of the balance sheets of banks have changed from only deposits to include takings from the interbank market, bonds, and commercial papers. With this change, a solvent but illiquid bank could always take from the market, issue bond or CPs to enhance its liquidity. If need be, the supervisor can also support the weak bank by increasing liquidity in the interbank market, so that, the market can lend to the weak bank instead of the supervisor providing direct liquidity support. In this instance, provision of liquidity is determined and undertaken by the interbank bank, which is different from the traditional practice where liquidity support is provided by the supervisor.

Increased Moral Hazard
Another principle of LOLR put forward by Thornton and Bagehot is that, supervisors should make stakeholders aware of the policies and procedures on LOLR in order to maintain public confidence in the banking system. However, some recent developments indicate that, this approach is counterproductive as bank managers being aware of this may abuse the system by creating problems, which they personally benefit from and call on the supervisor to shoulder the problems. In response to this increased moral hazard, supervisors have refrained from announcing their plans for providing LOLR or have remained vague (constructive ambiguity) about their intention prior to crises so as to leave bank managers uncertain about their responses to the banking crises.

LOLR at a Punitive Rate
In practice, supervisors do not provide LOLR at punitive rates, mainly because such high rate will worsen the bank's already bad liquidity and solvency situation. Additionally, public knowledge of that punitive rate could cause loss of public confidence in the bank's management, which could lead to more depositors running for their monies, thereby complicating the bank's problems.

From the above discussions, we have explained how Thornton and Bagehot principles on the LOLR have been followed by bank supervisors for about two centuries noting the key decisions that supervisors make in the process of providing LOLR support. We have also pointed out how the distinction between illiquid but solvent bank and illiquid and possibly insolvent bank assists the supervisor to properly deal with liquidity crises in a bank. Finally we identified systemic relevance of some specific banks, change in the composition of bank's balance sheet and increased moral hazard as some recent developments that have challenged the principles of LOLR originally set out by Thornton and Bagehot. We also noted that, in practice, supervisors do not provide LOLR at punitive rate as suggested by Thornton and Bagehot.

If need be, the supervisor can also support the weak bank by increasing liquidity in the interbank market, so that, the market can lend to the weak bank instead of the supervisor providing direct liquidity support.

(Mukhtar Adam is a staff of Zenith Bank Plc)*

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

* By Chuks Nwaze

FRAUD CASES

itherto, this serial has been devoted to the intellectual dimension of quality assurance in banks as well as the internal control challenges arising there from. However, as the bankers themselves will readily testify, no amount of theoretical analysis can address the difficulties encountered on a daily basis by customers and their bankers, all in the name of financial intermediation.

Hence, the stage is now set for us to give practical vent to most of the issues discussed so far, not only as a basis for conflict resolution but also as a benchmark for ethical re-orientation for bankers and their customers. This will be done in this serial and the next two editions.

I wish to emphasize at the onset that all the cases took place; nothing here is fictitious. However, it would be unfair and patently unprofessional to disclose the identity of the people or banks that were involved, even as the substance and details of the cases remain intact.

This is because the objective of this effort is not to castigate, embarrass or ridicule any individual or institution in the public domain especially as many of the cases have been disposed off and the actors have moved on. For some of the cases that are still in court, we are still in order by concealing the identities of the individuals in compli-

ance with the principle of subjudice.

This material is purely educative and I have tried to keep it at that level in the hope that appropriate lessons will be learnt in the interest of the banking industry. Efforts have been made to assist the reader by drawing attention to the nature of the fraud being discussed as well as lessons to be learnt in an uncomplicated manner.

Nonetheless, non-bankers are advised to exercise some patience and devote a little more time to appreciate the logic inherent in each case.

CASE 1

Summary of Facts:

Employment Error

Miss C who had worked for five years in bank C committed fraud and her appointment was terminated. This fact was duly communicated to the regulatory authorities which circulated it to all banks as usual in the monthly return on fraud and forgeries

Subsequently, Miss C applied and was employed by bank E after adjusting her curriculum vitae to give the impression that she had no previous banking experience, hence she gladly accepted the entry point status of management trainee even though she was already at third level in her previous bank.

But in bank E she was superlative, even teaching her seniors. Her performance earned her considerable respect as she garnered customers and deposits for the bank.

However, as the saying goes, leopards do not change their skin. She soon committed fraud by collecting deposits from customers without opening account for them. As investigation was going on, the monthly report on fraud and forgeries arrived in head office and her name was there in respect of her activities in her previous bank. Her appointment was immediately terminated.

However, as the saying goes, leopards do not change their skin. She soon committed fraud by collecting deposits from customers without opening account for them.

Lesson:

This was an employment error on the part of bank E which did not carry out proper scrutiny on her career history, neither did they ask questions about the five-year gap in her records. Bank E was obviously carried away by her promise to generate deposits without caring about the antecedent, character and integrity of the individual. The absence of due diligence in the employment process can result in unpredictable consequences as the banking profession is based on trust.

CASE 2

Amount involved - ₦9 million

Summary of Facts:

Fund Transfer Fraud

A syndicate of external fraudsters decided to commit fraud on the internal fund transfer system of bank X using the current account of a customer who was a relative of the chairman of the bank.

Four members of the syndicate armed with fake international passports for purposes of identification, positioned themselves in four different up-country branches on the pretext that the customer whose account was at the head office branch had remitted money to them.

The fund transfer system is designed in such a manner that if money is actually remitted, it will be reflected in the suspense account of the paying branch and that is the condition for cash to be released to the beneficiary, after proper identification.

In this particular case, however, the different up-country managers paid cash to each of the fraudsters (totaling ₦9 million) even though the credits were not showing in their suspense accounts.

Their reason was that the customer was highly connected and they did not want to offend him by refusing to pay to the named payees.

Management decided that all the managers involved should refund the ₦9 million as none of the fraudsters was apprehended.

Lesson:

It is better to go by the rules, irrespective of who is involved. If the managers had insisted that the credits must be in the suspense account prior to payment as stipulated in the operations manual, the fraud would not have succeeded. It is safer to err on the side of caution.

CASE 3

Amount involved ₦17million

Summary of Facts: Mail Fraud

In their attempt to reduce the clearing days and get value fast in respect of a high value cheque, bank 'K' (based in Lagos) sent a letter to bank L in Calabar requesting for a draft to replace a cheque issued by a customer of bank L.

The cat was let out of the bag when the syndicate attempted to open account in the name of bank K in another bank to facilitate the conversion of the draft.

But in the mailing room, the letter was intercepted by a syndicate which changed the contents of the letter and made the draft open and payable to their team leader to enable him collect cash over the counter.

Although the fraudster succeeded in impersonating officials of bank K, bank L declined to issue a draft of N17million in the personal name of anybody and went ahead to issue it in the name of bank K

The cat was let out of the bag when the syndicate attempted to open account in the name of bank K in another bank to facilitate the conversion of the draft. They were all rounded up by the police, including the internal collaborator who was a staff of bank K, for prosecution.

Lesson:

A high level of professionalism and inter-bank cooperation are required to nip this kind of fraud in the bud. The fraud would have succeeded if either of the following had happened:

- *Bank L had agreed to issue the draft in the name of an individual.*
- *The other bank had agreed to open an account in the name of bank K with questionable documents.*

This underscores the need for a banker not only to

concentrate on his job at all times but also to focus on objectives he is trying to achieve which is to prevent fraud and avoid service failure.

CASE 4
Amount involved ₦10 million
Summary of Facts:
Executive Fraud

Mr. B who is an assistant general manager in bank B is in charge of branch development. He was asked to go and negotiate the lease for a property to be acquired for a new branch within the locality.

Mr. B had negotiated with the landlord and they arrived at the amount of ₦18 million. However, this executive went back to his office and sought approval for the release of ₦28 million to the landlord in respect of the same property, which was approved and paid after which renovation work started.

However, because of the amount involved, the chairman of this small bank was alarmed and he asked the executive director to go and find out from the landlord why the lease-hold on that property was so high. The landlord who was unhappy, informed the team led by the executive director that the ₦18 million was concessional and that he was willing to refund them their money as another bank had offered him ₦22 million. That was how the fraud was uncovered.

The AGM (i.e. Mr. B) was told to return the excess ₦10 million in addition to resignation of his appointment.

Lesson:

The failure of this executive fraud was caused by excessive greed. Obviously, if the difference had been a small amount, it would not have raised eyebrows and he might have gotten away with it. Surely, this was not his first 'deal' but on this occasion he was exposed by agreed and insatiable appetite for money.

A fraud syndicate opened a current account in bank M and paid a forged cheque of ₦9.5 million into it.

CASE 5
Amount Involved ₦9.5 million
Summary of Facts:
Cheque substitution

A fraud syndicate opened a current account in bank M and paid a forged cheque of ₦9.5 million into it. In order to prevent the instrument from getting to its destination and the fraud being discovered, the dispatch rider of bank M who was a member of the syndicate was intercepted between the branch and head office and that particular cheque was substituted with a genuine but stolen cheque of the same value and date but which was payable to FBIR (Federal Board of Inland Revenue).

Hence, although the forged cheque did not get to the clearing house, it was nonetheless, given value, at the expiration of the clearing days while the stolen FBIR instrument which reached the clearing house was not given value because it was not paid into any bank. The only member of the syndicate that was caught was the dispatch rider.

Bank P which was the owner of the FBIR cheque took bank M to Inter- bank Arbitration for conversion and after three years of investigation, and presentations by the two banks, the case ended in favour of bank P.

Lesson:

Cheque substitution is a sophisticated fraud that calls for good operational savvy and

a high degree of detailed planning by the fraud syndicate. It is difficult to eliminate but better controls will minimize it, including quality assurance in terms of the type of individuals entrusted with specific responsibilities. A large syndicate of fraudsters is usually involved but it cannot succeed without the active connivance or cooperation of bank staff.

