# Zenith Economic Quarterly

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# CRUDE OIL PRICE SLUMP: Weathering the RAGING STORM


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## Financial Inclusion: Taking Banking to the Hinterland




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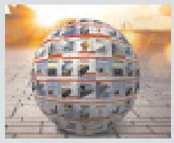

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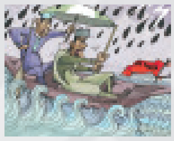

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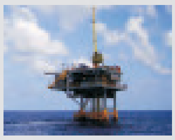

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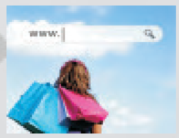


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EDITORIAL SUITE

# Of Storms and Turbulence...

This is an unusual experience; none like it before: that factors, ranging from political, economic, social to diplomatic would conspire to bring the fortunes of nations who depend on certain commodities to the nadir. The commodity, the possession of which used to attract wealth, global recognition, respect and friendship to countries, is now literally dragging such nations into practically interminable whirlwind—storms and turbulence—all over.

Since mid-2014, to be precise, crude oil prices have experienced a gradual and then, steep fall, dropping by over 60 per cent between June 2014 and December 2015. After reaching a monthly peak of US$112 per barrel in June 2014, prices had begun an endless downward spiral that has left major producers, exporters and investors helpless—even hopeless. As at January 2016, crude oil prices hovered around US$30 per barrel in the international market, the lowest in close to two decades.

**Since mid-2014, to be precise, crude oil prices have experienced a gradual and then, steep fall, dropping by over 60 per cent between June 2014 and December 2015.**

The worrisome ramifications, devastations and dimensions of this debacle are explored in our lead article: "Crude Oil Price Slump: Weathering the Raging Storm." In it, the author points out that today, the global oil market is saturated, with the glut expected to be worsened in the coming months as Iran, recently out of UN sanctions, would add hundreds of thousands of barrels of oil per day to an already oversupplied market. The only hope however is that oil-dependent nations who have maintained consistent fiscal responsibility and prudence would fare better than the rest and would be better equipped to steer their economies to safety in this raging storm.

Our second lead article: "Financial Inclusion: Taking Banking to the Hinterlands," explores and analyses this crucial policy for driving poverty alleviation, wealth creation and economic growth and development. It observes that in Nigeria, the Central Bank has adopted several measures aimed at accelerating the pace and deepening of financial inclusion, adding however that the country's progress with the policy has been slow relative to its peers in development matrix. Quoting the World Bank, the author further observes that financial inclusion has been broadly recognized as critical in reducing poverty and achieving inclusive economic growth. Indeed "for an economy to thrive, a greater number of the population and businesses must have access to appropriate and affordable financial services; that is, they must be financially included," the author sums up.

Related to this is another topic that deals with another crucial driver of economic growth and development. Under the rubric: "E-commerce: Harnessing Nigeria's Potentials to Drive Inclusive Growth," we provide a discourse, showing that people are moving away from the traditional retail channels of 'bricks and mortar' stores to the use of electronic devices and platforms to initiate and consummate volumes of business transactions. Even with paucity of data, industry reports put the number of online orders placed daily at 300,000 with a potential value of about US$13 billion (N2.5 trillion). In Nigeria, the author notes, the growing shift of consumers from the traditional shopping malls to 'online malls' and outlets through e-commerce is attributable to the growth in affordable internet access, especially via smartphones.

Also in this package is the second part of the analyses on "Regulatory and Contemporary Issues in the Nigerian Banking Sector" which deals with numerous issues that are crucially germane to banking and bankers. Some of such issues are CBN's barring of banks from converting dormant account funds to income, barring delinquent debtors from foreign exchange and securities markets, 'dollarization' of the Nigerian economy, among others. The author examines each of the issues and policies, and bringing experience and expertise to bear, gives informed opinion and pieces of advice.

Other materials in this edition include the usual masterful 'Periscope' section which examines the 'state of the economy' during the focus period. This time, the piece thoroughly analyses all the forces and factors that have so far been responsible for pushing the Nigerian economy 'down the slope.' The 'Facts & Figures' segment also complements the work. Of course, the section on 'Policy' is rich with (part two) the guidelines on micro, small and medium enterprises development fund. Very informative.

Enjoy your reading, once again!

Marcel Okeke


I write to acknowledge with thanks, the receipt of the July 2015 edition of the Zenith Economic Quarterly (ZEQ). I wish to add that we found the journal a very useful research material.
***Obinna C. Onowu***
***Minister (Economic)***
***Embassy of Nigeria, The Hague***

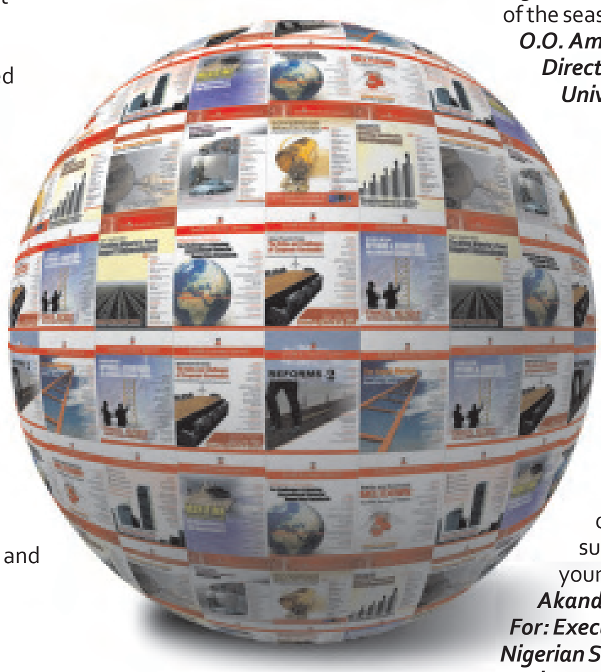
I write on the instruction of the Vice-Chancellor to acknowledge with thanks, receipt of your letter dated October 19, 2015. On behalf of the Vice-Chancellor, Professor Ndowa E. S. Lale, I also wish to thank you immensely for sending him a copy of the July 2015 edition of the Zenith Economic Quarterly (ZEQ). The Quarterly had given the Vice-Chancellor an insight into the policies and global issues in the service sector. Please accept the assurances of the Vice-Chancellor's esteemed regards.
***Wogwu, K.O***
***Special Assistant to the Vice-Chancellor, University of Port Harcourt***

I write to acknowledge with appreciation receipt of your October, 2015 Edition of the Zenith Economic Quarterly (ZEQ) which was delivered to my office. I pray that in NIPC's quest to realize its mandate for promoting both Foreign and Domestic Investment into the Nigerian Economy, we will build a mutually beneficial relationship with your publication.
While thanking you once more, please accept the assurance of my best wishes and warm regards.
***Uju Aisha Hassan Baba (Mrs.) OON***
***Executive Secretary/CEO***
***Nigerian Investment Promotion Commission***

I am directed to acknowledge receipt of your July, 2015 edition of the aforementioned publication, and express the Embassy's profound gratitude, to your organization, for periodically making available such important journals of critical information on the Nigerian and global economy. Please accept the assurances of the Charge d'Affaires' high consideration and compliments of the season.
**V.E. Ogonyi (Mrs.)**
**For: Charge d'Affaires a.i**
**Emnassy of Nigeria**
**Miramar, Habana, Cuba**

We acknowledge with appreciation, receipt of two complimentary copies of your publication, Zenith Economic Quarterly, July 2015 and October 2015 editions. The publications will serve as a good addition to the collection of FITC's Pius Okigbo Library and our patrons will find them enriching and of immense value. Thank you for your kind gesture.
***Motunrayo Odumuyiwa***
***Librarian, FITC's Pius Okigbo Library***

We write to acknowledge the receipt of a copy of your interesting and Educative Zenith Economic Quarterly **(ZEQ) – "SDG's** & Extreme Poverty: From Alleviation to Eradication?". However, we hope



that subsequent issues would be sent to us.
***I.K. Jatau***
***Branch Controller***
***Central Bank of Nigeria***
***Gombe Branch***

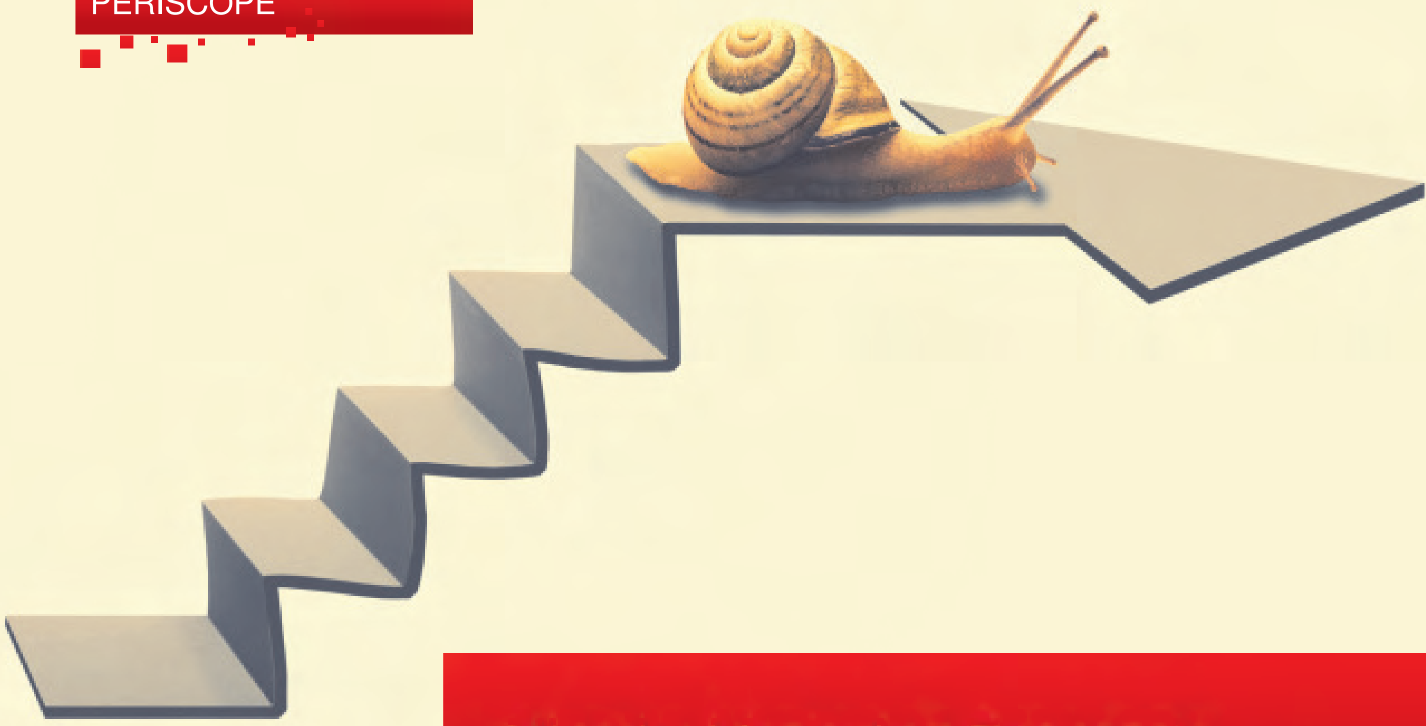
With reference to your letters titled "Zenith Economic Quarterly (ZEQ)" dated July, 2015 and 19th October, 2015 respectively, I write to acknowledge the receipt of the April and July, 2015 editions of the Quarterly. On behalf of the Management of the University College Hospital Ibadan, I hereby express our sincere gratitude for this kind gesture. We are optimistic that the publications will be useful to our Institution. We pray that your organization will continue to grow in leaps and bounds. Please accept the assurances of our warmest regards.
***I.O. Olaleye (Mrs.)***
***for: Director of Administration***
***for: Chief Medical Director***
***University College Hospital Ibadan***

University College Hospital Ibadan
University College Hospital Ibadan
I hereby acknowledge with thanks on behalf of the Vice-Chancellor, Professor Rahamon A. Bello, the receipt of a copy each of the July and October, 2015 editions of the Zenith Economic Quarterly (ZEQ). Please accept the Vice-Chancellor's kind regards and his best wishes. Compliments of the season.
***O.O. Amodu (Mrs)***
***Director, Vice-Chancellor's Office***
***University of Lagos***

