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NIGERIA: Fiscal Governance Challenges & Solutions In 2011

INSIDE

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Nigerian Road Infrastructure:

Options for Transformation

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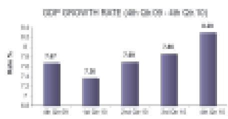

Fiscal Governance as Pivot

Economic development or consistently improving wellbeing of the citizenry is, or ought to be, at the core of governance, both in the developing and developed economies of the globe. Central to this objective is resource mobilization and expenditure management by national governments. This critical function (or public finance management) generically encapsulates resource mobilization, prioritization of programmes, the budgetary process, efficient management of resources and exercising of controls by government. The pursuit or attainment of all these largely depend on fiscal governance which deals with unsustainable fiscal policies, reduction of cyclicality of fiscal policy making and improvement of the efficiency of public spending.

Thus, more than ever before, fiscal governance, like corporate governance, has come to assume more relevance in the face of the global financial crisis that is yet subsiding. Without a doubt, it is already widely known that poor fiscal/corporate governance was largely the root cause of the global economic meltdown, the worst since the Great Depression of the 1930s. It has therefore become a prime challenge of every national government, without exception, to apply best practices in its fiscal governance. And so, driven by patriotic concern, our article "Nigeria: Fiscal Governance Challenges and Solutions in 2011" dispassionately examines the fiscal governance situation in Nigeria, offering suggestions on the best approaches going forward.

Youth empowerment has in recent times gone beyond mere 'catch phrase' or 'buzz word' in the drive for meaningful economic development in virtually all climes across the globe. Nigeria is no exception.

Related to the concern for fiscal governance is the burning issue of infrastructural deficit in the country and ways of dealing with the yawning gap. In this regard the article: "Nigerian Road Infrastructure: Options for Transformation" provides an expose on this pivotal facility for meaningful economic development and social cohesion. In Nigeria, it is estimated that road transportation accounts for about 90 per cent of the national passenger and freight services and provides access to rural areas where majority of the economically active segment of the populace lives. In deed, Nigeria presently has the second largest road network south of the Sahara, total road length estimated at 193,200 kilometers. Apparently this is why "in their bid to assist the country to meet some of its developmental needs, the World Bank and the African Development Bank have identified road infrastructure as a critical area deserving of their intervention".

Youth empowerment has in recent times gone beyond mere 'catch phrase' or 'buzz word' in the drive for meaningful economic development in virtually all climes across the globe. Nigeria is no exception. "Making Politics Fun: Why Youth Empowerment is Important for Democracy," is our piece that captures the essence and place of the youth in a real democracy. Advocating for massive youth participation in a democracy, the author posits that "it will not work when most people are by-standers and politicians trained by authoritarian regimes are in charge…participation is one of the most important keys." Using Indonesia as a case study, the writer sums that youth there are such a large percentage of the population that activating their interest in politics and democracy can be a game-changing initiative.

Even as the dust raised by the receding global financial crisis is just settling, we also elected to focus on the state of migration and remittances during that period. Evaluating both legal and illegal movement of people in various regions of the world, in the piece: "Migration and Remittances During Economic Recession: Recent Experiences," the author gives gory details of the ordeals of migrants in the heady days of the global phenomenon. In deed, many advanced economies had to come up with an assortment of discriminatory polices and practices to either totally stop migrants' inflow or reduce it drastically.

Complementing these issues are equally informed and informative pieces in other segments of this package: one dealing with corporate identity of banks, another with quality and internal control challenges in banks; yet another provides a periscope on the economy, *et cetera*.

Have a wonderful time!

Marcel Okeke


LIVE
THE
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LIFE

from our mailbox

I write to acknowledge with thanks a copy of the October 2010 edition of the Zenith Economic Quarterly (ZEQ) titled "New Banking Model in Nigeria: Opportunities and Challenges" donated to the University Library.

Your donation is sincerely appreciated by the University Library and it will definitely be of tremendous value to our students, staff and the general public.

Thank you.

Dr. (Mrs.) A.O. Idowu
University Librarian
Lagos State University

We acknowledge the receipt of a copy of the October 2010 edition of the Zenith Economic Quarterly (ZEQ), which focuses on the new banking model in Nigeria, and a review of the sluggish recovery of the global economy from the financial crisis as well as a treatise on the burgeoning tourism sector in Nigeria.

As usual, we find it highly informative and educative. We look forward to the next edition as well as use this medium to wish the entire staff of Zenith Bank a merry Christmas and a prosperous new year in advance.

Thank you.

Yours faithfully

O. A. Adebiyi
o/c Research
Association of Senior Staff of Banks, Insurance and Financial Institutions

I am directed to acknowledge with thanks and appreciation the receipt of your letter dated 30th November, 2010, forwarding the October, 2010 edition of your magazine, which focuses on the new banking model in Nigeria and update on the sluggish recovery of the global economy from financial crisis as well as treatise on the burgeoning tourism sector in our country.

The Zenith Economic Quarterly (ZEQ) is indeed essential informative publication and useful reference material to the Mission.

Please accept, the assurances of His Excellency the Ambassador's highest consideration.

Basher I. Ma'aji
First Secretary (Economic Section)
for: Ambassador
Embassy of the Federal Republic of Nigeria, Saudi Arabia

I am directed to acknowledge receipt of your letter dated 30th November 2010, under cover of which you forwarded to the mission a copy of October 2010 edition of the Zenith Economic Quarterly (ZEQ) publication. I am to add that the Mission continues to find your publication an important source of information.

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

Shehu Mohammed
for: Ambassador
Embassy of the Federal Republic of Nigeria, Burkina Faso

"The Vice-Chancellor also wishes to congratulate you on the quality of the print you have maintained over time and your efforts to capture the Nigerian tourism sector, opportunities and challenges in the new Banking Model in Nigeria and many other global financial and economic policies."

I am directed to acknowledge with thanks, receipt of your letter of the above subject dated 30th November, 2010 and to inform that the High Commissioner appreciates the role your magazine is playing in the economic sector of our dear country.

J. Olowosahunsi
For: High Commissioner
Nigeria High Commission, Uganda

I am directed to refer to the above publication forwarded under cover of your letter of November 30, 2010 and to acknowledge receipt with thanks.

The Embassy finds the journal educative and enriching. In addition, it is of much relevance to our work in the mission.

Please accept, the assurances of the Charge d' Affaires' warmest regards.

M. S. Ogundero (Mrs.)
For: Charge d' Affaires a.i.
Embassy for the Federal Republic of Nigeria, Hungary

I am directed to acknowledge with thanks receipt of the October 2010 Edition of the Zenith Economic Quarterly. The publication was found to be highly informative and useful to the Mission.

Please accept the Charge d' Affairs *en titre* high esteem and regards.

M. Manu
For: Charge d' Affaire en titre
Embassy of Nigeria, Philippines

I hereby acknowledge the receipt of the October 2010 edition of the Zenith Economic Quarterly (ZEQ) from your organization, Zenith Bank. As usual, this is an enlightening piece on the global economy.

I appreciate your kindness in offering us a copy.

Yours truly,
Prof. Emevwo Biakolo
Dean, Pan-African University

Your letter on the above caption dated November 30, 2010 refers, please.

I am writing on the instructions of the Vice-Chancellor to acknowledge with appreciation the receipt of one (01) copy of the October 2010 edition of the above magazine. The Vice-Chancellor also wishes to congratulate you on the quality of the print you have maintained over time and your efforts to capture the Nigerian tourism sector, opportunities and challenges in the new Banking Model in Nigeria and many other global financial and economic policies. Surely, the magazine is a good source of reference to our staff and students.

While thanking you for including our University in your mailing list, kindly accept, most sincerely, the assurances of our highest and esteemed regards, please.

Thank you.

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

I have been directed to acknowledge receipt with gratitude of one copy of your publication mentioned above that was forwarded to the Vice-Chancellor.

I am to further acknowledge the rich intellectual quality of the publication and to assure you of its judicious use by the University. Be assured of the Vice-Chancellor's esteemed regards.

Thank you.

GENYI, George
Special Assistant to the Vice-Chancellor
For: Vice-Chancellor
Office of the Vice-Chancellor, Benue State University, Makurdi

*** By Marcel Okeke**

Reforms in virtually all sectors of the Nigerian economy have been the hallmark of governance since the return of democracy in the country eleven years ago. The trend has in deed been strengthened in the past few years, such that the reform packages now have to include policies for dealing with shocks (expected and unintended) resulting from the initiatives. To varying degrees, reforms are ongoing in the banking and finance sector, the oil and gas sector (up and down streams), infrastructure (electricity, water supply, roads, railways, aviation, education and health, etc), agriculture, maritime, manufacturing and tourism, among others. The upshot of all these has been growth with some shocks on the economy.

As counterpoise, government has set up a number of special purpose vehicles (SPVs), intervention funds, agencies and institutions to deal with fallouts of the reforms, with the view to achieving a wholesome overall impact on the economy. Thus, the programmes and activities of such agencies and SPVs as Asset Management Corporation of Nigeria (AMCON), Debt Management Office (DMO), Power and Aviation Intervention Fund (PAIF), Commercial Agric Credit Scheme (CACS), Textile Support Fund (TSF), Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), among others, impacted on the economy in various ways all through 2010, but particularly during the last quarter.

Alongside these was the implementation of some key planks of the reforms, especially in the financial services sector, such as the stoppage of universal banking, introduction of holding company structure, issuance of Islamic banking guidelines, granting of provisional licenses to microfinance banks, removal of some items from import prohibition list, etc. Change of leadership and introduction of interim administration at the Nigerian Stock Exchange (NSE) as well as the search for a substantive chief executive officer for the bourse. The Securities and Exchange Commission (SEC's) effort at improving the capital market integrity also impacted the economy.

Also impacting the economy during the period were the presentation of the Federal Government's 2011 budget mid-December 2010, extension of the implementation of the 2010 Appropriation Act to March 2011 and preparations towards the floating of US$500 million Eurobond by the Federal Government of Nigeria. Others were political reforms (especially the empowerment of the National Electoral Commission and run-up to party primaries), improved foreign exchange inflow owing to the persistently high and rising price of crude oil in the international market as well as the sharing of the accumulated Excess Crude Account (ECA) by the three tiers of government.

The affirmation of Nigeria's credit rating by the reputable global agency, Standard and Poor's (S & P), during the last quarter 2010 also impacted the economy. S & P had in October 2010, affirmed the country's 'B+' long-term as well as its 'B' shot-term foreign and local currency sovereign credit ratings. In so doing, the agency said Nigeria's "outlook is stable, reflecting our expectation that Nigeria will maintain its strong external and fiscal balance sheet and that budgetary performance will gradually improve over the next few years". On its part, Fitch Ratings had lowered its outlook on Nigeria's BB- rating to "negative", concerned about withdrawals from the Excess Crude Account and drop in foreign exchange reserves.

All these however saw the economy achieve sustained output growth, as indicated by provisional data from the National Bureau of Statistics (NBS) which put real Gross Domestic Product (GDP) growth rate in the fourth quarter 2010 at 8.29 per cent. This is as against a level of 7.86 per cent recorded in the third quarter, and the estimated overall growth for 2010 of 7.87 per cent and the revised growth rate of 6.96 per cent in 2009. The NBS data further showed that the non-oil sector remained the key driver of overall growth, with agriculture, wholesale and retail trade and services contributing 2.39, 2.04, and 2.08 per cent respectively.

Similarly, inflation rate though high, moved in the desired direction, standing at 11.80 per cent (year-on-year) at end-December 2010 from 12.80 per cent in November and 13.40 in October. However, these levels still came short of the single-digit target of the regulatory authorities. On the other hand, the foreign exchange market remained relatively stable all through 2010. The nation's currency, the Naira, was largely within the Central Bank of Nigeria (CBN) target of N150/US$ with oscillation at some instances. Between end-December 2009 and end-2010, the Naira/Dollar exchange rate depreciated by N1.08 or 0.72 per cent; that is from N149.58/US$ to N150.66/US$. At the interbank market, the end period exchange rate indicated a depreciation of 0.33 per cent, the rate having moved from N150.40/US$ to N150.90/US$. The gap between the official and parallel market rates dropped from N2.30 to N1.74 by year-end.

The Nigerian Stock Exchange (NSE) data indicate that a total of US$25.013 billion was committed to the official foreign exchange market in 97 bidding sessions of the Wholesale Dutch Auction (WDAS) in 2010.

The foreign reserves position of the country, however, had a negative trend all through year 2010, with marginal accretion during the last quarter. According to the Monetary Policy Committee (MPC) of the CBN, substantial foreign exchange was expended on Joint Venture Cash Calls, petroleum subsidies, importation of petroleum products and food items. Consequently, the reserves got depleted by about 24 per cent from US$42.41 billion in December 2009 to US$32.32 as at end-December 2010. Further analysis of the movement in the reserve position indicated that month-on-month, the level dropped between January and December. The depletion however was highest in the second quarter at 8.2 per cent and lowest in the first quarter at 4.13 per cent. The rate of depletion declined in the last quarter for a number of reasons including rising prices of crude oil,

Federal Budget Key Assumptions and Targets (20082011)

	Key Assumptions and Targets	2008	2009	2010	2011
1.	Total Expenditure	N2.748 trillion	N3.102trillion	N5.159trillion	N4.226trillion
2.	Total Revenue	N1.986trillion	N1.778trillion	N2.517trillion	N 2.84trillion
3.	Oil Price Benchmark (Per Barrel)	S/N	$45	$57	$65
4.	Crude Oil Production	2.44 mbpd	2.292 mbpd	2.088 mbpd	2.3 mbpd
5.	Joint Venture Cash Calls	$5.0billion	$5.0billion	$5.0billion	$5.4 billion
6.	GDP Growth Rate	13 %	8.9%	6.1 %	7 %
7.	Inflation Rate	6 %	8.2 %	11.2 %	???
8.	Exchange Rate	N125 to US$1	N166 to US$1	N150 to US$1	N150 to US$1
9.	Fiscal Deficit	N762billion	N1.09trillion	N1.562trillion	N1.390trillion

Source: ***Various Years' Budgets***

decline in demand for foreign exchange, rise in interest rates and efforts by the CBN to curtail massive reserves depletion. The Nigerian Stock Exchange (NSE) data indicate that a total of US$25.013 billion was committed to the official foreign exchange market in 97 bidding sessions of the Wholesale Dutch Auction (WDAS) in 2010. A sum of US$5.337 billion was also sold to the Bureaux De Change (BDCs).

While the nation's stock of external reserves was depleting, its public debt was increasing, with the latter standing at N5.19 trillion at end-December 2010, according to the Debt Management Office (DMO). N4.5 trillion or 86.72 per cent of this is however domestic debt, arising mainly from the Federal Government of Nigeria's bonds with maturity dates ranging from three to 20 years. The external component of the total public debt stood at US$4.578 billion at end-2010, with multilateral loans accounting for 92.12 per cent or US$4.218. This is as against the total external debt of US$3.947 billion at end-December 2009, when the multilateral portion was 88.78 per cent or US$3.504 billion. The DMO says the Federal Government preferred domestic to foreign debt as a measure to deepen the country's bond market, while limiting external borrowing only to concessional windows.

THE CAPITAL MARKET

The capital market was marked by leadership challenges almost all through 2010: while there was a successful change of leadership in the regulatory arm, the Securities and Exchange Commission (SEC), the one of the Nigerian Stock Exchange (NSE) turned an imbroglio. Although matters pertaining to this are yet lingering, the market made significant recovery in 2010 from its nadir during the global financial crisis (2008 – 2009), but particularly during the last quarter of the year. In deed, investors' pessimism that seemed deep-seated during the dismal years gradually gave way to cautious optimism, apparently owing to some critical measures by the government and regulators.

Specifically, the introduction of the Asset Management Corporation of Nigeria (AMCON) and market regulators' insistence on zero tolerance for infractions and compliance with post-listing requirements, among other measures, yielded positive results. Thus, despite the 25 basis points increase in the Monetary Policy Rate (MPR) by the CBN and subsequent rise in interest rates, most stock market indicators recorded positive changes during the fourth quarter. The NSE All-share Index (ASI), market capitalization, foreign portfolio investment, new issue: all recorded improvements over the previous year's levels. The total market value of 264 securities listed on the NSE increased by 41.12 per cent from N7.03 trillion to stand at N9.92 trillion by year-end 2010, while the market capitalization of the 217 listed equities accounted for N7.92 trillion (or 79.85 per cent of the aggregate market capitalization. According to the NSE, this rise in aggregate market capitalization resulted mainly from new listings of equities and state government bonds coupled with price appreciation by equities.

Unsurprisingly, in the secondary market, the banking sector remained the most active (most traded), accounting for 49.52 billion of the shares traded and valued at N432.20 billion out of the NSE market turnover of 93.34 billion shares valued at N797.55 billion in 2010. Further analysis of activity in the secondary market indicated that of the 20 most traded equities, there were 14 banks—led by Zenith Bank which traded 6.302 billion shares (6.80 per cent of the total market volume) during the year. First Bank of Nigeria and Guaranty Trust Bank came second and third with 5.442 billion and 4.291 billion traded shares respectively. Overall, five subsectors were represented in the most active list; they are banking, insurance, conglomerates, information and communication technology (ICT) and second-tier securities market (SSM).

Similarly, out of the 20 companies that emerged with the highest market capitalization in 2010, there were ten banks; again, led by Zenith Bank with N471.30 billion (or 38 per cent of the total market cap). It was followed again by First Bank of Nigeria and Guaranty Trust Bank in second and third places respectively with N448.04 billion and N414.11 billion. However, the entire market was led by Dangote Cement Plc with N1.859 trillion capitalization, and followed by Nigerian Breweries with N583.10 billion market capitalization. Further analysis of the NSE data indicated that the top 20 equities by market capitalization accounted for 69.50 per cent of the equity market capitalization and 49.40 per cent of the total market capitalization.

The primary segment of the market also recorded some improvement in 2010 over the previous year. The NSE considered and approved 29 applications for new issues valued at N2.424 trillion (or 9.8 per cent of GDP) in 2010 as against 30 applications for new issues valued at only N279.25 billion (or 1.2 per cent of GDP) in 2009. In 2010, the non-bank corporate issues accounted for 71.50 per cent with 25 applications valued at N2.21 trillion while the banking sector accounted for 5.25 per cent with seven applications valued at N127.26 billion. State governments' bond issues with four applications accounted for N91.5 billion or 3.80 per cent of the total amount approved in 2010. These state government bonds include: N50 Billion Bayelsa State Fixed Rate Development Bond, Ebonyi State Fixed Rate Development Bond, Kaduna State Fixed Rate Bond, Niger State Fixed Rate Redeemable Bond and N57 Billion Lagos State Fixed Rate Bond. Some of the equities listed during the year include Dangote Cement Plc, Multi-Trex Integrated Foods Plc, Paints & Coatings Manufacturers Nigeria Plc and NPF Microfinance Plc. Also listed were the 5.50% FGN Feb 2013 (formerly 7th FGN Bond 2013 Series 1) and 10.00% FGN July 2030 (formerly 7th FGN Bond 2030 Series 3).

On the other hand, some securities were de-listed for

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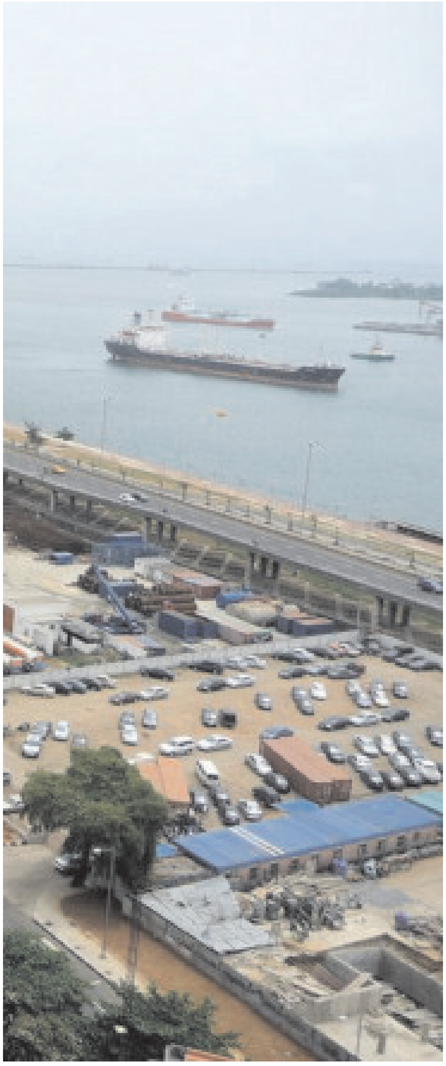
...there were ten banks; again, led by Zenith Bank with N471.30 billion (or 38 per cent of the total market cap). It was followed again by First Bank of Nigeria and Guaranty Trust Bank in second and third places respectively with N448.04 billion and N414.11 billion.

various reasons including non-compliance to post-listing requirements. These include Aboseldehyde Laboratories Plc, Afprint Nigeria Plc, Incar Nigeria Plc. Also



de-listed were 12 fixed income securities on account of maturity, including nine FGN Development Stocks, Lagos State N15 Billion Fixed Rate Bond, Carnaudmetal Box Nigeria Plc Bond and Access Bank Plc's N13.5 Billion Redeemable Convertible Bond.

BANKING AND FINANCE

Developments in the banking sector were really critical in driving the economy all through 2010 and particularly during the fourth quarter when the much awaited AMCON commenced operation. Specifically, following the approval of the board and management of the agency during the quarter under review, it soon released its valuation methodology for the purchase of the non-performing loans (NPLs) or 'toxic assets' of banks. Subsequently, it acquired the NPLs worth N2.24 trillion from nine 'rescued banks'—thus closing their capital shortfalls of about N1.4 trillion. It has also extended the same gesture to the rest of the banks (12 DMBs) bearing about N581 billion toxic assets. All the Deposit Money Banks (DMBs), except Standard Chartered and Citibank, sold their NPLs to AMCON.

The immediate impact of these 'toxic assets' acquisition by AMCON has been the buoying of public confidence in the banks, and one of the multiplier effects of this reflected in improved activity on most banking stocks during the last quarter 2010. This has culminated in the significant rebounding of the stock market during the period. While AMCON was commencing its purchase of banks NPLs, the Central Bank of Nigeria (CBN) also launched a 'Know Your Customer' (KYC) campaign among the DMBs. The exercise which lasted all through December 2010 (but extended to end-January 2011) was aimed at tackling money laundering and other financial crimes. It entailed getting all bank customers to update their account records with the DMBs or be barred from having access to such accounts. The initiative has since complemented the AMCON's efforts in boosting public confidence in the financial services sector.

The CBN during the quarter under review put into effect its new banking paradigm, making November 15, 2010 the end of universal banking era in the country. This initiative had triggered a volley of activities in all the banks, with each working towards adjusting to the post-universal banking regime in the industry. This is because as part of the transition process, the apex bank had allowed (90 days) up to mid-February for each bank to have furnished it with board-approved compliance plan detailing the type of banking license it proposes to operate. The CBN had also come up with timelines and guidelines on transiting to the new banking model as well as the modus operandi under the emerging dispensation. Thus, by the close of the fourth quarter 2010, many of the DMBs had announced their new structure: some opting to operate only as national banks; some winding down all their subsidiaries; and some adopting the holding company format.

Under the emerging dispensation, each bank stands to be re-licensed by the CBN according the (new) structure it decides to adopt. For instance, during the period under review, Oceanic Bank announced its decision to apply for a national banking license, and accordingly it commenced the winding-up process of its foreign operations and subsidiaries. On its part, Wema Bank has opted to operate as a regional bank, and has in fact, applied for such a license. Alongside these structural adjustments had also been efforts at re-capitalization, essentially to help achieve enhanced stature in the emerging paradigm. Thus, Unity Bank had to grow its capital base to N42.98 billion; United Bank for Africa hinted it had raised a total of N20 billion of Tier-2 capital; Afribank also got the nod of its shareholders on its recapitalization plan, and so on. All these are in addition to the efforts to get core investors to buy into the

'recued banks', the bidding process for which had taken place for most of them by end-December 2010.

In the microfinance subsector, the CBN during the quarter under review, issued provisional licenses to 121 out of the 224 microfinance banks it revoked their licenses earlier. The final approval of these licenses is however subject to certain conditions that must be met within a period of three months. These include the capitalization of prior deposits for shares, new capital injection to bring the shareholders' fund (unimpaired by losses) to the prescribed minimum of N20 million, closure of unapproved branches, cash centres and customer meeting points, etc. The apex bank also stated that the closure of the remaining 103 microfinance banks would be brought to conclusion by the Nigerian Deposit Insurance Corporation (NDIC), through liquidation and payment of insured deposits.

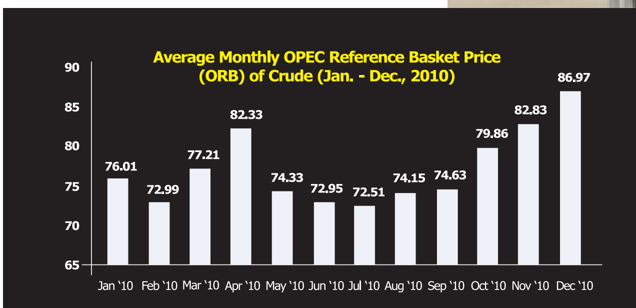
The CBN has also during the fourth quarter issued provisional licenses to six banks and 14 other firms for the provision of mobile banking services in the country. With this, Nigeria is set to launch into a new mobile payments system that is expected to revolutionize the way ordinary Nigerians allocate their incomes between consumption and savings. It is estimated that mobile subscribers could reach over 80 million in Nigeria in a short time. According to Enhancing Financial Innovation and Access (EFInA), 23 per cent of Nigerians are already comfortable with using their mobile phones to receive money, send money, or pay bills. In a related development, eTransact International Plc, a mobile and electronic payment company has received approval to launch its mobile money solution in Nigeria. eTransact is already in partnership with a consortium of banks to offer efficient mobile banking services.

In a similar vein, the CBN also granted two firms full registration as cash-in-transit companies as well as approval-in-principle as currency sorting outfits. The two firms are Integrated Cash Management Systems Limited and Bankers Warehouse Limited.

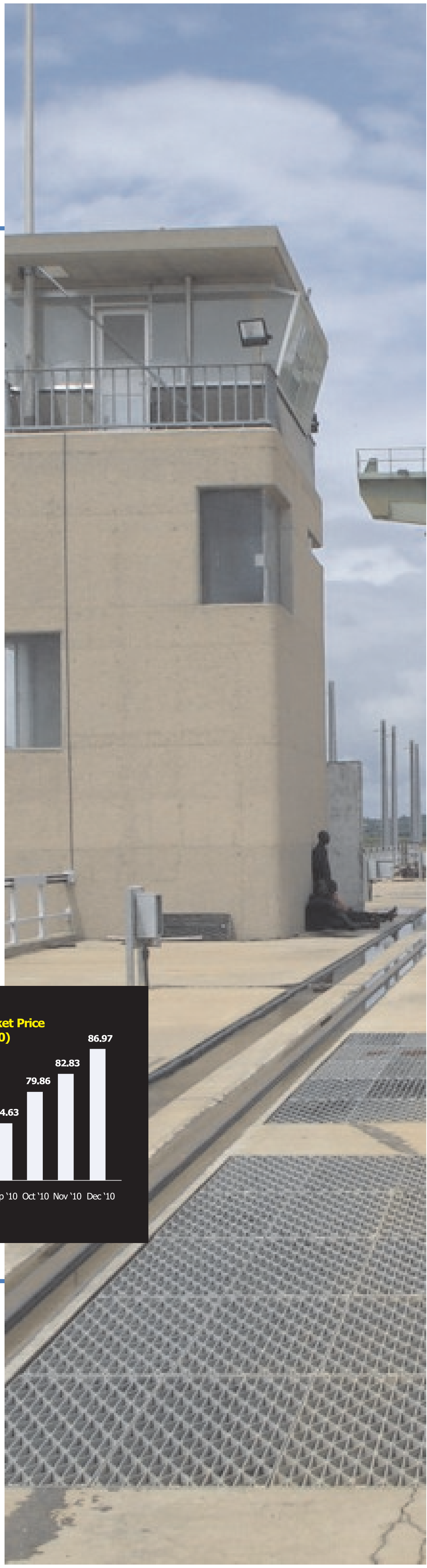
OIL, GAS & POWER

All through 2010, but particularly in the last quarter of the year, activities in the oil and gas and power sector were upbeat and substantially dictated the course of the economy. While the price of crude oil remained consistently high at above US$70 per barrel in the first three quarters of the year, it shot up to an average of about US$85 per barrel during the quarter under review. In deed, statistics show that crude futures settled at above US$90 per barrel in the last trading days of 2010, as snow storms hit the US and other parts of Europe and civil unrest ensued in certain parts of Middle East and North Africa. This trend was further encouraged by the persistence of Europe's debt crisis and the US dollar weakening against other major currencies at that time.