CASE 6
Amount involved ₦2.5 million
Summary of Facts:
Cash suppression by Teaming and Lading

Mr. B was a NITEL cashier in bank B, that is to say, he was the person designated to be receiving cash from NITEL subscribers in settlement of their telephone bills.

He designed and perfected a system of cash suppression involving teaming and lading. That is, he collects ₦20,000 from customer 1, records it on his register, but pays ₦10,000 into NITEL Account and pockets the balance. Next, he receives ₦25,000 from customer 2, pockets ₦15,000 and uses ₦10,000 to balance the payment for customer 1. He then collects another ₦35,000 and puts everything in his pocket without making any payment into NITEL Account etc.

He continued like this until a prominent subscriber entered the branch to complain that NITEL had disconnected his telephone line, notwithstanding that he settled his bill through bank B and produced a copy of the bill dully stamped by the cashier.

That was how the cat was let out of the bag. Since this practice had been going on for a long time, several other customers also came to make a similar complain. Investigation revealed that a total of ₦2.5 million had been misappropriated in this manner.

He was sacked while his guarantors paid back most of the money to the bank. The cash officer was warned and asked to pay the ₦900,000 which the guarantors could not complete.

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Lesson:

Cash suppression. This cashier was not properly supervised. Cash handling is very tempting and the junior member of staff performing this function should not be allowed any breathing space unless his level of honesty can be guaranteed.

CASE 7
Amount involved - ₦32 million
Summary of Facts:
Forgery

A syndicate of six external fraudsters masterminded by one Alhaji 'O' printed a parallel cheque book belonging to one of the current account customers of bank 'P'. They also forged the signature of the customer who was the sole signatory to his account.

Alhaji 'O' who had opened current account for this purpose in another bank now issued a cheque for ₦32 million which was received by bank 'P' through clearing.

Unknown to the fraudsters, however, there was a mandate by the customer to the effect that

Mr. G who is in the employment of company G opened a current account in the name of his employers in bank H using forged documents. The objective was clear: to collect cheques meant for his employers through that account.

all cheques coming into his account must be confirmed by him prior to payment and this was what saved the situation.

Thus, when the customer was contacted, he promptly denied issuing any such cheque. The police was called in and the team leader who presented the instrument was arrested and prosecuted.

Lesson:

Efforts should be made to confirm all large value cheques directly from the customer even if he did not instruct as such. It is always better to go the extra mile and play safe. Controls can be inadequate but it can never be too much.

CASE 8
Amount involved - $2.5 million
Summary of Facts: Telex Fraud

Bank 'T' dispatched a telex message which was cleverly intercepted by a fraudster who also went a step further to change the name of the payee to his own name.

Meanwhile, the fraudster already had an account abroad to which he diverted the telex message from bank 'T' to the effect that the sum of $2.5 million should be credited accordingly.

Unfortunately, the "codes" did not reflect the altered message while the "serial number" was also incorrect, hence the paying bank abroad did not honour the "instructions" of bank 'T' in view of the inconsistencies thereon. The paying bank overseas politely replied with another message saying "test incorrect".

Although the fraud was discovered, subsequent investigation was inconclusive as it led to nowhere; the perpetrator was unknown.

Lesson:

Telex fraud could lead to a monumental loss if it succeeds. It is also difficult to apprehend the culprit because of the nature of the transaction. The best bet is to fortify the concept of "test codes" and make it impregnable. The naira equivalent of $2.5 million is a lot of money!

CASE 9
Amount involved – ₦65 million
Summary of Facts: Collusion and Forgery

In this case, Mr. G who is in the employment of company G opened a current account in the name of his employers in bank H using forged documents. The objective was clear: to collect cheques meant for his employers through that account.

He had a strong collaborator in bank H, hence the documents he submitted were not subjected to the usual checks which could have exposed the fraud at the account opening stage.

However, he started diverting his employers instruments into that account in bank H and also withdrawing them in cash as they were being cleared. By the time nemesis caught up with him, about ₦45 million had been withdrawn out of a total amount of ₦65 million diverted up to that date, while the balance of ₦20 million was recovered by blocking the account.

Although the fraudster exposed the internal collaborators, he absolved them from blame, saying they were innocent. Nonetheless, these members of staff were dismissed by bank H for complicity.

Lesson:

This kind of fraud will continue in the banking industry. Even the best internal control will not stop it since there was connivance among several members of staff who should ordinarily check one another. It can never be over-emphasized that the banking profession is based on trust and that employers should leave no stone unturned in ensuring that only honest individuals are engaged.

CASE 10

Amount involved – ₦1.5 million

Summary Facts: Cheque Forgery

Customer A of bank A gave a cheque of ₦1.5 million to his brother (Mr. B) on a Friday morning in settlement for money earlier received. Mr. B had expressed a preference to lodge the cheque into his account in another bank instead of collecting it in cash, in view of the risk.

On Monday morning, however, customer A received a call from his bank asking him to confirm the cheque he issued to Mr. B which was about to be collected in cash in an up-country branch of the same bank. Customer A promptly called his brother to ascertain why he suddenly changed his mind and opted to collect the money in cash and why in such a far location.

His brother responded that he had no reason to change his mind; that he had already paid the instrument into his account in another bank. This information was immediately relayed to bank A which ordered the arrest of the fake payee who was obviously trying to cash a forged cheque over the counter via inter-branch.

Later that evening the genuine instrument came through clearing while the fraudster was cooling his heels in police custody.

Lesson:

This is another lesson on the efficacy of confirmation as a powerful instrument of fraud prevention even if the customer did not instruct as such. There are several assaults that can be launched on a customer's account without his knowledge or consent and it is the sacred duty of his bankers to protect him as much as possible.

CASE 11

Amount Involved ₦14 million

Summary of Facts: Computer Fraud

The computer auditor in bank A used his expertise to tamper with the system DATABASE in such a way that enabled him to generate credits and withdraw them while the debits were not reflecting anywhere.

He used his collaborators to open current accounts in two branches of the bank which was running an on-line, real-time system. The approach was as follows:

Mr. A1 in branch A1 writes a cheque for ₦50,000.00 which he withdraws over the counter but the debit does not reflect in his account. Mr. A2 in branch A2 pays in cash of ₦70,000.00, but what enters his account is a credit of ₦700,000.00.

The computer auditor in bank A used his expertise to tamper with the system DATABASE in such a way that enabled him to generate credits and withdraw them while the debits were not reflecting anywhere. He used his collaborators to open current accounts in two branches of the bank which was running an on-line, real-time system.

The man himself (i.e. computer auditor) withdraws the sum of ₦200,000.00; however, what reflects in his account is a debit of ₦20,000.00.

It should be noted that the correct amounts were appearing in the Transaction Journals, hence the fraud was not detected on call-over. This continued for a long time until one of the fraudulent transactions erroneously entered a suspense account which triggered investigation.

All the perpetrators confessed to the police except the computer auditor mastermind who phoned from London and cautioned that the bank itself had been committing fraud, that he would spill the milk if he was not left alone. The new computer auditor who was later employed confirmed that a total of ₦14million had been withdrawn in this manner during the two years the fraud took place.

Lesson:

This ingenuous computer fraud was made possible due to poor internal controls, as the computer auditor was allowed unlimited access rights not commensurate with his job function. Frauds of this nature will continue to occur as long as a bank allows a particular employee to become too important and indispensable to this extent of compromising the checks and balances inherent in system access restrictions.

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CASE 12
Amount Involved ₦7.5 million
Summary of Facts: Cheque Fraud

A fraud syndicate which specialized in the forgery of cheques and other payment instruments had perfected the forgery of a customer's cheque, including the signatures of the signatories to the account. The instrument was made payable to Mr. S (the mastermind) who also brought a forged confirmation letter purportedly written by the customer.

After the usual procedures, including identification, Mr. S was asked to go to another area of the banking hall for a regiscope photograph in view of the amount involved. However, instead of doing this, he quickly sneaked out of the bank under the pretense that he was going to park his car properly. He never came back.

The documents he left behind showed that this was a powerful syndicate. The complementary card of a staff of the bank was also found among his documents. This was obviously the insider collaborator who was promptly handed over to the police when the customer denied issuing any such cheque.

Lesson:

The Regiscope should always be used in respect of large withdrawals, especially by third party payees. Fraudsters do not like to leave a trail. Hence, only experienced professional fraudsters are able to stand the psychological setback provided by the regiscope machine.

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

HOUSING DEFICIT IN NIGERIA: CONFRONTING THE BEHEMOTH

* Sunday Enebeli-Uzor

One of the most obvious consequences of urbanisation in developing countries, such as Nigeria, is often dearth of decent housing. To say that Nigeria's housing is in a dire situation is to state the obvious. Recent statistics from the Federal Ministry of Lands, Housing and Urban Development conservatively put Nigeria's housing deficit at between 16 and 18 million units. The Presidential Committee on the Implementation of Affordable Housing estimates that about N60trillion would be required to meet the nation's housing need, which it puts at approximately 16 million units. On its part, the Federal House of Representatives' Committee on Environment and Habitat puts the housing deficit figure at a whooping 23 million units at the minimum. This is to at least meet the United Nations' standard of six persons per house, considering a population of over 140 million people and an estimated 6.3 million houses at present. The World Bank also estimates that Nigeria

requires over 720,000 housing units annually for the next 20 years in order to meet the housing needs of the country against the backdrop of rapid population growth and annual rural-urban migration rate of five percent. The problem of inadequate housing in Nigeria manifests in both urban and rural settlements in diverse forms and complexities. The pathetic state of housing in the country has assumed an intractable dimension despite the plethora of government policies and programmes to ameliorate the situation since the pre-independence era.