I have been directed to acknowledge the receipt of the July, 2015 edition of the Zenith Economic Quarterly sent to our Institute. The Institute find the content of the July edition useful and relevant for her national mandate, while we appreciate you for giving us the opportunity to have access to the Journal, we wish to commend the good job of the Editorial staff of the Journal and hope that the quality of the Journal shall be sustained. We look forward for your future editions.
***Akande Femi***
***For: Executive Director***
***Nigerian Stored Products Research Institute***

Please refer to your letter dated December 7, 2015 on the above subject matter.
We wish to acknowledge receipt of your Zenith Economic Quarterly (October, 2015 Edition). While thanking you for the gesture, we look forward to a more fruitful business relationship between NGC and Zenith Bank Plc.
***Abdu Usman***
***For: Managing Director***
***Nigerian Gas Company Limited***

PERISCOPE



# Nigeria: Managing Economic Slowdown or Recession?

By Marcel Okeke

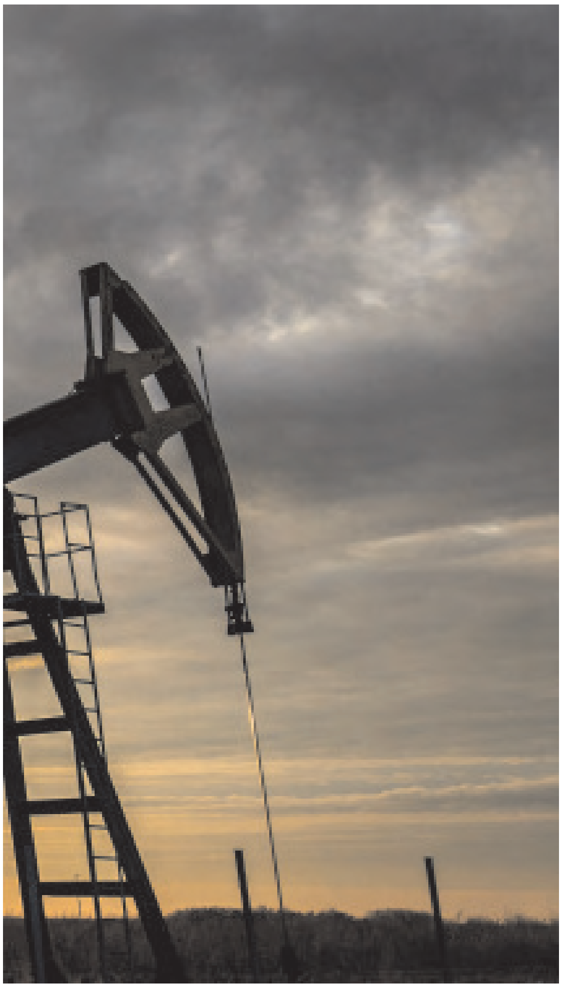
The fragile macroeconomic environment that prevailed in Nigeria all through 2015 saw virtually all economic indicators closing the year outside their projected ranges. Domestic security challenges, consistently declining oil prices in the international market, continued weakening of the naira against the dollar and uncertainty around the direction of economic policies, among others, combined to 'push the economy down the slope'. Indeed, as was feared by the Monetary Policy Committee (MPC) of the Central Bank of Nigeria during its meeting in September 2015, "growth (of the economy) had come under severe strains arising from declining private and public expenditures."

The MPC, again, in January 2016, acknowledging and lamenting the worrisome trend, also observed in its communique that the last episode of low oil prices in 2005 lasted for a maximum period of eight months... however, the current episode of lower oil prices is projected to remain over a very long period." It is therefore imperative, according to the MPC, "to brace up for a longer period of low government revenues from oil sources, which would necessitate hard and uncomfortable choices as the economy

transits to more sustainable sources of revenue, consistent with the economic realities and strategic objectives of the country. In the circumstance, certain tradeoffs must be envisaged and duly accommodated." This anticipated "transition to more sustainable sources of revenue" could not however be attained by end-December 2015 as it is indeed a medium-to-long term endeavor, implying that the economy remained under the vagaries of 'diminishing revenue.'

Thus, by the close of 2015, all economic indicators literally went haywire (off targets), with inflation hitting almost double digit, as it stood at 9.6 per cent as against 8.2 per cent at the beginning of the year. This rise in inflation rate was persistent all through the year; and in the last quarter in particular, it rose from 9.3 per cent in October to 9.4 in November and to 9.6 in December. This means that, all through the year, inflation rate remained far outside the 6.0—9.0 percentage monetary policy benchmark of the CBN. Similarly, the national currency (the Naira) got badly 'buffeted' in the foreign exchange market, losing value to practically all major foreign currencies—but the US Dollar in particular. Indeed, in response to dwindling receipts from oil export, the Central Bank of Nigeria (CBN) adopted several measures in managing the foreign exchange market, including the closure of Retail Dutch Auction System (rDAS) window, restriction of cash payment into domiciliary accounts and prohibition of 41 items from accessing the inter-bank foreign exchange market.

Although, within the interbank (official) segment of the market, the exchange rate remained generally stable during the last quarter 2015, the situation was 'chaotic' in the Bureau de Change (BDC) and parallel ('black') market segments. Specifically, the exchange rate at the interbank market opened at N197.00/US$ in October and closed at N199.00/$, in December. On the other hand however, the premium at the parallel market reached a record level of 35 per cent against the official exchange rate as the Naira crashed to as low as N270/$ in the parallel market. In the effort to arrest this trend, the CBN introduced a number of exchange controls which included downward adjustment of maximum spending limit on offshore credit/debit card spending to $12,000 per annum, reduction in the weekly allocation to $10,000 per BDC, BDC operators to source for dollar from private sources



for personal and business travels. Others are: complete cancellation of the weekly sale of foreign exchange to BDC dealers and suspension of the use of naira debit cards abroad, effective from January 2016.

## Debt Profile

The pressure on the Naira all through 2015 was not unconnected with the dwindling external reserves of Nigeria owing to the continuing decline of the price of crude oil in the international market. Consequently, the nation's gross external reserves which stood at US$29.85 billion at end-September, 2015, closed the year at US$29.07 billion. The reserves level was US$34.28 billion as at January 2015. As the stock of external reserves was depleting however, the nation's public debt stock was experiencing significant accretion. Thus, Nigeria's total public debt stock (external and domestic debt) which was US$63.806 billion (about N12.119 trillion) as at end-June 2015 rose to US$65.428 billion (about N12.604 trillion) as at December 2015, according to data from the Debt Management Office (DMO) of the Federation. The total debt stock as at end-December 2014 was US$56.759 billion.

A breakdown of the public debt stock at end-December 2015 shows that US$10.718 billion was external debt (Federal and State governments) while US$54.710 billion was domestic debt (Federal and State governments). According to the DMO, domestic debt by instruments was dominated by Federal Government of Nigeria (FGN) bonds, which accounted for 65.73 per cent or about N5.808 trillion. On the other hand, multilateral financial institutions accounted for about 70 per cent of the country's external debt, with the International Development Association (IDA), a member of the World Bank Group, accounting for about US$6.290 billion of the total multilateral loans.

Further breakdown of the debt profile shows that out of the total external debt stock of US$10.718 billion, the Federal Government accounted for 60 per cent (about US$7.349 billion), while the 36 state governments and the Federal Capital Territory (FCT) accounted for 31 per cent (about US$3.370 billion). Lagos State continued to rank tops as the highest external borrower, owing US$1.208 billion, up by US$38.2 million from the US$1.170 billion it owed as at end-December 2014. Kaduna State came second as the highest borrower, at US$222.368 million—but its total debt fell by US$8 million in 2015, from the total debt it owed as at end-December 2014.

**The crashing of crude oil price in the international market and its attendant drop in revenue inflow to Nigeria also reflected in the shrinking of monthly statutory allocations to the three tiers of Government from the pool of the Federation account during the period under review.**

## Oil Production & Pricing

The crashing of crude oil price in the international market and its attendant drop in revenue inflow to Nigeria also reflected in the shrinking of monthly statutory allocations to the three tiers of Government from the pool of the Federation account during the period under review. Available statistics show that the sum of N500.10 billion was shared by the Federal, state and local governments in January 2015; this figure came to only N387.771 billion in December of the same year—a drop of about 23 per cent. The sum of N473.832 billion and N369.882 billion were shared in October and November 2015 respectively. With respect to oil price crash, the Organization of Petroleum Exporting Countries (OPEC) data show that the OPEC Average Monthly Basket Price of crude which opened 2015 at US$44.38 per barrel, closed the year at US$33.64 per barrel: a drop of about 24 per cent. Yet Nigeria pegged its crude oil benchmark at US$52 per barrel to run the 2015 budget.

A number of factors accounted for this trend in oil price decline which began in mid-2014; these include growth in shale oil production in the United States, increasing signs of slowdown in the Chinese economy,

appreciation in the US dollar as well as fall in equity markets which also exerted pressure on oil prices in 2015. A key factor that depressed crude oil price all through 2015 was the unwillingness of OPEC to intervene to stabilize the market amidst persistent glut. Indeed, oil price hit the lowest level in December 2015 when OPEC concluded its 168th meeting without deliberating on production quota—effectively signaling a "limitless output" era. Yet, while the price of oil was steadily plummeting in the international market, the level of its production also remained below targets in Nigeria almost all through 2015. The 2015 Federal budget was built on the (assumed) crude oil production level of 2.278 million barrels per day (mbpd), but actual production remained below this benchmark. In October 2015, production level stood at 1.812 mbpd; it was 1.607 mbpd in November and 1.605 mbpd in December. Indeed, these levels of production made Nigeria lose its status as Africa's topmost oil producer to Angola, with OPEC data for the period showing that the country recorded the biggest drop in output in November 2015 among its peers in the oil cartel, followed by Saudi Arabia, the group's biggest producer.

**The 2015 Federal budget was built on the (assumed) crude oil production level of 2.278 million barrels per day (mbpd), but actual production remained below this benchmark.**

It will be noted that Nigeria has been recording low production activities since November 2014, as several oil and gas firms began scaling down production due to the uncertainties surrounding the Petroleum Industry Bill (PIB) and the declining crude oil prices. Many oil and gas firms have also been recording losses, which made them resort to cancelling or deferring projects. According to OPEC in its monthly oil market reports, among member countries, Nigeria has been recording the sharpest drop in rig counts for several months. Overall, the slump in exploration, development, and production activities has also been linked to continuing insecurity in producing areas in the Niger Delta (oil theft, pipeline sabotage, etc.) and more importantly, Nigerian National Petroleum Corporation NNPC's

funding cuts on Joint Venture (JV) projects.

## The Stock Market

Regarding the Nigerian capital market in 2015, the bearish trend that began in the last quarter 2014, ruled the market all through the year. Indeed, by the close of 2015, the Nigerian Stock Exchange's flagship index, the NSE ASI, declined by 17.4 per cent, closing the year at 28,642 points after starting the year at 34,657.15 points. Similarly, the market capitalization of equities listed on the NSE slumped from N11.486 trillion to N9.859 trillion at end-December 2015. These declines were due to a combination of factors including political risk, currency volatility, and uncertainty in global crude oil prices, among others.

According the NSE 2015 Market Report, the *NSE Banking Index* was the worst hit during the period, plunging 23.6 per cent, followed closely by the *NSE 30 Index* and *NSE Main Board Index*, (both down 17.6

**According the NSE 2015 Market Report, the *NSE Banking Index* was the worst hit during the period, plunging 23.6 per cent, followed closely by the *NSE 30 Index* and *NSE Main Board Index*, (both down 17.6 per cent). All the NSE market indices performed poorly, relative to their 2014 levels, except for *NSE Industrial Index* which saw a slight rise of 1.3 per cent.**

per cent). All the NSE market indices performed poorly, relative to their 2014 levels, except for *NSE Industrial Index* which saw a slight rise of 1.3 per cent. The market for new equity listings was flat for the year, with only four new equity listings, one on the *Main Board*, and three Exchange Traded Funds (ETFs). In contrast, five companies were delisted in 2015, bringing the number of listed companies and number of listed equities to 184 and 190, respectively. Turnover velocity declined through 2015 by 17.0 per cent, with equity turnover declining 28.8 per cent to N952.8 billion ($4.8 billion).