This trend, juxtaposed against the 2010 Federal budget oil price benchmark of US$57 per barrel and produc-



source: OPEC



Kainji Hydro Electric Power Plant

source: http://lh5.ggpht.com/_uLvfrqSBkaM/TINf7drMdII/AAAAAAAAHOI/TGUk1twzJ_8/71.JPG

tion output of 2.088 million barrels per day, presented a most cheery scenario for Nigeria. And although the Nigeria's OPEC quota was 1.67 million barrels per day, the country had been able to export above that level. In fact, Nigeria's oil production based on secondary sources was 2.145 million barrels per day (mbpd) as at September 2010; it rose to 2.189 mbpd in October, but stayed at 2.133 mbpd in November. No doubt, these production levels were made possible by subsisting calm in the Niger Delta sequel to the Federal Government's amnesty for the restive youths in that oil bearing region.

Apparently, the persisting high and rising inflow of earnings from oil informed Government's expedited action on the setting up of a Sovereign Wealth Fund (SWF), a replacement for the Excess Crude Account (ECA). Thus, during the quarter under review, the SWF Bill was put in place to create a Fund as part of the Federal Government's effort to create the enabling environment that would help redress Nigeria's huge infrastructure deficit. The Fund is also intended to reduce the country's vulnerability to external shocks resulting from global oil price fluctuations.

But while the huge foreign exchange earnings from crude oil was being expected to boost the SWF, debates and controversies surrounding the Petroleum Industry Bill (PIB) lingered all through 2010. Indeed, the seeming disagreement between the Federal Government and the International Oil Companies (IOCs) over some provisions of the Bill remained unresolved. This notwithstanding, the sector continued to experience new investments and good prospects. Some of these include Chevron's US$26 billion investment in oil and gas exploration and production under its joint venture with the Nigerian National Petroleum

Corporation (NNPC); purchase of 20 per cent stake in the Nigerian oil and gas field by South Africa's SacOil. The joint venture partner to SacOil, Equity Energy Resources (EER) bought additional 20 per cent stake in the OPL233 field, located off the coast of the central Delta region. The remaining 60 per cent is held by Nigdel United Oil Company Limited.

Five IOCs in joint venture with the NNPC have also commenced Independent Power Projects (IPPs) that would, on completion, add about 2,810 megawatts of electricity to the national grid. The IOCs include ExxonMobil, Chevron, Total, Shell and Agip. Some of the IPPs are the Eket QIT IPP being executed by ExxonMobil and which is expected to produce 500 megawatts of electricity, Obit Power Plant (OPP) being undertaken by Total is to produce 350 megawatts on completion. Also, Agura Power Project by Chevron is to produce 350 megawatts; Okpai Power Plant being constructed by Agip Oil has the capacity to produce 960 megawatts of electricity; and the Afam Integrated Gas & Power project by Shell is to generate about 650 megawatts of electricity to the national grid. All these are in addition to other IPPs for which the Federal Government issued licenses. And in December 2010, the Federal Government announced that 10 new thermal power plants would soon be completed across the country.

All these tie in with the privatization of the eleven electricity distribution companies and divestment of other Power Holding Company of Nigeria (PHCN) assets in line with the Federal Government's power sector roadmap, the key plank of which is more private sector participation. The Bureau of Public Enterprises (BPE) has already begun this process by calling for the Expression of Interest (EoI) from prospective private sector investors. The Federal Government has also approved transfer of non-core assets and liabilities as well as rights and obligations of the PHCN to Nigeria Electricity Liabilities Management Company Limited (NELMCO). The same order also covered Electricity Management Services Plc (EMS) and Nigeria Bulk Electricity Trading Plc (NBET).

TELECOMMUNICATION

The telecommunications sector sustained its high growth tempo all through 2010, and particularly in the last quarter. Thus total active lines which stood at 84.99 million in October 2010 closed the year at 88.35 million. It was at 74.52million at end-December 2009. Also, teledensity (the number of telephones in use for every 100 persons living within an area) rose from 53.23 at the end of 2009 to 63.11 at the close of 2010. Similarly, GSM continued to be the dominant segment in the sector, gradually eating into the market share of the other segments. As at October 2010 total subscribers on the GSM segment was 77.46 million, amounting to 91 per cent of industry total, by end-December, the number had risen to 131.32 million.

The SIM Card registration (registration of subscribers of telephone services) continued all through the fourth quarter 2010. And in December, the industry regulator, Nigeria Communication Commission (NCC), held a public assessment of the exercise during which it received submissions from the key stakeholders, including National Association of Telecom Subscribers (NATCOMS). Another key development in the industry during the period was the rebranding of Zain to Airtel, following the acquisition of Zain Africa by Bharti Airtel, an Indian telecommunications company. Bharti Airtel, one of the leading global telecommunications companies with operations in 20 countries across Asia and Africa, acquired Zain Africa in a US$10.7 billion deal last year.

The privatization process of the Nigeria Telecommunications (Nitel) continued with the preferred bidder as the consortium of New Generation Telecommunications (NGT). The consortium however missed the November 4, 2010 deadline to pay the US$750 million bid security, but was able to get an extension that lasted till the close of the year. In a related development, Etisalat acquired Alheri Mobile Services Limited—a fully owned subsidiary of Dangote Group and a recipient of a 3G license from the NCC. This license has however been lying dormant until its recent acquisition be Etisalat. Also during the period under review, Multi-Links Telkom took steps to exit the CDMA segment of the telecom market. The company indicated interest to re-align its business based on imperative. It said it was challenging for it to continue to do business in a market that is dominated by the GSM technology.

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

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Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for Fiscal Years 2010-2011

(Monetary Policy Circular No. 38)

SECTION THREE (Continued)

Moral Suasion

The CBN shall continue to use moral suasion, through regular dialogue and consultation with banks and other financial institutions, under the aegis of the Bankers' Committee and other channels, to promote enhanced efficiency in the banking industry, and high ethical standard and professionalism in interest and exchange rate management.

(j) Public Sector Deposits

Movement of public sector deposits in and out of the banking system by the monetary/fiscal authorities is an important instrument of monetary management that could be used during the programme period, if the need arises. Accordingly, deposits of key government parastatals and overhead of core ministries may be moved from deposit money banks to the CBN, depending on liquidity conditions in the economy. In this regard, deposit money banks shall receive prior notice before public sector deposits are withdrawn or re-injected into the system, as dictated by monetary conditions.

(k) Measures for Quantitative Easing

(i) Establishment of an Asset Purchase Facility

The CBN in collaboration with the Federal Government shall establish an Asset Purchase Facility (APF) as a separate limited liability company to purchase Federal Government Treasury Securities/Bonds and other high-quality private sector instruments that meet CBN eligibility criteria. In particular the private sector assets to be purchased would have potential significant impact on the growth of the domestic economy. The focus would be on power projects and other infrastructure which are the backbone of the economy and instrumental to non-oil economic growth in Nigeria. The programme is to ease banking system liquidity and corporate financing conditions.

(ii) Setting up of an Asset Management Corporation (AMC)

The CBN, in collaboration with the Federal Government, shall establish an Asset Management Corporation (AMC) through the instrumentality of an Act of the National Assembly. The AMC shall buy up toxic assets of the banking system in order to strengthen the balance sheets of the banks with a focus on asset quality, improving liquidity and capital adequacy as well as reducing debt overhang, thereby facilitating their ability to extend credit to the domestic economy.

(iii) Redeeming Contractors' Bonds

The CBN shall liaise with the Federal Ministry of Finance (FMF) to redeem contractors' bonds by buying such instruments which would be issued and held until when they can be traded in the secondary market or held to maturity. Thus, the Bank shall acquire instruments to use for monetary management in times of excess liquidity. The payment of contractor's arrears has the advantage of stimulating domestic economic activities.

(iv) Payment of Pension Arrears

The CBN in collaboration with the National Pension Commission shall take up all verified pension arrears of the Federal Government's retirees to inject funds into the system. The CBN shall collaborate with the FGN to offset the "loans" from the operating surplus accruing to the Federal Government at the end of the CBN financial year or alternatively, the arrears may also be securitized.

Buying of Bonds from the Primary and Secondary Markets

The CBN shall during the period participate in the primary and secondary markets for bonds for the purpose of injecting money into the system and for building up its own portfolio of bonds which could later be used for monetary policy operations.

(v) Re-admission of Commercial Papers and Bankers' Acceptances for Repo Transactions

The CBN shall re-admit the use of Commercial Papers and Bankers' Acceptances for repurchase transactions in the financial markets at the appropriate time. This is expected to help in developing the repo market as well as improving financial intermediation in the system as investors' confidence in the instruments increases.

3.2.13 Existing Monetary Policy Measures Retained/ Modified in Fiscal Years 2010/2011

i. Bank Credit Expansion

Only banks, which meet the following criteria, shall be allowed to grant new credit facilities in 2010/2011:

a) Specified cash reserve requirement;
b) Specified liquidity ratio;
c) Prudential guidelines;
d) Statutory minimum shareholders fund;
e) Capital adequacy ratios; and
f) Sound corporate governance.

DMBs, which fail to meet the requirements, shall not be allowed to grant new credit until the situation is normalized. In the event that a bank, which has all along met the criteria, suddenly reverses and becomes unhealthy, such a bank shall be precluded from granting further credit until the situation is normalized to the satisfaction of the supervisory authorities.

ii. Grace Period on Loan to Agriculture

Despite the prevailing deregulated financial market environment, there is need for financial institutions to continue to observe appropriate grace periods on agricultural loans in recognition of the differences in gestation periods of various agricultural products. In this regard, banks are enjoined to always allow borrowers' adequate grace periods before the commencement of loan repayment.

iii. Prudential Guidelines for Licensed Banks

The existing prudential guidelines on early recognition of losses and adequate provisioning for bad and doubtful debts shall remain in force pending the completion of the review of the current prudential guidelines and additional disclosure requirements for the banking system by the CBN. The requirement that banks make provision of 50 per cent and 100 per cent for performing and non-performing credits to all tiers of government has been reviewed. In the revised circular, banks are now to apply the normal provisions of the prudential guidelines to all public sector credits. However, aggregate credit to all tiers of government shall not exceed 10 percent of the total credit portfolio, including off-balance sheet engagements In line with the decision of the MPC meeting of 3rd November, 2009, the 1 per cent general provision charged for all performing loans is cancelled until further notice.

iv. Capital Fund Adequacy

The minimum ratio of capital to total risk-weighted assets shall remain at 10 per cent as it was since January 1, 2004. Furthermore, at least 50.0 per cent of a bank's capital shall comprise paid-up capital and reserves, while every bank shall maintain a ratio of not less than one to ten (1:10) between its adjusted capital funds and total credit net of provisions. However, banks are encouraged to maintain a higher level of capital commensurate with their risk profile.

v. Foreign Guarantees/Currency Deposits as Collateral for Naira Loans

The use of foreign bank guarantees/foreign currency deposits for naira denominated loans shall remain in force. However, request for such guarantees shall be subject to prior approval by the CBN.

vi. Rules for Currency Transactions

Pursuant to the provisions of Section 21 of Foreign Exchange (Monitoring and Miscellaneous Provisions) Act Cap F34 laws of the Federation of Nigeria, persons who import foreign currency in excess of US$5,000.00 by cash and lodge such money in a domiciliary account with an authorized dealer, can only make cash withdrawals from the account. Also, by virtue of Section 22 of the same legislation, no person in Nigeria shall make or accept cash payment, whether denominated in foreign currency or not, for the purchase and acquisition of landed property, stocks, shares, debentures, all forms of negotiable instruments and motor vehicles. Payments for those items shall be made by means of bank transfers or cheques drawn on banks in Nigeria. In order to ensure full compliance with this regulation, all banks are required, as in the previous year, to appoint Compliance Officers whose duty shall be to ensure that the provisions are complied with. The Compliance Officers shall report all breaches of the regulation to the CBN, through the Chief Executive Officer of each bank, in such a manner as the CBN may prescribe.

vii. Responsibilities of Banks' External Auditors to the Supervisory Authorities

Existing Central Bank of Nigeria's directives to banks and other financial institutions to instruct their external auditors to forward two copies of their audit reports to the CBN not later than three months after the end of banks' financial year shall remain in force in fiscal years 2010/2011. In addition, reports on fraud and forgeries committed during the accounting year under review shall accompany the audited reports. Furthermore, each bank shall continue to communicate the appointment, re-appointment, termination and resignation of the bank's external auditors to the CBN, stating the reasons for such action. Where a bank fails to comply with this requirement, the CBN reserves the right to withhold the approval of such appointments. In this regard, the CBN shall apply appropriate penalty. In recognition of the complementary role of external auditors, banks are required to ensure that their external auditors are in attendance at the presentation of Bank Examination Reports by the Supervisory Authorities to their Board of Directors. Furthermore, external auditors shall devote a portion of their report to the review of the bank's implementation of prior year's audit recommendations.

viii. Banks Operating Subsidiary Companies Offering Financial Services

Banks with subsidiary companies offering financial and related services shall continue to report on the operations of such companies along with their Monthly Returns to the

Central Bank of Nigeria. Banks shall submit consolidated financial statements of the group in line with the consolidated supervision requirement.

ix. Public Complaint Desk and Consumer Protection at the Central Bank of Nigeria.
The CBN shall continue to maintain a Public Complaint Desk at its Head Office and branches to enable the public lodge any complaint they may have against their banks. Where the case against any bank is proved, the bank shall be required to make necessary amends and pay appropriate penalties. In addition, the CBN shall set up a Consumer Protection Unit within the Banking Supervision Department that will investigate all complaints lodged. These measures are aimed at encouraging good banking habits and promoting efficiency in the delivery of financial services, in order to boost public confidence in the system. Public complaints can also be forwarded online to the following email address: consumerprotection@cenbank.org.

x. Agricultural Credit Guarantee Scheme (ACGS)
The Bank shall continue to facilitate the provision of affordable credit for agricultural production. The ACGS has improved on its claims settlement process resulting in prompt settlement of legitimate claims to further elicit banks' active participation. Microfinance Banks (MFBs) have continued to participate under the Scheme since 2006, as facilities extended to farmers by MFBs are now guaranteed by the Scheme. In 2010/2011 fiscal year, the Bank shall pursue the review of the ACGSF Act to increase the capital base and loan limits, and expand the guarantee to cover the entire agricultural value chain.

xi. Interest Drawback Programme (IDP)
The IDP rebate will continue to be paid to eligible farmers in the 2010/2011 fiscal years who liquidate facilities obtained as at and when due under the ACGS. The IDP interest rebate to farmers who borrowed at market determined rate and repay on schedule under the Agricultural Credit Guarantee Scheme (ACGS) shall continue to be 40.0 per cent. This is expected to reduce the burden of interest payment by farmers on agricultural loans as well as serve as incentive to enhance prompt loan repayment and to encourage banks to fund the agricultural sector.

xii. Returns from Banks
All banks in the country are required to report accurately, faithfully and promptly, on their activities in the prescribed format for the daily, weekly monthly, quarterly and semi-annual returns. The returns shall be rendered through the Electronic Financial Analysis and Surveillance System (e-FASS).

Daily returns are to be submitted at or before 10.00 a.m. of the following working day, while monthly, quarterly and semi-annual returns should be submitted on or before the 5th day of the following month. Where the 5th day happens to be a weekend or public holiday, returns should be submitted on the previous working day. The banks shall continue to render the returns to Banking Supervision, Trade and Exchange, Statistics Departments of the CBN and the Off-site Supervision Department of the NDIC through the e-FASS. Banks are also enjoined to send monthly and mid-month returns on public sector account balances with them to the Director of Banking Operations. To ensure transparency and accountability banks shall, with effect from January 6, 2010 render weekly returns on deposit and lending rates to the Banking Supervision Department. The rates shall include all changes, commissions and fees, annualized and added to the base lending rates to arrive at the all-inclusive rate, in line with the CBN circulars of January 29,2009 and October 14,2009.

xiii. Other Financial Institutions
The Central Bank shall continue its surveillance on the operations of the Other Financial Institutions (OFIs), namely, finance companies (FCs), primary mortgage institutions (PMIs), microfinance banks (MFBs), development finance institutions (DFIs) and bureaux de change (BDCs) to ensure orderly growth of the sub-sectors.

a. Finance Companies
The resurgence of the activities of illegal finance companies in the past two years has impacted negatively on the confidence of the investing and banking public. The CBN will, in 2010 and 2011, continue in its efforts to stop the operations of illegal FCs, reform the sub-sector and reposition it for greater effectiveness. Areas to be covered by the reforms will include: minimum capitalization levels, expansion of the scope of activities and the development of revised guidelines for the sub-sector.

b. Primary Mortgage Institutions (PMIs)
Due to the sub-optimal performance of primary mortgage institutions and the unrealized potential of the sub-sector, the CBN will continue its process of reforming the mortgage/housing finance sub-sector. The reforms which are geared towards promoting access to mortgage/housing finance and increasing the sub-sector's contribution to the Gross Domestic Product (GDP) shall involve the re-capitalization and re-focusing of the PMIs, introduction of sound risk management and strong corporate governance, and promotion of the secondary mortgage market through the establishment of a specialized Mortgage Re-finance/Liquidity Company. The specialized second-tier institution shall provide short-term liquidity, long-term funding or guarantees to mortgage originators and housing finance providers.
(to be continued next edition)

Migration and Remittances During economic Recession: Recent Experiences

http://elcomitewa.files.wordpress.com/2010/08/dscf3374.jpg

* By Eunice Sampson

Hundreds of illegal immigrants especially from Africa, Asia and Latin America die every year in desperate attempts to cross over to 'dreamlands'. In the pre-recession years when most of the developed economies of Europe and America enjoyed lavish prosperity, fierce looking border patrol officers were still on ground to ward off intruders. Now that most of these economies are barely surviving the economic downturn, the situation has grown worse.

For decades, gory stories of the doom that befall illegal immigrants trying to cross dangerous seas and borders in the bid to reach the 'promise land' have received media hypes. While millions succeed in crossing over, a significant number end up as floating bodies on the high seas.

Drowning and other boat hazards are just some of the many causes of illegal immigrants' untimely demise. Some die of fatigue, hunger and thirst, some by the bullets of over zealous vigilante groups and border patrol officers while yet others are killed intentionally by 'illegal immigrant haters' who see them as hungry scavengers coming to take away their jobs and deplete their public utilities. The hostilities and human rights abuses some of them face in the host countries once they succeed in making their way into those places are other critical issues.

The World Bank identifies the Mexico–United States corridor as the largest migration corridor in the world, accounting for 11.6 million migrants in 2010 alone. It is therefore not surprising that huge migrants' casualties have been recorded on this route during these recession years.

On February 8, 2007, four gunmen of unknown nationality opened fire on a truck carrying illegal immigrants in the Ironwood Forest National Monument, killing two men and a 15-year-old girl who were trying to cross over to the United States.

Last August (2010), 72 illegal immigrants that set out from Central and South America to enter the United States through the Mexican borders were murdered in cold blood by the Los Zetas Mexican drug cartel. The mutilated bodies of the 58 men and 14 women were staked in mass graves on a ranch less than 100 miles south of Brownsville, Texas.

There have also been instances of illegal immigrants abusing and killing citizens of their destination countries. But more often

It is believed that the United States saw the largest inflows of migrants between 2005 and 2010, despite the financial crisis.

than not, these are cases of migrants that have successfully made their way in and settled in the host countries than those still in transit.

These ugly incidences notwithstanding, migration, legal or illegal, which has since become a global phenomenon will stand the test of the current economic crisis. According to World Bank's recent estimates, more than 215 million people, or 3 percent of the world population, live outside their countries of birth, with the top migrant destination countries being the United States, the Russian Federation, Germany, Saudi Arabia, and Canada. On the other hand, the top immigration countries, relative to population size are Qatar (87 percent), the United Arab Emirates (70 percent), Kuwait (69 percent), Andorra (64 percent), Cayman Islands (63 percent), and Northern Mariana Islands (62 percent).

It is believed that the United States saw the largest inflows of migrants between 2005 and 2010, despite the financial crisis. The strengthening of economic co-operation within the European Union and the introduction of a common border by some of the EU countries have also encouraged a surge of migrant flows to Spain, Italy, and the United Kingdom, with much of the migrants of Eastern European origin.

Tightening Rules, Slowing Numbers

A special BBC report on immigration published last October shows that, "overall immigration to developed countries has slowed sharply as a result of the economic crisis". Interestingly, both illegal and legal immigration have been adversely affected. Unregulated flows such as illegal immigration and free movement within parts of the European Union have experienced the largest decrease. Immigration to Ireland from new EU Member States fell by 60 per cent from 2008 to 2009; while overall EU inflows to Spain fell by two-thirds, according to the report. During the same period, the United States witnessed a 50% drop in the number of visas issued to low-skilled seasonal workers, including farmers.

Data from border agencies at the US and EU borders show considerably fewer illegal entries. The number of foreign workers caught trying to enter the EU illegally by sea fell by more than 40 percent from 2008 to 2009. Reports from the European Union's external border security agency, Frontex, show that a total of 51,600 illegal border crossings were detected during the first six months of 2009, 17 percent less than the same period in 2008. During the same period, the number of illegal migrants from Mexico intercepted at the US border went down by about 40 percent. As at the summer of 2007, the number of unauthorized foreigners in the US was put at 12.5 million. By the summer of the following year this had dropped by over a million.

While it is not out of place for Frontex and other border patrol agencies to take credit for a job well done, the fact remains that the global economic slowdown played a more significant role in the development.

As the number of immigrants allowed into the US are slowing, so are the number of naturalization applications filed and granted to non-nationals. While 1.38 million immigrants filed applications to naturalize in the United States in 2006; by 2008, the numbers of applications have dropped to 525,786. This plunged further by about 62 percent in 2009. Reasons cited by US authorities included the slowing economy and the costs of naturalization which have been criticized by many as too exorbitant. US naturalization fee rose sharply from $330 as at 2005 to $595, a humongous sum during this economic storm.

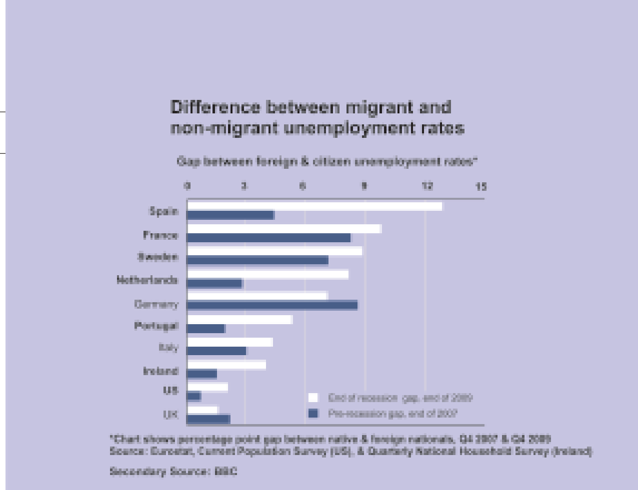
But this is certainly not the main reason for the slowdown. Other factors include lesser jobs and harsher socio-economic conditions, especially for foreigner workers.

In Ireland, the same trend has been observed since the recession. After the steady migration inflow that followed its Employment Permits Act of 2006, Ireland has since 2008 experienced a significant decline in overall immigration rate. In June 2009, it further tightened its work permit system, putting a halt on the issuance of new work permits for low income jobs and stopping spouses and dependents of work permit holders from taking up employment if they do not obtain their own work permits. These stricter immigration policy measures are for good reasons. Irish economy is estimated to have shrunk by 14 per cent in the period between 2008 and 2010, the sharpest fall in economic growth of any developed economy since the Great Depression. The unemployment rate, once among the lowest in the EU pre-recession, is expected to have risen to about 15 per cent by the end of 2010.

Naturally, unauthorized migrants and those convicted of criminal activities are the first to be targeted by tighter immigration polices. Italy, France and other European economies have resorted to massive deportation of illegal immigrants to reduce their numbers. Italian authorities in efforts to encourage voluntary exit of migrants have criminalized unlawful presence and removed access to emergency medical care and education for illegal migrants. Even in the United States, the option of deportation has been explored with government deporting about 10 per cent more illegal migrants in 2009 than in the previous year.

Spain stands out as one of the most interesting case studies in any analysis of developed economies and immigration trends during this period of global economic meltdown. Spain, in its boom years (1994-2007) enjoyed a robust annual GDP growth rate of about 3.6 percent, and was the biggest employer of new hires in the European Union. But the recession has thrown the economy back several years. Recent IMF growth estimate for the country in 2010 is a paltry 0.75 percent.

As a result, the booming immigration traffic that had characterized the Spanish economy in the last decade has suffered a major setback. According to the Economist, "recession has proved far more effective than policy at stemming the immigration flow". Aside from the fewer jobs now available for illegal migrants, it is now more difficult for them to pay for the cost of crossing, which could run into hundreds of



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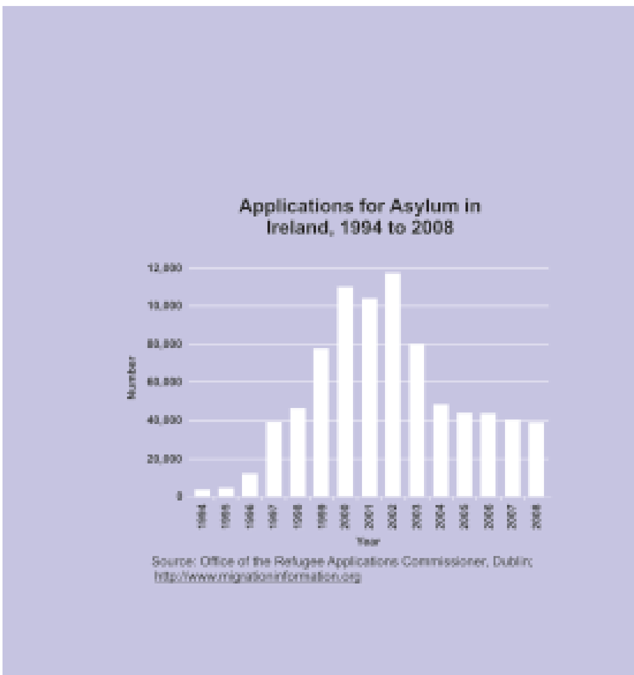
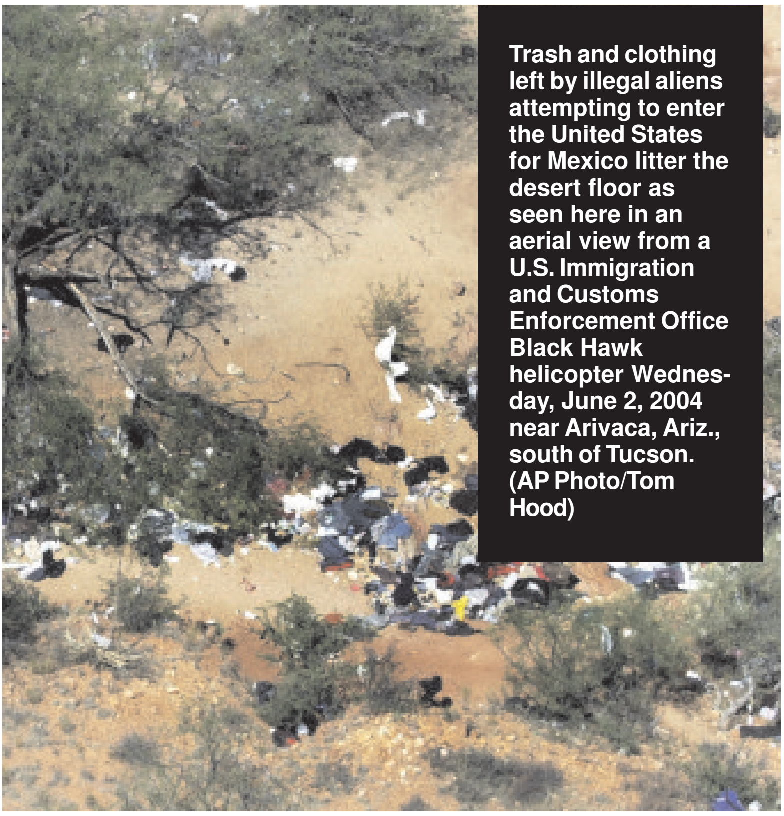


euro.