The need for decent housing units cannot be overemphasised. Housing is the most important psychogenic need of man, next to food and clothing. It is essential for normal healthy living and fulfills deep-seated psychological needs for privacy and personal space; physical needs for security and protection from inclement weather; and social needs for basic gathering points where important relationships are formed and nurtured. A house also serves as an economic centre where some essential commercial activities are performed. It is a major contributor to the economy as it accounts for a substantial part of production through its backward linkages to land markets, building materials, tools, furniture, and labour markets; and its forward linkages with financial markets. In Nigeria, house ownership is one of the first priorities for most households and it represents the largest single investment for most – between 50 and 70 percent of household income.

Over the years, Nigeria has experienced one of the fastest rates of urbanisation in the world. In 1952, it was estimated that just 10 percent of the population live in urban settlements. By the 1970s after the famous 'Udoji awards' when stupendous remuneration was approved for public servants, the profligate spending among urban dwellers encouraged rural dwellers to migrate in droves to the 'Eldorado' of urban centres in search of paid employment. The percentage of urban dwellers grew to 38

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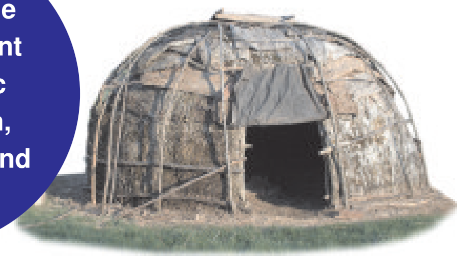

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The World Bank also estimates that Nigeria requires over 720,000 housing units annually for the next 20 years in order to meet the housing needs of the country against the backdrop of rapid population growth and annual rural-urban migration rate of 5 percent.

percent in 1993, and currently stands at about 50 percent. The rapid pace of urbanisation in the country is unique in scale, pervasiveness and in historical antecedents. This has culminated in dense network of several urban settlements and cities of prominence spread across the country, a number of which are even bigger than most national capitals in the continent. The rapid growth of the urban population over the years proceeded in an unrestrained and spontaneous manner. This gave rise to extensive slums and shanty settlements – residential areas that lack adequate access to water and sanitation, security of tenure, and poor structural quality.

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Past efforts to ameliorate the housing challenge

Nigeria has never been without a government programme to meet the nation's housing needs, from the pre-independence era, the First National Development Plan (1962-68) the Second National Development Plan (1970-74); the Third National Development Plan (1975-80); the Fourth National Development Plan (1980-85); the post Fourth National Development Plan period; and the present democratic dispensation. During the pre-independence era, the colonial administration provided accommodation for staff in its employment in the form of 'staff quarters'. The staff quarters were reminiscent and comparable to what existed in the home country of the colonial administrators. This heralded the emergence of Government Reservation Areas (GRA) that dot the landscape of some major cities till date. The colonial government did not construct houses either for sale or for rental purposes to the general public. The policy thrust of government housing programme at the time was exclusively aimed at catering for the housing needs of the white colonial population in specially protected cozy environment, somewhat prohibited to the indigenous population.

At the attainment of political independence, the new national 'elites' in the upper hierarchy of the state apparatus of power enlarged the Government Reservation Areas (GRA) for their habitation. In 1962 however, the First National Development Plan was introduced with a policy to provide housing for low, medium and high-income individuals in the society. The Plan explicitly indicated government's desire to construct 24,000 housing units during the plan period. However, before the Plan was truncated in 1967 by the ill-fated civil war, only a paltry 500 housing units were built. In the Second National Development Plan that came into effect in 1970, government proclaimed housing as part of its social and political responsibilities to the citizenry. The proclamation sought to provide rental houses at affordable prices and step up investment in local building materials, especially cement. These efforts where however mainly concentrated in Lagos – then the nation's capital, and benefitted only a negligible privileged few.

The Third National Development Plan that became effective in 1975 articulated a more ambitious plan for housing provision in the country. The Plan earmarked N1.83billion for housing during the span of the plan period. However, following the change of government in 1976, and the oil boom era, the housing policy was revisited. The revised policy earmarked 202,000 housing

units to be constructed each year and distributed as follows: Lagos – 46,000 units, Kaduna – 12,000 units, and 8,000 units for each state capital. The government established for the first time a full fledged Ministry of Housing, National Development and Environment, to supervise housing provision in the country. The emergence of a civilian administration in 1979 necessitated a review of the housing policy with government's direct involvement in housing construction through the Federal Housing Authority (FHA). The reviewed plan proposed to construct 40,000 housing units per year for a period of five years. This era did not also achieve much in meeting the nation's housing needs, although the construction of Abuja – the new national capital, commenced during the period.

The Fourth National Development Plan beginning in 1981 sought to achieve a robust national economy through an integrated and holistic development of the various sectors and even development of the nation's various geographic zones. The housing sector thus received attention as the government earmarked N1.6billion for the provision of 200,000 housing units between 1980 and 1985. In addition to the provision of staff quarters, government also introduced staff housing loans to its employees. However, following the change of government in 1986, government jettisoned its mass housing policy on the excuse of dwindling government revenue and austerity measures of the time. Thus, there was no government policy on housing until 1991 when a National Housing Policy was articulated with the ambitious thrust of "ensuring that all Nigerians own or have access to decent housing accommodation at affordable cost by the year 2000". This goal was however consistent with the United Nations' resolution of 'housing for all by the year 2000'. To achieve the goal, the nation needed to construct 700,000 housing units annually.

www.globalgiving.org

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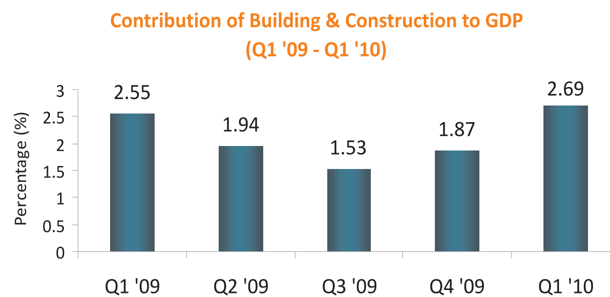

source: national bureau of statistics

As the new millennium drew near and the goal of all Nigerians owning or having access to decent housing accommodation at affordable cost became elusive, the government in 1994 unveiled a National Housing Programme to run through 1995. The new programme sought to construct 121,000 housing units for all income groups in the society with priority accorded to newly created states that would have 5,000 housing units each. To comprehensively address the challenge of housing financing, the National Housing Fund (NHF) was conceived in 1992 with a take-off fund of N250million. Also, the Federal Mortgage Bank of Nigeria (FMBN) put in place three schemes; voluntary, mandatory and budgetary allocation, and

The reviewed plan proposed to construct 40,000 housing units per year for a period of five years.

financial transfer scheme to curb the challenge of housing finance.

Since the return to democratic rule in 1999, the Federal Government has sought to improve the housing situation in the country. A new Ministry of Housing and Urban Development was established to fast track housing delivery and urban development. The ministry was at some point subsumed into the Ministry of Works, Housing and Urban Development. However, the present administration has restored the ministry as Ministry of Lands, Housing and Urban Development. Current government plan and programmes for housing in the country are contained in the National Housing Policy of 2006; the National Economic Empowerment and Development Strategy (NEEDS) 1 & 2; the report of the Presidential Technical Committee on Housing and Urban Development of 2002; the Presidential Committee Report on Affordable Housing of 2007; the Seven Point Agenda; and the report of the Vision 2020 National Technical Working Group on Housing.

The thrust of all these policies is to ensure that all Nigerians own or have access to decent, safe and healthy housing accommodation at affordable cost. The policies seek to reform the nation's housing sector by ensuring that Nigerians have access to affordable and decent rental housing that would be achieved through a private sector led housing delivery system anchored on mass construction of houses and strong mortgage financing. The New National Housing Policy also provides an annual target of 1,000 housing units by each state government in an integrated framework to holistically tackle the nation's housing challenge. The report of the Vision 2020 National Technical Working Group on Housing seeks to formalise home ownership through credit to at least 50 percent of Nigerian families within the next 12 years. The report also proposes building one million new homes every year for the next 12 years in addition to simplifying land administration procedures for conversion of customary titles to statutory titles to capture the majority of the underserved market. It also seeks to mobilise more household savings for housing through Primary Mortgage Institutions (PMIs) and Microfinance operations, and provide access to credit to existing stock of homes so as to stimulate economic activities.

The thrust of all these policies is to ensure that all Nigerians own or have access to decent, safe and healthy housing accommodation at affordable cost.

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Housing Finance in Nigeria

There has been a plethora of government policies to finance the housing sector. These include: Credit Policies, Insurance Companies' Funds, and Specialised Institutions. Prior to the liberalization of the banking sector in the 1990s, the Central Bank of Nigeria (CBN) through a deliberate credit policy encouraged banks to stimulate growth of the housing sector. The CBN as a rule, required commercial and merchant banks to dedicate a statutory minimum proportion of their credit

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to the housing/construction sector. The minimum proportion of total loans and advances that should be allocated to the housing/construction sector was five percent in the 1979/80 fiscal year. This grew to six percent in 1980, and by 1982 it stood at 13 percent. Defaulting banks were penalised and the shortfalls were deducted at source from the defaulting banks' deposit with the CBN and transferred to the housing/construction sector through the Federal Mortgage Bank of Nigeria (FMBN). This policy was however jettisoned following the banking sector liberalization.

Funds from insurance companies, especially the life insurance segment of the insurance sector have also been deployed in housing finance in the form of mortgage. This is due to the stability of insurance funds and the long-term structure of insurance companies' liabilities. There are also a number of specialised institutions that provide finance for the housing sector in the country. These include: State Government Financing, the Federal Mortgage Bank of Nigeria (FMBN), Primary Mortgage Institutions (PMIs), the Federal Mortgage Finance Limited (FMFL), National Housing Fund (NHF), and Cooperative Societies.