Average daily turnover was also down 28.5 per cent during the year. In the NSE bond market, market capitalization jumped by 32.7 per cent to N7.14 trillion ($35.82 billion) as corporates took to the debt market to raise a total of N112.0 billion ($562.0 million) in seven new listings; majority from financial services sector. The Federal and State Governments raised N76.5 billion ($383.7 million) and N35.8 billion ($179.6 million) in debt capital, respectively. Total foreign transactions decreased by 33.39 per cent from N1,538.92 billion recorded at the end of 2014 to N1,025.07billion at the end of 2015 while total domestic transactions decreased by 22.53 per cent from N1,136.63 billion recorded at the end of 2014 to N880.56 billion recorded at the end of 2015.

This almost 40 per cent decrease in foreign transactions during 2015 may not be unconnected with the fallout of JPMorgan Chase & Co.'s exclusion of Nigeria from its local-currency emerging-market bond index. The exclusion which took place in the last quarter 2015 was sequel to restrictions on foreign-exchange transactions arising from monetary policies that prompted investor concerns about shortage of liquidity in the market. The first phase of removing Nigeria from the Government Bond Index-Emerging Markets (GBI-EM) took place at the end of September and was followed by a full exit by the end of October 2015. And by the bond index rules, Nigeria will not be eligible for re-entry for at least 12 months from the date of this full exclusion.

Nigeria has a 1.5 percent weighting in the (JP Morgan) GBI-EM index which is tracked by $183.8 billion of funds. Before Nigeria's exit, investors who track the GBI-EM series continued to face challenges and uncertainty while transacting in the naira due to the "lack of a fully functional two-way FX market and limited transparency," according to JPMorgan. JPMorgan included Nigeria in the GBI-EM in October 2012 when the CBN removed a rule that foreign buyers of naira bonds had to hold them for at least a year. Foreign holdings of the country's local debt surged as a result to a peak of about $11 billion in 2013 before falling to about $3 billion by the close of 2015.

## Telecom & IT

All through 2015, the telecommunication sub-sector remained vibrant, yet the active customers in the industry reduced by over one million (1,105,928) just within the last two months of the year, according to the Nigerian Communications Commission (NCC) data. Active lines in Nigeria stood at 151,017,244 for the month of December, against the figure of 152,123,172 in November of the same year. The NCC further show that 148,681,362 of the 151,017,244 active numbers subscribe to the Global System for Mobile Communications (GSM) network services. Still within the GSM sub-set, active customers reduced by 1,105,758 as against the 149,787,120 subscribers they recorded in the month of November. The Code Division Multiple Access (CDMA) operators had 2,148,727 active users in December, indicating a decrease of 393 from the 2,149,120 customers they had in November.

Furthermore, the NCC subscriber data showed that the Fixed Wired/Wireless networks' consumers increased to 187,155 in December, as they added 383 customers to their record of 186,772 in November. However, the data showed that the country's Teledensity decreased to 107.87 in December, from 108.66 in the month of November. Telephone density (or **teledensity)** is the number

**The Code Division Multiple Access (CDMA) operators had 2,148,727 active users in December, indicating a decrease of 393 from the 2,149,120 customers they had in November.**

of telephone connections for every hundred individuals living within an area. Nigeria's teledensity is currently calculated by the NCC on a population of 140 million people.

In a similar vein, the number of internet users on Nigeria's telecoms' networks decreased by 788,215 in December 2015 from a milestone high of 97.97 million in the previous month. According to the NCC data, users on both Global System for Mobile communications (GSM) and Code Division Multiple Access (CDMA) networks stood at 97,182,014 as at December 2015, in contrast to 97,970,229 internet subscribers recorded by the operators in November. The NCC data also show that of the 97,182,014 internet users in December, 97,042,543 were on GSM networks, while 149,471were on the CDMA networks. However, the GSM operators lost 791,474 internet users, after recording 97,032,543 in December, against 97,824,017 in November of 2015.

On the contrary, the CDMA operators added 3,259 subscribers browsing the internet on their networks, after 149,471 customers used the internet in December, against the 146,212 recorded in November. But regarding specific operators, the NCC data show that MTN recorded a decrease of 948,131 internet subscribers, as it recorded 39,924,737 users in December, after recording 40,872,869 in November. Globacom had 25,082,066 subscribers surfing the net on its network in December, an increase from the 24,952,559 that surfed the internet on the network in November. Airtel had 16,835,952 internet users in December, as against 16,837,282 customers recorded in November, a decrease of 1,330 users. Etisalat had 15,189,788 customers who browsed the internet in December, against the 15,161,307 users in November, an increase of 28,481.

On CDMA operators, the NCC data showed that Multi-Links and Visafone had a joint total of 149,471 internet users on their networks in December. The only two surviving CDMA networks in the country recorded an increase of 3,259 internet subscribers in the month under review, from the 146,212 users they recorded in November. According to the data, Visafone had an increase of 3,259 customers surfing the internet in December, when it recorded 149,212, compared to the 145,953 users in November. Multi-Links had 259 internet users in December, same from the November record of 259 users, according to the NCC data. ý

In its efforts at further developing the telecom sector, the NCC during the last quarter 2015, released the framework for the use of 70/80 GHz Band; and also announced its being opened up for Licensing. In the framework which also contained guidelines to the public, the NCC issued the following: final copy of the Licensing Framework for the use of 70/80 GHz band, application form (form EBLL 01) for the70/80GHz band, the 70/80GHz link deployment template as well as the 70/80GHz link deployment Register. Following the publication of the draft licensing framework for the use of the 70/80 GHz band for comments/observation from industry stakeholders and the subsequent submission of inputs from the stakeholders, the NCC reviewed the Framework to reflect inputs from the industry.

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

Policy

# Micro, Small and Medium Enterprises Development Fund (MSMEDF) Guidelines (Revised – August, 2014)

## Development Finance Department
## Central Bank of Nigeria

Conclusion

| PFI Category | Size of facility | Time taken to approve facility |
|---|---|---|
| **Bronze** Repaid two loan-cycles as and when due | Original Loan x 2 | 8 working days |
| **Silver** Repaid three loan-cycles as and when due | Original Loan x 3 | 6 working days |
| **Gold** Repaid four loan-cycles as and when due | Original Loan x 4 | 4 working days |

## CHAPTER THREE

### 3. INCENTIVES

The following incentives shall apply to PFIs that utilize approved facilities in line with the terms and conditions of the offer:

### 3.1 INFRACTIONS

The following sanctions shall apply to erring DMBs/DFIs under the Fund.

a) Diversion of funds by DMBs shall attract a penalty at the bank's prime lending rate at the time of infraction. The CBN shall recover the fund by debiting the DMBs'/DFIs' account.

b) In addition, such DMBs/DFIs shall be barred from further participation under the Fund

b) Non-rendition or false returns shall attract the penalty stipulated by BOFIA Section 60

c) Charging interest rate higher than prescribed shall attract the penalty stipulated by BOFIA section 60

d) Any DMB/DFI that fails to disburse the fund within 5 working days of receipt to the borrower shall be charged a penalty interest rate of MPR+300 basis points for the period the fund was not disbursed

e) Any other breach of the guidelines as may be specified from time to time.

f) Notwithstanding the agreement between the DMB/DFI and the project promoter, the CBN has the right to reject a request from any DMB/DFI that contravenes any section of the Guidelines.

**Diversion of funds by DMBs shall attract a penalty at the bank's prime lending rate at the time of infraction. The CBN shall recover the fund by debiting the DMBs'/DFIs' account.**

## CHAPTER FOUR

### 4.0 ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

In order to achieve the desired objectives, the responsibilities of the stakeholders shall include:

4.1 **Central Bank of Nigeria**

The CBN shall:

a) Provide the initial Seed Fund
b) Ensure that other stakeholders co-finance the Fund
c) Act as Fund Managers
d) Chair the Steering Committee
e) Determine the limits of the Fund.
f) Specify the rate at which PFIs on-lend under the Fund
g) Absorb the subsidy which may arise in the pricing of the loans to borrowers
h) Provide regulatory and supervisory oversight
i) Determine sanctions under the Fund
j) Review the Fund Guidelines as may be necessary
k) Appraise Applications from PFIs
l) Release funds to qualified PFIs
m) Carry out verification/monitoring of projects under the Fund
n) Receive and process periodic returns from PFIs
o) Ensure the implementation of the Fund and publish periodic report on its performance
p) Retrieve funds from PFIs at the expiration of the loan tenor or infractions on the Guidelines
q) Build capacity of stakeholders.

4.2 **Non-DMB /DFI Participating Financial Institutions (PFIs)**

All Non-DMB/DFI PFIs shall be eligible to:

a) Grant credit facilities to MSMEs
b) Approve loan requests under the Fund based on normal business consideration
c) Open dedicated account with their correspondent banks for this window and forward details of the account to the CBN
d) Issue a letter authorizing the CBN to debit its account with the correspondent bank for recovery of outstanding principal and interest on the loan from the Fund
e) Disburse released funds to eligible borrowers within 5 working days
f) Ensure that 60 per cent of the accessed fund is disbursed to women entrepreneurs.
g) Put in place appropriate institutional arrangements for loan disbursement, monitoring and recovery.
h) Monitor the projects during the loan period.
i) Obtain credit information on borrowers from the Credit Bureaux
j) Report all disbursed loans to at least 2 Credit Bureaux
k) Render periodic returns on the performance of the loans under the Fund to the Central Bank of Nigeria as may be specified
l) Comply with the Guidelines of the Fund
m) Any other responsibility that may be required by the CBN

Ensure that 60 per cent of the accessed fund is disbursed to women entrepreneurs.

### Sanctions for other erring PFIs shall include:

| S/No | INFRACTIONS | SANCTIONS |
|---|---|---|
| 1 | Diversion of funds to unauthorized activities | • Amount diverted shall be recovered by the CBN<br>• Penal charge of the maximum lending rate of the institution on the amount diverted<br>• Outright ban from participating under the Fund |
| 2 | Non rendition of returns | • Fine of 2.5% of loan amount<br>• Issuance of warning letter to the Management of the PFI<br>• Failure to render returns for two consecutive quarters shall lead to recall of the outstanding loan amount and 1 year suspension. |
| 3 | False returns | • False returns shall attract a recall of the loan and 2 years suspension from the fund |
| 4 | Non- compliance with 60% exposure of the loan amount to women entrepreneurs | • Issuance of warning letter to Management<br>• Suspension of lending to male clients until the recommended ratio is complied with<br>• Exclusion from the incentives under the Fund |
| 5 | Charging interest rate higher than prescribed | • Reversal of excess interest charged<br>• Issuance of warning letter to Management |
| 6 | Failure to disburse approved funds within 5 working days to the borrowers | • Penal charge of MPR + 300 basis points for DMBs/DFIs and maximum lending rate for other PFIs for the period the fund were not disbursed |

4.3 **Deposit Money Banks (DMBs)/Development Finance Institutions (DFIs)**

The DMBs/DFIs shall:

a) Not be used by State Governments to channel/disburse funds to end users under the MSMEDF.
b) Act as correspondent banks to other PFIs (DMBs ONLY)
c) Participate under the SME window ONLY

(DMBs & BOI)

d) On-lend to projects from any of the target SMEs eligible activities (DMBs & BOI)
e) Bear all the credit risk of the loans they shall be granting
f) Ensure due diligence is followed in the administration of credit facilities
g) Monitor and ensure proper utilization of the funds
h) Lend under the Fund at the specified rate
i) Submit to the CBN, Letter of offer by the bank and full details of the projects to be financed, disbursement schedule, Repayment schedule, the Credit Risk Management System (CRMS) report of the borrower;
j) Render monthly returns under the Scheme to the CBN on the reporting format.

4.4 **Federal Government (FG)**

The FG shall:

a) Contribute to the Fund
b) Support the Fund's activities
c) Serve on the Steering Committee

4.5 **Development Partners**

The Development Partners shall:

a) Contribute to the Fund
b) Provide technical assistance for the Fund's activities
c) Promote and support the development of MSME subsector

4.6 **Apex Associations**

The Apex Associations shall:

a) Confirm membership of would-be PFIs
b) Monitor performance and ensure prompt repayment of loans by members.

**4.7 Borrower**

The borrower shall:

a) Utilize the funds for the purpose for which it was granted.
b) Adhere strictly to the terms and conditions of the Fund.
c) Make the project and records available for inspection by the CBN and PFIs.