With over four million currently unemployed, translating to about 20 percent unemployment rate, Spain is not a very attractive destination for migrants right now. Within a decade, Spain's immigrant population leaped from 2 percent of the total to 12 percent, at about 5.6 million. The cheap labor offered by immigrants no doubt contributed significantly to the country's rapid economic expansion. The country, on its part offered migrants a relatively conducive atmosphere to thrive, including a robust and comprehensive welfarist healthcare system that covers even illegal migrants. The situation in Spain before the economic crisis gives credence to views that the relationship between immigrants and their host communities is more symbiotic than parasitic.

But Spain is no longer the immigrants' haven it was prior to the recession. In 2008, the country beefed up security measures against illegal migration by increasing by 53 percent its border police personnel, a measure that helped reduce incidences of unauthorized entry by about a quarter. Spain has also reduced from 15,731 in 2008 to 931 in 2009, the job quota for non-EU workers on long term contract, a whopping 94 percent drop.



Trash and clothing left by illegal aliens attempting to enter the United States for Mexico litter the desert floor as seen here in an aerial view from a U.S. Immigration and Customs Enforcement Office Black Hawk helicopter Wednesday, June 2, 2004 near Arivaca, Ariz., south of Tucson. (AP Photo/Tom Hood)

In response to these measures, by mid-2010, unemployment figures for immigrants jumped to 30.2 percent as against 18.1 percent for the native born, a far cry from the pre-recession levels of 12 percent and 7.9 percent, respectively. Also, before the crisis, immigrants represented one in every six workers in Spain. But this has since risen to about one in every four that are unemployed, a significant ratio considering that migrants make up just a fragment of the total population of over 46 million.

In a further bid to reduce unemployment, the Spanish Congress on September 19, 2008 adopted the offer of lump-sum payments of unemployment benefits to migrants who have lost their jobs. In the terms of the *Plan de Retorno Voluntario*, beneficiaries are to turn in their resident and work permit and leave the country with a promise not to return to Spain for three years. Eligible foreigners receive 40 percent of their unemployment insurance benefits in Spain and 60 percent in their country of origin after surrendering Spanish work and residence cards at the Spanish consulate. The lump-sum is estimated at an average of between $12,000 and $40,000 in total.

By the beginning of second quarter 2010, only about 11,660 migrants had applied for the offer, with 8,451 approvals and eventual departure from Spain. This is a long shot from an earlier prediction of at least one million applicants made by the Ministry of Labour and Immigration.

The poor migrants' response could be attributed first, to the possible economic uncertainties in their home countries, and also, to their faith on the long term prospects of the Spanish economy.

The low response has also been blamed on the activities of migrant advocacy groups who have advised their clients to reject the offer on grounds that the migrants could be refused re-entry to Spain in three years even if they had job offers. Employers, unions and human rights groups also opposed the move on grounds that migrants who have contributed so much to the growth of the Spanish economy should have been given better treatment than to be shown the way out during difficult times.

Spain is not the only country that has tried its hands on the migrants' voluntary repatriation strategy that was first employed by France during the 1970s. As the economic downturn intensified, Japan and The Czech Republic in 2009 also tried out similar control measures with a "pay-to-go" scheme that encourages unemployed migrants to return to their home countries in exchange for some financial compensation, including payment for the costs of transporting them back to their native countries.

The United Kingdom

has also had its share of changes in immigration trends since the economic crisis. While migrants from Eastern Europe and other parts of the world have been arriving in smaller numbers, another growing trend is the slowdown in the influx of international students as the cost of education in the UK becomes too prohibitive. This is a worrying development as proceeds from international students have long helped to fund the country's higher education system while also providing a huge pool of highly trained workforce.

In Asia, the recession has also taken a great toll on immigration trends. In January 2009, Korea and Malaysia announced a halt on the recruitment of new foreign workers. This was to make jobs more available for the native-born. With about 2.1 million legal foreign workers in Malaysia as at December 2008, the government took it a step further when it ordered employers to lay off foreign workers first when ever the need to retrench arises.

Also in January 2009, the Thai government announced that it would not re-register migrants that year, in the hope that some will leave when their work permits expire. This was part of efforts to create more jobs for Thais as unemployment rose in response to economic slowdown.

The United Arab Emirates which before the recession had policies in place to attract skilled and unskilled migrants has since introduced measures to reduce the influx of foreign workers. Up to 40 percent of workers in the country's construction industry, which before the recession enjoyed a major boom, are believed to have lost their jobs since the recession. As it becomes more difficult to get jobs, the UAE government has weighed the option of giving expatriates more than the usual one-month to find a new job or leave the country.

Despite the dwindling price of crude oil and resultant impact on government earnings since the downturn, Saudi Arabia seems poised to retain migrant workers in that country. The Saudi authorities have resolved to continue with the building of the lavish six "economic cities" that aim to house about five million residents and employ 1.5 million workers by 2015. As a result of this multi-billion dollar project, most migrant workers have been able to retain their jobs.


http://www.constructionweekonline.com/

Native-born and Migrants, the ever Widening Gap

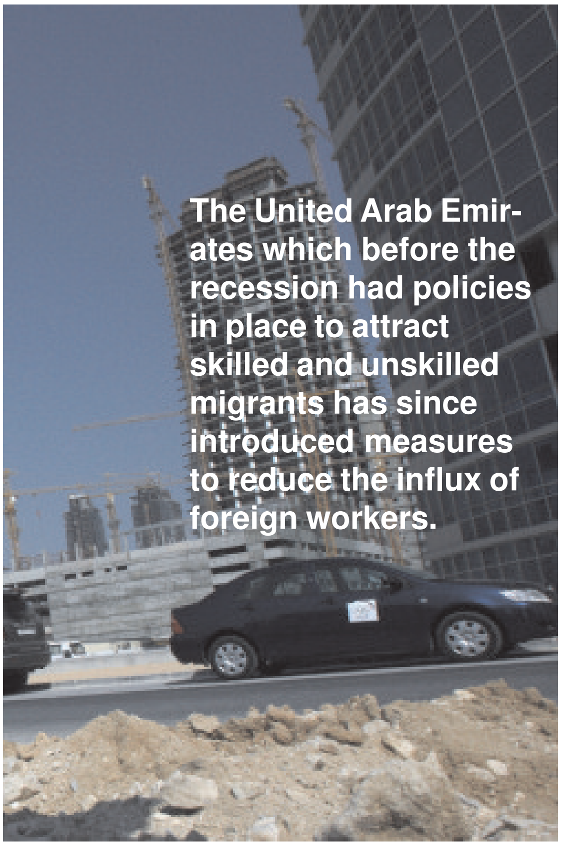
The economic crisis which has fuelled unemployment in virtually all economies of the world has no doubt increased the appetite to migrate to greener pastures. Unfortunately for intending migrants, one of the many fallouts of the global economic meltdown has been the tightening of immigration laws in almost all major economies, coupled with the fact that there are not much jobs to go to right now. Regrettably also, the migrant-friendly industries like construction and manufacturing were the most affected by the recession.

Not surprisingly, as the unemployment situation becomes more precarious, the employment gap between the native-born and the foreign workers are becoming more evident. Foreign workers in developed nations are more likely to be jobless than their native-born counterparts.

A BBC study published on Thursday 7 October 2010, entitled "Migration and Immigrants Two Years after the Financial Collapse: Where Do We Stand?" shows that the unemployment gap between immigrants and the native born has widened in many countries with the exception of Germany. The slit is more pronounced in Spain with the unemployment gap between native-born and immigrants rising from the pre-recession level of 4.4 percent to 12.2 per cent in the second quarter of 2010.

In Ireland about 80,000 jobs were lost in 2008 alone, taking unemployment levels to 8 percent. That year, unemployment rate among Irish nationals rose from 4.3 per cent to 7.3 per cent, whereas among non-Irish nationals it rose from 5.6 percent to 9.5 per cent.

Further breakdown of current migrant employment situation reveals that men are losing their jobs



faster than women, since construction and manufacturing industries, which attract mostly male workers, have been badly hit by the downturn.

In Spain for example, at the end of 2009, male migrants' unemployment rate was 33 percent as against 25.5 percent for their female counterparts. Also, BBC reports that youths between ages 15 and 24 have suffered higher incidence of unemployment than all other age groups.

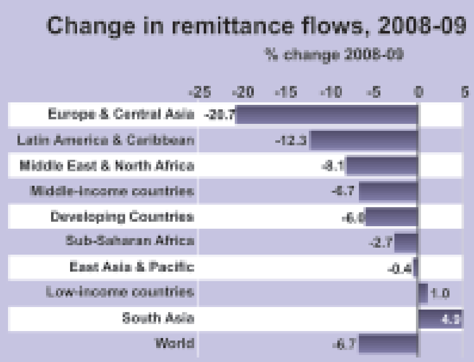


Chart shows percentage point gap between native & foreign nationals, Q4 2007 & Q4 2009. Source: World Bank

Secondary Source: BBC

The massive role the construction industry plays as one of the biggest employers of labour has been thrown up during these recession years. It is estimated that construction alone accounts for about 7 percent of global employment. In the US, Canada, UK, Spain and other major and even developing economies, the slowdown in the industry has resulted in massive layoffs, especially among immigrant workers.

While the recession may be over in theory in almost all industrialised nations, the persistent rise in unemployment in many countries could prolong migrants' unemployment dilemma for a while yet, a development that could impact negatively on standard of living and remittances to their native countries.

Impact on Global Remittances

The global economic prosperity that encouraged the massive movements of migrants in the last three decades has also resulted in the rapid growth of Diaspora remittances. The total value of grants and aids to developing economies pales to insignificance when compared with the value of remittances that flow into these countries annually. Remittance flows to developing countries reached $328 billion in 2008, declined by 6 percent to $307 billion in 2009 and is expected to have risen to $325 billion by year-end 2010, out of a total global estimated flow of about $440 billion that year.

Usually, the higher the number of citizens that had migrated to dreamlands from a particular developing country the higher the remittances inflow. Another determining factor is the level of education and skills, and therefore the remuneration package of the migrants. In several developing countries, remittances inflow is now double the size of their Foreign Direct Investment, FDI. While FDI flow fell sharply by over 60 percent to $3.6 billion in Nigeria in 2010, for instance, the remittances inflow remained firm at around $10 billion, slightly higher than a year earlier. In this crisis period, Diaspora remittances have proven more resilient than FDI and other capital flows.

Though with some regional disparity, strong family ties have impacted positively on global remittances as migrants, despite the rising unemployment levels in host countries continue to send money home to sustain family members whose livelihood have been eroded by the impact of the economic recession.

The highly populated developing economies, including China, India, Philippines, Pakistan, Mexico, Nigeria, etc, have traditionally remained the biggest recipients of Diaspora remittances; while the wealthy countries of Europe and America are the major sources. In 2009, top remittance sending countries were the United States, Saudi Arabia, Switzerland, Russia and Germany.

But an interesting trend has evolved since the recession; some highly developed countries have displaced developing economies on the list of top recipients. In 2010 for example, preliminary figures published in World Bank's Migration and Remittances Factbook 2011, shows the entry of France (5th), Germany (6th), Belgium (8th) and Spain (9th) on the table of top 10 remittances destinations. With the development, Pakistan, Morocco and Vietnam, which had made the list almost consistently before the economic crisis, have been displaced.

Another interesting development is the fact that countries like the United States, which pre-recession acted more as givers than as receivers, have experienced an increase in remittances inflows. A case in point is Mexico which receives much of its remittances from the United States and depends on such inflows as its second biggest source of foreign exchange earnings after crude oil exports.

According to reports from the New Republic; in 2007, Mexicans living in the U.S. sent about $26 billion to relatives living in Mexico. The amount of remittances dropped to $25 billion in 2008, the first decline since the Central Bank of Mexico started keeping track over a decade ago. This dropped further to about $21.2 billion in 2009, before rebounding marginally to an estimated $22.6 billion in 2010. A new dimension to Mexico's remittances trend is that while the flow from the US to the country is falling owing to the recession, the flows from Mexico to the United States has been on a steady rise. In an apparent bid to sustain their relatives in the United States which may have been hit by the depression, Mexicans back home now wire money to the US in what has been described as 'reverse remittances'.

Diaspora Remittances: Top recipient countries (2006-2009)

Country	Remittances 2006	Remittances 2007	Remittances* 2008	Remittances 2009
India	$26.9 billion	$27 billion	$45 billion	$55.06 billion
China	$22.52 billion	$25.7 billion	$40.5 billion	n.a.
Philippines	$12.7 billion	$14.4 billion	$16.4 billion	$17.3 billion
Mexico	$25.6 billion	$26.1 billion	$25.1 billion	$21.2 billion
Poland	$8.5 billion	$12.5 billion	$13.75 billion	n.a.
Bangladesh	$ 5.5 billion	$6.6 billion	$9.0 billion	$10.7 billion
Pakistan	$5.1 billion	$6.0 billion	$7.0 billion	$8.7 billion
Morocco	$5.1 billion	$5.7 billion	$6.9 billion	$8.0 billion[11]
Vietnam	NA	NA	$7.2 billion	$6.8 billion
Nigeria	$5.4 billion	$9.2 billion	$9.98 billion	$9.58 billion

Source: Wikipedia; Research & EIG

Top 10 Remittance Destination Countries in 2010

1.	India	$55 billion
2.	China	$51 billion
3.	Mexico	$22.6 billion
4.	Philippines	$21.3 billion
5.	France	$15.9 billion
6.	Germany	$11.6 billion
7.	Bangladesh	$11.1 billion
8.	Belgium	$10.4 billion
9.	Spain	$10.2 billion
10	Nigeria	$10 billion

Source: World bank's Migration and Remittances Factbook 2011

Direction for future migrants?

As developed economies build more barriers round their borders, more future migrants could be compelled to settle in other developing countries that enjoy fairly better standard of living and more employment prospects than their home countries. This and the growing trend of regional economic blocs and bilateral agreements would continue to strengthen global movements of people across borders and enhance south-south migration.

One of the tests of a country's economic prosperity is how much migrants it attracts annually. As more developing economies expand in size, notably the BRIC countries, they would begin to experience an upsurge in migrants flow from developed economies which today are the choice immigrant-destination countries. No thanks to the recession, Greece and Ireland have already emerged as countries of net emigration among the industrialised countries. In 2009 for example, Ireland reported the highest net outflows of both immigrants and natives in the European Union.

Source: OECD

Fears in some quarters that the current economic downturn could mark the beginning of a long-term barrier to global movements of people could prove unfounded. To start with, most of the affected rich countries are already on the path of recovery; and as the boom years return, so will the indispensible migrant workers.

Also, because migration is not always about desperate job seekers, it is a phenomenon that will be difficult to halt, now or in the future, no matter how tight the security measures that are put on international borders. As the global economy gets more fused, people would continue to move across borders, to maintain social and family ties, to do business, or for humanitarian reasons.

Another critical factor that would keep migration booming in the years ahead is the challenge of fast ageing population faced by many industrialised economies, especially Japan in Asia and several EU countries. Europe currently has the most aged population among all continents, followed by North America.

So, while the recession aftermath continues to bite really hard in most developed economies, these countries will remain mindful of the future consequences of clamping down too hard on migrants. Over-restrictive immigration policies could have long term, dangerous impact on their economies. The nuisance migrant worker during this recession years could turn out an economic saviour in the boom years ahead.

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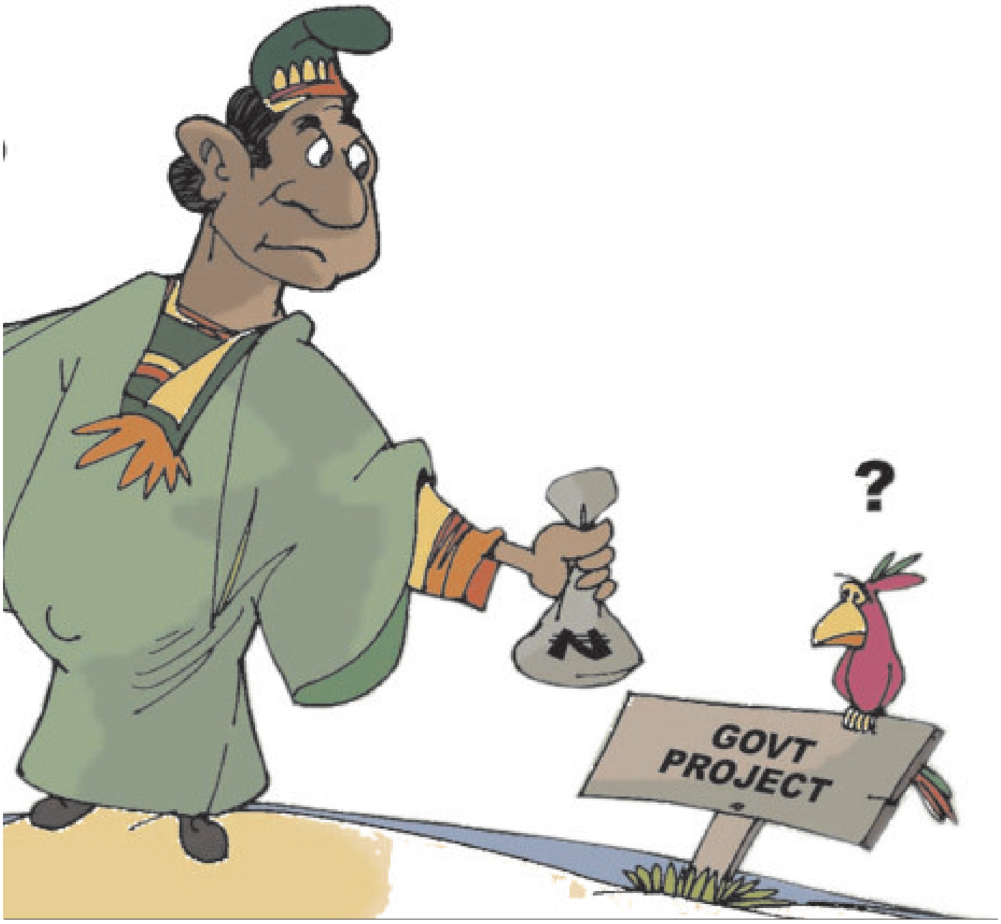
At the beginning of 2010, the expectation was that improving crude oil prices would take pressure off the external reserve.

NIGERIA: Fiscal Governance Challenges in 2011

* By Mike A. Uzor

Daunting challenges are awaiting government in the management of its finances in 2011. The result of past excesses in fiscal conduct will become fully manifest in running the affairs of government in the current fiscal year. Government ran fiscal deficits consistently over the nine years of oil market bull when every other oil exporting nation recorded budget surpluses.

Fiscal taps kept on running even in the past three years of global economic crisis that have weakened government revenue. The inability to curb government spending in the light of revenue weakness has cre-



ated three critical developments that are clearly unsustainable in the current year. The first is that spending concentrates on recurrent votes while modest capital expenditure is largely undisbursed. The implication of this trend is that the productive capacity of the nation, as small as it has ever been, continues to decline rather than grow.

The second is that borrowing is on the rise again in confirmation that the present revenue-expenditure profile of government is unsustainable. In addition to an internal debt overhang in excess of N3.1 trillion, external debt stock is growing rapidly. The sum of N497.1 billion was provided for internal debt servicing in 2010 while 12.8% of aggregate expenditure is voted for debt servicing in 2011.

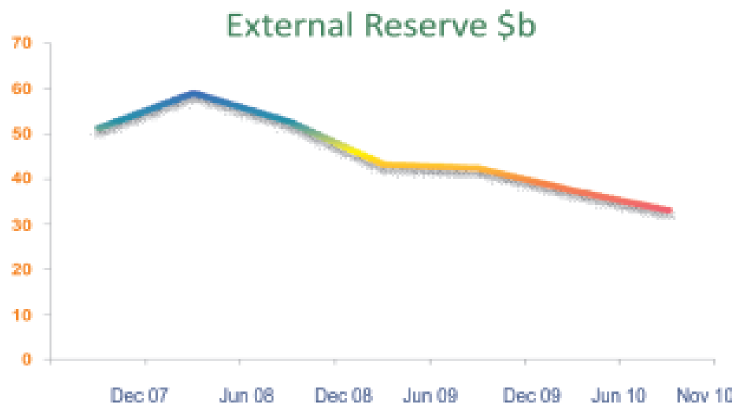
The third angle to the fiscal governance concerns is the continuing drop in external reserve from the peak attained in 2008 as well as the depletion of the excess crude oil account. Between December 2009 and November 2010, the stock of external reserve dropped by $9.27 billion and stands at a little over one-half of the 2008 peak.

At the beginning of 2010, the expectation was that improving crude oil prices would take pressure off the external reserve. That expectation failed to materialize and the reserve was further depleted despite higher than expected oil prices. In the light of even greater fiscal challenges facing government in the current year, further depletion of external reserve cannot be ruled out.

Big task ahead for the President

The task of getting the economy to head off potential fiscal crisis rests on the shoulders of the President. Whoever will be elected to steer the ship of state in 2011 has an unenviable job to do to put an end to poor fiscal conduct and adopt a sustainable revenue-expenditure relationship. Major changes in the functioning of the machinery of government will be needed to make this happen. Any changes that fail to address the present administrative structure will appear to be cosmetic.

The 2011 budget outline of President Goodluck Jonathan gives a reasonably good impression of a clear understanding of the fiscal challenges facing government this year. It seems



to tell the National Assembly members that the trend of disappearing savings and rising debt can no longer be sustained. Whether they agree with him or not it is the fact of the state of government finances in 2011.

The crude oil market outlook isn't that bullish to permit the raising of the crude oil price benchmark for the budget. The external reserve figure is down to a level that further depletion will be a clear signal for fiscal crisis. Further build up of external debt will have the same implication with debt servicing already claiming a significant share of aggregate expenditure of government.

If revenue isn't going to grow, debts aren't going to rise further and savings aren't going to be eaten up further, then a big axe must fall on government spending in order to avert fiscal crisis. The expenditure pruning saw needs to be used discriminately to preserve capital spending while lowering recurrent expenditure. Government spending on infrastructure needs to be sustained and even increased significantly in order to raise the productive capacity of the domestic economy.

The truth however is that government presently does not have the resources to meet the infrastructure needs of the economy. When it had the resources, they were not optimally utilized for economic capacity building.

http://justiceinnigerianow.org/jinn/wp-content/uploads/2010/04/nigeria-flaring.jpg

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Fiscal consolidation

The President's budget proposal for 2011 is structured to "make a break with the past and begin to chart a new path going forward". He speaks therefore of fiscal consolidation, which is in response to the critical fiscal challenges facing the nation. Yet he is gunning for economic growth and employment generation in an otherwise year of fiscal tightness. How to fashion economic policies to curb expenditure, prop up the private sector, boost employment and create wealth will certainly task the ingenuity of the best of economic and financial strategists in the government house.

The budget figures themselves speak less of the fiscal contraction than the President seems to portray. Aggregate expenditure for 2011 is projected at N4,226.19 billion, just 8.7% lower than the initially approved aggregate expenditure of N4.6 trillion for 2010. When account is taken of the exceptional outlays to meet wage increases, INEC's voters' registration and other items contained in the supplementary budget, the new budget is an 18.1% contraction from the N5,159.66 billion approved in the 2010 amendment and supplementary budgets.

If the exceptional outlays did not happen in 2010, there is no meaningful fiscal contraction planned for

2011. While the President aptly recognises the need to turn off the fiscal taps, he isn't yet seen to face the task squarely. The prospects for supplementary budget cannot be ruled out also for 2011, suggesting that the marginal fiscal contraction contained in the President's budget proposal isn't likely to be achieved.

Recurrent spending still rising

The expenditure cutting axe isn't yet falling on the main problem area, which is recurrent expenditure. Recurrent spending remains clearly unsustainable relative to government revenue. The President projects total revenue of N2,836.43 billion for the federal government in 2011 and plans to spend N2,481.71 billion or 87.5% in recurrent items. Recurrent expenditure is therefore planned to rise by 19.5% above the N2,077 billion approved in the 2010 amended budget.

2011 Federal Budget Highlights

Budget Item	Provision [N billion] 2011	Provision [N billion] 2010
Aggregate Expenditure	4,226.19	5,159.66
Recurrent Expenditure [Non-debt]	2,481.71	2,077*
Capital Expenditure	1,005.99	1,853
Total Federal Revenue	2,836.43	3,086
Fiscal Deficit	1,389.76	1,521
Crude Oil Price Benchmark	$65/ barrel	$67/ barrel
Crude Oil Output	2.3 mbd	2.35 mbd
Exchange Rate	N150/$	N150/$
GDP Growth Rate	7.0%	7.8%

*Approved before wage increase

Any government machinery in which recurrent expenditure is so high needs a radical overhaul.

In reality government spending isn't yet detracting from the past pattern. Total government revenue is insufficient to meet recurrent expenditure and debt servicing. Consequently, part of the funds needed for debt servicing and statutory transfers will have to be borrowed. The entire amount of N1,005.99 billion capital spending vote will also have to largely borrowed. A fiscal deficit of N1,389.76 billion is therefore planned for fiscal 2011.

The real problem with government spending pattern that needs to be dealt with is the rising proportion of recurrent expenditure and the simultaneous decline in capital spending relative to the total government annual spending. Capital spending votes have consistently declined from the 52.5% of total federal government expenditure in 1999. The provision in 2009 was only 29.2%, improving to 35.9% in 2010 and now down to 23.8% in 2011.

Yet optimising capital spending by rationalising recurrent expenditure is one of the four pillars underpinning the President's budget proposal. On this also depends his economic growth strategy. The budget numbers, as presently proposed, don't seem to be saying what the President is saying. While he has hit the nail on the head in identifying the problem with government spending, he is apparently helpless in axing recurrent expenditure, having conceded to a wage increase only recently.