State Governments through their respective Housing Corporations or Investment and Property Development Corporations have been advancing credit to individuals for the purpose of constructing residential buildings in the country. This effort however has been minimal as such funds often go to senior officials in the state government's service as part of their welfare package. The State Housing Corporations or Investment and Property Development Corporations usually get funding from annual budgetary allocation of the States and facilities from foreign development partners and institutions.

The Federal Mortgage Bank of Nigeria (FMBN) was established in 1977 as an intervention agency of the Federal Government to accelerate its housing delivery programme. The bank however, commenced operations in 1978. The FMBN is statutorily required to coordinate mortgage lending in the country using resources mobilised from deposits and equity contributions by the Federal Government and the Central Bank of Nigeria (CBN) at interest rates below the prevailing market rates. In recent times, the Federal Mortgage Bank of Nigeria (FMBN) has stepped up efforts to reposition itself to deliver on its mandates. The bank has issued series of housing bond to raise N100billion to effectively finance the housing sector. The bank is also transforming from a mono-product entity operating the National Housing Fund (NHF) into a multi-product organisation; fulfilling its statutory responsibility as a viable secondary mortgage and well established capital market institution.

The Mortgage Institutions Decree of 1989 was promulgated to provide the regulatory framework for the establishment and

There are also a number of specialised institutions that provide finance for the housing sector in the country.

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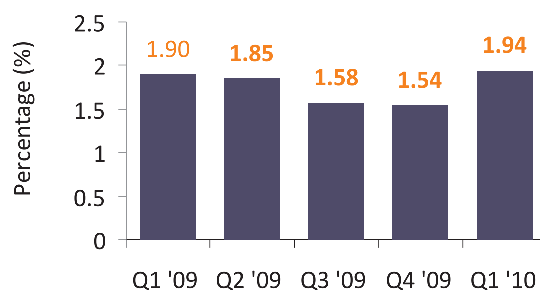
operation of Primary Mortgage Institutions (PMIs). Under the decree, the Federal Mortgage Bank of Nigeria (FMBN) became the apex institution in the nation's mortgage sector. The FMBN regulates primary mortgage institutions and was empowered to licence Primary Mortgage Institutions (PMIs) as second-tier housing finance institutions. The PMIs were by law empowered to mobilise savings from the public and advance credit to individuals for the purpose of building houses, thus enhancing private sector participation in housing finance. The FMBN was also required to mobilise capital funds for the primary mortgage institutions.

The Federal Mortgage Finance Limited (FMFL) was established in 1993 to undertake the retail segment of mortgage financing and provide credible and responsive housing finance services in the country, while the FMBN became the nation's apex mortgage lending agency. The FMFL was statutorily required to provide long-term credit facilities to mortgage institutions to enable them advance facilities to individuals desiring to acquire houses of their own; encourage and promote the emergence and growth of primary mortgage institutions to serve the need of housing delivery in the country; and to collect, manage and administer contributions to the National Housing Fund (NHF).

The National Housing Fund (NHF) was set up in 1992 as a mandatory contributory scheme to mobilise cheap and long term funds for housing credits. The Fund represented the financial constituent of the National Housing Policy of 1991. The Fund's strategies for effective mobilisation of funds include: voluntary schemes, mandatory schemes, government budgetary allocation, and financial transfers. Government also introduced appropriate fiscal measures to protect the assets and liabilities of individuals, and stabilise individual deposit through contractual savings schemes. Under the voluntary scheme, individuals are encouraged to save in order to build or buy houses at low interest rates. Primary Mortgage Institutions are the vehicles for the mobilisation of savings and deposits from the public.

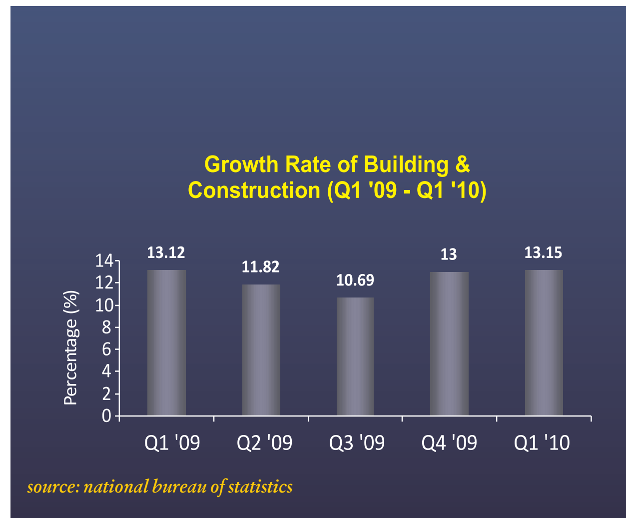
Under the mandatory scheme, public and private

Contribution of Real Estate to GDP (Q1 '09 - Q1 '10)



source: national bureau of statistics

sector workers who earn N3,000 and above per annum are statutorily required to contribute 2.5 per cent of their monthly income to the housing fund at an interest rate of four percent accruing to savings/contribution made. Banks are also required to dedicate 10 percent of loans and advances to the Fund at an interest rate of 1 percent above the rate on current account. This sum is subsequently transferred to the FMBN for the housing sector through a properly devised system. The Nigerian Social Insurance Trust Fund (NSTIF) and Insurance Companies are also required to invest a minimum of 20 percent of their non-life funds and 40 percent of their life funds in real estate development, of which not less than 50 percent



source: national bureau of statistics

must be channeled through FMBN, at an interest rate not exceeding four percent. This arrangement effectively relaxed the restrictive provisions of the Insurance Decree and the Trustee Investment Act so as to allow the insurance industry and pension funds custodians to invest huge resources in housing development.

Federal, State and Local Governments were also required to make budgetary allocation to the housing sector to provide low income housing schemes in the country. Consequently, the three tiers of government were mandated to make direct budgetary allocation of a minimum of 2.5 percent of their revenue to the housing sector. Cooperative Societies have also been veritable sources of fund for housing delivery in the country. They pool together members' resources and advance soft loans to them. Sometimes they operate in the form of thrift and act as medium for land purchases especially in semi-urban areas.

Challenges of Housing delivery in Nigeria

Nigeria's housing challenges are multifarious and multidimensional in scope and complexity. They include poor financing, difficulties in land acquisition, and poor technology. Despite the avalanche of housing finance schemes in the country, inadequate finance is unarguably still the single most important impediment to housing delivery in Nigeria owing largely to the enormous deficit and the structure of the nation's financial services sector. Finance remains the most important pivot to housing delivery. The availability of finance determines access to other key inputs of land, labour, materials

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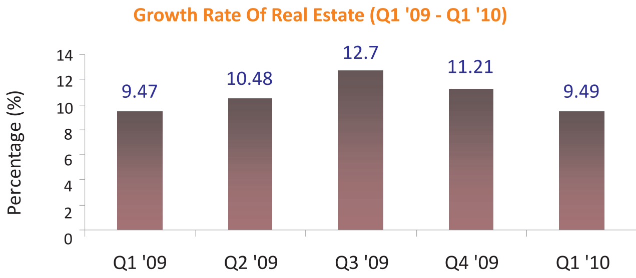
and infrastructure. Despite the numerous well articulated government programmes to meet the nation's housing needs, funding remains a major challenge. Nigeria's housing finance system is still rudimentary and underdeveloped and this has been a bane to achieving set housing delivery targets. The prevailing pervasive level of poverty also does not encourage savings and investment in the sector. The absence of a legal framework for efficient operation of housing finance system has also contributed to the problem of funding in the sector. A major obstacle to the availability of land for housing development is the Land Use Act of 1978, which introduced a tenure system, based on rights of occupancy and brought all land in the country under government control.



source: national bureau of statistics

Land is a major input in housing delivery and lack of access to land impedes housing development by the private sector. Evidence abound that where land is readily available, even low income individuals have been able to build houses for themselves. The nation's quest to reduce its enormous housing deficit has continued to flounder due to the prevalence of obsolete laws that govern land acquisition process. Another major impediment to effective housing delivery in the country is lack of requisite technology for construction. Technology is an indispensable component of effective housing delivery because the level of technology determines the nature of houses built and their durability. High cost of building materials especially cement has also been a bane to housing delivery in the country. A significant proportion of available cement in the country is imported with attendant high shipping cost and prohibitive tariff that are subsequently transferred to consumers.

1004 Flats, Ozumba Mbadiwe, Victoria Island, Lagos.

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Investment Opportunities: The Public-Private Partnership (PPP) Option

Nigeria's housing deficit provides enormous investment opportunities for discerning investors. The Federal Government recently signed about 80 Memorandum of Understanding (MoU) and Development Lease Agreements with estate firms for the delivery of housing units across the country. In the MoUs, the Federal government will provide land to the estate firms to enable them execute the housing projects. This new paradigm of Public-Private Partnership in housing delivery is believed to be a viable option in meeting the nation's housing needs as only a purposeful collaboration between the public and private sectors can bridge the nation's huge housing deficit. The Federal Government is also partnering with the Real Estate Development Association of Nigeria (REDAN) to provide 40,000 housing units across the country. The Federal Government's Memorandum of Understanding (MoU) with Real Estate Development Association of Nigeria includes the acquisition of 1,000 units of specially

http://farm4.static.flickr.com

built mobile hydra-form machine at the cost of $50million from South Africa. A United Arab Emirates based company is providing $500million funding for the Real Estate Development Association of Nigeria to execute the housing projects.

Nigeria's construction industry to become fastest growing in the world

A report by Global Construction Perspectives and Oxford Economics identified Nigeria as the global hotspot for construction in its 10-year forecast. The report says construction growth in Nigeria will be the fastest of all markets, even faster than India's. The study says China will overtake the US as the world's biggest construction market by 2018, but that the fastest growth will happen in Nigeria. The survey identified infrastructure as the hottest sector to be in and that it is set to grow in emerging markets by as much as 128 percent from now to 2020, compared with just 18 percent over the same period in developed climes. The report expects growth in Nigeria's construction industry to be driven by increased wealth and urbanisation as the country's crude oil production improves. The study believes that between now and 2020, Nigeria and India will enjoy higher growth rates than China in their construction output, but that despite India's continued construction boom, China's market will still be between three and four times bigger by 2020.