## CHAPTER FIVE

## STATE GOVERNMENTS' AND FEDERAL CAPITAL TERRITORY (FCT) PARTICIPATION UNDER THE FUND

5.0 **Background**

In recognition of State Governments/ FCT strategic role in grassroots economic development, the Fund anticipates their indirect participation through the PFIs in their respective jurisdictions.

5.1 **General Requirements**

To participate in the Fund, a State Government/FCT shall satisfy the following conditions:

a) Provide evidence of Resolution of State House of Assembly authorizing the State to participate and access the Fund.
b) Establish a Micro Credit/MSME SPV which shall coordinate the applications by PFIs for the Fund. However, the PFIs shall be solely responsible for the appraisal, disbursement and recovery of loans under the Fund.
c) Provide a Bank Guarantee/ Irrevocable Standing Payment Order (ISPO) equivalent to the amount requested including interest charges. The ISPO shall be invoked to accommodate the outstanding amount in default at the end of the loan tenor.
d) Sign a Memorandum of Understanding (MoU) with the CBN on modalities for the implementation of this window.
e) Operate a Sinking Fund Account with the CBN, into which any outstanding balance of disbursed amount shall be paid at the expiration of the loan.
f) Present a convincing annual framework on empowerment programme for prospective target groups, thereby creating sustainable demand for financial services and providing the basis for measuring performance of the Fund.

5.2 **Capacity Building**

Capacity building shall be conducted for PFIs and borrowers as specified below:

a) PFIs: PFIs shall mandatorily undergo pre-disbursement capacity building programme to be implemented by the CBN. The Programme shall cover loan appraisal, disbursement, monitoring and recovery among others.
b) Borrowers: The State Government/FCT shall provide capacity building opportunities to borrowers through State-owned skills acquisition/vocational centres, CBN Entrepreneurship Development Centres (EDCs) or any such relevant agencies.

5.3 **Utilization of Fund**

a) **Maximum Limit per State/FCT**
A State Government or the FCT shall access a maximum of N2.0 billion.
b) **Tenor**
The facility shall have a maximum tenor of one (1) year for micro enterprises and up to five (5) years for SMEs with option of moratorium. PFIs shall access the fund as many times as possible upon full repayment.
c) **Interest Rate**
The interest rate shall be at 3% per annum to the State PFIs for on-lending to borrowers at a maximum of 9% per annum, inclusive of all charges.

http://sdtimes.com/guest-view-ux-metrics-bringing-mobile-app-quality-to-the-boardroom/

5.4 **Participating Financial Institutions (PFIs)**

The State Government/FCT shall participate in the Fund through any of these PFIs (government or privately owned) in their Local Government Areas:

a) Microfinance Banks (MFBs)
b) Non-Governmental Organization – Microfinance Institutions (NGO-MFIs)
c) Financial Cooperatives
d) Finance Companies

5.5 **Mode of Application**

The required modalities are as follows:

a) The borrowers shall apply to the PFIs for a facility.
b) The PFIs shall appraise the applications for economic and financial viability of the request.
c) The PFIs shall forward their applications through the State SPV to the CBN specifying the amount, categories of clients, purpose, etc.
d) CBN shall appraise all applications submitted by the SPVs in favour of the PFIs, in line with the criteria in Section 5.5.
e) CBN approves and disburses funds through the PFIs' correspondent banks.

5.6 **Roles and Responsibilities of Stakeholders**

To achieve the desired objectives, the responsibilities of the various stakeholders shall include:

5.6.1 **Central Bank of Nigeria**

The CBN shall:

a) Articulate clear guidelines for the implementation of the Fund.
b) Provide funds for the programme.
c) Open a Repayment/Sinking Fund Accounts for the ISPO proceeds and the interest charges from the State Governments/FCT
d) Provide capacity building programme from the Grant Component to PFIs in the areas of loan appraisal, disbursement, monitoring and recovery among others
e) Release approved fund to the PFIs through their correspondent banks and advise the PFIs accordingly.
f) Notify the State Government/FCT through the State-SPV of all disbursements made to the PFIs
g) Monitor the implementation of the Fund and prepare periodic reports on its performance
h) Receive periodic returns from PFIs as may be specified
i) Ensure compliance of other parties with the Guidelines.

5.6.2 **State Government/FCT**

The State Government/FCT shall:

a) Provide evidence of Resolution of State House of Assembly authorizing the State to participate and access the Fund.
b) Establish a Micro Credit/MSME Special Purpose Vehicle (SPV) for the purpose of coordinating applications by PFIs for the Fund. The PFIs shall be solely responsible for the administration (disbursement and recovery) of the Fund.
c) Provide a bank guarantee or Irrevocable Standing Payment Order (ISPO) for the loan amount plus interest charges signed by the State Governor, Commissioner for Finance and State Accountant General.
d) Comply with terms and conditions of the MoU.
e) Access the Fund on behalf of their participating financial institutions at 3% interest rate per annum.
f) Present a convincing annual framework/roadmap on their empowerment programme for prospective target groups, as a basis for measuring performance of the loan
g) Provide borrowers of the Fund with capacity building opportunities through State-owned skills acquisition/vocational centres, CBN Entrepreneurship Development Centres (EDCs) or any such relevant agencies.

THE PFIS SHALL FORWARD THEIR APPLICATIONS THROUGH THE STATE SPV TO THE CBN SPECIFYING THE AMOUNT, CATEGORIES OF CLIENTS, PURPOSE, ETC.

5.6.3 **State Special Purpose Vehicle (S-SPV)**

**The S-SPV shall:**

a) Collate and forward applications by PFIs to CBN
b) Carry out quarterly monitoring of PFIs activities
c) Render quarterly report on performance of the loans to the State Government and CBN.
d) Build capacity of MSMEs under this window

5.6.4 **Participating Financial Institution (PFIs)**

The PFIs shall:

a) On-lend funds to MSMEs
b) Disburse funds within 5 working days of receipt to the borrowers
c) Monitor funds utilization by borrowers
d) Ensure repayment by borrowers
e) Open dedicated account with their correspondent banks for this window and forward details of the account to the CBN
f) The PFIs shall repay principal and the interest on the approved facility to the CBN as and when due
g) Render periodic returns to CBN and State SPV
h) Not be eligible to function as SPVs for States under the Fund

5.6.5 **Deposit Money Banks (DMBs)**

a) Open a dedicated account for PFIs for disbursement and recovery under this window.
b) Ensure release of approved funds to PFIs within 48 hours.
c) Remit repayments by PFIs to CBN within 5 working days.

5.7 **Monitoring & Evaluation Framework**

a) The projects shall be subject to on-site verification and monitoring by the CBN in conjunction with the PFIs during the loan period.
b) There shall be off-site monitoring through quarterly reports submitted to CBN and the State SPVs.
c) Reports of the monitoring exercise shall be shared with the concerned PFIs and State Governments.
d) The State SPVs and CBN shall leverage Apex Associations' capacities and information in monitoring and evaluation.
e) CBN shall periodically evaluate the activities of the State SPVs and PFIs to ensure achievement of the objectives of the Fund.

5.8 **Infractions**

PFIs and State Governments/FCT may be suspended or black listed for infractions such as fund diversion, etc.

5.9 **Amendments**

The provisions of the Guidelines under this window shall be subject to review as shall be deemed necessary.

***Enquiries and Returns should be addressed to:***
***The Director, Development Finance Department,***
***Central Bank of Nigeria, Corporate Headquarters***
***Central Business District, Abuja. Fax No. 09-46238655.***
***www.cbn.gov.ng***

## APPENDIX

**Definition of Terms**

1. **Micro Enterprises**
These are enterprises with less than 10 employees with a total asset of less than N5 million (excluding land and buildings) and operated by sole proprietor.
2. **Small and Medium Enterprises (SMEs)**
SMEs are entities with asset base of N5 million and not more than N500 million (excluding land and buildings) with employees of between 11 and 200.
3. **Women-Owned Enterprises**
These refer to Nigerian women (group or individuals) or enterprises that are at least 75% owned by female Nigerians.
4. **Participating Financial Institutions (PFIs)**
PFIs shall be Microfinance Banks, Microfinance Institutions (NGOs and Financial Cooperatives), Finance Companies and Deposit Money Banks (DMBs) that satisfy the eligibility criteria defined in this Guideline.
5. **Microfinance Banks (MFBs)**
MFBs are companies licensed by the CBN to carry on the business of providing microfinance services, such as savings, loans, domestic funds transfer and other financial services that are needed by the economically active poor, as defined by the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria.
6. Microfinance Institutions (MFIs)
MFIs are establishments registered to carry on the business of microfinance services, such as savings, loans and other financial services that are needed by its members.
7. **Finance Companies (FCs)**
FCs are companies licensed to carry on the business of providing financial services to individuals, entrepreneurs, industries as well as commercial or agricultural enterprises as defined by the CBN Guidelines for Finance Companies in Nigeria.
8. **Deposit Money Banks (DMBs)**
Deposit Money Banks (DMBs) are banks licensed by the CBN under the BOFIA and shall serve as PFI and as correspondent bank to other PFIs under the Fund.
9. **Development Finance Institutions (DFIs)**
Development Finance Institutions are specialized financial institutions often backed by Government to provide crucial financial intermediation with the aim of closing up the supply gap in the financial system. DFIs usually provide long term, low risk debt and equity finance to projects for promoting sustainable economic growth.
10. **State-Special Purpose Vehicle (S-SPV)**
A privately managed entity established by a State Government for the sole purpose of coordinating the activities of the PFIs that shall access funds under the MSMEDF. A PFI is therefore not eligible to function as an S-SPV under the Fund.

Global Watch

# Crude Oil Price Slump: WEATHERING THE RAGING STORM

By Eunice Sampson

Since mid-2014, commodities dependent economies have been faced with tough times. Prices of metal, coal, natural gas and food have dropped to worrying levels for net exporters. According to IMF's World Economic Outlook for April 2015, commodity prices have declined 28 percent since September 2014. Relative to their 2011 peak, food prices have declined by 23 percent following record harvests for major crops. But the biggest non-performer has been crude oil, which has not only fallen to thirteen-year low, but has also dragged general energy prices down 38 percent.

Oil prices have experienced a gradual and then steep fall, dropping by over 60 percent between June 2014 and December 2015. After reaching a monthly peak of $112 per barrel in June 2014, prices had begun an endless downward spiral that have left major producers and investors helpless. As at January 2016, crude oil price hover below $30dpb at the international market, the lowest since 2003. A prolonged era of favorable pricing in the last decade had encouraged massive capital investments in the global oil sector, taking output and supplies to unprecedented heights. Today, the global oil market is saturated, with the glut expected to be heightened even further in the coming months as Iran, recently out of UN sanctions, add at least 300,000 barrels a day to an already oversupplied market.

After growing by a robust 2.4 million barrels a day the precious year, global oil supply grew by another hefty 2.6 million barrels a day in 2015, way higher than a demand growth estimate of 1.54 million barrels a day. The International Energy Agency (IEA), forecasts that demand growth will slow even further in 2016, to 1.2 million barrels a day.

Experts are unanimous that the supply glut would linger way into 2016, an indication that an end to the free fall in price might not be anywhere near in sight. While prices have dropped to a thirteen-year low, the market is yet to begin the gradual rise in prices expected in response to rapidly declining capital investments in the sector.

## The Drag on Prices...

**Oversupplied market**: Rapid growth in emerging market economies, especially China and India in the last decade had pushed up demand for and prices of crude oil. But growth has since slowed in most of these economies in the last couple of years, with attendant impact on their oil demand. This has been exacerbated by the rapid increase in output and supply from the Organization of Oil Exporting Countries, OPEC as major members like Iraq and Libya, hitherto in one form of production hitch or the other, join the supply market. Iran, another major oil producer which had been under UN sanctions since 2006, returned to the crude oil market on 16 January 2016.