If recurrent expenditure is planned to rise by 19.5% against an 18.1% drop in aggregate expenditure and a 45.7% fall in capital vote, how then will the President "optimise capital spending by rationalising recurrent expenditure…?" The sustaining spending pattern raises concerns over the President's hopes for inclusive economic growth and employment generation in an economy that is critically lacking in productive capacity.

Optimising capital spending

Government rightly recognises the difficulties posed by the huge infrastructure deficit facing the nation. The President's promise to bridge the gap in 2011 again hangs on optimising capital expenditure. Yet, he sounds more realistic in admitting that we should not expect new capital projects this year. The emphasis, he said, is on completion of ongoing projects "to avoid spreading resources too thinly across multiple initiatives…" This goes to make bare the fragile foundation on which the hope for bridging the infrastructure gap in 2011 is cast.

Some progress recorded in capital spending releases in 2010 seems to offer some succor even for completing ongoing projects. The President indicates that a total of N900 billion would have been released for capital spending at the end of 2010, achieving an average capital votes utilisation of 50% across MDAs. This compares favourably with the average capital votes utilisation rate of 24% for 2008 and about 45% in 2009. Improvement in the rate of disbursement can be expected to go to some extent to make up for the drop in the budget figure in 2011.

A new approach in disbursement

The improvement in capital spending disbursement follows some relaxation of the procurement process, according to the President. The adoption of performance-based budgeting and tracking the performance of MDAs in terms of value delivered has permitted the introduction of higher ministerial approval thresholds for capital projects. The objective is to raise the executive capacity of the spending MDAs for budget implementation and attach to it higher responsibility to deliver value.

This business-like approach seems to make a lot of sense and could succeed if people can be held firmly accountable. The President is in other words, telling us that he has placed able people in charge of MDAs and is now taking a step further to trust them with adequate capacity to function. He is giving them increased authority to execute projects and to that authority he is attaching the responsibility to meet set targets.

In doing this the President is also taking steps to meet his own responsibility of getting those he has appointed heads of MDAs to deliver value to the nation. If action is matched with words in holding MDAs strictly accountable for their capital spending, government can be sure to realise its key objective of enhancing the quality and efficiency of public expenditure in 2011.

Some initiatives to ensure greater effectiveness of MDAs in capital project implementation are contained in the budget. Government plans to engage foreign firms for capital project management and target delivery. It is also building the institutional framework to track and measure output and outcomes of capital projects embarked upon by MDAs.

If such institutional framework can be effectively implemented, the President can boast of getting a major part of the fiscal challenges facing government out of the way in 2011. His strategy to first put in place an efficient spending mechanism rather than increasing expenditure has a lot of merit even in a situation where there are sufficient funds to spend. By our experience, it is not how big the capital budget that determines the value we get. Large funds have been sunk in the process of power generation and many other key projects without much to show for the spending.

Shifting emphasis from the quantum of capital outlay to enhancing

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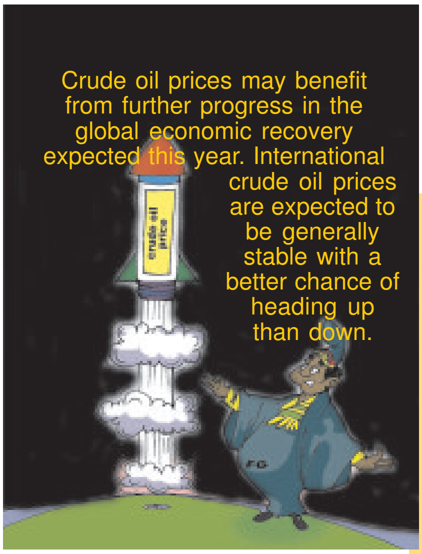

the quality and efficiency of public expenditure is the President's key strategy in facing the fiscal governance challenges in 2011. The idea is that it is possible to raise the value delivered per naira of government capital spending. Spending less but achieving more is perhaps government's answer as to how to grow the economy and generate employment amid the tight fiscal disposition of government in the current year.

Radical cost cutting, a necessity

It seems more appropriate therefore for government to aspire to 'optimise capital expenditure by enhancing the quality of spending.' Yet, it is perhaps politically strategic for the President to have at least identified the need for rationalising recurrent expenditure even though it is not likely to happen this year. Perhaps for political reasons too, he chooses not to roll out radical cost cutting measures until after the coming elections.

It is however inevitable for whoever becomes the President in 2011 that recurrent expenditure has to be cut down drastically to no more than 50-60% of total government revenue. The President confirmed in his 2011 budget that the recent public service wage increase is the main contributor to the size of fiscal deficit in 2011 measuring 3.62% of GDP. Borrowing money and paying interest on it to pay workers is clearly unsustainable.

The President sounds handicapped to do anything about the huge wage bill and the resulting size of the fiscal deficit for now. Hence he speaks of running "…a policy of gradual fiscal consolidation to bring the deficit within the limits prescribed by our fiscal rules." That seems to me too accommodating in a situation that calls for expedient measures to save the nation from potential fiscal crisis. Talking of fiscal deficits at all when the country should be running fiscal surpluses consistently isn't something to cheer for anyone who has an eye on the future.

An expenditure review committee has since been appointed to suggest measures to rationalise recurrent expenditure. The President promises to implement the committee's recommendations to the letter on receipt of its final report. The committee's job will be quite effective if government has given it a target of recurrent expenditure that must be cut.

Expect aggressive revenue drive

The revenue drive of government in 2011 is expectedly aggressive. Government needs every kobo it can get in dealing with the fiscal challenges it faces. Consequently, it will explore further prospects for using increased crude oil output to counter the effect of likely static oil prices in the year. The bursting of OPEC's production quota witnessed in 2010 is therefore very likely to continue in the current year. There is no strong indication that oil producers will come under pressure to cut oil output in the course of the year. That will most likely keep off any pressure on Nigeria to cut down on output volume.

Crude oil prices may benefit from further progress in the global economic recovery expected this year. International crude oil prices are expected to be generally stable with a better chance of heading up than down. Global economic growth projections for 2011 are generally optimistic at 2.4% for advanced economies and 6.5% for developing countries, creeping up from 2.3% and 6.3% respectively in 2010. Top growth rates of 9.9% and 8.4% for China and India respectively in the year create a favourable outlook for the oil market.

The benign outlook for the world economy and the oil market is expected to enable government rebuild the excess crude oil account. With the marginal reduction of the budget benchmark oil price from $67 to $65 per barrel, the excess crude oil revenue account might swell this year. In the absence of a supplementary budget, this could be channeled to reducing the size of the fiscal deficit.

Cost rationalisation and revenue maximisation represent the only way forward for government. It is therefore important that measures indicated for blocking revenue leakages are strictly implemented in the year. If the hammer is made to fall for non-compliance with revenue collection and remittance as promised, some progress is possible on enhancing the revenue capacity of the nation this year.

The Rivers Monorail Project is a Public Private Partnership embarked upon by the Rivers State Government and TSI Investments and Holdings.

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A searchlight on all revenue generating agencies of government is needed as proposed to boost non-oil earnings. While the non-oil sector remains the growth driver for the economy in 2011, there seems to be no fresh initiatives to further build capacity in those activities.

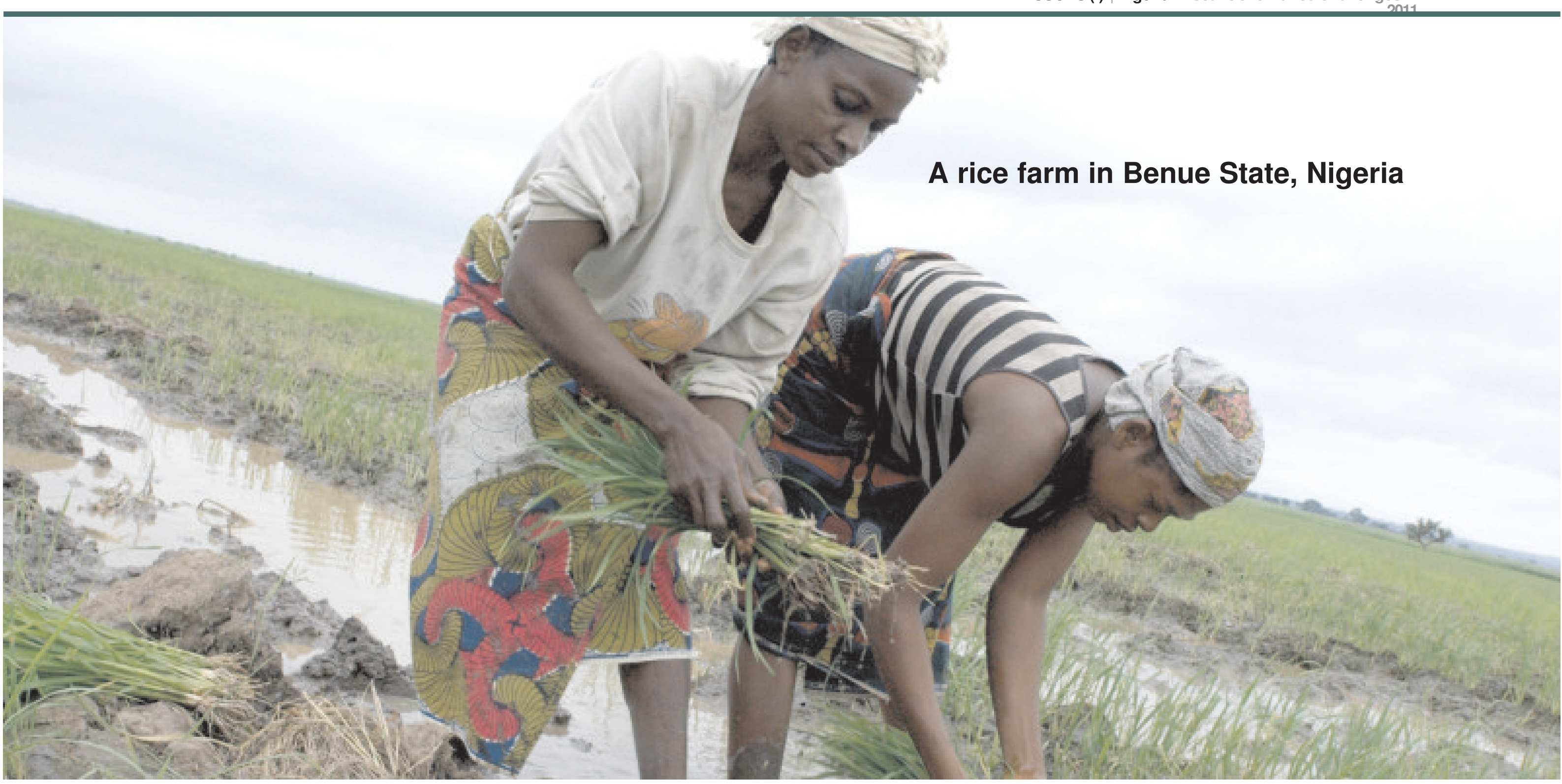
Counting on the private sector

Government is counting very much on the private sector to make up for its shortfall in development spending. It has provided for a viability gap fund in 2011 to kick-start the process of public-private sector participation in project execution. There seems to be much zeal this year to fast-track the process of private sector investment in infrastructure development. This will be a major option in handling the fiscal challenges that government faces.

Huge private sector investments are targeted for electric power generation and distribution. In order to create the enabling environment for private sector investment, the President's road-map for power sector reform provides for privatising the PHCN successor companies in the course of this year. The set up of a bulk trader company to serve as a credit worthy counterparty under power purchase agreements is targeted at encouraging independent power producers to invest. Structures that provide partial risk guarantees being put in place will also enable independent power producers to raise the capital they need to build power generating plants.

A new programme for private sector investment in critical infrastructures is also in process. Over 50 priority projects have been identified by government and the private sector is expected to provide the bulk of the capital needed to execute the projects. Government is also looking up to the banking sector to reopen credit windows to support government interventions in the real sector.

Having given banks lifelines during the financial crisis, government expects that the banking sector will be a dependable partner in meeting its fiscal challenges in 2011. The take off of the Asset Management Cor-



A rice farm in Benue State, Nigeria

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poration of Nigeria [AMCON] is seen to be the final step government has taken to rebuild the operating capacity of the banking sector. The President therefore insists that the situation where companies are denied the credit they require to grow has to change.

To set the pace for increased credit delivery to the real sector in 2011, government has proposed a new $500 million facility to support small and growing businesses. Direct real sector interventions by government and the Central Bank have gone a long way to activate counter cyclical flow of credit. Additional interventions proposed for the current year will work to reinforce earlier measures and help to sustain the economic recovery process.

The purchase of huge toxic assets by AMCON will no doubt raise the credit delivery capacity of banks as expected. It is instructive however to note that banks were not lending before now for lack of capacity. They remained excessively liquid while the real economy suffocated under cash and credit crunch.

The unwillingness to lend follows the increased risk attached to bank credit at a time that huge credit losses ate up revenues and washed off bank capital stock. Up to 34.8% of the banking industry gross credit portfolio as at March 2010 was classified, the highest risk asset classification ratio in many years.

The development made a naira of credit three- to four times riskier than investment instruments. The sustained high lending rate against low deposit rates is

Government & CBN Direct Real Sector Interventions

Intervention Fund/Scheme	Financin Details
N300b Power Infrastructure Fund	Introduced by CBN in April 2010 to provide long-term finance for power-chain projects and SME clusters on on-lending basis at maximum interest rate of 7.0%
N200b Refinancing/Restructuring of SME/Manufacturing Fund	Introduced by CBN in April 2010 to enable banks refinance and restructure existing loans to SMEs and manufacturers at 7.0% interest rate
N500b Fund for Power, Manufacturing & Aviation Sectors	Introduced by the federal government to refinance loan facilities owed by the operators in these sectors and revive operations
$500m Facility	Proposed for 2011 by the federal government to support small and growing businesses
N50b National Job Creation Scheme	Proposed for 2011 by the federal government to create new jobs in urban and rural areas
SME Credit Guarantee Scheme	Established by the CBN to provide a credit enhancement window to manufacturing SMEs, agriculture value chain and educational facilities
ricultural Credit Guarantee heme Fund	Established by Federal government and CBN to induce banks to channel credit to the agricultural sector
Agricultural Credit Support Scheme	A presidential initiative introduced in 2006 and extended by CBN in 2009 under which CBN pays 6% of the 14% interest rate on loans granted to farmers
N200b Commercial Agricultural Credit Scheme	Introduced in 2009 by federal government and CBN to finance the development of large scale commercial agriculture

Sectoral Distribution of Bank Credit

Economic Sector	% Allocation
General	21
Finance & Insurance	16
Mining & Quarrying	14
General Commerce	13
Manufacturing	11
Real Estate & Construction	9
Transport & Communication	9
Government	4
Agriculture	2
Public Utilities	1
Total	100

explained by the high risk premium. The Central Bank needs to smoothen the effects of the fall-outs of the recent regulatory policies to make lending to the private sector attractive once again.

The government sector almost exclusively accounted for the growth in aggregate credit to the economy in 2010. For a greater part of the year, net credit to the private sector declined against the targeted growth of 31.54% for the year. Government wants this situation to change in 2011 by reducing reliance on domestic debt to finance fiscal deficit and using monetary policy to stimulate economic growth and employment. To accomplish its objective, it plans to go to the extent of introducing incentives for banks to lend to the real sector.

The Central Bank expects that the reforms in the power sector will stimulate bank credit to the real economy. The bank is concerned about the current distribution pattern of bank credit that favours less preferred sectors of the economy. Its records show that a greater part of the N11,071.1 billion of total bank credit as at the end of March 2010 is concentrated in oil and gas, real es-

http://farm3.static.flickr.com/2491/3677283297_300f91faa9_b.jpg

The Central Bank expects that the reforms in the power sector will stimulate bank credit to the real economy. The bank is concerned about the current distribution pattern of bank credit that favours less preferred sectors of the economy.

tate and the stock market. Agriculture and public utilities where government needs major financing support from banks presently get the least attention in bank lending.

Regulatory policy stability needed

Greater stability in the regulatory environment is needed in fiscal 2011 to reduce the risk in lending and encourage the growth of bank credit delivery to the economy. While banks now have adequate capacity to support the fiscal policies of government in stimulating economic growth, they need to be assured of less volatility in regulatory policies. How much support government will get from banks this year therefore depends on how far they understand the regulatory policy direction and trust the consistency of policy-makers.

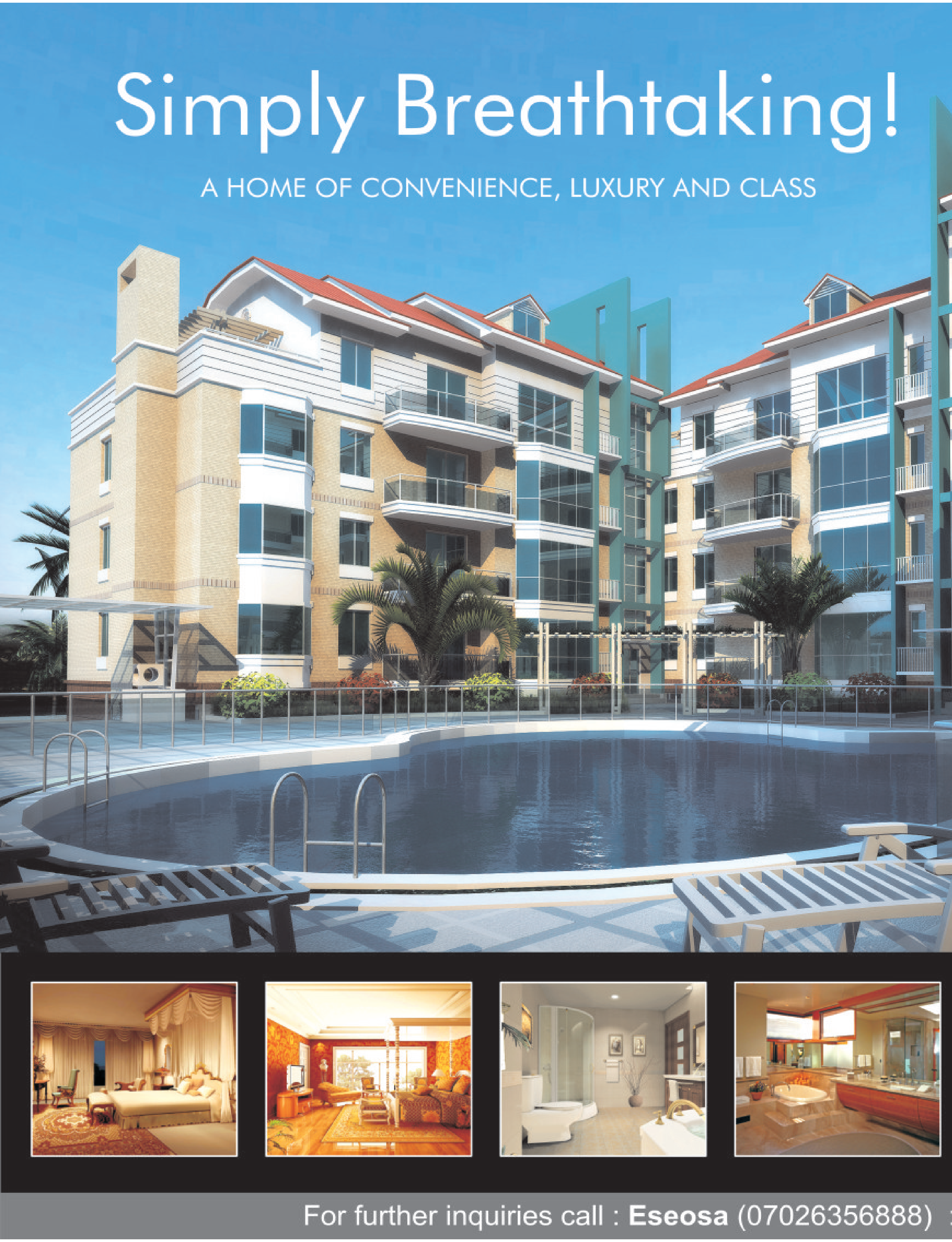
It is important that the Central Bank takes steps to ensure that the stability that is just returning to the banking sector is preserved in the process of its implementation of the new bank licensing structure. The experience is that banks normally discontinue lending whenever major reforms are in process. This happened during the bank consolidation exercise in 2004/5 and 2009 – which has lingered since then. Given the major structural changes the introduction of the new banking model will involve, it is unlikely that a significant slow down in lending and other activities of banks will not happen in 2011.

The new operating structure for banks will involve closure or sale of subsidiaries by banks that choose not to erect a holding company structure. There will still be rationalisation of subsidiaries by those that want to operate under a holding company model. Banks with offshore subsidiaries that cannot meet the new licensing requirement for international banks will have to shut down those outfits. The banks bailed out by the Central Bank will have to recapitalise and new management installed before they resume normal operations.

Some banks folding back from national into regional operations will take time to wind up branch operations outside their region. General bank lending activity is likely to be interrupted by the restructuring activity that these changes are expected to bring about. Most banks would want to wait to see their post restructured positions on the basis of which they structure their assets.

A lot will therefore depend on how soon the Central Bank concludes the restructuring exercise to let the banking system resettle for normal operations. Two of the 4-point reform agenda of the Central Bank are establishing financial stability and enhancing the contribution of banks to real sector growth. More than ever before these contributions are needed to happen this year.

(* Mike Uzor is the MD/CEO, Datatrust Consulting Ltd)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QUALITY & INTERNAL CONTROL IN BANKS: PRACTICAL CHALLENGES (3)

*** By Chuks Nwaze**

Mr. H was the Head, Debt Recovery in bank H and was generally regarded as effective on the job. In fact, for the numerous customers who were indebted to the bank, the fear of Mr. H who was a massive six-footer, was the beginning of wisdom.

http://www.greatblackspeakers.com/lawrence_watkins/IMG19463.jpg

We are continuing in this edition with the practical challenges that confront bankers and their customers on a daily basis. Readers who followed the intellectual diagnosis of the banking framework presented in earlier series will no doubt be in a better position to appreciate this practical dimension.

Nevertheless, short of asking such readers to refer to previous editions which they may not have immediate access to, I will continue to advice old and new readers of this column to pause after each case and internalize

the lessons proferred.

Next edition will set the agenda for quality and internal control reforms in the financial system in line with the emerging scenario by discussing challenges of a different nature.

CASE 26
Summary of Facts: Competition with Employer (Executive Fraud)

Mr. H was the Head, Debt Recovery in bank H and was generally regarded as effective on the job. In fact, for the numerous customers who were indebted to the bank, the fear of Mr. H who was a massive six-footer, was the beginning of wisdom.

However, soon after Mr. H was promoted to Assistant General Manager, he floated his own outfit, a deposit and loans company. His modus operandi made the company the toast of the community: You deposit some money and you can borrow four times what you deposited. But if you are well known to Mr. H you could borrow without any deposit, provided you have a reasonable means of livelihood. Hence, Mr. H's colleagues in the bank were trooping there since bank H does not grant loans to staff. The interest was unusually high but they did not mind; even prospective customers of bank H were being diverted to the office.

Mr. H could be very ruthless if you borrow and do not pay. He would use security agencies who were at his beck and call to whip you to line. Those who were owing him and those who were owing the bank were given the same treatment, no difference. However, when controversy erupted in respect of his activities, he was asked to resign his appointment.

Lesson:
This is a case of executive impropriety. Mr. H was competing with his employers, using his official position, facilities and other privileges for his own personal advantage while still retaining his job and drawing his emoluments in full. Surely, this is fraudulent.

CASE 27
Amount Involved ₦840,000
Summary of Facts: Forgery

Miss T who was a teller in bank T suddenly became wise and decided to enrich herself using the savings accounts of some customers who were known to her, and whom she has been assisting to run their accounts. In fact, some of those customers were introduced to the bank by her.

She would tear out a blank savings withdrawal slip from a booklet on the counter, forge the customer's signature, debit the account and pull out the cash into her pocket. She never withdrew more than ₦100,000 at a time which was her self-authorizing limit for funded accounts.

If any of the customers called her to the effect that he would be coming to the bank for some money, she would opt to take the money to him at home which she always did. However, on one occasion one of the customers visited the bank to ask for his balance without notifying her and this was what opened the pandora box.

Investigation revealed that she had fraudulently with-drawn ₦840,000 from the savings accounts of three customers without their mandate. She was dismissed from the bank.

Lesson:
This would have been an internal control weakness if a staff can originate and conclude a transaction. However, Miss T was clever by not withdrawing more than her limit as a paying teller. If there is proper control, this type of fraud can only happen for

small amounts of money over a long period such as this one. The antidote against this kind of fraud is honesty on the part of staff. Hence, banks should put more effort in scrutinizing their prospective employees.

CASE 28
Amount Involved ₦600,000
Summary Of Facts: Distress-Induced Intimidation

Mr. U who was working for bank U took a consumer loan payable in twenty four months with which he leased a generating set. The security was the leased asset as well as his job in bank U.

As usual, he issued 24 post-dated cheques for the monthly repayments to bank S which was finding it difficult to get a merger partner for purposes of consolidation. Unfortunately, however, after the eighteenth installment was paid, Mr. U lost his job on the heels of the consolidation whirlwind which temporarily halted the repayment programme.

Mr. U then wrote formally to bank S informing them of the development pleading for some time in respect of the remaining six installments (totaling ₦600,000) to enable him hook on to another employment or arrange for alternative means of repayment, including collection of rent from his property.

On receiving this letter, bank S invited U for a meeting in this regard which he attended. A month later, however, and without any notice, bank S took Mr. U to court where he was charged with the criminal offence of issuing dud cheques. Apparently, bank S deliberately continued to present the post-dated repayment cheques after Mr. U left bank U, which were being returned unpaid.

As usual, he issued 24 post-dated cheques for the monthly repayments to bank S which was finding it difficult to get a merger partner for purposes of consolidation. Unfortunately, however, after the eighteenth installment was paid, Mr. U lost his job on the heels of the consolidation whirlwind which temporarily halted the repayment programme.

Lesson:
This is not only unprofessional but unwarranted intimidation and harassment on the part of bank S which was not a strong bank. If they were unwilling to allow Mr. U more time, they should have communicated that fact to him before taking such an action. The fraud here is that somebody in the Loan Recovery Department of bank S is making money from his employers by taking customers to court for flimsy reasons.

CASE 29
Amount Involved: ₦4.5m

Summary of Facts: Attempted Fraud
Customer Z placed the sum of ₦4.5 million for 90

If they were unwilling to allow Mr. U more time, they should have communicated that fact to him before taking such an action.

days in bank Z in June, 1992. By September 1992, he accepted the written offer for roll-over for another 90 days and a certificate of investment was subsequently issued to him by the bank. However, the 'offer of roll-over letter' was not retrieved from him.

In July 2004 (after 12 years) Mrs. Z (i.e. the wife of Mr. Z) came to the treasury department of bank Z with the offer of roll-over letter dated August 28, 1992 with an attached note from her husband instructing the bank to collapse his ₦4.5 million investment and pay him both principal and interest for twelve years. When bank Z requested for the investment certificate, she said it was not available.

Investigation was immediately conducted and there was no trace of such a deposit either in the physical records or in the computer. Meanwhile, the customer himself was very sick, moving on wheelchair and could not utter a word. He died a month later as the bank was still combing its books in search of the mysterious deposit.

Lesson

Some customers obviously want to reap where they did not sow. The inability of Mr. Z to come with an investment certificate or explain why a modest citizen like him abandoned ₦4.5 million in a bank for 12 years casts a shadow of doubt on his sincerity. There is no sentiment in this business; a bank cannot release money to an individual without evidence of ownership.

CASE 30

Amount Involved ₦9.5 million

Summary of Facts: Signature Fraud (Forgery)

Mr. K is one of the big borrowing customers of a branch of bank K. Three professional fraudsters used forged cheques and successfully encashed various amounts of money totaling ₦9.5 million from three different branches of bank K.