Going Forward: Confronting the Behemoth

The extent of the nation's housing deficit poses a serious challenge to its overall economic development. To ensure that all Nigerians own or have access to decent, safe and healthy housing accommodation at affordable cost, there must be a coordinated private sector driven initiative that is premised on mass construction of houses with strong and efficient mortgage financing.

The restoration of a full-fledged Ministry of Lands, Housing and Urban Development to coordinate the housing sector is a welcome development. The reports of the various committees on housing, especially the report of the Vision 2020 National Technical Working Group on Housing that proposed the construction of one million houses every year for the next 12 years should be implemented with renewed vigour to compliment the efforts of the private sector. The sub-national levels of government (States and Local Governments) should be encouraged to play their part in providing low-cost houses in their domain.

The restoration of a full-fledged Ministry of Lands, Housing and Urban Development to coordinate the housing sector is a welcome development.

The nation's legislature should revisit the laws governing land ownership and administration in the country, especially the contentious Land Use Act of 1978 to make land more readily and easily available for housing delivery. Land acquisition procedures should be simplified to ensure easy conversion of customary titles to statutory titles. Also, the on-going financial services sector restructuring should have housing sector financing as one of its cardinal objectives in order to guarantee funding for the sector. Primary Mortgage Institutions (PMIs) should be refocused and strengthened to deliver on their core mandate as second-tier housing finance institutions.

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

Advancing Democratic & Market-Oriented Reforms in Africa

* By Ambassador Princeton N. Lyman

Impact of the Global Financial Crisis

The impact of the global financial crisis on Africa has not been as bad as some expected. Sound economic policies of the past several years, better financial management, lower debt levels, and ironically the blessing of not being so integrated into the global financial system all contributed. European countries like Iceland and Greece are facing financial meltdowns; the United States has been forced to expand its debt and deficits to historic levels in order to forestall even further decline. Nevertheless, in Africa the crisis led to a decline in the previous five years of solid growth of 5-7 percent annually to just over 1 percent in 2009.

This decline has an impact on families and the social fabric. The cost of this decline is all the more upsetting considering that Africa is the one continent that will not meet hardly any of the Millennium Development Goals, and the problems are most acute in sub-Saharan Africa.

While other regions, especially East Asia and the Pacific, have made dramatic progress in reducing the numbers of their populations living in poverty, sub-Saharan Africa has not shown a consistently improved situation and the actual numbers of people living in

poverty have risen. Sub-Saharan Africa accounts for half of the deaths of children under the age of five in the developing world. Maternal mortality in the region is 20 times that Europe and Central Asia; it has decreased less than 1 percent annually whereas 5 percent is needed to meet the goal. The only area where sub-Saharan Africa is on track is in reducing gender disparity in primary and secondary education. Much more progress is needed in other areas, however, to ensure Africa's sustained economic development.

Implications for Africa's Development

One thing is clear: growth alone is not development. Most African countries, which were experiencing high levels of growth before the crisis, were benefiting from high prices for natural products such as oil, minerals, and timber. Africa has seen such booms before – in the early decades of the 20th century and again in the 1970s – and in the past it has not transformed into sustained development. It is commonly argued that what Africa needs, therefore, is to develop more beneficiation of commodities and to move up in the value chain. That might work in some countries, but not all. Botswana has negotiated such an agreement with DeBeers, its partner in the diamond industry.

Yet, polishing diamonds and other processing can be as much as 40 times more expensive in Botswana than in traditional centers of diamond work like Amsterdam. Botswana may be able to drive this bargain, yet it might not be sustainable in other countries. Further, a new study by Harvard University[1] suggests that wealth develops where there is a cluster of skills and supportive environment, not from an isolated, single-product income.

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The only area where sub-Saharan Africa is on track is in reducing gender disparity in primary and secondary education. Much more progress is needed in other areas, however, to ensure Africa's sustained economic development.

The first lesson is that countries need to provide an environment where many skills and opportunities can develop. Picking winners is less effective than allowing entrepreneurs to undertake a variety of businesses, with the risk that some will indeed fail but the market will support those that are viable. The other lesson, which corresponds to one of the most promising developments on the continent, is the need for larger markets. These are being developed in regional economic communities that enlarge the market and open more opportunities for African farmers and manufacturers. Unfortunately, East and Southern Africa are well ahead of West Africa in this regard.

1 Ricardo Hausman and Cesar Hidalgo, "Complexity and the Wealth of Nations," *Harvard Magazine*, March-April 2010.

www.giantrobot.com

There are some theories that separate economic development from democratization. The sociologist Martin Lipset, the political scientist Samuel Huntington, and pundit Fareed Zakaria have all argued that authoritarian governments – or in Zakaria's case "liberal autocracies" – are better capable than democracies of moving poor economies on a path to sustained development.

Economic Development and Democracy

How do economic development prospects relate to democracy? Economists and social scientists have been debating this issue for decades.

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These theorists all argue that poor economies need exceptionally strong leadership to reach that level of development, in essence an "enlightened autocrat," to undertake the necessary but often difficult steps for sustained development, such as establishing market-related exchange rates, undertaking investment in infrastructure, and resistance to short-term deals that would enrich the elite but do nothing for the economy. Examples that are given to support this theory are South Korea, Taiwan, and Singapore. However, only Taiwan moved peacefully to democracy. South Korea went from enlightened autocrat to a president who changed the constitution to stay in power and was later assassinated by the military followed by further coups before democracy finally took hold. Singapore is a great economic success, but its democracy score is still down.

The African experience is still more revealing. Some 20 years ago, there was a political romance with the "new leaders of Africa" who were going to show the way to economic development and, increasingly, democracy. These leaders were Meles Zenawi of Ethiopia, Isaias Afewerki of Eritrea, Yoweri Museveni of Uganda, and Paul Kagame of Rwanda. All of them came to power through military means. Nevertheless, they were seen as enlightened yet tough leaders who would put their

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Locomotive, Eritrea

countries on the path to both development and democracy.

The result has been different. Eritrea is now a strict dictatorship and as poor as ever. Prime Minister Meles and President Museveni have both made substantial economic progress in their countries, but democracy is in peril in both. Moreover, in both countries there is little democratic institutional development that would assure a peaceful and democratic transition once these leaders are no longer in power. That also threatens the economic progress that has been made. There are, of course, worse examples in Africa of autocrats who were even less enlightened even as they defended their rule by referring to this theory.

On the other side of the argument there are theories that democracy and economic development go hand in hand. Morton Halperin, Joseph Siegle, and Michael Weinstein have argued this in their book, *The Democracy Advantage*, using cross-country data from around the world that democracies do better in economic development than non-democratic countries. They also point to democracy in some very poor countries that demonstrate that a certain level of development and middle class need not be present. Mali and Cape Verde are often cited, as is Botswana before the discovery of diamonds.

Finally, Larry Diamond, who writes extensively on democracy argues in *The Spirit of Democracy* that democratic development is not truly consolidated – whether in better off or poorer countries – until the various supporting institutions are in place. These include a vibrant parliament, independent and capable judiciary, a free press, and a constitutional system that keep power and economic wealth from being too concentrated.

Thus, electoral democracies like Nigeria and Kenya face major crises that threaten the very viability of the state, because of deficiencies in these areas.

In West Africa, Ghana seems surrounded by countries with weak or lost democracies. Two countries – Liberia and Sierra Leone – are struggling to rebuild even basic services and more effective government after horrific civil wars. CÔte d'Ivoire is still locked into division and a fragile peace while democracy waits. Guinea and Guinea-Bissau are wracked with coups and counter-coups. Other countries in the region are electoral but not liberal democracies – to use Larry Diamond's designations – and there are signs of real backsliding in Senegal, once considered almost a model of effective political contests. To paraphrase the title of Chester Crocker's book, *High Noon in Southern Africa: Making Peace in a Rough Neighborhood*, this is making democracy in a dangerous neighborhood.

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The Role of the Business Community

An important question for furthering political and economic reforms is how business should engage in dialogue, indeed cooperate, with government. Yet, the harder question is how much of that dialogue should be about democracy rather than business-related matters such as regulations, tariffs, and taxes. If the assumption is that a free market economy will eventually produce democracy, the strategy of focusing on business-related matters might be enough. Yet if the opposite is true – without democracy there will be instability, more controls, more corruption, and less visionary policymaking – then that strategy may be nothing but a dead end.

For business to dialogue and advocate with all its potential for democracy can be risky. Nigeria has a very vibrant business community and many business associations. It frequently carries out a dialogue with government over economic policy, producing such forward-looking documents as "Nigeria 2020," a blueprint for Nigeria to achieve high-level growth and sustained development. Still, few business groups recognize electoral reform, for instance, as in their interest and relevant to their economic policy recommendations. Many respond that there are two classes of businesses in Nigeria. The very big or well-connected businesses are indeed in communication with the government, but for business advantage behind the scenes. That is not dialogue but collusion; there is a big difference. Other businesses, in contrast, are often hesitant to become too engaged on political matters because they fear they could lose access to government contracts and suffer other penalties. Those businesses accept that the outcome of elections is determined by party leaders well in advance, and that this situation is not new and life would go on.