**OPEC's inaction:** The policy decision of Saudi Arabia, OPEC's largest producer not to counter the steadily increasing supply of oil from both OPEC and non-OPEC producers, and the subsequent November 2014 decision by OPEC to maintain its production ceiling of *30 million barrels* a day despite obvious market glut, all contributed to taking supply way ahead of demand, skyrocketing crude oil inventories in several key consumer countries and dragging down demand and prices. This move, targeted at protecting the cartel's market share has also been interpreted by some analysts as perhaps a calculated strategy to reduce profits and investments on non-OPEC crude oil projects, thereby dampening their supplies and market share in the long run. Output from OPEC members alone is now 1.06 million barrels a day higher than the same period of last year, a major reason why oil prices have now fallen below $30 a barrel. And the International Energy Agency in its first monthly report for 2016 had warned that the global oil markets could be left with a surplus of 1.5 million barrels a day during first half 2016. For as long as such massive supply surplus exists, the current price debacle could persist. The question remains how low OPEC will allow prices to go.

**New Oil Discoveries:** In December 2010, Ghana begun the exploration of its newly discovered Jubilee Offshore oilfields. A study published by PriceWaterhouseCoopers in September 2014 noted new oil and gas discoveries in Mozambique and Tanzania and increasing exploration in Kenya and Uganda, which now place East Africa on the map of notable oil regions. In April 2015, the UK Oil and Gas Investments (UKOG) discovered a potential billions of barrels of onshore oil beneath a field near London's Gatwick Airport. The Weald Basin discovery has the potential to rival the entire reserves of some major oil producers such as Kuwait. While the actual extent of viability of these new discoveries are yet to be fully ascertained, news of their findings have continued to drive market enthusiasm about future supplies and have impacted negatively on prices.

**AFTER GROWING BY A ROBUST 2.4 MILLION BARRELS A DAY THE PRECIOUS YEAR, GLOBAL OIL SUPPLY GREW BY ANOTHER HEFTY 2.6 MILLION BARRELS A DAY IN 2015...**

**Slowing demand:** This is due mostly to dwindling economic growth in several countries, especially the major emerging markets which were hitherto the drivers of crude oil demand. Slowing pace of growth in the Chinese economy and overall slowdown in global economic activities have reduced the demand for crude oil, even as the world's biggest consumer, the United States, now produces over half of the oil it consumes, drastically reducing its dependence on imports. The IEA recently cut its forecast for 2016 OPEC crude oil demand by 300,000 barrels a day to 31.7 million barrels a day due to weaker growth in demand.

**Advent of shale oil:** Increasing production and supply from non-OPEC producers have further distorted the traditional supply chain. This has been worsened by the increase in shale oil production in the last few years, especially in the United States of America, the world's largest crude oil consumer. Shale oil now constitutes about 5% of the total global crude oil supply and U.S. production is at the highest level in nearly 30 years.

**Emergence of renewable energy**: The advent of renewable energy and the growing efforts by environmentalists and sustainable development champions to reduce global dependence on fossil fuel has improved the place of renewable energy such as solar, thermal, wind, in the global energy mix. As reported in IMF data, renewable energy sources now constitute almost 10 percent of global energy usage.

According to latest OPEC reports, other factors that have weighed down prices include the appreciation of the US dollar, fall in equity markets and less-than-expected seasonal demand due to warmer weather in most climes.

In January alone, prices have fallen by about 26 percent, nearing its biggest monthly loss since 2008. Analysts now say that the worst may not be over as oil prices could plummet to as low as $10 per barrel before the end of this price correction cycle.

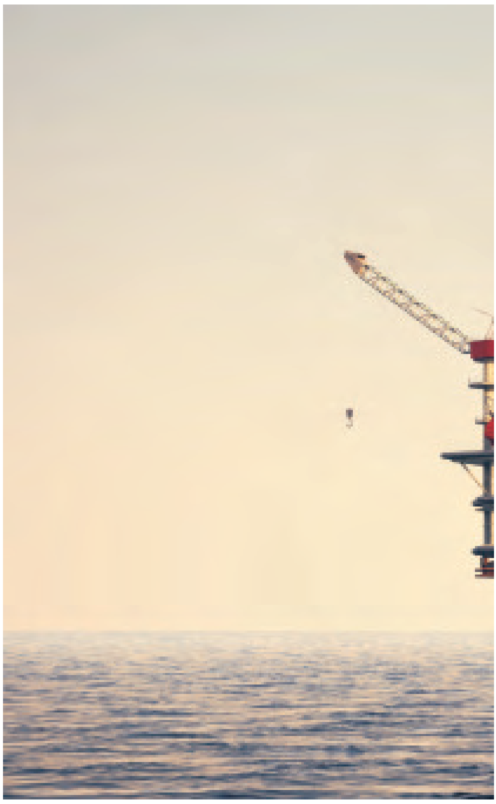
## The Vulnerable Economies...

The most vulnerable economies are the oil-dependent emerging and low income markets, especially in the Middle East and Africa. And the extent of vulnerability would depend on the extent of exposure to and dependence on oil revenues for their economic sustenance. According to IMF reports, oil and gas accounts for 25 percent of Russia's GDP, 70 percent of its exports, and 50 percent of federal revenues. In the Middle East, it constitutes 22.5 percent of GDP, and 63.6 percent of exports for the Gulf Cooperation Council countries. In Africa, oil exports account for 40-50 percent of GDP for Gabon, Angola and the Republic of Congo; and 80 percent of GDP for Equatorial Guinea. Oil also accounts for 75 percent of government revenues in Angola, Republic of Congo and Equatorial Guinea. In Ecuador and Venezuela, oil contributes about 30 percent and 46.6 percent to public sector revenues, and about 55 percent and 94 percent of exports, respectively. In Saudi Arabia, crude oil accounts for 87 percent of total exports and 46 percent of GDP. In Nigeria, crude oil sector accounts for 35 percent of GDP and over 70 percent of foreign exchange earnings.

After over a year and half of persistent drop in prices, crude oil dependent countries are already weathering economic storms. If the current slump lingers, they could be faced with several critical setbacks:

**Currency depreciation**: Owing to the drastic drop in the foreign exchange earnings of several oil-dependent economies, some of them, including Nigeria, Venezuela and Russia are already faced with severe currency crisis. For some of these countries with high import bills, foreign exchange deficits and imported inflation are major threats.

Owing to the drastic drop in the foreign exchange earnings of several oil-dependent economies, some of them, including Nigeria, Venezuela and Russia are already faced with severe currency crisis.



***Weakened financial services sector**: Financial services players with* high foreign exchange and energy sector exposures and with insufficient capital buffers are at grave risk. If regulatory oversight is not tightened, some institutions could go under. Several recapitalization and merger and acquisition exercises could be in the offing in 2016.

**Fiscal and budgetary deficits**: For economies with insufficient fiscal buffers and inefficient monetary policy structures, fiscal and budgetary constraints could be devastating. The current lull in crude oil earnings could lead to the introduction of austerity policies and fiscal tightening, which could slow investments in critical infrastructure and social services.

**Drastic fall in oil and gas investments**: Subdued oil prices weaken the financial positions of firms in the energy sector and lower their propensity for new investments. According to Wood Mackenzie, in Sub Saharan African oil exporting economies, total capital expenditure in 2015 fell by US$8 billion year-on-year and only two projects were sanctioned. Many key deep-water projects were deferred. Beyond Africa, Wood Mackenzie also reports that oil companies had delayed making decisions on 68 major projects world-wide in 2015. This accounts for some 27 billion barrels of oil and equivalent natural-gas volumes, bringing total industry-wide deferred spending for 2015 to a whopping $380 billion.

**Reduced productivity:** Fiscal constraints would weigh down on outputs in virtually all sectors and trim the prospect for economic growth. Traditional growth centers such as Nigeria and Saudi Arabia have already seen GDP growth slowing by nearly half their conventional pace in 2015, with the prospect for recovery in the new year looking slim.

**Rise in unemployment**: Major oil producers are cutting their capital expenditure and laying off workers. Reports during the third week of January 2016 revealed that Royal Dutch Shell is planning to lay off 10,000 workers, which would further heighten unemployment in countries where it operates. The New York Times reports that over 250,000 oil workers have been laid off since the price crises began. For several oil-dependent emerging, developing and low income markets, the prospect for meeting the recently unveiled Sustainable Development Goals could be delayed.

**Increased external and domestic borrowing:** As the gap between earnings and expenditure widens, several oil dependent economies would resort to borrowing, from home and abroad to meet up with their budgetary obligations. Economies with significant fiscal deficits could face a sharp rise in their debt to GDP ratio, while extensive domestic borrowing could have crowding out effect on the productive sector.

***Setbacks in alternative energy innovations:*** High crude oil prices have always compelled the advent of alternative energy sources such as bio-fuel and today's large scale production of shale oil, which has been made possible by the advent of hydraulic fracturing and horizontal drilling technologies. These innovations has added about 4.2 million barrels per day to the crude oil market, contributing significantly to the current global supply glut.

The current abysmally low prices of crude oil in the international market is a disincentive for innovation in renewable and non-renewable


alternative energy sources. And recent gains in the development of cleaner, renewable energy, such as wind, hydro, solar, and geothermal could be truncated. The result could be higher emissions of carbon dioxide and other greenhouse gases, further worsening the earth's environmental challenges. The much desired expedited transition from fossil to renewable energy may not happen as fast as anticipated.

## Loss for Some; Gain for Others ...

Overall, lower oil prices due to an oversupplied market come with good news for the global economy. While the oil dependent countries are groaning, the net importers of the commodity are the gainers. According to the IMF, "overall, we see this as a shot in the arm for the global economy. .... We find a gain for world GDP between 0.3 and 0.7 percent in 2015, compared to a scenario without the drop in oil prices".

Net importers in both advanced and emerging market economies would benefit from the attendant improvement in their balance sheet positions, lower costs of production, higher disposable income and consumer spending and better profits and investments. The reverse would be the case for the net exporters who could be placed under severe fiscal pressure, with negative impact on overall productivity.

But the impact would vary for the net importers. The more oil dependent a net importer is, the more the benefits derivable from the current price drop. For example, even though the United States is the biggest consumer and importer of crude oil, value of import as percentage of GDP is barely 1 percent. China, the world's second largest consumer and importer of the commodity also spends about 2 percent of its GDP on oil imports. Compare this to a country like Thailand where oil import bill is over 12 percent of GDP. The Thai economy would definitely benefit more from lower oil prices than the United States and Chinese economies. A similar variation would arise for net importers with significant financial sector exposures to net exporters. As an IMF report observed, Austrian banks' exposure to Russia has started to take its toll, with recent sharp decline observed in their equity prices. As a result, Austrian economy might not gain as much from the current price collapse as its peers.

## It's not all Bad News...

The current historic drop in crude oil prices no doubt comes with some gains, even for the major exporters. For several governments, it is a wakeup call to diversify their economies away from the highly volatile crude oil sector and explore glaring opportunities that have been ignored in other sectors.

It also compels governments to improve on their macroeconomic and monetary policy structures and begin to put in place or improve existing fiscal buffers, to save towards future rainy days.

Low prices also provide a great opportunity to remove subsidies at less political risk. In October 2014, Indian government removed its subsidy on diesel without any upward change in the price of the product. In Nigeria, where subsidies on crude oil products have been a highly sensitive economic and political issue, the current record low drop in prices has afforded the government an unprecedented opportunity to remove fuel subsidy without the general public even noticing the policy change. The development would encourage investment in both countries' struggling downstream markets while also reducing government's fiscal deficits.

For the developed economies, the current situation presents an opportunity to increase energy related taxes, proceeds of which could be channeled towards closing other more pressing social investment gaps.

## Will Oil Prices Rise Again?

The notoriously volatile global crude oil market is today facing perhaps one of its worst price crises in history. A price palaver that started during mid-2014, lingered all through 2015. And as we journey into 2016, there is anxiety, at least in net exporting economies, on whether or not the problem could linger throughout the new year. The International Energy Agency has warned that "the oil market faces the prospect of a third successive year when supply will exceed demand by 1 million barrels per day and there will be enormous strain on the ability of the oil system to absorb it efficiently. The oil markets could be left with a surplus of 1.5 million barrels a day in the first half of 2016, and unless something changes, the oil market could drown in oversupply".

The questions on everyone's mind at this point are, for how long will the price drop continue? How low could prices go? And for the net exporters, perhaps the most critical question they want answers to is, will crude oil price ever recover to their break-even levels?