Although the confirmation letter which the bank received in respect of the forged instrument was brought by the accredited representative of his company, both the letter headed paper and the signature there-in were said to have been forged after the fraudsters had been paid. In other words, the known representative was part of the syndicate. He was held by the Police while others escaped.

Expectedly, bank K was unhappy while customer K said he was not interested in asking the bank to credit him back with the stolen money since his staff was part of the fraud. However, being a facility customer, when the bank asked him to put what he said in writing he declined. Since he had made no demand in writing, why should he denounce it in writing.

Since there were obvious signs that the cheques were forged, coupled with the fact that the officials of bank K did not contact the customer prior to payment, the money was recovered from the erring branch managers and placed in a suspense account.

Lesson

The safest thing to do is to stay focused and act professionally at all times. This particular customer is obviously very smart, and might attempt to play on the bank's intelligence at a future date, especially as he is indebted to bank K. A customer can simulate this situation and commit fraud against a bank where people are not concentrating.

CASE 31

Amount Involved ₦11.5 million

Summary of Facts: Staff Introducing Referees for Prospective Customers

Mr. Y is a customer of bank Y. He operated a current account but his references were introduced by the staff of the branch where his account was domiciled. However, the two internal referees did not know the customer; they never met.

Immediately after account opening formalities were completed, Mr. Y threw in a forged cheque of ₦11.5 million which cleared and he drew down everything in three installments. In a matter of days, however, the paying bank (bank X) discovered the fraud and rushed to bank Y requesting to see Mr. Y who by then had escaped abroad.

The police arrested the referees and asked them to produce the fraudster or pay the ₦11.5 million. As bank Y was helpless in the matter, the unlucky referees explained that they did not know the customer; that it was the marketers in bank Y that begged them to assist, hence they reluctantly signed the reference forms for Mr. Y who they did not know was fraudulent.

Lesson

This is a case of forged cheque but there is a lesson here which is very clear and unambiguous: Do not introduce a person who is not known to you for current account purposes. If you do, when the chips are down, you are on your own. The warning to this effect is always printed on reference forms.

CASE 32

Summary of Facts: Account Statement Fraud (Visa)

Customer E of bank E needed to travel to the United States and he applied for a visa. As usual, he was asked to submit his statement of account, among other requirements, to confirm his earnings and ability to support himself. However, customer E was aware that his modest turnover could not convince the embassy for visa purposes.

Hence, he approached Mr. B who was a staff of the bank for assistance. A deal was struck and Mr. B, in concert with the branch secretary, spooled the statement of account of a big customer on the letter-headed paper of the branch and typed the name and account number of customer E on top of it to give the false impression that it was the account of customer E.

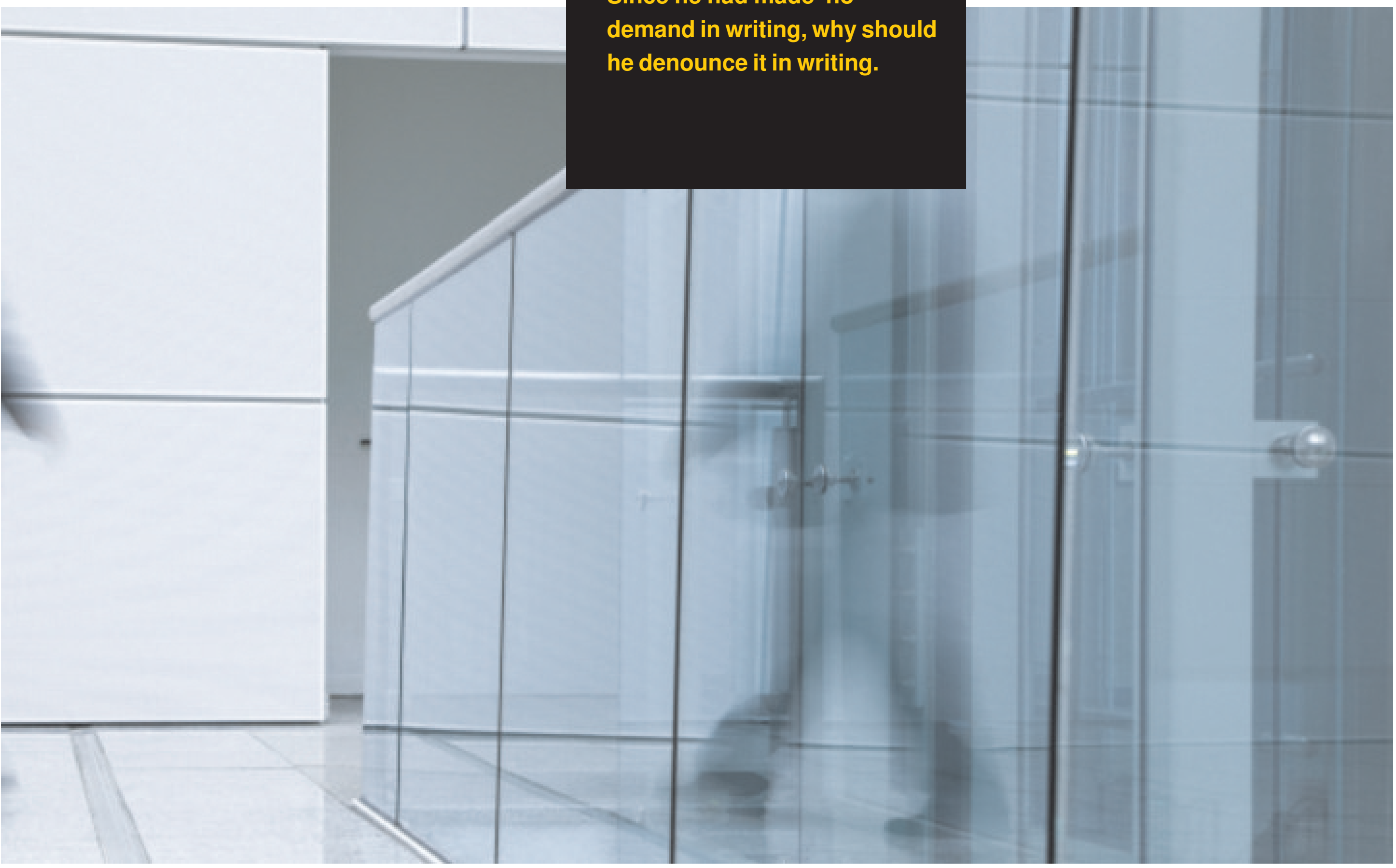
http://office.microsoft.com/en-gb/images/

The fraud was uncovered when the embassy sent the statement to head office inspection department for authentication which was standard practice. On receipt of the negative response from inspection department, the visa application of customer E was promptly declined while the two staff who were implicated by subsequent investigation were relieved of their jobs.

Lesson

This is a case of impersonation and forgery. It is a common fraud whose success rate is not very clear. However, if the desperate perpetrators are able to widen their syndicate membership to include the 'incorruptible' control personnel who are usually the confirming officers, the success rate might rise.

Expectedly, bank K was unhappy while customer K said he was not interested in asking the bank to credit him back with the stolen money since his staff was part of the fraud. However, being a facility customer, when the bank asked him to put what he said in writing he declined. Since he had made no demand in writing, why should he denounce it in writing.



CASE 33

Amount Involved ₦42,000

Summary of Facts:

Dividend Warrant Racketeering

A syndicate which specialized in the fraudulent conversion of dividend warrants opened a current account in bank D for this purpose. All the account opening documents, including driver's license and international passport were forged. For operational convenience, most of the accounts were opened as joint accounts to enable them collect warrants bearing either of the names.

Their style was to: Steal dividend warrants from the registrar's offices of various companies, open accounts in those names, pay in the warrants and draw down immediately they clear.

In this particular instance, the genuine owner of one of the warrants discovered that the warrant he had been looking for had actually been cleared through bank D. Subsequent investigation by security agents disclosed the identity of the owners of the account who were rounded up. They later confessed on interrogation that it was their means of livelihood and that they had such accounts in several banks and in different names.

Lesson
This particular class of fraud will not stop until the on-going reforms achieve a reasonable level of sanity in the secondary stock market with respect to dividend warrants. The reforms must put in place internal controls in the various offices of registrars of companies.

CASE 34
Amount Involved ₦28 million
Summary of Facts: International Fraud (419)

Mr. P who operated a current account with bank P submitted account opening documents to the effect that he was a marine services consultant. Perhaps, on the strength of this, he was 'engaged' by Mr. M who was in Singapore to perform consultancy services for him in NPA.

The consolidated fee was ₦28 million with ₦20 million to be paid up-front which Mr. M instructed his foreign bankers to transfer to the account of Mr. P through bank P in Nigeria which was drawn down in four installments within one week.

On the day of the last drawdown, however, bank P received a telex massage from the foreign bank to the effect that their principal had instructed that the transfer be reversed and the money returned in view of the fraudulent nature of the contract between the two parties which had come to light.

Of course this was belated as nothing was left in the account of Mr. P to be reversed. Security agents later recovered ₦5 million from the syndicate headed by Mr. P while the relationship manager who introduced him to the bank was relieved of his job.

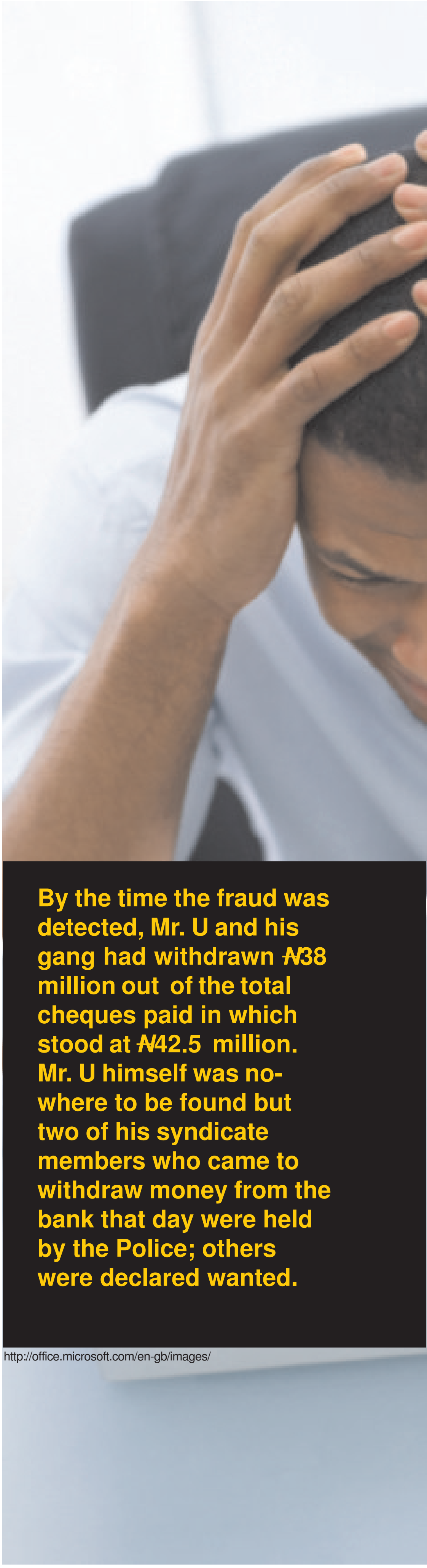
Lesson
This lies more within the realm of 419 than conventional bank fraud. The EFCC is working very hard to rid the larger society of this category of people while warning foreign nationals not to attempt to reap where they have sown nothing.

CASE 35
Amount Involved: ₦13 million
Summary of Facts: Impersonation and Forgery

ATOLG is a local government in one of the states in Nigeria with the following accounts in different banks within the metropolitan head quarters of the local council:
Bank A -Revenue Account
Bank B - Remittance Account
Bank C - Investment Account with the revenue account being the feeder to the other two. Within a spate of 18 months, however, a total of ₦13 million was siphoned away through banks B and C while there were no such authorized transfers from bank A even though debit entries were made.

When the three banks were contacted on the issue, each of them claimed having the account of ATOLG local government which was properly opened and satisfactorily operated. However, subsequent investigation revealed that only the account in bank A was properly opened. The ones in B and C were opened with forged documents and being run by a syndicate headed by a junior officer in the accounts department of the local government.

They were all arrested by the police while the balance in the two fraudulent accounts were blocked by banks B and C.



By the time the fraud was detected, Mr. U and his gang had withdrawn ₦38 million out of the total cheques paid in which stood at ₦42.5 million. Mr. U himself was nowhere to be found but two of his syndicate members who came to withdraw money from the bank that day were held by the Police; others were declared wanted.

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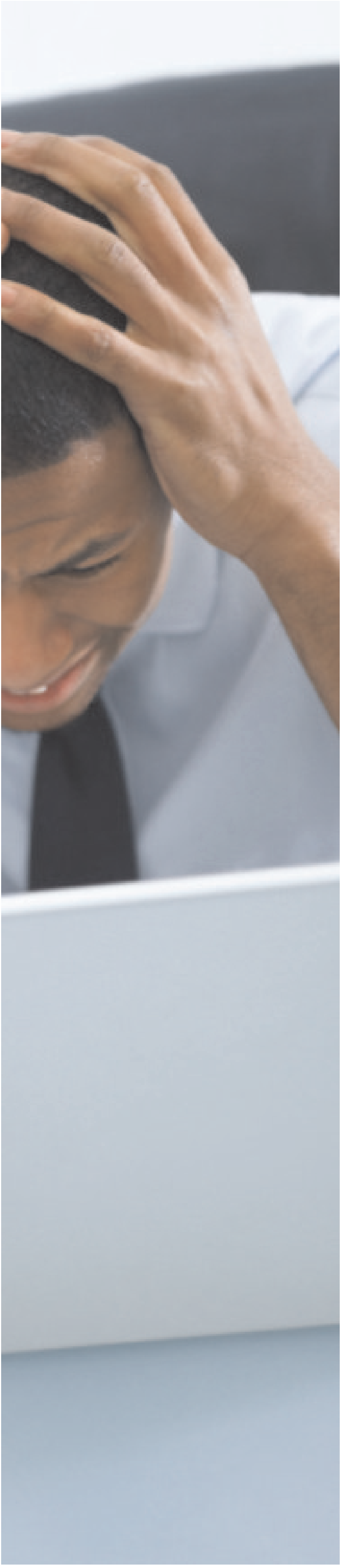


Lesson

It is clear enough that banks B and C did not follow the normal procedure for opening local government accounts. Hence, it is either that the officers in those banks were incompetent or they were members of the syndicate.

CASE 36
Amount Involved ₦3.5 million
Summary of Facts: Pilfering

This case involves a particular branch of bank S which is located in a very remote market in an upcountry town. This bank is the only one within the vicinity of the very busy market as other banks are reluctant to open branch offices in that area for reasons of accessibility.

Although there is a resident internal auditor in the branch, but the large heaps of cash generated on a daily basis was so much that he never bordered to conduct physical count (average daily closing balance was about ₦38million, mostly made up of lower denominations of ₦50, ₦20 and ₦10). He would simply enter the vault with the operations staff at the close of business, glance through the rows and columns of stacked cash and sign the treasury book to certify the correctness of the amount stated therein by the cash officer as was expected of him.

As the operations manager observed that the internal auditor was not doing physical verification of vault figures, he started pilfering in concert with the cash officer with whom he was sharing the loot. On a daily basis, therefore, the vault cash was 'balanced' on the treasury register but the physical cash was much less.

However, as time went on, one of the tellers who knew what was happening but was not part of the 'caucus', started grumbling and secretly alerted the chief inspector who immediately sent a team to conduct a full cash count which was less than the treasury records figure by ₦3.5 million on that date.

All the people involved had their appointments terminated at the end of the investigation, including the resident auditor who was accused of complicity.

Lesson

The lesson here is that internal auditors should not take anything for granted, especially in the area of physical verification, confirmation or certification. As an internal auditor, it is important to note that the people you are watching are also watching you.

CASE 37
Amount Involved ₦42.5 million
Summary of Facts: Cheque Conversion

A fraud syndicate headed by Mr. U opened a current account in bank U with forged documents in the name of "Nature Never Permits Crime" Ltd (NNPC). His intentions were very clear: To convert instruments payable to the Nigerian National Petroleum Corporation (NNPC).

In fact, prior to the account opening, he was already in possession of stolen NNPC cheques and drafts which he pushed in immediately the account opening formalities were completed. As the instruments were being cleared by bank U, he was pulling out the money in cash. It should be noted that all the cheques being collected were made payable to "NNPC".

By the time the fraud was detected, Mr. U and his gang had withdrawn ₦38 million out of the total cheques paid in which stood at ₦42.5 million. Mr. U himself was nowhere to be found but two of his syndicate members who came to withdraw money from the bank that day were held by the Police; others were declared wanted.

Lesson

The lesson here is obvious: While drawing cheque, write the name of the payee in full, especially for corporate bodies that are well known.

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

Nigerian Road Infrastructure: Options for Transformation

* Sunday Enebeli-Uzor

The significance of road infrastructure to the Nigerian economy cannot be overstated. Road infrastructure plays a critical role in the entire transportation chain. It connects other modes of transportation and permeates all aspects of modern economic activities in the economy. Road transport infrastructure has enormous influence on economic growth and development, and social cohesion. Roads are ubiquitous and provide connectivity to numerous destinations and enable mobility across the country. It is estimated that road transportation accounts for about 90 percent of the national passenger and freight services and provides access to rural areas where majority of the economically active segment of the population lives. Economic analyses are replete with evidences of correlation between the quality of a country's road infrastructure and its growth potential. This derives from the ease of mobility of goods to markets and the ability of skilled labour to move to areas of demand. The extent to which a country's land mass is traversed by road network is an index of the degree of mobility of people, goods and services within the country; and the quality of the network measures the ease and cost of mobility.

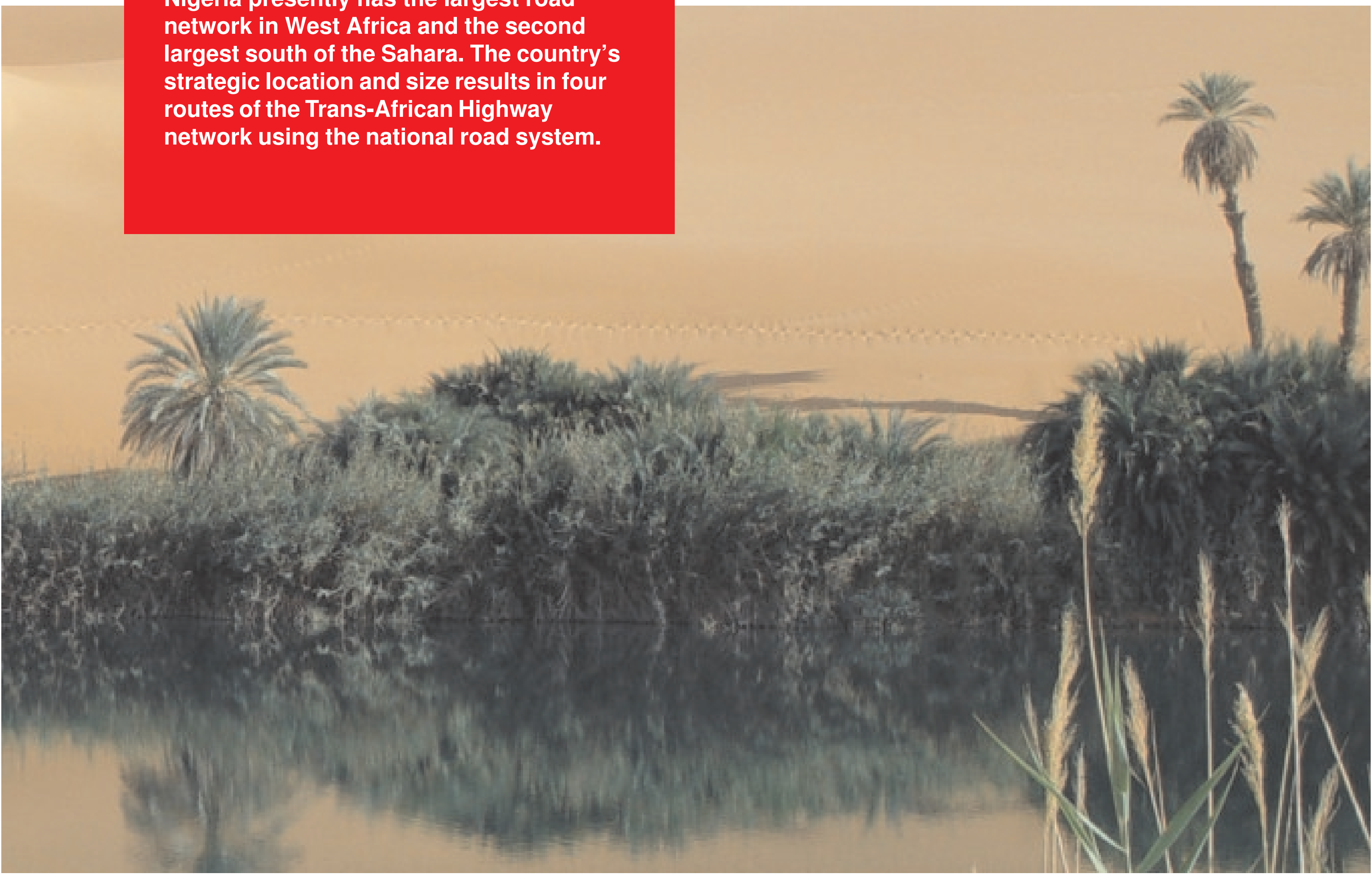
Over the years, successive governments in Nigeria developed a national road policy with emphasis on road construction but without adequate maintenance framework. However, today, the national road network is still grossly

inadequate and the state of existing roads remains poor. The roads are deteriorating at a fast rate and the cost of maintenance has become a strain on government's finance. The federal government has therefore identified efficient road transport infrastructure as a necessary precondition for achieving its Vision 20:20:20. In its vision to propel the Nigerian economy to rank among the top twenty economies in the world by the year 2020, government recognises the place of an efficient road transport infrastructure as well as its role in providing and managing the nation's roads. To achieve this, government has sought a paradigm shift from the hitherto scenario where road infrastructure is seen as a pure public good to be provided solely by government. The federal government in its draft new national transport policy now seeks to engage the private sector where appropriate in order to make improvements and meet the needs and aspirations of better roads for the citizenry.

Nigerian Road Network

The colonial era marked the origin of modern road transport system in Nigeria. Record of integrated national road network development in the country dates back to 1925, when the Road Board was established by the colonial administration. The Board was responsible for the formulation of blueprints for trunk road network, connecting major administrative and trade centres. The road network was geared essentially to meet the exportation of cash crops, such as groundnuts, cocoa, cotton and palm produce and to the importation of cheap, mass produced consumption goods. Consequently, most of the roads constructed during the colonial era lead South–North, from the coastal area of the south to the hinterland. East–West transportation routes were not considered necessary because the flow of goods was from the inland to the coast for shipping to Europe where they are processed. These early transport systems were planned in the most economic way possible, as typified

Nigeria presently has the largest road network in West Africa and the second largest south of the Sahara. The country's strategic location and size results in four routes of the Trans-African Highway network using the national road system.

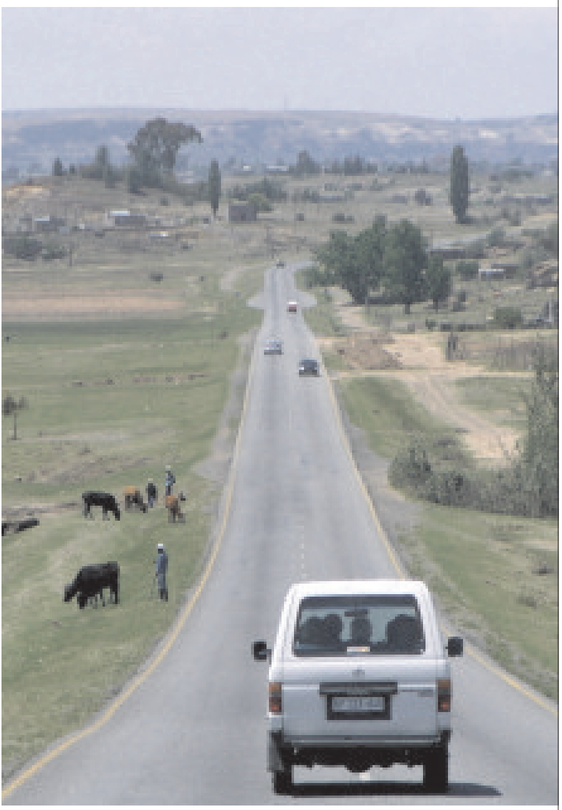


in narrow roads which later proved inadequate to accommodate heavy vehicles. The roads were mainly single lane with dangerous bends and poor drainage system.

Following the re-orientation of national goals, road transport became one of the instruments of unification of the country and an important tool for social and economic development. The discovery and development of petroleum resources from the 1950's had significant impact on the nation's social and economic growth, putting increasing demands on the national road network. Thus, economic growth and development necessitated the continuous expansion and improvement of roads across the country by successive administrations after the nation attained independence in 1960. The country presently has a total estimated road length of 193,200 kilometres. At 2005 prices, this road network was estimated to have a replacement value of N4.567trillion. Nigeria presently has the largest road network in West Africa and the second largest south of the Sahara. The country's strategic location and size results in four routes of the Trans-African Highway network using the national road system. These are the Trans-Sahara Highway to Algeria; the Trans-Sahelian Highway to Dakar; the Trans-West African Coastal Highway (which connects Nigeria westwards to Benin, Togo, Ghana and Côte d'Ivoire with feeder highways to landlocked Burkina Faso and Mali); and the Lagos-Mombasa Highway.

Road construction in Nigeria received major boost in the 1970s when foreign exchange earnings from crude oil surged. From the oil boom era, a significant proportion of government capital expenditure was dedicated to road construction at both national and states levels. Road construction became a major thrust of government development policy and an index for assessing government performance. Consequently, the national road network grew from its total length of 6,500Km in 1960

A major road in Lesotho



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to 10,000Km in 1970. The national road network further grew to 29,000Km in 1980 and is presently estimated to cover a distance of 193,200Km, out of which 28,980km is paved and 164,220km is unpaved. The national road network comprises 34,123km Federal roads, 30,500km State roads, and 128,577km Local Government roads. A greater proportion of the nation's national road network (67 percent) is classified as local government roads. These include community and village roads that are not developed. State roads account for 16 percent, while federal roads represent 17 percent. Federal roads which carry the heaviest volume of traffic estimated at well over 70 percent are the main truck routes that link the nation's thirty six states and the Federal Capital Territory.

Road Administration and Management

The Federal Ministry of Works is the apex government organ responsible for road administration and management in Nigeria. It metamorphosed from the colonial creation of Public Works Department (PWD). In 2003; it was split from the erstwhile Federal Ministry of Works and Housing. The Ministry currently has six departments namely: Department of Federal Highways Construction & Rehabilitation (DHCR); Department of Federal Highways Planning & Design (DHPD); Department of Engineering Services (DES); Department of Planning, Research and Statistics (DPRS); Department of Administration (DAS); and Department of Finance & Accounts (DFA). The Ministry also has two Parastatals: Federal Roads Maintenance Agency (FERMA) and Office of the Surveyor-General of the Federation (OSGOF). At the state level, state ministry of works oversee road administration and management while the department of works handles the responsibility at the local government level.