Following years and months of drought, floods devastated Northern Ghana in mid-2007

Yet life does not just go on. Nigeria suffers from a lack of infrastructure that its dysfunctional political system cannot seem to address. As a result, it is de-industrializing; its factories are unable to compete with imported goods, leading to growing unemployment. There is violence in several parts of the country, with unemployed youth easily available for hire as political or criminal thugs. Nigeria may not be coming apart, but it is not developing, regardless of the price of oil. This does

not mean that businesses cannot make money in Nigeria. One only has to look at the building of offices and homes on the affluent Lekki Peninsula near Lagos, or the buying of property in Accra, London, and elsewhere by wealthy Nigerians. Yet the country is not prospering, however, and the future is not bright.

Public-private partnership should thus be more than advocating for better business practices. It has to be equally in support of improved democracy. With democracy and the openness and transparency that come with it, there will be less collusion, less corruption, better chances of policy reform, and better prospects for broad-based development. Democracy is not perfect in any of these arenas. Even in well-established democracies like the United States there are a few cities and states that seem addicted to corruption, no matter how often the mayors and governors there are arrested and convicted. Still, democracies – much better than authoritarian systems – meet the vital objective of reducing the percent of wealth and opportunity that flows through the government. That does not make corruption of no concern, but it means that the economy as a whole is not so affected by it.

This concentration of economic and political power, centered on the government, is one of the fatal flaws in Africa's systems of governance and can only be changed if the political electorate demands it. Moving on both business-related and governance questions should thus be on the agenda of public-private dialogue. Moreover, working through national associations, and coalitions of business associations even across West African borders, can help protect individual businesses from being punished for active involvement in policymaking.

Conclusion

A few weeks ago, I attended a conference organized by students in the Africa Business Group of the Harvard Business School. I expected to meet with perhaps 50-60 students. Instead, there were 900 attendees. The group was perhaps 80 percent African diaspora, and most of these were from West Africa. They were bright, ambitious, dedicated students attending the best business schools, the best law schools, the best universities in the United States. In the various sessions, they pressed established business leaders with hard, smart questions, mostly focused on establishing or growing businesses in Africa, but also on how to overcome the governance obstacles in Africa: corruption, lack of freedoms, and restrictions on entrepreneurship.

When I looked out at that audience, I saw the future of Africa. If Africa can make room for this generation of new potential business leaders to return home and do what they are trained and eager to do, Africa will begin to truly develop, indeed to shine. To make that happen, today's business leaders in Africa must press for the changes needed, in both the political and economic systems, to make their return possible. There lies a great future.

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

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Hagia Sophia, Istanbul, Turkey

Nigeria - Turkey: TARGETING IMPROVED TRADE RELATIONS

* By Charles Ujomu

he trade relations between Nigeria and Turkey are seen as mutually beneficial as Turkey is considered a strategic partner in Nigeria's quest for economic growth and development. Turkey's participation in Nigeria's educational system through the establishment of various educational institutions (secondary and tertiary) in the country highlights some of the areas where both countries have over the years enjoyed some benefits of socio-economic co- operations. The value of Turkish imports from Nigeria recently hit $1 billion, emphasizing the need for greater co-operation between both countries to further boost trade and investment. At a recent bilateral meeting held in Abuja between Nigeria and Turkey, the President of Nigeria, Dr. Goodluck Jonathan, seized the opportunity to formally invite Turkish entrepreneurs to take advantage of Nigeria's liberal investment climate to invest in the country. He also enjoined Nigerian businessmen and their Turkish counterparts to utilize the excellent political and diplomatic relations that exist between both countries to grow their volume of trade. Turkey, no doubt, stands to benefit a great deal from trade and investment relations with Nigeria, given the

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The Turkish Riviera (also known popularly as the Turquoise Coast), southwest Turkey.

www.acpasion.net/

latter's population strength and huge market. The opportunities that exist in the two countries are enough to leapfrog the current trade volume between them. Economic experts are of the view that Turkey stands a good chance of increasing its investments in Nigeria in the areas of energy, construction and aviation services especially as the current state of the Nigerian economy seriously demands new investments in these sectors.

Nigeria Vs Turkey: Physical and Demographic Features

Turkey is located in the Northern half of the hemisphere, in an area where the Asian, European and African continents come very close to one another. Turkey occupies about 783,562 square kilometers compared to Nigeria's 923,768 square kilometers. Approximately 1.78 percent of Turkey's land area is water (compared to Nigeria's 1.4 percent) while about 78.22 percent is made up of land. In terms of irrigated land, Turkey is about 18 times bigger than Nigeria. This obviously shows the depth of Turkey's agricultural potential in increasing productivity in Turkish

Victoria Island, Lagos.

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Index	Nigeria	Turkey
Population (millions)	149,229,090	77,804,122
Total Fertility Rate	4.91 Children Born/Woman (2009 est.)	2.18 Children Born/Woman (2010 est.)
Population Growth Rate (%)	1.99	1.27
Life Expectancy at Birth:		
Total Population (years):	46.94	72.23
Male (years):	46.16	70.37
Female (years):	47.76	74.19
Land Area:		
Total (sq. km)	923,768	783,562
Land (sq. km)	910,768	769,632
Water (sq. km)	13,000	13,930
Land Boundaries (km)	4,047	2,648
Irrigated Land (sq. km)	2,820	52,150

Source: World Fact Book – 2009

arable lands, accelerating economic growth and reducing the migration from rural to urban areas. This, no doubt, has positively contributed to the country's agricultural sector and the larger economy.

Nigeria's population (about two times bigger than that of Turkey) has a total fertility rate of about 4.91 children born per woman compared to Turkey's 2.18 children born per woman. The annual average population growth rate for Nigeria is estimated at 1.99 percent while that of Turkey is 1.27 percent. Life expectancy at birth, a measure of overall quality of life in a country, is higher in Turkey (72.23 years) than in Nigeria (46.94 years). This is not unconnected to the relatively good health system in Turkey. Turkey's healthcare system is not as highly developed as that in many developed countries, however the medical personnel in the country are well trained. Healthcare services are available on equal terms to all Turkish citizens and registered long-term residents. Nigeria's healthcare system however still has a lot of challenges that have, for long, adversely affected the quality of services. In addition, the costs of healthcare services in Nigeria are far higher than in Turkey. The Turkish health services are subsidized and citizens who belong to vulnerable groups (e.g. pregnant women, war veterans, diabetics and tuberculosis patients among others) do not have to pay any charges.

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Nigeria Vs Turkey: Economies

Turkey's economy is a mix of modern industry and commerce, along with the traditional agriculture sector. Interestingly, while the state is significantly involved in essential sectors of the economy such as manufacturing, transport, banking and communication among others, the private sector continues to be the country's powerful engine of rapid economic growth. Over the years, Turkey has been known to be an attractive economy for trade and investments and also boasts of

several cost-effective export industries that are highly responsible for the country's comparative advantage in the international trade arena. The country's huge market owing to its population of about 77 million, its strategic position in the middle of the rich oil-producing area of the Caspian Sea and the consumer markets in Europe and its customs union agreement with the European Union in 1996 (which enable the free flow of goods to and from other European markets) are some of the important factors that have allowed Turkey to remain attractive to both foreign and local investors. The Nigerian economy, on the other hand, remains largely dependent on oil and the resulting effect of this is the neglect of the other key sectors of the economy. Hence, Nigeria's relatively low export trade volume in the international market is linked to the lack of political will on the part of successive governments to practically diversify the economy and develop its industrial base for economic growth and development.

Turkey's agricultural sector currently accounts for almost 10 percent of its gross domestic product compared to Nigeria's 33 percent; and employs about 29 percent of the country's labour force. The agricultural sector has a multiplier effect on any country's socio-economic and

Life Expectancy at Birth

Year	Nigeria	Turkey
2003	51.01	71.8
2004	46.74	72.36
2005	46.74	72.36
2006	47.08	72.62
2007	47.44	72.88
2008	46.53	73.14
2009	46.94	71.96

Source: index-mundi

industrial spheres due to the multifunctional nature of agriculture. Thus, a strong and an efficient agricultural sector would not only enable a country to feed its growing population but would also generate employment, earn foreign exchange and provide raw materials for industries. Despite some of the challenges facing Turkey's agricultural sector, it is one of the few countries in the world that is self-sufficient in food production. The country is known to be one of the largest producers and exporters of agricultural products to the near East and North African regions. According to the Economist, Turkey is one of the top 10 producers of fruit, wheat and cotton in the world. It is also among the top five producers of vegetables, tea and raw wool. Its suitable climate, fertile soil, access to sufficient water and competent personnel are apparently responsible for this. It is interesting to note that as a result of the country's massive production base, Turkey enjoys a comparative advantage in several agricultural products. This has led to a positive trade balance in agriculture export and the country's overall trade balance. Nigeria's agricultural sector, the largest employer of labour in the economy, has for over three decades been neglected due to over-dependence on crude oil. This has significantly reduced the fortunes of the country to one of a mono-cultural and crude oil based economy. In spite of several efforts to

Key Economic Indicators: Nigeria and Turkey

Indicators	Nigeria	Turkey
GDP (PPP, US$)	357.2 billion (2009 est.)	863.3 billion (2009 est.)
GDP – Real Growth Rate (%)	3.0 (2009 est.)	-5.6 (2009 est.)
GDP Per Capita (US$)	2,400 (2009 est.)	11,200 (2009 est.)
Labour Force (million)	47.33 (2009 est.)	24.74 (2009 est.)
Labour Force By Occupation:		
Agriculture (%)	70	29.5
Industry (%)	10	24.7
Services (%)	20	45.8
Investment (% of GDP)	17.1	16.8
Inflation Rate (%)	11.50 (2009 est.)	6.3 (2009 est.)
Oil Proved Reserves	32.82 billion	284.7 million
Natural Gas Production	34.30 billion cu m	1.014 billion cu m
Natural Gas Proved Reserves	5.21 trillion cu m	8.49 billion cu m
Current Account Balance (US$ billion)	-9.39 (2009 est.)	-13.96 (2009 est.)
Exports (billion f.o.b.)	45.43 (2009 est.)	109.7 (2009 est.)
Exports Commodities	Petroleum and Petroleum Products Cocoa, Rubber etc	Apparel, Foodstuffs, Textiles, Metal Manufactures, Transport Equipment etc
Exports Partners	US 42%, Brazil 9.5%, India 9%, Spain 7.3%, France 5.1% (2009 est.)	Germany 9.58%, France 6.08%, UK 5.79%, Italy 5.77%, Iraq 5.02% (2009 est.)
Imports (billion f.o.b.)	42.1 (2009 est.)	134.6 (2009 est.)
Imports Commodities	Machinery, Chemicals, Transport Equipment, Manufactured Goods, Food and Live Animals	Machinery, Chemicals, Semi-Finished Goods, Fuels, Transport Equipment
Imports Partners	China 16.1%, Netherlands 11.3%, US 9.8%, UK 6.2%, South Korea 6.1%, France 8.1%, Germany 4.4% (2008)	Russia 13.99%, Germany 10.01%, China 9%, US 6.09%, Italy 5.48%, France 5.03% (2009 est.)