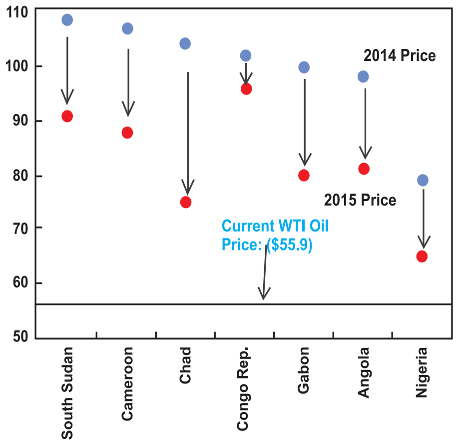
Price recovery is certain. But exactly when the process will start is very uncertain. Also very uncertain is how far crude oil price could rise going forward. With the extent of supply glut the market has experienced this reason, it seems very unlikely that crude oil price could go near the $100 per barrel mark anytime in the foreseeable future. More realistic is the $40-$50 per barrel price mark, at least in the short to medium term.

Factors that are likely to trigger price recovery include the rapidly falling capital expenditures in the oil and gas sector which will definitely lead to a medium to long term decline in production and supply. Even the unconventional shale oil, despite its recent gains in production cost efficiency will experience supply decline at some point, since the current $30 mark is way below its break-even price. Simulations by the IMF projects an expected recovery of prices to $73 a barrel by 2019.

Another factor that could boost price is the actualization of the much anticipated OPEC's production cut, which could significantly reduce market supply and send strong market signals. Also to watch out for is the possibility of insurgences and social unrests, especially in the traditional and new hotspots such as Syria, Iraq, Libya, Ukraine, Nigeria and Russia. Any outbreak of unexpected insurgences and sabotage of major oil facilities in key oil producing countries could result in sudden upward price movements, as seen during the Arab Spring and insurgencies in Nigeria's oil-rich Niger Delta.

Also, a rapid pickup in the economic performance of major emerg-

### Sub-Saharan Africa Budgetary Price of Oil, 2014-2015

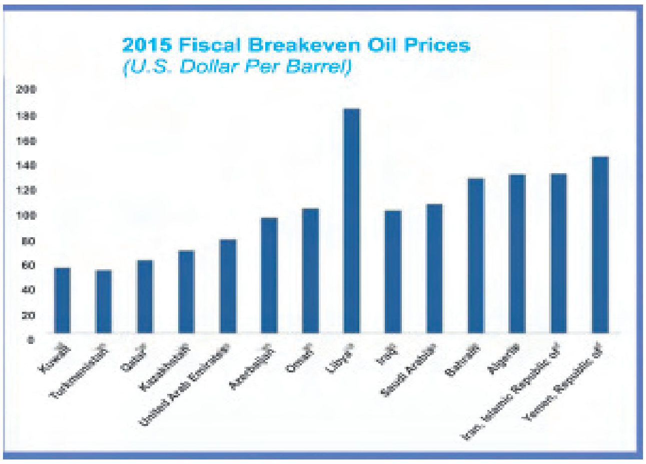



Secondary source: IMF's Global Economy Forum; http://blog-imfdirect.imf.org/

**Share of Primary Energy Consumption in 2014 (percentage points)**

| | Oil | Natural Gas | Coal | Nuclear Energy | Renew-ables |
|---|---|---|---|---|---|
| World | 33 | 24 | 30 | 4 | 9 |
| United States | 36 | 30 | 20 | 8 | 5 |
| China | 18 | 6 | 66 | 1 | 10 |
| European Union | 37 | 22 | 17 | 12 | 13 |

Secondary source: IMF's Global Economy Forum; http://blog-imfdirect.imf.org/




Secondary source: IMF's Global Economy Forum; http://blog-imfdirect.imf.org/

ing economies, including China and India, and improvements in global economic activities could spur demand for and pricing of crude oil.

In addition, OECD countries, including the United States, could leverage the opportunity of record low prices to resume strategic petroleum reserve buildup, which could increase demand at the global market. Strategic economies and traders are mindful that current low prices would significantly dampen output and supply in the mid to long term with a certainty that prices would eventually trend upward.

## Weighing the Survival Options...

As is the case with any major market crisis, some players are always better positioned to weather the storm than others. While advanced net exporters such as Canada and Norway are expected to manage the oil price crises with relative ease, especially owing to their diversified sources of foreign earnings, several emerging and low income oil exporters might not be so lucky. Unfortunately, despite the fact that crude oil volatility is as constant as the weather, so many net exporters are yet to learn their lessons in hedging their exposures by working out a well-structured and an efficiently managed fiscal cushion.

For most net exporters, reduced output and fiscal tightening could result. Fiscal deficits would be one of the major nuts they would have to crack; and efforts to survive could result in policy swings targeted at beefing up government revenues and cutting down on expenditures. It is expected that governments in all net exporting economies would seize this opportunity to do away with petroleum products subsidy, to free resources for more pressing issues and also to encourage private investments in their downstream oil sectors. Also, governments at all levels would become more creative and in fact more daring in introducing new taxes, levies and duties to shore up revenue. Nigeria is already weighing the option of increasing Value Added Tax from five to ten percent in an effort to plug yawning fiscal gaps. The country's Central Bank also recently introduced a new ₦50 stamp duty on bank transactions that could earn the federal government an estimated ₦2.5 billion new revenue daily (equivalent of about $12.5 million).

Because petroleum products have become very cheap all over the world, and also because of the environmental implications of increased fossil usage, perhaps this is an opportune time for countries, net importers and exporters alike, to introduce the much talked about carbon pricing. Putting a price on carbon emission would not only help curb the current unbridled appetite for fossil fuel, it would also provide a veritable alternative source of revenue for government, which could be channeled towards meeting the Sustainable Development Goals.

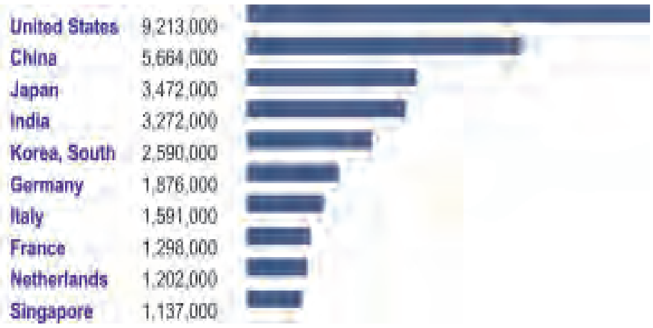
Virtually all net exporters have enjoyed current account surpluses and a rapid buildup of foreign assets since the 2000s. IMF reports that of the estimated $7.3 trillion total assets of

**World's Largest Sovereign Wealth Funds, 2015 Estimates**

| Fund | Country | Assets (US$ billion) |
|---|---|---|
| Government Pension Fund (NIBM)* | Norway | 873 |
| Abu Dhabi Investment Authority (ADIA)* | UAE | 773 |
| China Investment Corporation (CIC) | China | 747 |
| Kuwait Investment Authority (KIA)* | Kuwait | 592 |
| State Administration of Foreign Exchange (SAFE) | China | 547 |
| Hong Kong Monetary Authority (HKMA) | Hong Kong | 400 |
| Government Investment Corporation (GIC) | Singapore | 344 |
| Qatar Investment Authority (QIA)* | Qatar | 256 |
| National Social Security Fund | China | 236 |

*Secondary source: IMF's Global Economy Forum; http://blog-imfdirect.imf.org/*

**Top 10 Crude Oil Net Importers (barrels/day) 2014**




Source: http://www.indexmundi.com/

sovereign wealth funds as at March 2015, $4.2 trillion are oil and gas related, an indication that indeed, several oil exporting countries have put significant fiscal buffers in place. For net exporters such as Norway, UAE, Kuwait and Qatar, with Sovereign Wealth Fund put at $873 billion, $773 billion, $592 billion and $256 billion respectively, weathering the current storm would be a lot easier than for their peers. For those that have failed in this task before now, the next best time to start is now.

By IMF calculations, among Middle East oil exporters, only the United Arab Emirates, Qatar, and Kuwait's fiscal buffers will last for over 25 years on current fiscal plans and oil price projections. Bahrain and Yemen will exhaust theirs in the next two years, while most other countries will run out of buffers in four to seven years.

As more funds are drawn to achieve economic stabilization, the plan of sharing today's oil wealth with future generations, which is one of the key objectives for setting up sovereign wealth funds, would be significantly threatened. It is therefore important that, even for countries with huge sovereign wealth fund buildup, alternative sources of national revenue are explored.

The persistent price booms that oil economies have enjoyed in the last decades make it inexcusable that they are not reasonably prepared to tackle the current challenges, at least, in the short to medium term.

## Final Thoughts ...

The current crude oil price slump has gone way beyond the expectations of many; and several net exporters are already experiencing fiscal shocks. This is because the current low price of crude oil is way below their fiscal break-even prices, that is, the oil price at which they balance their national budgets. IMF calculates that for the Middle Eastern and Central Asian countries, the break-even prices range from $54 per barrel for Kuwait, to $184 for Libya, and $106 for Saudi Arabia. Looking at the last crude oil price benchmark for the two fiscal years immediately preceding the current price slump ($79/barrel and $77.5/barrel for 2013 and 2014, respectively), Nigeria's fiscal break-even price could be put at an average of $78/barrel. This demonstrates the fiscal struggle that this economy will face in funding its 2016 budget with prices now below $30 per barrel.

No doubt, all net exporters are fiscally vulnerable at this time. But those that have maintained consistent fiscal responsibility would fare better than the rest and would be better equipped to steer their economies safely through this raging storm.

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

ISSUES

# REGULATORY AND CONTEMPORARY ISSUES IN THE NIGERIAN BANKING SECTOR

PART 2

By Chuks Nwaze

> "Dormant account shall continue to be reflected in the book of banks as deposit liabilities until they are eventually withdrawn by the account holders or disposed of, on their instructions...

n this second edition of the new serial on regulatory and contemporary developments in the Nigerian banking sector, we shall continue from where we stopped in the last quarter by analyzing many more of such issues and how they affect not only the customers but also the generality of stakeholders in the financial system. Readers should note that there is no particular order in the presentation. Just read on. Feedback is welcome.

## CBN BANS BANKS FROM CONVERTING DORMANT ACCOUNT FUNDS TO INCOME

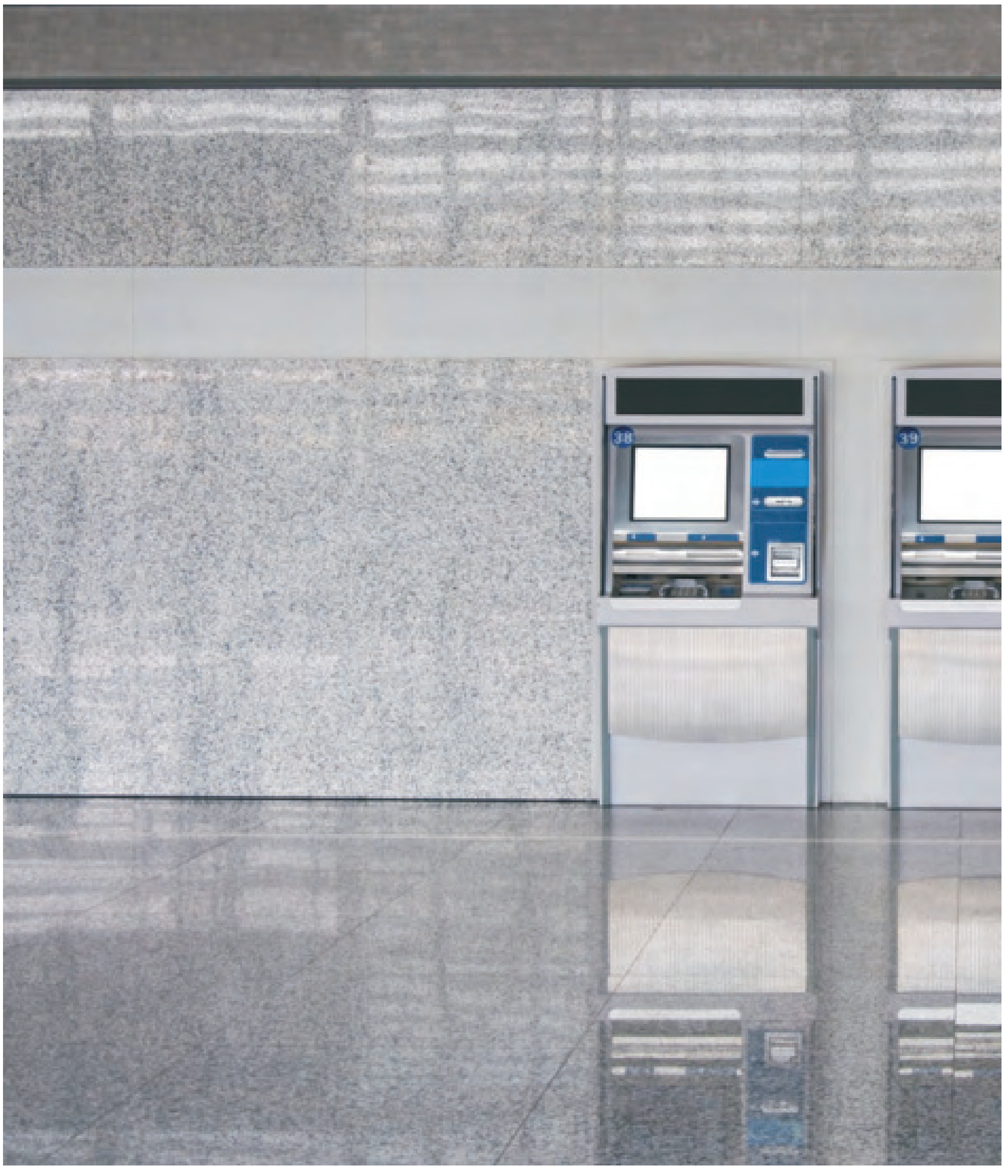
In a move that might be unpalatable to some of the older generation deposit money banks, the CBN has directed that, henceforth, bank deposits should not be tampered with, irrespective of the length of time it remains in the custody of the bank. According to the Guidelines contained in its circular FPR/DIR/CIR/GEN/05/013 dated October 7, 2015 to all financial institutions in Nigeria:

*"Dormant account shall continue to be reflected in the book of banks as deposit liabilities until they are eventually withdrawn by the account holders or disposed of, on their instructions...Banks that have, in the last five years, from the date of these guidelines, appropriated credit balances in dormant accounts to income are to reclassify such accounts to deposits not later than six months from the effective date of the guidelines... Notwith-*

*standing the provisions above, banks shall retain the records of all dormant accounts irrespective of the number of years of dormancy of the accounts, and shall reactivate such accounts upon request by the bona fide account holder or his /her legitimate representatives."*

The Guidelines in question defines bank accounts that have no customer or depositor-initiated transaction for a period of six months as **'Inactive'** while a bank account shall be classified as **'Dormant'** if has not witnessed any transaction for one year. While the owner of an Inactive Account should not be required to provide documentation to reactive the account, the owner of a Dormant Account must provide satisfactory documentary evidence of ownership before it is reactivated. The Guidelines continues:

*"Hence forth, revalidation of inactive/dormant accounts shall not attract any cost to the account holder (as the bank would have made ample use of the idle funds)...Interest bearing accounts shall retain their interest earnings status during the period of dormancy; deposit taking financial institutions shall continue to monitor accounts that show tendencies of inactivity and initiate action for the reactivation or protection from wrong usage. Such actions shall include, though not limited to, any of the following: SMS, email, visitation, and/or phone calls. In all cases, the cost of monitoring the accounts and contacting the customers shall be borne by the bank."*



The Guidelines in question defines bank accounts that have no customer or depositor-initiated transaction for a period of six months as 'Inactive' while a bank account shall be classified as 'Dormant' if has not witnessed any transaction for one year.

**Comment:** For most of the banks, this is another revenue-shrinking regulatory directive, but an appropriate one as we need to put an end to the systemic abuse of Dormant Accounts. Perhaps, it is only in Nigeria that somebody will be told that his hard-earned savings is no longer in existence because he had left it for too long! This is why some people still dig the ground to hide their money in, instead of taking it to the bank, even in this 21st century.

## DELINQUENT DEBTORS BARRED FROM FOREX AND SECURITIES MARKETS

The CBN has come down heavily on delinquent debtors by disallowing them from participating in both the foreign exchange and securities trading platforms in Nigeria. According to its circu-

lar, BSD/DIR/GEN/LAB/08/022, dated 22nd April, 2015:

*"...banks and discount houses are required with effect from May 1st, 2015 to: i. Give the delinquent debtors three months of grace to turn their accounts from non-performing to performing status. ii. Publish the list of delinquent debtors that remain non-performing in at least three national daily newspapers quarterly (The delinquent debtors are those whose accounts have been classified lost and include the persons, entities, directors, subsidiaries and other related parties). The list must be sent to the CBN as soon as the publication is made. Banks and Discount houses are also to note that delinquent debtors in the category described above will be blacklisted by the CBN and are therefore: i. Banned from participating in the Nigerian foreign exchange market. ii. Banned from participating in the Nigeria Government securities market..."*

**Comment:** Ordinarily, this particular circular and an earlier one that bars them from accessing additional facilities, are strong enough to make serial bad debtors live up to their responsibilities. However, the issue is not that simple; by refusing to pay their debts, these 'strong' individuals do weigh their options, including the ongoing 'Name and Shame' policy of the CBN. They also reckon with their ability to trample upon our weak institutions and circumvent enforcement mechanisms. Meanwhile, since some proportion of the bad loans have to do with insider abuses and corporate governance subversion within the banks, I hope the regulatory authorities will also beam their searchlight in this direction.

## BANKS TO DESTROY THIRD PARTY ATM CARDS STUCK IN THEIR MACHINES

The Central Bank of Nigeria (CBN) has, in the first quarter of 2014, directed deposit money banks to destroy any third party ATM card trapped in their machines before handing over same to the issuer. In other words, a bank customer will no longer have access to his ATM card if such is trapped in an ATM other than the one owned by his bank. The card is now to be cancelled and a new one issued to him by his bankers.

The reason, according to the CBN, is the fact that the integrity of the payment instrument could no longer be guaranteed in view of the long process, time interval and multiple handling involved in returning the card to the issuing bank. Besides, experience has shown that fraud can be engendered using the peculiarities of an ATM card even in the physical absence of the card itself.

**Comment:** Since ATM patrons do not need to use their bank ATMs only, what happens if an 'addicted' card-holder moves out of his base without his/her cheque book and the card gets trapped in another bank's machine? It is not difficult to imagine how a trapped ATM card can turn a wealthy individual into a temporary beggar!

## ISSUERS OF 'DUD' CHEQUES NOW ON THE 'RADAR'

The day of reckoning may have finally arrived for those who issue cheques that are not backed by cash (dud cheques) as the CBN has beamed a searchlight on them. The following are excerpts from its circular BSD/DIR/GEN/LAB/08/16, (effective 1st April, 2015) on the need to implement measures to dissuade the issuance of dud instruments:

"The Central Bank of Nigeria (CBN) has noted with great concern the impunity with which some customers of banks issue dud cheques on their accounts despite the provisions of the Dishonoured (Dud) Cheques Act of 1977 and CBN's recent directives to banks' customers to desist from such practice...Therefore, in furtherance to our directives via our letters dated 5th July 2013 and May 13, 2014 reference no.FPR/DIR/CIR/GEN/03 /005 and BSD/DIR/GEN/LAB/07/012 respectively, the CBN has put in place additional regulatory measures against dud cheque issuers. Upon CBN's compilation and dissemination of information on serial issuers of dud cheques based on bank' returns, banks would be required to; 1. Recall/cancel all unused cheque books issued to serial issuers of dud cheques; 2. Bar the affected customers from use of the clearing system for a period of five (5) years; 3. Forward the names of Dud Cheque offenders to the three Private Credit Bureaux and the Credit Risk Management System (CRMS). The customers' names would be listed on the database of the private credit bureaux and CRMS for a period of five (5) years from the date of submission, after which offenders will be eligible for removal.

In the case of unrepentant offenders or chronic issuers of such instruments, the circular continues:

*"However, if the offender is found wanting after the name is removed, such an offender shall be permanently reinstated in the data base of both the three (3) Credit Bureaux and the CRMS; 4. Bar the serial issuers of dud cheques from accessing credit facilities from the banking system for a period of five (5) years. No institution shall, EXCEPT with the prior*

*written approval of the CBN, remove such a person's name from the three Credit Bureaux and the Credit Risk Management System (CRMS); 5. Perform status check on a potential customer from CRMS and at least two Credit Bureaux BEFORE on-boarding a customer; 6. Where an Institution fails to report a serial dud cheque issuer in its return to the CBN CRMS and Private Credit Bureaux as required, it shall be considered as concealment and misrepresentation of material fact and the affected institution shall be penalized in accordance with the relevant provisions of the Banks and Other Financial Institutions Act, LFN 2004 CAP B3 (BOFIA). In addition, the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Compliance Officer (CCO) and Chief Risk Officer (CRO) shall be liable to sanctions in line with the relevant provisions of the BOFIA..."*

**Comment:** Why have previous circulars failed to curb the problem of dud cheques in Nigeria and what additional measures are incorporated into the current circular to achieve the objective which the earlier ones could not accomplish? Surely, too many laws, regulations and circulars on the same subject, without enforcement, constitutes a veritable recipe for confusion and anarchy.

## CBN KICKS AGAINST 'DOLLARISATION' OF THE NIGERIAN ECONOMY

The increasing use of foreign currencies in the domestic economy as a medium of payment for goods and services by individuals and corporate entities has been decried by the apex regulatory authority. According to the CBN circular, BSD/DIR/GEN/LAB/08/13, published 17th April, 2015:

"The Central Bank of Nigeria (CBN) is aware of the rising trend of currency substitution and dollarization of the economy in recent time...Please be reminded that Section 15 of the CBN Act 2007 provides that the unit of currency in Nigeria shall be the Naira. Section 20 (1) of the same Act provides that the currency notes issued by the Bank shall be legal tender in Nigeria at their face value for the payment of any amount and Section 20 (5) further provides that a person who refuses to accept the Naira as a means of payment is guilty of an offence and liable on conviction to a fine or 6 months imprisonment.

On the illegality of denominating, pricing or consummating local transactions in foreign currency, the CBN warns financial institutions and the general public:

"Based on the above provision the general public is hereby warned that it is illegal to price or denominate the cost of any product or service (Visible or Invisible) in any foreign currency in Nigeria and no business offer or acceptance should be consummated in Nigeria in any currency other than the Naira. Consequently, deposit money banks operating in Nigeria are advised to desist from the collection of foreign currencies for payment of domestic transactions on behalf of their customers and the use of their customers' domiciliary accounts for making payments for visible and invisible transactions (fees, charges, licenses e.t.c) originating and consummated in Nigeria..."

**Comment:** The circular is timely especially giving the recent slump in crude oil prices and attending nose-dive in the value of the Nigerian naira against other global currencies at the parallel market.

## MONEY TRAPPED IN ATMs TO BE RETURNED TO CUSTOMERS

The Central Bank of Nigeria has ordered Deposit Money Banks to refund all the money trapped in their various Automated Teller Machines (ATMs) with immediate effect. This directive was issued by the CBN via its circular BPS/DIR/CIR/01/008 dated *June 16, 2014*:

*"The attention of the Central Bank of Nigeria has been drawn to the fact that Deposit Money Banks have not been refunding their customers that have been short-changed by the ATMs 'partial dispensing error', while some with 'non dispensing errors' were also not refunded. You are by this circular directed to return all money in your possession as a result of the ATMs non- dispensing or partial dispensing error, not later than July 31, 2014. Please note that appropriate sanction shall apply for non-compliance"*

**Comment:** This problem can manifest in either of two ways. The first is the 'software' problem of money debited but not delivered to the customer while the second is the 'hardware' issue of money debited but trapped on delivery as a result of mechanical fault at the ATM. Is this a once-and-for-all refund or are we now in a new dispensation where all such monies must be returned promptly to customers? It is inconceivable how much pain and anguish innocent depositors have been subjected to when the only money in their account gets trapped in a malfunctioning ATM; they barge into the banking hall and no help comes. The real challenge here is enforcement as banks are unlikely to be in a hurry to part with the several billions of naira trapped in their vaults as a result of failed ATM transactions!