Challenges of Road Provision and Maintenance

Over the years, competing developmental needs and dwindling government revenue somewhat slowed the momentum of road construction witnessed during the oil boom era. Also, increased traffic volumes culminated in deterioration and failure of some portions of the national road network, thus emphasis shifted to road maintenance. The financial and technical requirements for effective road maintenance, rehabilitation and reconstruction have become enormous such that the pace of main-

Lesotho's Roads Relief Fund was set up in 1995 to provide routine and periodic maintenance of all roads in the country. The sources of finance for the Roads Relief Fund include: road toll-gate fees, border fees/short-term Southern African Customs Union;

tenance can no longer match the deterioration. This derives from inadequate routine, periodic, and emergency maintenance. Another factor that has been adduced for accelerated road failure in Nigeria is poor initial design and construction. Road design and standards have not kept pace with increasing traffic volumes and vehicle weights. There is presently poor coordination and enforcement of standards in road construction and maintenance due to lack of a coherent national road policy. In some areas, there are no clear road markings, safety barriers, and signage to adequately inform road users on the nature and state of the roads. These factors have reduced the useful life of the roads with attendant increase in the operating cost of vehicles and high accident and casualty rates.

Road Maintenance Funding: Lessons from other Climes

Globally, there is a growing awareness that countries that rely solely on government consolidated fund for road infrastructure investment and maintenance are bound to have shortfalls. Consequently, emphasis has shifted to generating additional revenues for roads by an admixture of introduction of tolls on high-traffic roads, levies on refined petroleum products, or inviting the private sector to build and operate such roads under concession agreements. The experiences of other countries provide valuable insights from which Nigeria can learn useful lessons in the effort to provide an efficient and sustainable road maintenance system.

In Ghana for instance, there exists the Ghana Highway Authority (GHA) which was established in 1974. The GHA is responsible for planning, development, maintenance and administration of all trunk roads and related facilities in Ghana.

In Ghana for instance, there exists the Ghana Highway Authority (GHA) which was established in 1974. The GHA is responsible for planning, development, maintenance and administration of all trunk roads and related facilities in Ghana. GHA's funding comes chiefly from the consolidated fund and foreign donor agencies. In addition, the Ghana Road Fund was established in 1996 to finance routine periodic maintenance and rehabilitation of public roads; to provide for the management of the Fund; and provide for related matters. Monies for the Fund are derived from: proportion of government levy on petrol, diesel, kerosene and refined fuel oil as may be determined by the cabinet with the approval of parliament; bridge, ferry and road tolls collected by the authority. Others are: vehicle license and inspection fees; international transit fees, collected from foreign vehicles entering the country; and such monies as the Minister of Finance in consultation with the Minister of Works may determine with the approval of Parliament.

Lesotho's Roads Relief Fund was set up in 1995 to provide routine and periodic maintenance of all roads in the country. The sources of finance for the Roads Relief Fund include: road toll-gate fees, border fees/ short-term Southern African Customs Union; permits, license fees on motor vehicles, road maintenance levy on petrol and diesel; fines on over loaded vehicles, any other road user charges or donor funding from donors that may from time to time be allocated to the fund, and any sums appropriated to the fund. The Tanzanian Road Fund was set up with the objectives of financing rehabilitation and maintenance of major and core roads. The Fund's revenues come from road tolls charged from diesel and petrol, as well as various levies and duties from motor vehicles such as licences, registration, and transfer of vehicles.

A major road in Tamale, Ghana

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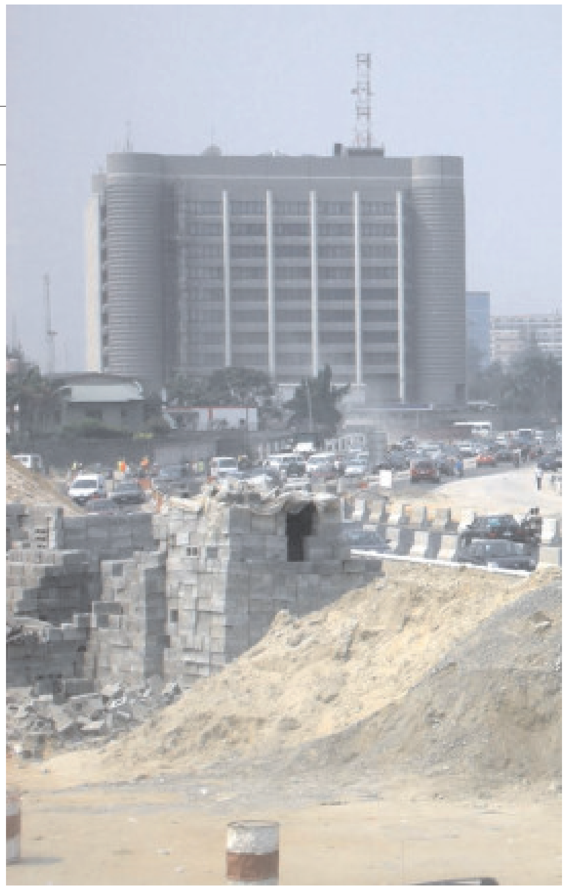
Tier of Government	Length (km)	Percentage of Length (Approx)
Federal Roads	34,123	17
State Roads	30,500	16
Local Government Roads	128,577	67

Source: Federal Ministry of Works



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The failure of these intervention agencies to address the decay of the national road network informed the establishment of the Federal Roads Maintenance Agency (FERMA), an agency specifically dedicated to federal road maintenance.

Costa Rica established a Road Fund in 1998 which is funded mainly by a levy on fuel. The Fund is responsible for the maintenance, rehabilitation and improvement of the national road network but with priority given to routine and periodic maintenance. In Armenia, the Roads Fund Legislation was passed in 1998. The Fund has an advisory board and is responsible for the maintenance of all republican roads in large cities in the country and undertakes road safety projects. The Fund is funded from the following sources: road maintenance levy, set at 10 percent of the wholesale prices of gasoline and diesel; licence fees on motor vehicles; international transit fees; fines on overloaded vehicles; any other road user charges or donor funding that may from time to time be allocated to the fund; and any sums allocated by parliament.

FERMA to the Rescue?

In a bid to urgently check the deterioration of the national road network, the federal government established the Federal Roads Maintenance Agency (FERMA) in 2002 as a Parastatal of the Federal Ministry of Works. The Agency is the country's first ever institutional mechanism for monitoring and maintaining all federal roads. It assumed responsibility for the planning and implementation of maintenance of federal roads across the network whilst major improvement schemes remained with the Federal Ministry of Works. FERMA's core mandate include: maintenance of federal trunk roads nationwide; entering into road concession contracts for the purpose of executing relevant projects; and setting guidelines for the working of concessions contracts. The agency also makes policy recommendations to the federal government on matters relating to the maintenance of federal trunk roads, amongst others.

Prior to the establishment of FERMA, other government intervention agencies were at one time or the other involved in road maintenance in the country. For instance, the Directorate of Food, Roads, and Rural Infrastructure (DIFFRI) in the late 1980's constructed approximately 60,000km of new rural roads in country. Although the agency did well in opening rural communities and villages and linking them with national road network, it did not achieve much in maintaining paved segments. In the era of the Petroleum Trust Fund (PTF), part of the Fund's mandate was road maintenance. The Fund also could not adequately maintain roads in the country due to the multi-faceted nature of its mandate as an all purpose intervention agency. The failure of these intervention agencies to address the decay in the national road network informed the establishment of the Federal Roads Maintenance Agency (FERMA), an agency specifically dedicated to federal road maintenance. At state levels, various state governments have replicated the agency to address the challenge of dilapidating roads in their various jurisdictions either in the form of direct labour agency or road maintenance agency.

The Federal Roads Maintenance Agency (FERMA) has come under intense criticism in recent times due to its inability to maintain fast deteriorating federal roads in the country. The agency on its part has severally admitted that it has difficulties meeting the pace of road infrastructure decay due to a number of factors which include environmental conditions such as erosion. The menace of erosion and its impact on roads manifest as a result of poor road designs which did not make provisions for drainages. The agency also has funding constraints as it requires about N120billion annually to effectively discharge its duties expeditiously. In 2009, FERMA received N6.5billion; while in 2010, the agency got N20billion. In a bid to meet the challenge of road maintenance in the country, the federal government is now proposing to subsume the functions of FERMA into a new Federal Highways Authority which would assume executive responsibility for the improvement,

maintenance, and operation of the highway network whilst the Ministry of Works would retain the overall policy role. These changes, together with proposals for the creation of a Federal Road Fund, are intended to improve the condition of the nation's road infrastructure.

Public-Private Partnership – The New Paradigm

Globally, demand for basic infrastructure services has outstripped the supply capacity of existing assets. Most governments, especially in developing countries are currently having challenges of providing infrastructure. This stems from limited government revenue in the face of enormous developmental needs. Many years of underinvestment and poor maintenance has left Nigeria with a significant infrastructure deficit. Nigeria needs massive investments, beyond the means available to government in order to close its yawning infrastructure gap. The Federal Government has adopted a policy framework for the private sector to play an important role in providing some of this new investment through Public-Private Partnerships (PPP). This sort of arrangement has become the new paradigm for road infrastructure provision in other climes and Nigeria has embraced it as the model to fast-track the nation's road network development. The Public-Private Partnership (PPP) model has a number of variants and Nigeria has opted for concessioning. The first federal road to benefit from the new arrangement is the 110km dual carriageway Lagos–Ibadan Expressway which has been concessioned to Bi-Courtney Consortium for 25 years. The concession is a Public-Private Partnership project between Bi-Courtney and the Federal Ministry of Works under the Design-Build-Operate-Transfer (DBOT) scheme. Under the DBOT, there will be no monetary costs to the government.

The Federal Government has adopted a policy framework for the private sector to play an important role in providing some of this new investment through Public-Private Partnerships (PPP).

The concessionaire (Bi-Courtney) is expected to modernise the highway by providing services and facilities to improve safety and security of motorists such as vehicular parking areas for heavy duty vehicles; rest areas with eateries and conveniences; emergency communication equipments, clinics, and emergency ambulances. Other facilities to be provided by the consortium are electronic traffic control and enforcement measures; highway lighting between 7pm and 6am through the installation of a gas-fired plant; overhead pedestrian bridges at designated locations; modern toll points with electronic tolling system and obligatory/informative signs and markings. The scope of work includes the full reconstruction of the existing carriageways from Lagos to Ibadan; expansion of the carriageway into a limited access eight lanes divided highway between Lagos and the Shagamu interchange and a limited access of six lanes divided highway between the Shagamu interchange and Ibadan; the provision of a new drainage system, recessed service areas, lay-by emergency parking areas, footbridges in heavy pedestrian areas, and weigh bridges.

Upon completion, the project will enter the operations/maintenance stage and the road will be fully maintained to a predetermined level of service. Part of the maintenance arrangement will be the appointment of highway maintenance managers and ensuring that their numbers are displayed at sections of the highway for the benefit of road users. The Lagos-Ibadan Expressway was constructed and inaugurated in August 1978 as a direct link between Lagos (the commercial hub of the country), Ibadan and other parts of the western states and beyond. The road which was constructed 30 years ago

http://static.panoramio.com/photos/original/9398227.jpg

Ozumba Mbadiwe Street, Victoria Island, Lagos

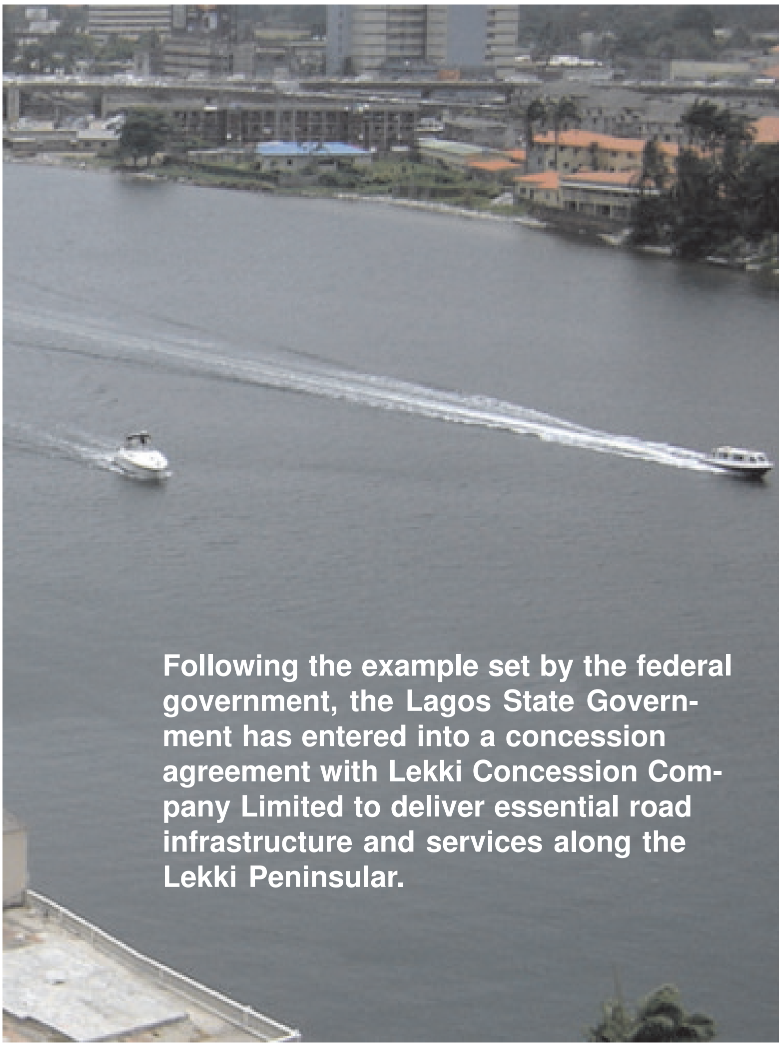
at a cost of N170m also provides links leading to the eastern and northern parts of the country.

Following the example set by the federal government, the Lagos State Government has entered into a concession agreement with Lekki Concession Company Limited to deliver essential road infrastructure and services along the Lekki Peninsular. The Lekki Toll Road Concession is a Public-Private Partnership (PPP) scheme, and uses the Build-Operate-Transfer (BOT) model of Infrastructure delivery. The Concession is for a period of 30 years, following which the assets will be transferred to the Lagos State Government. The first phase of the project entails the upgrade, expansion, maintenance, and tolling of the existing approximately 50km long Lekki-Epe Expressway, which is the primary road artery linking Victoria Island, in Lagos, with the Lekki peninsular. The company will also construct three toll plazas along the expressway and will be responsible for the operation and maintenance of the toll road during the concession period. The second phase entails the construction of approximately 20km of the Coastal Road on the Lekki Peninsular.

To fast-track road infrastructure development in the country, the federal government intends to bring other economically viable roads in the national road network under the PPP initiative. Thus the following highly trafficked roads, with approximate distances are targeted for concessioning and other forms of PPP initiative based on economic indicators: Port Harcourt–Enugu Dual Carriageway - 221km; Warri– Sapele–Benin Dual Carriageway - about 110km; Construction of New Lagos–Iseyin–Kaiama–Konkwaso–Kaoje–Kwambe–Argungu–Sokoto Road - 1,020km; Enugu–Onitsha Dual Carriageway - 125km; Onitsha–Owerri Dual Carriageway - 102 km; River Niger Bridge at Nupeko - 1 km; River Benue Bridge at Burukku - 1km.

Legal Backing for the PPP Initiative

The use of private investment where appropriate to address the infrastructure deficit and improve public services in a sustainable way is regulated by Federal Government of Nigeria Public-Private Partnership **(**PPP) Policy framework and the Infrastructure Concession and



Following the example set by the federal government, the Lagos State Government has entered into a concession agreement with Lekki Concession Company Limited to deliver essential road infrastructure and services along the Lekki Peninsular.

Regulatory Commission (ICRC) Act (2005). The Act established the Infrastructure Concession and Regulatory Commission (ICRC). The ICRC Act seeks to provide for the participation of the private sector in financing, construction, development, operation, and maintenance of the Federal Government infrastructure or development projects through concession or contractual arrangements. The key strategic objective for the Infrastructure Concession Regulatory Commission (ICRC) is to accelerate investment in national infrastructure through private sector funding by assisting the Federal Government of Nigeria and its Ministries, Departments, and Agencies (MDAs) to implement and establish effective Public-Private Partnership (PPP) process. The legal framework is in line with government's commitment to transparency and accountability. It ensures that the transfer of responsibility to the private sector follows global best practice and is achieved through open competition.

Ajose Adeogun Street, Victoria Island, Lagos.

The ICRC is responsible for setting guidelines to promote, facilitate and ensure implementation of Public-Private Partnership (PPP) Projects in Nigeria with the objective of achieving better value for money for infrastructure services and enhanced economic growth. The Commission's main objectives include: to build a pipeline of public infrastructure investment projects using the Ministries, Departments and Agencies that are high priorities for the government which can attract private sector investment; to ensure that robust, transparent, efficient and equitable processes are developed for managing the selection, development, procurement, implementation and monitoring of PPP projects and that this process are applied consistently to all relevant projects; and to ensure that the advantages and requirements of PPP are well appreciated at the national level amongst potential investors and by other relevant stakeholders. The Commission takes custody of every concession agreement made under the ICRC Act and monitors compliance with the terms and conditions of such agreement. It also ensures efficient execution of any concession agreement or contract entered into by the government; and ensures compliance with the provisions of the ICRC Act.

Durability of Roads – Wither Concrete Roads?

The deplorable state of some roads in the national road network has brought to the fore the consideration for a switch from the use of bitumen to concrete for road construction. The federal government recently gave hints that it was considering the introduction of concrete roads in the country. Compared with bitumen, concrete roads are said to last an average of 50 years against 15 years for bitumen. However, the debate of bitumen vs. concrete has been raging for years. The major advantage of concrete road is its durability and maintenance free life. Moreover, during this service life, concrete roads do not require frequent repair work like bitumen roads. It has also been argued that vehicles consume 15-20 percent less fuel on concrete road than on bitumen roads. This is because of the fact that a concrete road does not get deflected under the wheels of loaded vehicles. Also, unlike bitumen roads, concrete roads do not get damaged by leaking oils from the vehicles or by extreme weather conditions like excess rain or extreme heat. Concrete road construction is also adjudged to be more environmentally friendly as bitumen produces a lot of highly polluting gases at the time of melting. Concrete road however has its disadvantages which include: higher cost of paving which is little higher compared to bitumen paving; maintenance problem; and safety issues during rainy season as vehicles tend to slip or slide on concrete road due to rain.

Bitumen road has its advantages which include the following: bitumen is still less costly compared to concrete. Moreover, it takes less time to build a bitumen road than a concrete road. Bitumen is a recyclable material and it can be used again and again by melting it. Roads constructed with bitumen are easier to repair and can easily be relayered. Disadvantages of bitumen road include: durability – heavy rain and other extreme weather conditions damage bitumen road, and the roads need to be repaired frequently; weather pollution – melting bitumen produces lots of harmful green house gases.

World Bank and African Development Bank intervention

In their bid to assist the country to meet some of its developmental needs, the World Bank and the African Development Bank have identified road infrastructure as a critical area deserving of their intervention. To this end, the two multilateral agencies have embarked on road maintenance funding in the country. For instance, the World Bank recently earmarked $320 million under the World Bank-Road Assisted Programmes for road development in Nigeria. The World Bank has also offered to assist Nigeria in repairing the Obajana–Kabba Road in Kogi State. To improve safety on Nigerian roads, the Bank has also recently engaged Integrated Transport Planning, a United Kingdom-based transport consultancy firm, to serve as consultant for Nigeria's road safety management capacity review.

On its part, the African Development Bank (AfDB) is funding the Nigeria–Cameroon Highway-Transport Facilitation Programme on the Bamenda–Mamfe–Ekok–Abakaliki–Enugu Corridor. The 443 km long Bamenda–Enugu corridor comprises the Cameroonian Bamenda–Mamfe-Ekok road sections on the RN 6 (203 km), the Nigerian road sections (240 km), the bridge over the Munaya River in Cameroon (100 m) and the border bridge over the Cross River (280 m). The road infrastructure developments programme is expected to help increase trade and strengthen cooperation between countries of the Economic Community of Central African States (ECCAS) and those of the Economic Community of West African States (ECOWAS) in general, and between Cameroon and Nigeria, in particular. More specifically, the programme seeks to improve the efficiency of the logistic chain of transport along the Bamenda–Enugu corridor, as well as the living environment of populations of the programme area. The programme is expected to be completed in December 2013. The direct beneficiaries of the programme are transport service users, as well as the 11 million inhabitants (3 million in Cameroon and 8 million in Nigeria) in the programme area. The programme will reduce overall transport costs, and improve the living conditions of populations living along the road.


http://farm3.static.flickr.com

Road Investment Opportunities

The scope of private sector investment in road infrastructure in Nigeria has been limited. This is due largely to the nature and characteristics of roads as an infrastructure. However, the trend has changed with the necessary legal backing to the Public-Private Partnership (PPP)

In their bid to assist the country to meet some of its developmental needs, the World Bank and the African Development Bank have identified road infrastructure as a critical area deserving of their intervention.

initiative. The landmark Infrastructure Concession Regulatory Commission Act of 2005 has opened a vista of opportunities for the private sector to invest in the nation's road network. The ongoing 110km Lagos–Ibadan Expressway concession arrangement between the federal government and Bi-Courtney Consortium is the first private sector investment in road infrastructure

Road construction in enugu

provision. The federal government has earmarked seven other roads and bridges across the country for concessioning and these provide good investment outlets for discerning private investors.

Rural Roads: Catalyst for Rural Transformation

The importance of developed rural roads and its impact on the economy of rural communities cannot be overemphasised. A functional rural road network serves as a channel for the evacuation of farm produce to markets in urban areas. Rural roads also strengthen the socio-economic, cultural and political fabrics and processes of rural communities and properly integrate the rural areas to the national economy. It has been argued that rural roads infrastructure development is an intrinsic part of rural development strategies, serving as a mechanism and catalyst for rural transformation through the reinforcement of rural development efforts. Indeed, development analysts argue that the improvement of transportation, including rural roads, is the most important component of a sustainable rural development strategy.

In the new national transport policy, the nature of rural roads within the context of regional development is to provide the means for the evacuation of raw materials to industries and food products to urban markets, and facilitate service delivery in the areas of education, health, social development, and agriculture. It also seeks to allow rural-rural and rural-urban interaction for the exchange of goods and services. The proposed Niger Delta coastal road is an example of a rural road intended to open the coastal rural areas of the Niger Delta region. The 700km road will link all the oil producing communities in the Niger Delta region. When completed the road will enhance the economic well being of the region.

Going Forward: A New National Transport Policy

In its determination to reinforce private sector involvement in road infrastructure provision through the Public-Private Participation (PPP) initiative, the federal government is developing a new national transport policy. The proposed policy is intended to develop an adequate, safe, environmentally sound, efficient and affordable integrated transport system within the framework of a progressive and competitive market economy. It seeks to remove all impediments towards private sector participation in the development, provision, maintenance, operation and upgrading of transport infrastructure and services in the country.

On road infrastructure provision under the new national transport policy, the federal government seeks to assume control of some of the roads presently under the jurisdiction of states and local governments to effect a change in the subsisting arrangement where the federal, states, and local governments control 17 percent, 16 percent, and 67 percent of the national road network respectively. A number of criteria will be used by the federal government for the purpose of consideration for taking over roads. The criteria include: roads in physically constrained (for instance hilly or riverine) terrain where the cost of construction creates a problem to both state and local government; development need of disadvantaged areas; connection to major towns; connection between local government headquarters, and any other criteria that might be deemed appropriate. The Federal government will similarly cause state governments to increase their stock of roads. A benchmark of an average daily traffic of 100 vehicles or any other appropriate criterion may be instituted for the transfer of roads from local to state government. A network and need approach adopted in this way may result in the sharing of the network to be in the order of 50-30-20 for federal, state, and local governments respectively. With this, the federal government will take control of 50 percent of the national road network.

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

Making Politics Fun:
Why Youth Empowerment is Important for Democracy

* By Shofwan Al Banna Choiruzzad

It was the year 2006, and we were in the middle of a demonstration commemorating eight years of Indonesia's democracy with the battle cry of "Reformasi" (reform), calling for more serious efforts from the government to curb corruption. During the demonstration, we bought some drinks and foods from walking vendors. In Indonesia, these walking vendors are omnipresent, even in conflict prone activities such as strikes or political rallies. We had a little chat with some of them, hoping for moral support and hopefully a discount on food and drinks. However, some of the discussions were not encouraging.

"Everything was better in Soeharto's reign. Yes they're corrupt, but at least prices were stable and we were safe," one of them said. He was not joking.

I believe that more people believe in democracy and the accompanying political reforms in 2010. However, we should not overlook a pivotal point that every transition into democracy has to pass – meeting the expectations of citizens on the ground. The statement from the walking vendor shows that Indonesia is not yet safe, even though we have done relatively better than other emerging democracies.[1]

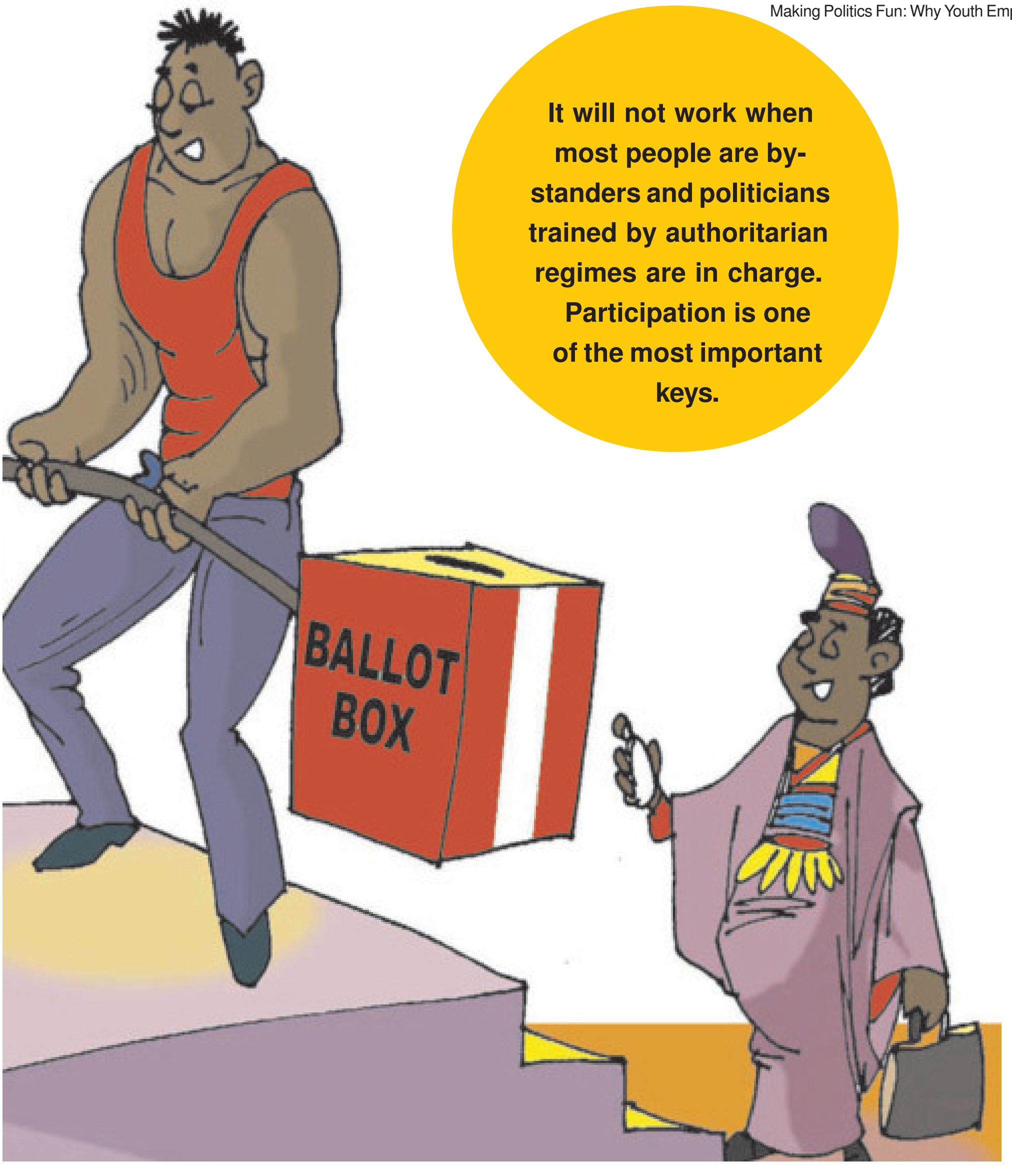
This essay is an attempt to address the abovementioned challenge. It will elaborate on the following points:

• *The ability of democracy to deliver its promises (fulfilling the expectations of the people, from security to welfare to justice) will define its fate.*

Democracy arrived with a lot of promises, including security, political rights, equality before the law, welfare, justice, and effective and clean government. When people perceive democracy is not delivering on its promises, the danger of a democratic reversal is imminent. This is something with which Indonesia has firsthand experience. A reversal happened in 1959, when the democratic Constitutional Assembly was dissolved because of a political deadlock and the popular president called to "bury the parties."[2]

• Democracy will not automatically fulfill all expectations.