Source: CIA Fact book

The tourism industry in Turkey is strategically important to the Turkish economy as it accounts for over 20 percent of its gross domestic product.

Bursa Castle, Turkey.

http://turkeystourism.blogspot.com

www.nairaland.com

Obudu Ranch, Calabar, Cross River State

address this drift by successive Nigerian governments, the country has remained a net importer of various agricultural products, unlike Turkey. It is important to reiterate the fact that Nigeria needs to urgently develop its monumental agricultural potential in a bid to achieve rapid industrial and economic development.

The services sector has emerged as a dynamic sector whose importance has continued to rise in most economies especially in the last three decades. The sector remains an important factor in the performance of manufacturing industries and has witnessed an impressive expansion, contributing significantly to the gross domestic product (GDP) of several countries. The services sector in Turkey is the largest contributor to the country's economy (65.1 percent) and in fact the biggest employer of labour, at about 45.8 percent. In comparison, the services sector's contribution to the Nigerian economy is also relatively high, at about 33 percent and employs one-fifth of the country's labour force. The Nigerian services sector comprises water, building and construction, electricity, transportation, communication, wholesale and retail businesses, hotel and restaurants, financial services and real estate among others. Tourism and banking are the two primary services industries in Turkey. The tourism industry in Turkey is strategically important to the Turkish economy as it accounts for over 20 percent of its gross domestic product. The country is currently in the world's top 20 tourist destinations, both in terms of visitor numbers and earnings. Turkey remains a relatively untapped land for tourists despite the favourable statistics. The country's high mountains and lakes, its long and gorgeous coastline, and wealth of historical, religious, and archaeological sites offer opportunities for massive development of tourism.

The financial system in Turkey is based on a universal banking system that lawfully allows commercial banks to function in all financial markets. Hence, banks in the country carry out nearly all activities in both the money and capital markets, making it almost synonymous with the Nigerian financial system.

Despite the challenges

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facing the Nigerian services sector, it still has room for growth and development as the various government reforms in some of the key and strategic industries in the sector are expected to start yielding positive fruits in the years ahead.

Turkey's industrial sector in the last two decades has recorded an average growth rate of six percent annually, allowing it to compete favourably in the international market. The sector contributes about 25 percent of the country's economy and employs about 24 percent of its labour force. The major industries in the sector are iron and steel, textiles, cement, chemicals, food processing, construction, motor vehicles and mining, among others. The public sector companies are the dominant players in a number of critical industries especially energy and steel whose products are crucial to private sector companies. Turkey's competitive strength of diversity in its industrial sector is attributable to the abundance of natural resources, the existence of a huge market and its geographical proximity to export markets. Nigeria's industrial sector, on the other hand, accounts for about 33.8 percent of its GDP and one-tenth of the labour force. Various government reforms and intervention programmes that are currently being embarked upon are expected to correct some of the challenges adversely affecting the growth of the sector. The Central Bank of Nigeria recently rolled out an intervention fund to re-ignite and support the manufacturing base in a bid to boost its contributions to the economy. Problems such as power failure, poor infrastructure and funding that have posed serious hiccups to the sector over the years are expected to be drastically reduced in the years ahead.

The Nigerian services sector comprises water, building and construction, electricity, transportation, communication, wholesale and retail businesses, hotel and restaurants, financial services and real estate among others.

Nigeria Vs Turkey: Trade Relations

Trade contribution to the Turkish economy was considered minor before 1980. The trend has however changed as the volume of trade has grown rapidly following the country's economic reforms designed to promote liberalization of foreign trade. Interestingly, the reforms were made to remove price controls, reduce subsidies and tariffs and ultimately enhance exports. Besides the rapid growth witnessed in both exports and imports, the reforms have also brought about a significant change in the structure of Turkey's foreign trade. One of the attendant results of this is the emergence of greater emphasis on industrial and manufacturing products rather than agricultural products.

It is worth mentioning that this trend has not in any way diminished the fortunes of agricultural contributions to the national economy. Some of Turkey's export commodities include apparel, foodstuffs, textiles, metal and transport equipment, while its import commodities are machinery, chemicals, semi-finished goods, fuels and transport equipment, among others. Nigeria's international trade on the other hand plays an important role in the country's economy. Exports currently remain dominated by petroleum, re-emphasizing the need to diversify the country's export. Nigeria's imports include manufactured goods, chemical products, machinery, transport-related items and food. Among Turkey's major African import partners, South Africa and Egypt ranked first and second respectively in 2009 while Nigeria occupied the third position. Turkey's volume of import transactions with Nigeria was about 0.4 percent of its total world imports that year. Some of the products imported by Turkey from Nigeria include petroleum products among others. Nigeria did not rank among the major African export partners with Turkey at the end of 2009. That Nigeria ranked 5th among the major African trade partners with Turkey last year is an indication of the huge trade opportunities that exist between the two countries.

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

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Major African Imports Partners with Turkey - 2009

Rank	Countries	Volume of Trade (%)
1	South Africa	0.8
2	Egypt	0.5
3	Nigeria	0.4
4	Libya	0.3
5	Morocco	0.2

Source: International Monetary Fund

Major African Exports Partners with Turkey - 2009

Rank	Countries	Volume of Trade (%)
1	Egypt	2.6
2	Libya	1.8
3	Algeria	1.8
4	South Africa	0.9
5	Tunisia	0.6

Source: International Monetary Fund

Major African Trade Partners with Turkey - 2009

Rank	Countries	Volume of Trade (%)
1	Egypt	1.4
2	Libya	0.9
3	South Africa	0.8
4	Tunisia	0.4
5	Nigeria	0.4

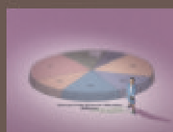
Source: International Monetary Fund

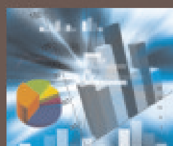
Ibrahim Abubakar

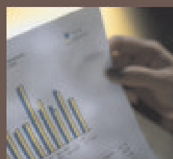
Facts & Figures

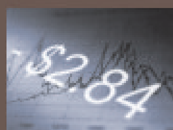
MACROECONOMIC ENVIRONMENT

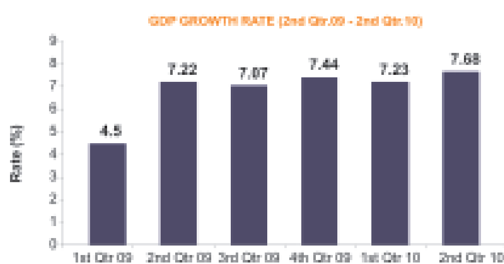
The Nigerian economy in the second quarter of 2010, recorded mixed performances. Some of the indicators improved remarkably, while others remained stagnant. Gross Domestic Product (GDP), grew in the second quarter; while inflation slowed down considerably, inches away from the single digit target. The nation's currency, the naira, remained stable against other major world currencies, holding on to its earlier gains. The Monetary Policy Rate (MPR) remained unchanged all through. Foreign exchange reserves, however, shrank during the quarter. The capital market declined, with bearish sentiments dominating activities once again. In the international crude oil market, prices sea-sawed ending the period on a flat note.







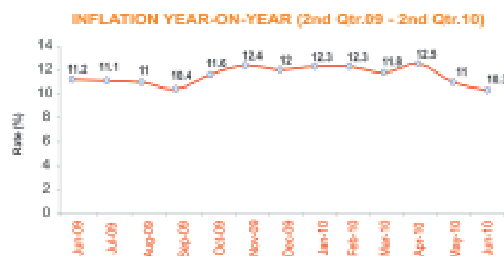




Source: Central Bank of Nigeria

GROSS DOMESTIC PRODUCT

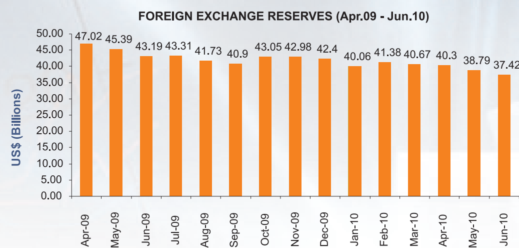
Gross Domestic Product (GDP) grew in the second quarter of 2010, to 7.68 percent compared to the 7.23 recorded in the preceding quarter. Real GDP growth continued to be driven by the non-oil sector of the economy. Despite delayed start of rains in the far North, favourable weather conditions in the North Central region allowed agriculture to continue its dominance as major contributor to GDP. For the oil sector, the fruits of the amnesty deal with the Niger Delta youths continued to push crude oil production in the right direction, with production jumping by 23.6 percent between May and June. Real GDP Growth for 2010 is projected at 7.74 per cent which is higher than the revised figure of 6.66 per cent recorded in 2009.