Whether democracy can deliver or not depends on how democracy is implemented by the people. It will not work when most people are by-



It will not work when most people are bystanders and politicians trained by authoritarian regimes are in charge. Participation is one of the most important keys.

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• Boosting public participation is key.

In this context, youth participation is vital. In 2005, young people (15-34 years old) made up around one third of the total Indonesian population (± 77 million people).[3] They are also a vibrant, dynamic, and creative part of society and are connected to state-of-the-art technology, from Twitter to BlackBerry.

• To empower youth and ensure they have the skills for making democracy work, we should know the right way to activate them.

Indonesia's Democracy: Overpromised and Under-delivered?

"In the past, corruption was done under the table. Now, even the table is taken away."

Political joke, written on a sticker in a public bus

Before we go further, I would like to highlight one important notion: "the progress paradox."[4] Dissatisfaction with democracy's performance is not always about objective truth, but often is about perception.

Even political scientists do not have identical perceptions of the performance of Indonesia's democracy. Which one is Indonesia: democratic success story or flawed democracy? According to Marcus Mietzner and Edward Aspinall, there are three broad schools of thought: (1) democratic change has been superficial, with core structures of power remaining unchanged; (2) Indonesia has done exceptionally well in consolidating democracy, especially from a comparative viewpoint; or (3) some democratic progress has been made but the country is still crippled by severe structural problems like corruption and weak law enforcement.[5]

Academic assessment is important. However, what matters most is not always the perceptions of academics, but of the people – the political operating system users. To understand that, let us go back to history. Indonesia was a latecomer to democracy. In 1998, Indonesia emerged as a democracy. In the latter half of the 1990s, the expansion of democracy came to a halt and declined slightly.[6] The beginning of the story is not a nice one: the 1997 Asian financial crisis.

The financial crisis quickly evolved into a multidimensional one, as illustrated by one popular phrase: "dari krismon ke krisis multidimensi" or "from monetary crisis to multidimensional crisis." The social and political situation changed dramatically, with students and civil society seeing this as a momentum to overthrow the authoritarian leader Soeharto. I remember how the streets and newspapers were flooded with demonstrations. I was in junior high school when I joined my first demonstration.

I felt that when people were shouting "Reformasi," they believed that it was the answer for all of the problems Indonesia faced at the time. Democracy was seen as a panacea. It

April 29, 2008 — About 1000 workers, students and urban poor held a pre-May Day demonstration outside GKBI Towers in Jakarta, a flashy skyscraper that is the Indonesian headquarters of companies

links.org.au/index

would eradicate the rampant corruption from all levels. It would improve the economic situation. It would create justice and equality before the law. Democracy would fix everything. Overthrow the authoritarian regime in power, change the government to a democratic system, and the country would be a paradise. Hope is your best friend when you want something to change. When the change happens, high expectations can be your worst enemy. This is what happened in Indonesia – the high expectations for democracy to immediately change the quality of life nationwide were not met.

This is the "progress paradox" at work. Because democracy arrived as a "total solution" for every problem, any democratic achievement (better press freedom and successful institutionalization of election as the only means for political succession) was undermined by the unsolved problems that existed before democratization (corruption, for example). In a strange way, the problems suddenly seem bigger than they were in the pre-democratic period, because now everybody can talk about them freely.

In the end, we have to understand that democracy is not the genie's lamp in the Arabian Nights tales. Democracy is not something that gives people what they want without time and energy. You cannot just declare, "We are democratic," and "Abracadabra!" and expect that everything will be fixed, with no more corruption or poverty. Whether democracy can deliver or not depends on how democracy is implemented by the people. It will not work when most people are bystanders and politicians trained by authoritarian regimes are in charge. Participation is one of the most important keys.

Making a Difference: Empowering the Youth

This is the year 2010. Five years ago, young people (15-34 years old) made up around one third of the 77 million person Indonesian population.[7] Youth in Indonesia are such a large percentage of the total population that activating their interest in politics and democracy can be a game-changing tactic. Additionally, youth are the vibrant, dynamic, and creative part of society. They may have

Students at the University of Indonesia tbelfield.wordpress.com/tag/trisakti/

no traditional source of authority like religious clerics and ethnic leaders do, but they are well connected to new and emerging technology, thereby having a greater multiplier effect.

Two years ago, only young people used Facebook. Most teachers had no idea that students could discuss them online in a public forum. One year later, almost many if not most teachers have a Facebook account. This year, Facebook became an important instrument through which civil society fought against efforts to destroy the Corruption Eradication Commission when its leaders, Bibit Samad Rianto and Chandra Hamzah, were arrested.

The pressure from "One Million Facebookers against the Unjustified Capture of Bibit and Chandra" forced the President to establish Team Eight, which in the end recommended that the President should stop the conspiracy-laden legal process against Bibit and Chandra.

With a rapidly growing number of internet users in Indonesia (from two million users in 2000 to 25 million in 2009), internet and social media such as Facebook and Twitter will be increasingly important in the future. Youth will be pivotal in connecting politics to technology. With their numbers and creativity, they will be responsible for making democracy work.

There is only one obstacle: most young people are not interested in politics. According to them, politics is not cool and politicians are inherently deceptive. Below, I outline a four-step strategy to activate youth participation.

Entering the Game: Four Steps

Step One: Politics is Fun!

Step one is detoxification. Most Indonesian youth breathe political air polluted by corruption and deception. This implies that politics is not worthy of action or attention. To activate youth participation, we need to illuminate the fact that every single aspect of a citizen's life is influenced by politics. By closing your eyes to politics, you allow someone else to determine your fate – an equally disturbing idea.

In this stage, we have to change their perception of politics. Politics can be cool. Politics can be fun. Politics is not difficult. Not all of us should be politicians, but all of us should be aware of policies and legislation, and participate in deciding our own destinies.

Strategy:

• Campaign both online and in person. Use their language to spark their interest. For example, we can make an online quiz, "What Can You Do to Stop Corruption?" or produce a Japanese-style comic (like *manga*, which is very popular in Indonesia) that depicts politics in a different way. Film is also a good medium for reaching young people. Some of my friends are more interested in politics after they saw Kimura Takuya's drama, "Change."[8]

• Find communities and the influential people there. When they lead, the whole community of influence will follow.

Step Two: You Can Make a Difference!

Many young people who are aware of politics are skeptical, thinking, "Even though I know that politics is important, I have no power to influence it. I am nobody." Thus, the next step is to make them believe that they can make difference.

Strategy:

• Show how the system works and why youth participation matters. It is best to make the lesson into a practical experience. Demonstrate the importance of action by changing things that affect youth directly: altering an unfair school regulation, asking for better food in the school or campus cafeteria, or that kind of thing.

Step Three: Know the Real Game

The third step is to introduce young people to real politics by explaining the political system and how it works: how legislation is made, how political officials are elected, how the budget is proposed and passed, and how citizens can influence decisionmakers.

Knowing the rules of the game is not enough. Capacity building is also important. It is crucial that young people understand the current political party constellation, the economic situation, and internal security. Skills such as public speaking, negotiation, writing, and legal drafting are important as well.

Strategy:

• At this stage, the intervention has to be deep and intensive. Thus, we should realize that what we need to affect change is a large number of interested young people. Select the most influential young people in the group, and create leadership roles for them. Empower them and they will move the rest.

The Reog Ponorogo, Indonesia

www.kibagusy.blogspot.com

Step Four: Empowerment Network

Last but not least, we must build a network among the participants. Networking is one of the advantages that youth has, thanks to technology.

Strategy:

• Maintain contact with various youth groups. Exchange information and share advocacy experiences. Promoting other organizations among their peers will strengthen the network. Informal meetings such as basketball or football games or a barbeque party are fun ways to strengthen the bonds.

Conclusion

The ability of democracy to deliver on its promises (fulfilling the expectations of the people, from security to welfare to justice) will define its fate. Participation from the people is of paramount importance if these expectations are to be met. In this context, empowering youth is key to success.

I believe that ideas should be translated into reality. Upon concluding this essay, I contacted my friends, most of whom were student activists. We are planning to execute the outlined steps and establish EMPOWER: Center for Youth Research and Capacity Building. Our tagline will be, "Empowering the nation's future." Keep an eye out for us!

We are grateful to CIPE for permission to publish this article

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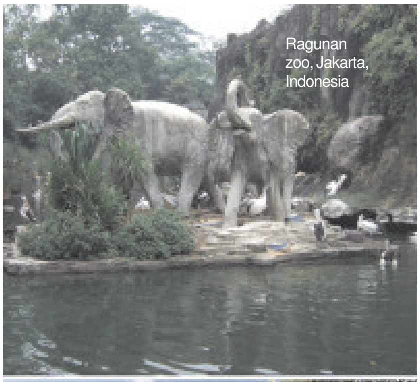

Ragunan zoo, Jakarta, Indonesia

Bali Temple, Indonesia

www.commons.wikimedia.org

Endnotes

1. Larry Diamond, "Indonesia's Place in Global Democracy", in Edward Aspinall and Marcus Mietzner (eds.), Problems of Democratisation in Indonesia: Elections, Institutions and Society (Singapore: ISEAS, 2010).
2. For a vivid description on this particular period, please see Herbert Feith, The Decline of Constitutional Democracy in Indonesia, (Jakarta: Equinox Publishing, 2007).
3. Statistics received from http://www.datastatistik-indonesia. com/component/option,com_tabel/kat,1/idtabel,116/Itemid,165/
4. The notion was used by Gregg Easterbrook to illustrate the situation in the United States. See Gregg Easterbrook, The Progress Paradox: How Life Gets Better While People Feel Worse (Random House: 2003).
5. Edward Aspinall and Marcus Mietzner (eds.), Problems of Democratisation in Indonesia: Elections, Institutions and Society (Singapore: ISEAS, 2010).
6. Larry Diamond, "Indonesia's Place in Global Democracy", Op.Cit.
7. Statistics received from http://www.datastatistik-indonesia.com/component/option,com_tabel/kat,1/idtabel,116/Itemid,165/
8. "Change" is a drama about politics. It follows the story of a kind and pure-hearted ordinary man unexpectedly thrown into politics. His kindness successfully changed the color of politics.

Nigerian Banks And Generic Corporate Identity: Triggers, Drivers And Circumvention Strategies

* By **Olutayo Otubanjo**

In the last four decades, and more importantly the period following the implementation of the N25billion recapitalization policy, the Nigerian banking industry has been dominated by generic corporate identity (Otubanjo and Melewar, 2007; Otubanjo, 2008; Otubanjo, 2009; Otubanjo, 2011). For the sake of clarity, generic corporate identity refers to the dominance of strong and homogeneous organizational characteristics (Otubanjo et al, 2008; He and Balmer, 2005) within a specific sector (Morison, 1997; Howcroft and Lavis 1986). Generic corporate identity is a corporate marketing concept indicative of collective business culture or similar business behaviour (Olins, 1978; Balmer and Wilkinson, 1991; Wilkinson and Balmer, 1996) constructed unconsciously in the marketplace by business organizations within an industry. The concept of generic corporate identity has also been theorized in academic and practitioner literature as a common, general or widespread phenomenon rather than a specific business characteristic dominating an industry (He and Balmer, 2005) or business sector.

The ascendancy of generic corporate identity, especially in the banking industry, is not just a Nigerian business phenomenon. European banks, especially those domiciled within the British banking industry are also challenged by the same problem (see Morison, 1997; Howcroft and Lavis 1986; Otubanjo and Melewar, 2008; Otubanjo and Melewar, 2007; Otubanjo, 2008; Olins, 1978; Balmer and Wilkinson, 1991; Wilkinson and Balmer, 1996; He and Balmer, 2005). The preponderance of this phenomenon, especially in the British banking industry, has encouraged corporate branding and corporate identity researchers at some research led British business schools to give some thought and attention to this problem.

Whilst the majority of articles on generic corporate identity (see Morison, 1997; Howcroft and Lavis 1986; Olins, 1978; Balmer and Wilkinson, 1991; Wilkinson and Balmer, 1996; He and Balmer, 2005) offer parenthetic and comprehensive analysis of the factors that

trigger the development of this phenomenon, very little is known about the process through which corporate brands within the banking industry become generic. Additionally, very limited attention has been given to the approaches that can be drawn to circumvent the growth of this phenomenon. These create a huge gulf in the understanding of how financial institutions can reconstruct or redirect their corporate brands towards distinct organizational spaces.

Against this backdrop, this paper makes a review of the factors that trigger generic corporate identity in the Nigerian banking industry; and then suggests a '*seven factor initiative*' that could help in combating and circumventing the growth of this problematic phenomenon.

This paper has been delineated into four important sections. The first makes a review of the factors that trigger generic corporate identity in the Nigerian banking industry. The second gives insight into the process through which this phenomenon occurs, while the third proposes '*a seven factor initiative*' for circumventing the development of generic corporate identity process. The issues discussed are summarised and concluded in the fourth section.

Triggers of corporate identity: review and analysis

The review of academic and practitioner literature within the areas of corporate marketing, business studies and management indicate that there are six important factors that trigger the development of generic corporate identity. Issues listed in literature as being the core factors triggering the ascendancy of generic corporate identity in business organizations include *(1) mimetic isomorphism;* (2) *coercive isomorphism; (3) intelligence and behaviour; (4) corporate social responsibility; (5) corporate architecture; and (6) multinational trade.* These are discussed thoroughly and comprehensively in the paragraphs that follow.

it is highly likely that organizations model themselves after others that are perceived to be successful (DiMaggio and Powell, 1983).

Factor 1: mimetic isomorphism: This occurs when business organizations imitate themselves because of lack of innovation; poor understanding of creative application of organizational technologies; market uncertainty; and ambiguity of strategic goals. Under these conditions, it is highly likely that organizations model themselves after others that are perceived to be successful (DiMaggio and Powell, 1983). This theory is grounded on the assumption that aspiring business organizations are likely to take a cue and follow the behaviour of proceeding or successful organization regardless of whether or not such business practices are compatible with theirs. It is a rational response to competition in the marketplace because it economizes on search costs and reduces the uncertainties that business organizations face (Cyert and March, 1963). Mimetic isomorphism also occurs when business organizations are not convinced of the possibility of achieving set targets or when they are challenged by the difficulties of recognizing the cause effects of adopting specific strategies. Lieberman and Asaba (2006) argue that under such conditions, organizations are more likely to be receptive to activities modelled after others. Mimetic isomorphism takes place through the introduction of products and also through new product development. It occurs in the areas of management systems, and even in the course of investing in corporate led projects. Although the modelled organization may be unaware of emerging imitation, nevertheless, it serves as a useful and convenient practice that business organizations adopt. As DiMaggio and Powell (1983) observed, organizational imitative behaviour frequently occurs unintentionally and indirectly through employee transfer or turnover or explicitly through the use of similar business model across all operators within an industry –resulting in homogenization or generic identity. DiMaggio and Powell's (1983) clas-

Investors in industry

Source: http:/a/www.3i.com/

In Europe, 3i successfully differentiated itself in the marketplace by giving itself a name that most banks and financial institutions would ordinarily not call themselves. Is there something Nigerian banks can learn from this?

sic theory of mimetic isomorphism appears to be at play in the Nigerian banking industry. A critical review of business practices within this industry is indicative of the preponderance of this phenomenon. For instance, the corporate messaging in many of the corporate advertising campaigns of the banks are led by themes such as *partnership, commitment, reliability, strength,* which mean the same thing. This messaging puts the banks in the same market positioning segment; thus making them to look alike.

Furthermore, the corporate logos of the banks do not help matters. The logo designs are so mundane to the point that they are either square or rectangular in shaped. All have combination marks or business heraldry. Must corporate logos of banks follow this model?

Take a step further and look at the architecture of banks operating within the Nigerian banking industry. They are mostly square-like white buildings with blue or red stripes. There is the absence of a unique, uniform architecture that distinguishes any of the banks.

This problem is further complicated given the franchising of numerous undifferentiated financial products such as MoneyGram, Western Union, Mastercard that the banks offer customers. Another generic factor in this industry stems from their names. The name of most banks with the exception of BankPHB ends with *'**Bank of Nigeria Plc**'*. For instance Nigeria's premier bank is called First ***Bank of Nigeria Plc***. The second oldest bank is named Union ***Bank of Nigeria Plc.*** Even new generation banks are not less culpable. The question that comes to mind here is: must all Nigerian banks be named after their industry?

In Europe, 3i (see the corporate logo) successfully differentiated itself in the marketplace by giving itself a name that most banks and financial institutions would ordinarily not call themselves. Is there something Nigerian banks can learn from this?

It is wrong and short sighted to limit the emergence of generic identity through mimetic isomorphism in organizations to processes of product introduction, market entry, timing of investment and nature of manage-

source: www.bigskyline.com/images

ment systems. Time and again, it occurred in the use and adoption of house styles. Carls (1989) argued that in the anticipation of creating huge awareness, many business organizations copy and imitate the house styles created by successful industry leaders regardless of whether or not these identities are appropriate for them; leading to the emergence of unified, common, homogeneous, monolithic (see Morrison, 1997) industry wide identity, which Olins (1978) described as generic.

...years after IBM adopted the 'think' payoff campaign as its mantra, the defunct ICL equally mounted a 'think ICL' campaign

Take for example the imitative behaviour of the information technology industry in the United States. By the 1970s, IBM had established itself as the most successful organization and a force with which to reckon with. The dominance of IBM in this industry (during this period) was extreme, to such an extent that all organizations within this industry copied and imitated it. In the bid to achieve recognition and profit quickly from the instant recognition, which the use of IBM look-alike identity might bring, many organizations within the information technology industry developed house styles, logos, showrooms, information materials, corporate advertisements that looked like IBM's. The impact of IBM's visual style on competition obliterated all consideration for other options. Thus the nearer to IBM an organization looked, the more like a real computer organization they perceived themselves to be. Thus, for example, years after IBM adopted the 'think' payoff campaign as its mantra, the defunct ICL equally mounted a 'think ICL' campaign (see campaign below).

It is instructive to note however that while most business organizations within the information technology industry struggled to look like IBM, Apple, then, a new information technology firm challenged the status quo by adopting a name that was alien to this industry. Apple's choice of name stuck in the minds of stakeholders. Arguably, this contributed towards its success. Once again, do Nigerian banks have something to learn here?

Factor 2: coercive isomorphism: is the consequence of formal and informal unified pressures of forces and persuasion exerted by regulatory institutions on other organizations that have no choice other than to comply. The existence of a common

IBM's headquarters in Armonk, New York.

source: www.consumerenergyreport.com

The impact of IBM's visual style on competition obliterated all consideration for other options. Thus the nearer to IBM an organization looks, the more like a real computer organization the organization will perceive themselves system of rules, policies and common legal framework in which organizations comply affect many aspects of organizational behaviours, processes and structure. Hence, in the course of compliance, industry operators begin to exhibit similar traits in behaviour and a dominant industry-wide (generic) identity emerges. Similarly in the business environment, when unified regulatory policies are initiated by regulators, most business organizations within the market often adopt unified compliance programs, which emphasize the pursuit of common policies, common procedures, and common work rules. These programs often feature common methodologies, policies, structures and templates for meeting current and anticipated compliance requirements (Gable, 2005) resulting in the development of similar products/services, pricing strategy, distribution etc. Importantly, these common organizational characteristics, or what He and Balmer (2005) described in their work as generic corporate identity, would emerge.

Just as mimetic isomorphism played a key role in driving Nigerian banks towards generic organizational space, so has coercive isomorphism. The role of coercive isomorphism in this regard can be traced as far back as 1952, when the then colonial government enacted and implemented banking ordinance. The banking ordinance of 1952 gave the Central Bank of Nigeria (CBN), which was not created until seven years afterwards, the power to limit the establishment of banks and financial institutions to federal and state governments. This was simply to forestall the collapse of banks and enhance a stable financial system. The limitation of ownership to federal and state authorities and foreign banks, who had very poor appetite for profit making, made competition for customer deposits non-aggressive, thus giving the Nigerian banking industry a non-competitive identity across board.

Following the enactment of the 1952 ordinance, the government, in 1969, instituted a monetary policy that gave preferential credits to the real sector of the economy. The real sector that profited from this gesture includes agriculture, commerce, industry (Brownbridge, 2005). Banks had no choice other than to comply as these policies were forced down their throats. Importantly, the pursuit of these policies were replicated in the corporate advertising campaigns of leading Nigerian banks and this made these institutions to look similar. In addition, the promulgation and implementation of the 1977 indigenization decree, which directed banks to establish branches in the rural areas across the country contributed to the generic identity that dominated the banking industry. This is because the creation of branches dominated the corporate communications of all the banks during this period.

By July 1986, the CBN deregulated the Nigerian banking industry. This ushered in highly aggressive financial institutions who now compete with old generation banks. This created a new spirit of competition.

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CBN Head Office, Abuja

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The new banks challenged the three existing largest banks by initiating fiercely competitive marketing strategies in order to compete favourably for bank deposits. The three largest banks (First Bank, Union Bank Limited and UBA limited) who controlled 67% of total banking assets, 70% of total deposit, more than 50% of total loans and advances as well as 52% of total number of bank branches (Uche and Ehikwe, 2001) responded to this new wave of competition by engaging in a variety of corporate communications discourse that expressed how different and distinct they were. The overbearing dominance of these banks during this period once again presented the Nigerian banking industry with a generic identity.

Also the forced recapitalization of banks by a minimum of ₦25 billion in the December of 2005 came with a new industry identity challenge. The forced recapitalization policy compelled all the banks to grow and expand very quickly – presenting all of them with a new "mega" identity.

Factor 3: business intelligence and behaviour: Top management executives of business organizations, especially those operating in the Nigerian banking industry often present benign super intelligent and 'know it all' attitude, which can be annoying to onlookers. Beyond this, Nigerian banks are known to exhibit common knowledge. They also respond in similar ways to competition. Most of the time, a large number of Nigerian banks launch and withdraw products at the same time and forecast stock market responses and environmental changes in similar ways. In addition, the banks appear to have similar understanding of customer needs and thus attempt to respond to these needs in similar ways. Quite often, business organizations, especially the banks are faced with drastic environmental turbulence. In spite of this, however, they all appear ambitious, unruffled, visionary and display a sense of creating order even in the worst case of turbulence (Olins, 1978). Such business attitudes present these banks with common behavioural pattern, traits and characteristics that lead towards the emergence of a strong industry-wide generic identity.

Factor 4: corporate social responsibility (CSR): In the last two or three decades, CSR has become a buzz word; theorized in literature as a phenomenon signifying voluntary and not-for-profit activities by business organizations, which enhances society (Fukukawa and Moon, 2004). Until recently, CSR would hardly have been considered as an environmental factor worthy of inclusion in the business and corporate strategy of Nigerian banks. Two things happened in the recent past that changed this viewpoint (Hussey, 1998). First is a greater understanding (by business organizations) of the balance of nature and of the effect of human activity on this balance. Science and the

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growth of human population have for long been known to change ecological factors, what is now understood is that many of the changes bring penalties as well as benefits. The coin has two sides. The second factor is a change in social attitude in Europe and North America, which has created an increasing amount of awareness and concern for ecological issues. In the 1960s smoking was a norm and many non smokers who complained of fumes in offices were regarded as non conformists. Today, however, non smokers are in the majority and non smoking offices and even organizations, common. Smoking is now considered as an antisocial habit. There is now an ever-increasing weight of public opinion against things that threaten the ecological balance; much of this opinion manifesting itself in positive attitudes against pollution. This knowledge and attitude has been reinforced by major disasters: nuclear power in Russia; oil tankers breaking up in US and Europe; poi-

Gulf Oil spill

sonous gas escaping from a chemical plant in India and many more too numerous to mention. These organizational induced disasters have unimaginable effects on the human natural habitat and severe implications for business organizations as well.

Consequently, the business activities of all Nigerian banks (without exception) have in the recent past become increasingly subject to the pressures of politics, economics, competition, demands of labour and remarkably the media of mass communication. Many Nigerian banks, who might have otherwise preferred to be silent operators, are now compelled to pursue CSR activities and make their voices heard in the right quarters especially among stakeholders (Salu, 1994). Put another way, corporate social responsibility has become an all-comers affair and has, in view of the recent scandals emerging from the Nigerian banking industry, gained unprecedented prominence. In addition, issues of unethical practices which led to the failure of some highly respected Nigerian banks can also be adduced to the rise in the prominence of CSR (Rossouw, 2005). Arguably, the popular use of CSR, which is often supported by heavy media coverage through corporate advertising, guided editorials or news mention, create the impression that all institutions operating within the Nigerian banking industry are similar.

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Factor 5: modern architecture and location: architectural designs of business organizations and their locations have also made significant contributions to the development of very strong generic corporate identities in today's marketplace. Locations do not only signify the address of business organizations but also provide an architectural context (Capowski, 1993). For centuries, architectural designs have not just been used to express organizational style; rather, they have also been deployed to convey strong statements about organizational personality, competencies and capabilities, values, corporate cultures and strategic intent. Many business organizations have recognized that good architectural design is good business and that though silent, they convey strong corporate messages. All organizations with good architectural design profit from the first impression of a great style (Capowski, 1993).

Architectural designs present business organizations, especially banks in good light and have been found to be very crucial when establishing good corporate image (Plunkard, 2004). Since the Victorian period, many business organizations, especially banks, have recognized the strategic importance of projecting strong corporate identities using unique architectural designs on buildings. The identity projected through architectural designs becomes an image in the minds of potential customers and is recognized as a strategic means of creating a positive, lasting impression on stakeholders. This contributes to a long, rewarding relationship with customers. In addition, architecture adds to organizational vibrancy.

Great architecture serves the purpose of billboards, which generate desired positive attention and interest (Plunkard, 2004). Many business organizations, especially banks, have since the Victorian era in Britain conveyed strong and wealthy business identity through the imposition of massive architectural edifices on the high streets of major towns and cities (Olins, 1989) to generate larger customer bases, attract young, talented entrepreneurs as well as poach experienced staff from competitors (Melewar and Bains, 2002). During this period and up until now, business organizations, especially banks are known to emulate themselves by constructing huge and gigantic edifices in high brow areas paving the way for development of homogeneous corporate identities. Historically, the development of huge architectural designs is hinged on the desire to communicate a wealthy personality. It has been driven by the need to reflect the image of wealth and business success by imposing huge magnificent modern buildings to attract businesses and customers (Olins, 1989).

For instance in Britain, several banks namely Midland Bank (now the Hongkong & Shanghai Bank of China-HSBC), Lloyds Bank (now Loyds TSB), Manchester and Salford (now Royal Bank of Scotland) and many other financial institutions designed and constructed massive state-of-the-art edifices to communicate and convey powerful statements in relation to financial success to high net-worth customers, (see the pictures below). This triggered a ripple effect in the financial industry and other banks joined the architecture design race not just in any location but on high streets. Eventually, the clamour for the presentation of corporate identity through the construction and reconstruction of massive architectural edifices in high brow areas in Britain caused accelerating growth in corporate architectural design – thus making all British banks not just to look rich but also to look generic.

In recent times however, most British and Nigerian banks have made huge investments in the construction of contemporary post-modern highrise buildings to convey and signal desired messages to stakeholders. For instance, Hong Kong and Shanghai Banking Corporation (HSBC), one of the world's largest banking and financial services organizations, commissioned a high-rise building in 1986 to make a statement of strength, power and confidence in the global financial market. Lloyds TSB constructed a controversial high-rise building. With its exterior bedecked with pipes and ducts, looking more like the headquarters of an engineering or oil producing organization, it challenged the looks of existing highrise buildings belonging to other financial operators (Olins, 1989). Similarly, Nigerian banks notably, First Bank, Union Bank, UBA and many others have constructed imposing modern highrise building or architecture to present a strong and wealthy personality. Also, the beautiful internal and external architecture of new generation banks such as Guarantee Trust Bank, Diamond Bank Plc, Zenith Bank Plc, etc. convey a sense of sophistication, postmodernism, strength, youthfulness, wealth and success to stakeholders. These rich personalities, which dominate the entire industry contribute towards the ascendancy of generic corporate identities in the Nigerian banking industry.

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The generic corporate identity process

Generic corporate identity develops through a four stage process including: (1) trigger: industry isomorphic conditions; (2) exertion and application of pressure; (3) conformity and compliance; (4) crystallization of generic corporate identity. These are discussed below.

Stage one: the trigger; industry isomorphic conditions: The industry isomorphic phase comprises three forms of isomorphic pressures namely mimetic isomorphism, coercive isomorphism and normative isomorphism (DiMaggio and Powell, 1983). The conditions under which mimetic and coercive isomorphic conditions

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emerge have been discussed fully in the paragraphs above. However, normative isomorphism often emerges from the organizational adoption of professional procedures stipulated by professional institutions like the ICAN, CIBN, NIPR, ACCA, CIMA, ICSA, CIM, CIPD and so on. The Nigerian banking industry is dominated by employees with these qualifications and often times their decision making or policy making is highly influenced by policies that govern these professions. The pursuit of these policies by these professionals makes the business behavior of Nigerian banks to look similar. Put together, the mimetic, coercive, and normative isomorphic triggers lay the foundation for the development of generic identity mould in the banking industry.

Stage two: the exertion of institutional pressures: once the financial and fiscal policy regulations are set by the Central Bank of Nigeria (CBN) either through enactment of laws or policy making, the apex bank moves into action to monitor the implementation of the policy. Importantly, the power to sanction, prosecute or withhold the licences of defaulting banks inevitably puts a severe amount of pressure on the banks to implement CBN policies.

Stages three and four: compliance and developing a generic corporate identity: The existence of a common system of rules, policies and common legal framework to which banks comply affect many aspects of business behaviours, processes and structure. Hence, in the course of compliance, industry operators begin to exhibit similar traits in behaviour and a dominant industry-wide (generic) identity emerges. Similarly in the business environment, when unified regulatory policies are initiated by regulators, most financial institutions in the market will adopt overall, unified compliance programmes emphasizing the pursuit of common policies, common procedures, and common work rules. These programmes often feature common methodologies, structures and templates for meeting current and anticipated compliance requirements (Gable 2005) resulting in the development of common, similar, uniform, regular, standardised, identical product/services, pricing strategy, distribution and organizational intentions. Importantly, these common organizational characteristics, or what He and Balmer (2005) described as a unique type of identity incorporating characteristics attributable mainly to a specific industry - generic identity, will emerge.

Developing unique corporate identity: seven critical factors

It was argued in the last paragraph that generic corporate identity develops in the banking industry in the course of policy implementation and compliance. Although, the development of this phenomenon through these channels looks inevitable, nevertheless, there are a variety of strategies that financial institutions can adopt to make their corporate brands appear different from others. These strategies or approaches are discussed fully in the paragraphs that follow.

Consistent service delivery at all touch points: this is a 360 degree relationship marketing philosophy which takes the view that customers interact with various employees at numerous touch points. At each of these points, customers will require numerous services. Therefore service organizations must as a matter of urgency account critically for every service point through which customers interact with the brand; and then, design a unified service delivery system consistent across the touch points. At the mo-

The way forward is to refrain from engaging branding agencies in Europe or South Africa as was the case in the recent post consolidation exercise.

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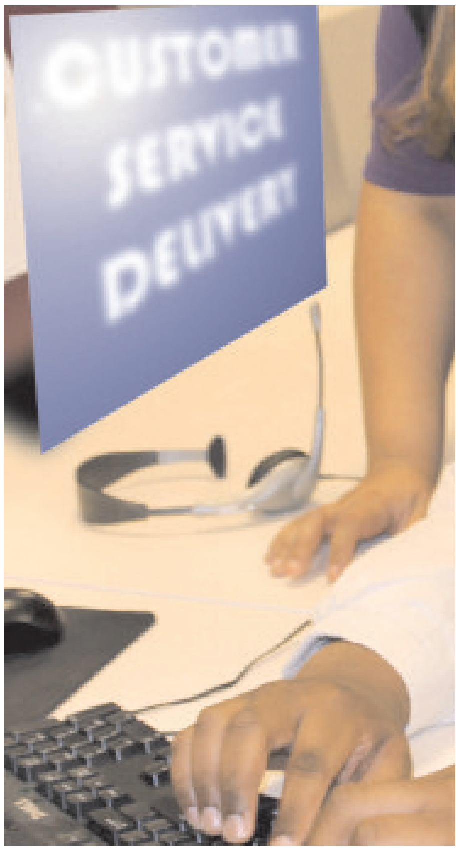
ment, it appears that there is no Nigerian bank that has successfully implemented this philosophy. A consistent service delivery across the touch points will contribute positively towards service standardization and engender a distinct corporate brand identity system.

Universal standardization: Nigerian banks are challenged by the ascendancy of irregular levels of service delivery at their branches nationwide. The factors responsible for this could range from human errors down to imbalances in the level of technological development across various branches. This could also be due to differences in the quality of human capital, uneven cultures throughout the branches and so on. Financial institutions that have model branches are particularly culpable of this offence. The quality of service rendered at specific, designated or model branches of some banks operating in the Nigerian banking industry for instance differs from the service quality in other branches outside designated model branches. It is important therefore for the management of service organizations to address these challenges by installing a universal service code that would engender the delivery of standardized services at all branches located nationally or internationally. Arguably, the pursuit of a standardized service delivery system will provide a bank with a unified but distinct corporate identity in an industry fraught by irregular levels of service systems.

Consistent innovation in service delivery: the consistent pursuit of innovation at all times in financial industry imbues a bank with an entrepreneurial identity (see Otubanjo, 2011) and differentiates it from the generic corporate identity clutter created by mimetic isomorphism. Therefore, any bank that desires to differentiate itself from competition must go the extra mile at all times – staying ahead of competition by pioneering ground-breaking service delivery initiatives. Consistent innovation in service delivery will encourage competitive advantage, provoke distinct corporate identity and engender service brand differentiation.

Service history: any bank that desires corporate brand differentiation must develop systemic frameworks that readily equip employees with insights from a blend of rich organizational experiences and wisdom acquired through a heritage of organization/customer interaction over time, across generations and also through numerous changes in organization/customer interaction in the past. Put another way, any bank that truly desire distinct corporate identity must encourage all service contact points to acquire the wisdom, experiences and insights gained through the bank's history of organization/customer interaction in the past. Such knowledge if acquired would help differentiate the customer services function of a bank.

Mitigating factors: this study recognizes that in the course of delivering a service, unforeseen human error and unanticipated technological challenges may arise. Consequently, service organizations must, at such times, own-up voluntarily; admitting and recognizing service inadequacies – making it unequivocally clear however, the volume and value of resources the bank is channelling towards redressing the problem. Although, statements of this nature may incur justifiable and unjustifiable stakeholder attacks, however, in the long run, it would help to create trust in an environment fraught with de-



ceit. This could also help differentiate a bank.

Designing a distinct corporate logo: In many industries, corporate logos are a blessing, given their roles in the corporate differentiation process. However, this has not been the case in the Nigerian banking industry. The way forward for any banking institution that is seriously concerned about its corporate identity in relation to others is to upstage its logo by creating simple but sophisticated, noticeable and impressionable works of art that challenge the common, mundane, rectangular and square shapes that currently dominate the banking industry. The way forward is to refrain from engaging branding agencies in Europe or South Africa as was the case in the recent post consolidation exercise. Rather, brand communication directors operating within the sphere of the Nigerian banking industry need to explore the possibility of commissioning talented local and international artists to develop timeless, exquisite, impressionist or post impressionist art designs that are entwined with local symbols, which have rich cultural and philosophical meanings to Nigerians.

Giving the bank a distinct name: the differentiation process in any industry begins with what you call yourself. A name is the first meeting point between a firm and its stakeholders. Put another way, it is a strategic feature, which stakeholders come in contact with whenever they are getting to know about a firm for the very first time. Therefore a mind arresting name; different from others with similar business inclinations would be ideal. This is imperative if a firm desires to set itself apart from competitors. The case of IBM and Apple and more importantly 3i is highly instructive at this point. These are brand differentiation exercises that Nigerian banks must follow. BankPHB appeared to have recognized the need for a name different from competitors emerging from the forced consolidated exercise of 2005. The bank gave itself an uncommon name that starts with the word "Bank" – which in essence challenges the status quo. This appears to have helped put the bank in the minds of customers and stakeholders within a short time frame. The lesson here is not for Nigerian banks to name themselves exactly the way BankPHB has done but to re-examine whether truly their names offer strategic differentiation. A name that is different from the rest of the world sticks solidly in the minds of stakeholders and is hardly forgotten. This among other brand differentiating factors is what banks that view brand naming as a strategic differentiation tool need to do.

Distinct corporate architecture across all branches: uniform but non-rectangular exquisite architectures are often a force to reckon with. Although Guarantee Trust Bank (GTB) and First City Monumental Bank (FCMB) made credit worthy attempts at developing unique corporate identities through their beautiful architectural edifices around the country, however the extent of uniformity of these edifices is a debatable exercise planned for another research. Nevertheless, I think that the uniformity of the architecture of the Church of the Latter Day Saints is a good example, even though its uniformity may not be completely flawless. That said, it is important to note that unique architectures help business organizations, especially banks to express their distinct personalities in a sophisticated way. This, if pursued, inevitably contributes toward the differentiation of banks in Nigeria.

Summary and conclusion

This study focuses on generic corporate identity in the Nigerian banking industry. Importantly, three contributions emerged. The first gives insight into the factors that trigger the growth of generic corporate identity. The second suggests a conceptual process of how generic corporate identity emerges from the isomorphic stage to the crystallization stage. The third suggests a variety of strategies that banks can adopt to break the generic mould.

This study contributes

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The implication of this study is that it adds to the academic literature of the concept of corporate identity in particular and the nascent field of corporate marketing in general.

to the literature of corporate identity and corporate marketing in general because limited attention has been given to the issues addressed in this paper. What we have in most academic and practitioner literatures are dribs-and-drabs of discourses on various aspects of generic corporate identity. This study makes a departure from existing literature by giving a comprehensive insight into the nature of generic corporate identity.

Academic and practitioner literature on generic corporate identity is principally limited to its causes. This paper is original and valuable because it addresses two other important issues, which very limited attention is given. These are (1) the generic identity development process; (2) approaches that can be drawn to circumvent the growth of generic corporate identity.

The implication of this study is that it adds to the academic literature of the concept of corporate identity in particular and the nascent field of corporate marketing in general. More importantly, it adds some knowledge to the scare literature on generic corporate identity. The study provides generic corporate identity researchers with more academic literature to work with or reference. For practitioners, the study draws the attention of professionals to the factors and processes that trigger the development of generic corporate identity. This gets corporate brand managers thinking – principally to identify the root causes of generic corporate identity as it relates to their corporate brands. It also encourages them to identify relative approaches that can be drawn to circumvent this process in their own banks.

This study is limited by the lack of empirical insights. In addition, the study focuses mainly on the Nigerian banking industry. It discounts the nature of generic corporate identity in other countries and other sectors where the emergence of generic corporate identity has been documented. Whilst the focus of this study expands our understanding of the nature of generic corporate identity, it also provides academic researchers an opportunity for future research.

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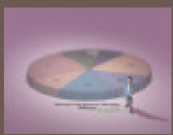
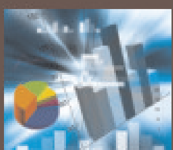
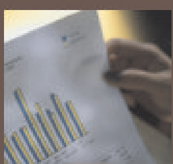


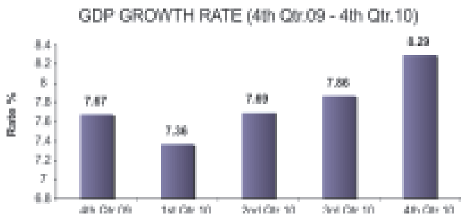




Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

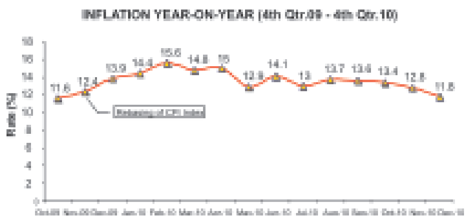
The Nigerian economy in the fourth quarter 2010, record mixed performances in several parameters. Some of the indicators grew by more than initially thought, while others struggled to find direction. Gross Domestic Product (GDP), for instance, grew in the fourth quarter while inflation slowed but missed government's single digit target. The nation's currency, the naira, held firmly against other major world currencies. The Monetary Policy Rate (MPR) remained unchanged all through. Foreign reserves, however, shrunk during the quarter. The capital market sprang back to life in the fourth quarter recovering some of its earlier losses. In the international crude oil market, prices surged, in response to growing global economic recovery and weather conditions in Europe.



Source: **National Bureau of Statics**

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) in the fourth quarter was estimated at 8.29 percent, a marked improvement when compared to the preceding quarter. The non-oil sector was the main driver of this growth. Despite severe flooding in some areas in the far North and excessive rains in coastal states, favourable weather conditions in the North Central region resulted in a bumper harvest, with agriculture continuing its dominance as the major contributor to GDP. For the oil sector, the dividends of the amnesty deal with the Niger Delta militants continued to push production in the right direction, with output jumping by 15.4 percent between November and December. Real GDP Growth for 2010 has been projected at 7.85 percent, significantly higher than the 6.69 percent recorded in 2009. The outlook for 2011 remains favourable with real GDP forcast remaining robust at 7.25 percent.



Source: **National Bureau of Statics**

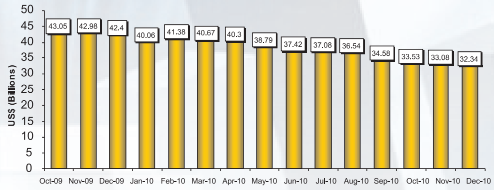
INFLATION

Inflation slowed more than expected in fourth quarter 2010, easing pressure on policy makers to raise interest rates. The Year-on-Year inflation eased to 11.8 percent in December, the lowest recorded figure during 2010. Despite missing the authorities' single digit target, the headline inflation rate retreated for at least 10 months since peaking at 15.6 percent in February. The slowdown was mainly due to the greater availability of petroleum products and weaker demand. Despite the positive signs however, inflationary pressures lingered all through. For instance, soaring prices of some staples like meat, fish, oil, vegetables, fruits and higher cost of some household items resurfaced in November and December due to the festive season. In the months ahead, inflationary risk remains a threat due to increase in government spending in the run up to 2011 elections; AMCON purchases of banks Non Performing Loans; rising global food and energy prices, among others.

EXTERNAL RESERVES

The external reserves continued to decline in the fourth quarter of 2010 despite consistent improvement in earnings from crude oil in the international markets. The reserves, which had earlier ballooned to an all time high of $64billion in August 2008, got reduced because of withdrawals to defend the naira. Feeling the pinch of shrinking reserves, the CBN curtailed speculative demand for foreign exchange in November. Although the intervention plugged some leakages, the stock of external reserves nevertheless came to $31.9billion by December, capable of financing up to 14 months of imports. The authorities attributed the dwindling reserves to the enormous cost of import dependency as well as maintaining a stable exchange rate regime; the cost of importation of petroleum products and Joint Venture Cash calls (JVC), among others. In the near term, external reserve has been projected to pick up as result of higher crude oil prices and improvements in output.

FOREIGN EXCHANGE RESERVES (Oct.09 - Dec.10)



Source: **Central Bank of Nigeria**

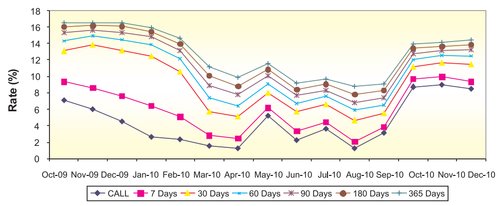
INTEREST RATE

In a move that was much easier to call, the CBN kept its benchmark interest rate unchanged, signaling that it was in no hurry to raise repayment cost for manufacturers. The Monetary Policy Rate (MPR) was held at 6.25 percent, after rising by 25 basis points in September, amid improving inflation conditions.

The average interbank rate climbed upward within the quarter with significant rate swings observed in October. For instance, rates on the call and 7 Days tenors climbed as high as 13.4 and 13.9 percent, respectively, due to higher than expected activities at CBN's Dutch auction, huge NNPC remittances and aggressive mop up operations by the apex bank. The sharp upswing in rates was however short-lived as the market was again awash with liquidity trickling from the N120billion matured FGN Bonds, N40billion T-Bills and N329billion Statutory Revenue Allocations shared among the three tiers of government in November. In fact, rates moderated by December but remained high in response to CBN's adjustment on the Standing Deposit Facility from 3.25 percent to 4.25 percent.

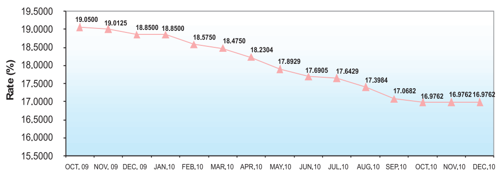
In terms of cost of borrowing, the average Prime Lending Rate (PLR), eased slightly due to improved

MONTHLY AVERAGE NIBOR (4th Qtr.2009 - 4th Qtr.2010)



Source: *Financial Market Dealers Association of Nigeria*

AVERAGE PRIME LENDING RATE (4th Qtr.09 - 4th Qtr.10)



Source: *Financial Market Dealers Association of Nigeria*

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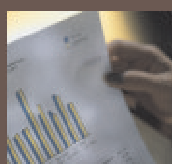
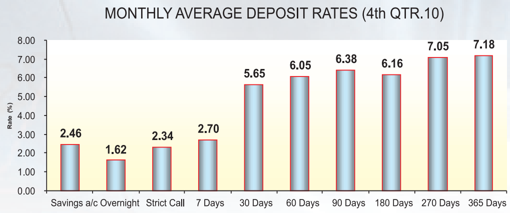
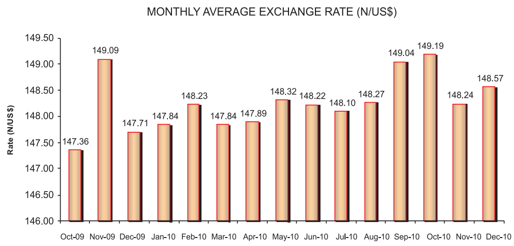




Source: *Financial Market Dealers Association of Nigeria*

confidence in the market and CBN's continued guarantee of interbank transactions. Generally, rates remained at elevated levels, hovering around 16 percent. It is nevertheless 153 basis points lower than the average closing rate as at December 2009.

Returns on the average deposit rate slipped across most investment horizons, with volatility higher on the medium term tenors. For instance, yields on the 60 and 180 Days slipped by 80 and 77 basis points, respectively.

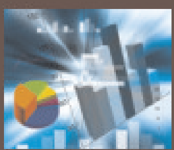


Source: **Central Bank of Nigeria**

EXCHANGE RATE

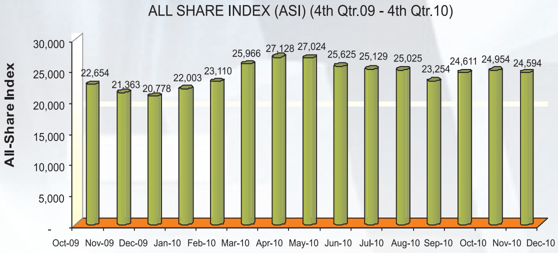
The nation's currency, the naira, ended the year around CBN's set target against other major currencies. It remained firm with few spikes to close the fourth quarter with a mild appreciation at N148.57/US$. Cumulatively, the naira has remained steady since December 2009. However, earlier in September, the exchange rate was on the back foot with pressure coming from importers. In its twice weekly auctions, the CBN offered about $5.6billion and sold $5.8billion of about $6.3billion demanded during the fourth quarter. The shortfall was nevertheless filled by sufficient inflows from oil majors, resulting in slight appreciation in October. Thirst for dollars at the interbank market however resurfaced in December due to stricter enforcement of CBN's rule on unconfirmed letters of credit, resulting in unmet demand on several occasions. Despite the pressure, demand for the greenback eased by 26 percent in the fourth quarter compared to the preceding period. Also, the relative clarity of expectations has kept the premium between the official and the BDC's rate low at 1.8 percent as end December 2010, compared to about 8.5 percent in 2009.



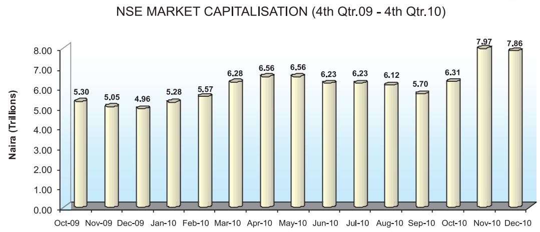



CAPITAL MARKET

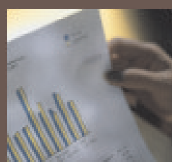
The capital market overcame its earlier lull to wrap up the fourth quarter with a strong rebound bolstered by renewed confidence in the market. The All Share Index and market capitalization shot up to new highs, closing the year at 24,765.60 and N7.91trillion, respectively, from 23,050.59 and N5.64trillion in the preceding quarter. It was a bumpy ride for investors with the index advancing 25 percent in the first quarter, followed by two consecutive sluggish quarters. However, on a brighter note, the market reacted positively to the listing of Dangote Cement in November, briefly breaking through the N8trillion mark. Also, waves of optimism returned as AMCON purchased Non Performing Loans of banks in December. Investors, however, remained cautiously optimistic, adopting what can be described as a 'hold' strategy. Despite some minor jitters, broader market sentiment was lifted as a number of quoted companies such as Total Nigeria, Conoil, and Nestle Nigeria, paid impressive dividends of N2.00, N1.50 and N1.95 per share, respectively. A number of securities also joined the official listing of the NSE, including Dangote Cement at N135 per share; Multi-Trex Integrated Foods at N3.00 per share; N20billion Ebonyi State Government Bond and the N8.5Billion Kaduna State Government Bond, among others. The market outlook for 2011 remains positive as equities become more attractive due to the recent gains in financial services industry.

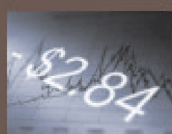


Source: **The Nigerian Stock Exchange**



Source: **The Nigerian Stock Exchange**





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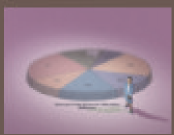
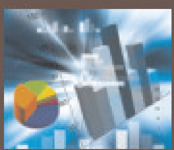
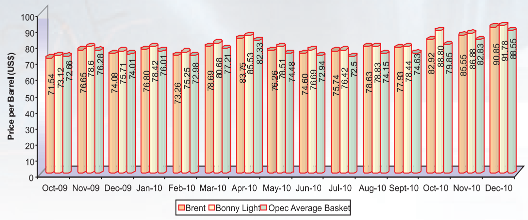




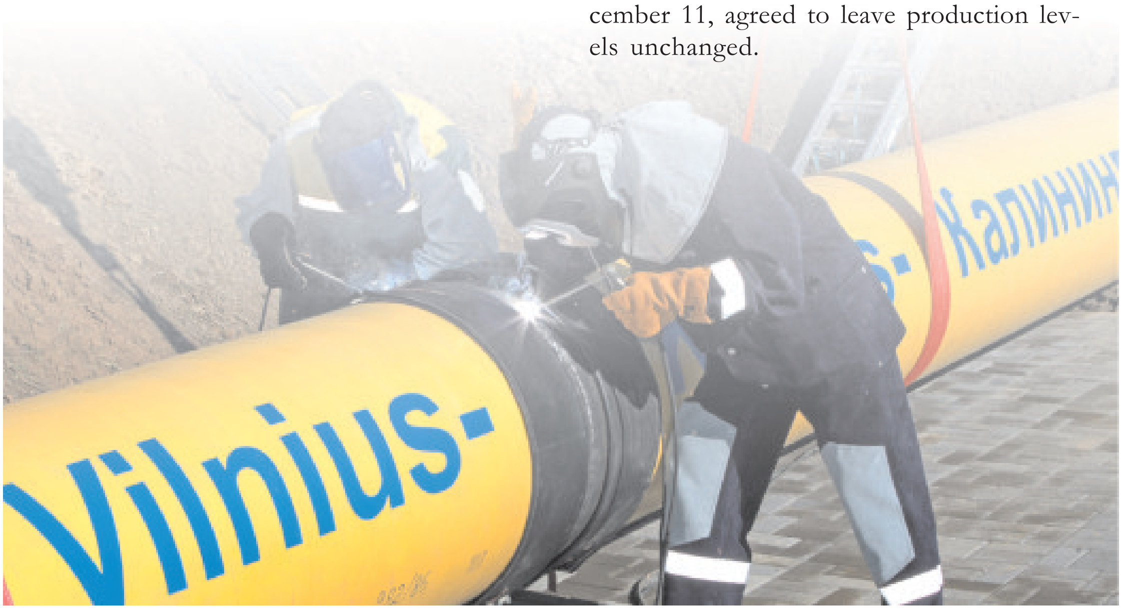
Oil Prices: Monthly Average Price Movements (4th Qtr.09 - 4th Qtr.10)



Source: **Energy Information Administration**

OIL

Crude oil prices in the international markets scaled to new recovery highs in the fourth quarter of 2010, poised once again to break through the $100 a barrel mark. Oil prices climbed to their highest levels in more than two years getting within a whisker of $92 per barrel in December. Crude oil prices have risen steadily since the third quarter of 2010, after withdrawing as far as $67 per barrel in May, the level at which the last slide bottomed out back in December 2009. Nigeria's brand of crude oil, Bonny Light, recovered almost $12 in the fourth quarter, trading within a band of $81-$91 per barrel. Industry analysts attribute the recent price-run to a mixture of reasons such as China's diesel shortage which resulted in massive drawdown from its stockpile; colder than usual weather across the northern hemisphere and speculations due to better than expected economic results from the world's number one energy consumer – the US. However, the market remained unbalanced with huge inventory buildups in some major economies. In response, OPEC, in its 158th Extraordinary meeting in Quito, Ecuador, on December 11, agreed to leave production levels unchanged.



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