Source: National Bureau of Statistics

INFLATION

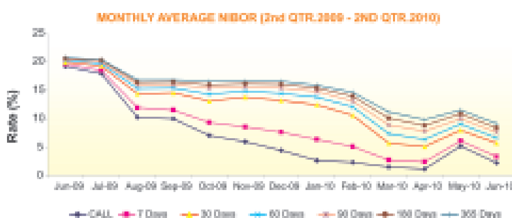
The Year-on-Year (Y-on-Y) inflation slowed in second quarter 2010, easing for two consecutive months in a row to 10.3 percent in June. The headline inflation rate slipped back more than expected, beating government's target for 2010. Despite the positive signs however, inflationary pressures had ballooned earlier in April to 12.5 percent, led by soaring prices of some staples like yam, meat, sea food, fruits, vegetables and higher cost of some building materials. The authorities intervened to rein in prices, tightening the brakes on money supply. Inflation retreated in May due to relatively weaker demand and greater availability of petroleum products amongst others. However, inflationary risk remains a threat in the months ahead due to the expansionary stance of the 2010 budget, the recapitalization of the rescued banks, the soaking up of toxic loans, expected public sector pay rise and food shortages in neighbouring Niger Republic and Chad, which could dry up the border markets.



Source: Central Bank of Nigeria

EXTERNAL RESERVES

The nation's external reserves shrank in the second quarter of 2010, hitting a new low despite rebound in crude oil prices in the international market. The reserves, which had earlier rocketed to an all time high of $64billion in August 2008, nosedived amid continuous withdrawals. Despite the depletion however, the nation witnessed some inflows from portfolio investments, plugging minor leakages. The stock of external reserves, nevertheless, plunged to $37.4billion as at end June 2010, capable of financing up to 16 months of imports. In the near term, the authorities have projected external reserve to pick up as a result of higher crude oil prices, improvement in output and relative peace in the Niger Delta.

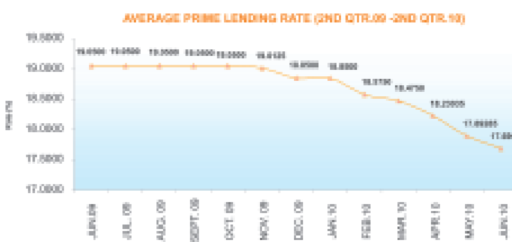


Source: Financial Markets Dealers Association of Nigeria (FMDA)

INTEREST RATE

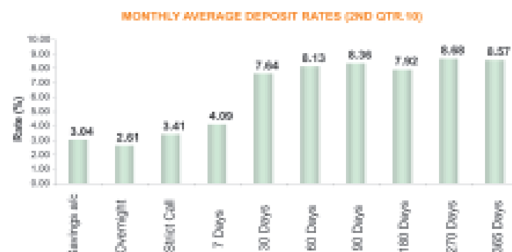
In another quarter of no surprises for manufacturers, the CBN kept its key interest rate unchanged in second quarter 2010. The Monetary Policy Rate (MPR) has remained steady at 6 percent for twelve months running in a bid to curb excessive cost of borrowing.

The average interbank rates inched up marginally across most tenors as a result of tighter liquidity in May. For instance, rates on the call and 7 Day tenors climbed as high as 8.6 and 8.9 percent, respectively, due to mop up operations by the CBN. The upswings in rates were however short-lived, as the market was awash with a mixture of liquidity trickling down from the N100bilion recurrent inflows to parastatals, N750billion Statutory Revenue Allocation shared among the three tiers of government and inflows from pension funds contributions credited to the system. Rates on the call and 7 Day tenors crashed to as low as 1.2 and 2.4 percent, respectively.



Source: Financial Markets Dealers Association of Nigeria (FMDA)

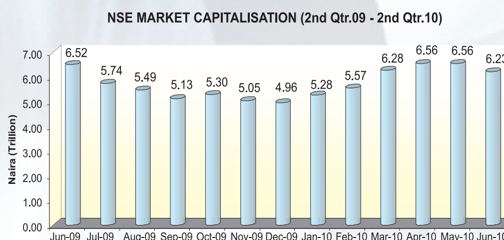
In terms of cost of borrowing, the average Prime Lending Rate (PLR) eased slightly due to improved confidence as a result of CBN's extension (till June 30, 2011) of guarantee on interbank transactions and foreign credit lines. Generally, rates remained at elevated levels, hovering around 18 percent, and compelling the apex bank to remove the 2 percent loan loss provision for banks in efforts to boost lending activities. Returns on the average deposit rate slipped across most investment tenors, with volatility higher on the longer tenor rates. For instance, yields on the 180 and 365 Days slumped by 271 and 245 basis points, respectively.



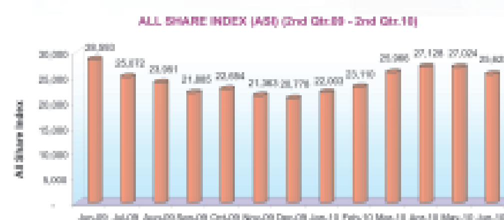
Source: Financial Markets Dealers Association of Nigeria (FMDA)

CAPITAL MARKET

The capital market wrapped up a dismal second quarter on a flat note, despite a jumpy start of the beginning of the quarter. The All-Share Index and market capitalization pulled back from their earlier gains to finish lower at 25,384.14 and N6.17trillion, respectively, from 25,996.25 and N6.28trillion in the preceding quarter. After a headlong rise of about 8 percent in April, the stock market tumbled amid speculations, fuelled by short-term rise and excessive selling pressures. Investors remained cautious as the market exhibited lack of direction, with doubts resurfacing over the strength of the fragile recovery. On the positive side, a bright spot on a rather gloomy quarter was the passage of the Asset Management Company (AMC) bill by the Senate and the creation of the Alternative Securities/Private Placement Exchange (ASEM/PRIPEX), which scrapped the second-tier securities market and amended some of the existing pre-listing rules in order to stimulate the market. Also a number of quoted companies such as Nestle, Total and Mobil paid impressive dividends of N10.60, N8.28 and N7.00, respectively. Other listed companies handed out generous bonuses and dividends. For instance, Zenith Bank and Guaranty Trust Bank gave away bonus shares of 1for 4 with dividend payout of 45kobo and 75kobo, respectively, among others.



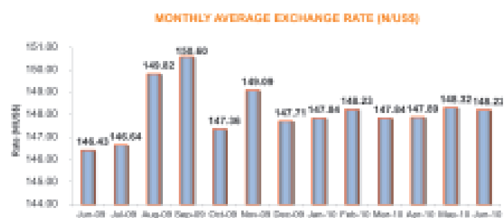
Source: Nigerian Stock Exchange



Source: Nigerian Stock Exchange

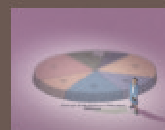
EXCHANGE RATE

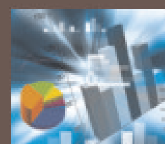
The nation's currency, the Naira, was pinned near the CBN's target during second quarter 2010, on track for its second successive quarter of stability against other major currencies. It finished the quarter on a positive note, remaining steady at about N148/US$. However, earlier in May, the nation's currency met minor head winds with some pressure coming from importers, manufacturers and foreign companies repatriating dividends. In its twice weekly auction, the apex bank offered about $7.3billion and sold $7.1billion against $8billion demanded during the period. The gap was nevertheless filled with large dollar sales by the Nigerian National Petroleum Corporation and some multinational companies, easing pressure on the naira. Continued stability of the nation's currency kept the premium between official and interbank market low at about 1 percent, caging speculations. As at end June 2010, the WDAS average exchange rate closed at N150.24/US$1, while the interbank market averaged N151.35. In the upcoming quarter, the naira seems likely to remain within its recent trading range.

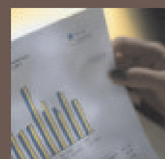


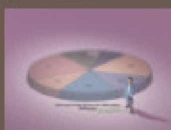
Source: Central Bank of Nigeria

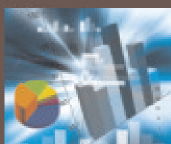
Facts & Figures

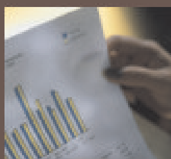


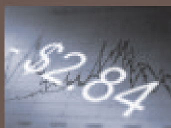


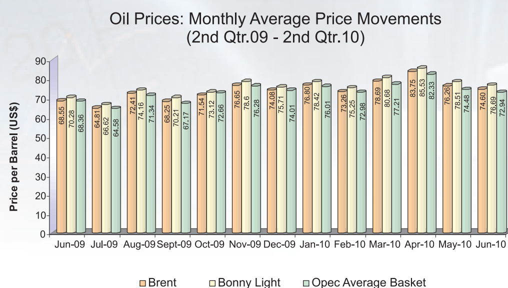












Source: Energy Information Administration

OIL

Crude oil prices were on a roller coaster ride in the second quarter of 2010, plunging in the first half but staging a late recovery at the tail end of the quarter. Oil prices fell more than 17 percent after a brief attempt at a 19-months high of $87 per barrel in April. Crude oil prices retested their lows at which the last slide bottomed out, near $69 per barrel. It however, rebounded to close the quarter at about $76 per barrel, its first quarterly decline since fourth quarter 2008. Nigeria's brand of crude oil, bonny light, retreated back almost $8 in the second quarter, trading in a band of $85-$75 per barrel. Industry analysts attributed the pullback in oil prices to mixture of reasons such as the fear of 'double dip' recession due to sovereign debt issues in Europe; the volcanic ash cloud in Iceland slowing aviation fuel orders and the oil spill in the Gulf of Mexico, among others. In its 7th ministerial meeting with the EU in Brussels, OPEC assured the union that production will remain unchanged in the upcoming quarter due to huge inventory build ups. In the months ahead, industry analysts are projecting that crude oil prices could hover around $83-$85 per barrel.

Source: www.engr.mun.ca