## BANKS' (BIOMETRIC) VERIFICATION NUMBER (BVN): PROTECT YOUR IDENTITY

The BVN project is an initiative of the CBN, in conjunction with the Bankers' Committee, deposit money banks and the Nigerian Inter-Bank Settlement System (NIBSS). It is designed to protect the customer from identity fraud or theft by capturing his biometric characteristics such as fingerprint, signature, facial image, among others, thereby enhancing confidence in the banking system. This is because the advent of electronic banking has made it possible for account holders to move about with debit cards or electronic purse/wallets which are secured only with the 'PIN'. Hence, once the 'PIN' is compromised, loss of money is almost assured; this practical danger has been mitigated through the introduction of the BVN. According to Emeka Anaeto in his article published in the *PUNCH of November30, 2014, p.56:*

*"...The BVN involves identifying an individual based on physiological or behavioural attributes, such as fingerprint, signature and others- key elements that cannot be compromised. The customers' unique BVN is accepted as a means of identification across all banks and is expected to assign unique number to every bank customer for enhanced security of transactions. Even if the BVN is available to a thief, he cannot use it to do anything because the BVN is the real owner's unique identity which cannot be compromised...The Servers in banks' headquarters have been configured, deployed and tested for this purpose. BVN is expected to end the use of drivers' licence, international passport and other forms of identification for retail banking transactions (in respect of existing account holders), especially pay and receive. It enables every customer to have one identification number within the financial system (irrespective of how many bank accounts he operates or how many banks he uses)...* "

In a related development, the CBN has made it mandatory for all customers desiring to purchase foreign exchange to provide their BVN's. According to its circular FRP/DIR/CIR/GEN/OS/015 dated October21, 2015:

"In continuation of efforts to stabilize the foreign exchange market, stem the rampant cases of foreign exchange leakages and illicit money transfer out of the country, the use of Bank Verification Number (BVN) for all foreign exchange transactions SHALL come into effort from November 1, 2015. All banks and licensed BDC's operating in Nigeria as well as the general public are, therefore, put on notice that with effect from November 1, 2015, All customer desiring to purchase foreign exchange through all available channels in Nigeria MUST provide their BVNs which shall be validated by the CBN Authorized Foreign Exchange Dealer through Nigeria Interbank Settlement System (NIBBS) platform before the transactions are consummated. For the avoidance of doubt, CBN shall also from November 1, 2015 discontinue the sales of foreign exchange to the BDCs that had not availed it the BVNs of all of its directors..."

Remember that your BVN card contains both your BVN as well as your thumb print and that it should be kept very safely not in your wallet. Do not respond to any email asking for your BVN and do not follow any links to the internet to update any personal details relating to your bank accounts. Even when you go to the bank for BVN or mobile banking passwords, ensure you deal only with someone seated behind a counter or desk, with visible identification.

**Comment:** The CBN circular of October21, 2015 looks like a double-edged sword. While many analysts are of the view that the attendant proliferation of customers' personal identity details could be inimical to the fraud-preven-

tion objectives of BVN, the CBN insists that the adoption of BVN as a precondition for purchase of FOREX is expected to reduce the incidence of multiple purchases, round tripping, illicit transfer of funds, facilitate enforcement of authorized limits of forex sales to end users, etc. The advantages of the BVN also extends to the granting of loans where prospective lenders will be prompted, during account opening and status enquiry, if a customer had been blacklisted by any other lender.

Although the cashless policy only penalizes those who exceed the daily limits placed on cash withdrawals, it remains largely misunderstood.

## ELECTRONIC FRAUD SURVEILLANCE: CBN DIRECTS OPENING OF FRAUD DESKS

In another bold move designed to checkmate the activities of electronic criminals, the CBN has floated an industry-wide surveillance platform to be coordinated by the Nigeria Interbank Settlement System (NIBSS). According to its circular BPS/DIR/GEN/CIR/02/004 dated June 11, 2015 addressed to all banks, switches and payment service providers (effective July1, 2015):

*"...Following submission to the Bank by Nigeria electronic Fraud Forum (NeFF), and consultations with DMBs and electronic payment service providers, it has become imperative that an effective mechanism for receiving and responding promptly to fraud alerts be set up within the Nigerian Banking Industry. To this end, all DMBs, MMOs, Switches and all payments service providers are hereby directed to maintain a dedicated Fraud Desk in their respective organizations. The Fraud Desk shall be appropriately staffed with personnel that have requisite training on emerging fraud trends on various electronic payments channels..".*

### Fraud Desks: Responsibilities:

- Provide support to customers on electronic frauds with a minimum of 10 dedicated phone lines, manned and available to customers at all times;
- Make available the option for calls to contact centre, in respect of fraud alerts or complaint, to be redirected to fraud desk;
- Block and/or Place No Debit restrictions on accounts upon receipt of fraud complaint;
- Receive customers' stop-transaction instructions to block their accounts through short codes service provided to customers by the banks;
- Log all customers fraud alert and/or complains and escalate in line with internally predefined escalation path;
- Submit report to NIBSS Plc on fraud information logged by the fraud desk;
- Honour "hold" instructions from NIBSS with respect to fraud matters and grant NIBSS permission to view details on logged transactions;
- Sensitize customers on e-Fraud and Fraud Desk services;
- Resolve all intra-bank fraud issues leveraging on enterprise fraud management system;

- Maintain a mail group mapped to members of the fraud desk team.

### Fraud Desks: The Role of Nigeria Inter-Bank Settlement System (NIBSS):

The apex bank also vested the NIBSS Plc with the overall responsibility for industry coordination of the fraud desks across all banks, mobile money operators, switches and payment service providers by performing the following services:

• Provide electronic platform for fraud desks in Banks, MMOs, Switches and Payment Service Providers to log frauds;

• Maintain direct and dedicated phone lines and email contacts to all banks, mobile money operators, switches and payment service providers' fraud desk for the purpose of exchange of information and coordination of industry response to fraud attempts/incidents;

• Avail DMBs with an enhanced e-fraud portal/ instant payment platform, with capability for bank to initiate "block" or "hold funds" electronic message from a bank's fraud desk to the other;

• Provide rules for the industry coordination of fraud desks and sign Service Level Agreements with DMBs, MMOs, Switches and Payment Service Providers;

• Issue "hold" instructions to any bank with regards to fraud matters and have the account frozen accordingly.

The truth of the matter is that the genuine net profit after tax of some banks in Nigeria may not be more than 2.4% of their total revenue. In other words, such banks lose more money through fraud than they make as net profit!

**Comment:** there is no doubt, whatsoever, that at all times and on all issues, the CBN has laudable intentions. The problem comes at the point of implementation, perhaps due to the intervention of extraneous factors. For this project, apart from the additional cost burden imposed on the retail partners, especially the small mobile switches and other payment service providers, other challenges include infrastructural deficiencies such as stable electricity and communication facilities. This and other issues need to be considered as part of a review process to ensure that this initiative works seamlessly.

## NAIRA DENOMINATED CARDS: CBN CURTAILS OVERSEAS WITHDRAWALS

Perhaps acting upon intelligence reports of round-tripping and arbitraging in dollars, with its consequent adverse effects on the stability of the national currency, the CBN has moved to control the trend by reducing the consolidated annual withdrawal limit from $150,000 to $50,000 per person per annum for money collected overseas with Naira denominated cards; the daily limit per person is $300. Its circular TED/FEM/FPC/GEN/01/007 of 13th April, 2015 has the full details:

*"Further to the circular referenced TED/FEM/FPC/GEN/01/009 of September, 2013, all authorized dealers and the general public are hereby informed that with effect from the date of this circular (13th April, 2015), the existing limit on the usage of the Naira-denominated cards for transactions overseas has been reviewed downwards. Accordingly, the limit has been reduced from $150,000 to $50,000 per person per annum. In addition, authorized dealers are to ensure that the daily cash withdrawal limit embedded in the cards per person, per day is pegged at $300..."*

**Comment:** It should be noted that debit/credit cards linked to customers' Domiciliary Accounts to be used overseas as well as such cards used locally are not affected by this circular. Holders of Naira denominated corporate cards are also excluded from withdrawing Dollar overseas, unless they are doing that from their Domiciliary accounts; only individual/personal accounts. Unscrupulous individuals involved in various malpractices in this regard, including those who bring back the dollars to sell in the parallel market, need to go back to the drawing board as the business has been rendered unprofitable!

## CASHLESS POLICY: A TEST OF PRUDENCE?

Although the cashless policy only penalizes those who exceed the daily limits placed on cash withdrawals, it remains largely misunderstood. For individuals, the charge is 2% of the excess amount withdrawn over N500,000 while for corporate accounts, a charge of 5% is applicable on the excess over N3million. In other words, contrary to popular opinion, the policy does not prevent anybody from withdrawing above the stipulated limit. You are only required to pay handling charges for 'excess luggage'.

**Comment:** Immediately the implementation of this policy commenced, two types of self-serving behaviours emerged from the banking populace:

**Type1: Cost-conscious businessmen and salary-earners who do not want to pay charges but contravene the policy by splitting cheques into smaller amounts.**

**Type2: Non-prudent politicians and top-level bureau-**

**crats who brazenly contravene the pol icy and incur charges.**

With this high incidence of contravention, is anyone still being constrained or deterred by the policy? Good enough, as part of a recent stategic intervention, the CBN has therefore directed banks to discontinue all charges in respect of cash lodgments by customers; in other words, the penalty is only applicable to withdrawals above the stipulated thresholds. This is commendable.

...CBN has directed banks to discontinue all charges in respect of cash lodgments by customers; in other words, the penalty is only applicable to withdrawals above the stipulated thresholds.

### NIGERIAN BANKS BARRED FROM FUNDING THEIR OFFSHORE SUBSIDIARIES

The Central Bank of Nigeria (CBN) has directed Nigerian-based international banks to discontinue the practice of raising capital for their offshore outlets from their headquarters in Nigeria. The following is an excerpt from the *CBN Annual Report for 2012*:

"...to address concerns about the impact of persistent increase in capital requirements for some foreign subsidiaries on the capital of parent banks, the Bank issued directive restricting Nigerian banks from raising capital in Nigeria for the purpose of injecting it into their foreign subsidiaries... DMBs were encouraged to use alternative recapitalization options of merger/acquisitions with host country partners, capital sourcing from the host country, or the submission of an exit strategy from foreign subsidiaries..."

**Comment:** Although the CBN is obviously wary about capital flight, including its possible effect on the value of the Naira, the issue we need to consider is how the Nigerian affiliates of foreign banks are capitalized. If we are happy that their parent banks abroad regularly inject capital for their Nigerian operations from where they make profits and pay taxes in Nigeria, why are we restricting our indigenous banks from assisting their off-shore subsidiaries in the same manner from where they can even repatriate profits in 'hard' currency into Nigeria?

### ONLY 50 DEBTORS OWE 32% OF TOTAL BANK LOANS IN NIGERIA

Fifty biggest bank debtors are responsible for about one third of the total indebtedness in the Nigerian banking sector as at May 2014. This was disclosed by the governor of the CBN, Mr. Godwin Emefiele, while speaking at the National Credit Bureau conference. *The PUNCH of November20, 2014, p.42* has excerpts*:*

"The reform policies of the central bank has gained grip and has resulted in a sound financial system...We are, however, yet to see the dispersal in the loan portfolio as the top 50 and 100 obligors account for 32.02 per cent and 41.34 per cent of the gross credit to the private sector...All banks are required to obtain credit reports from at least two credit bureau before granting any facility to their customers while quarterly portfolio checks must also be carried out to enable them determine borrowers' current exposure to the financial system..."

**Comment:** This scenario has unsavory implications for financial system stability, we are all aware, most of the individuals behind the multi-billion naira bad debt profile are among the wealthiest people not just in Nigeria but

in the African continent. Meanwhile, these mega debtors are taking additional loans on a daily basis; are the deposit money banks taking advantage of the 'censors' provided by the credit bureau to de-list bad debtors?

## BANKS LOSE 2.4% OF TOTAL REVENUE TO FRAUD

The CBN has revealed that the 2013 Global Fraud Report puts Africa at the top in fraud losses with about 2.4% of total revenue lost to fraud. According to *The PUNCH* report *of June 13, 2014*, the Deputy Governor, Financial Systems Stability, Mr. Adebayo Adelabu, speaking at the 2014 compliance conference held in Lagos by the Committee of Chief Compliance Officers of Banks in Nigeria said that:

"The 2013 Global Fraud Report revealed that Africa had retained its position as the region with the highest fraud cases, while sub-Saharan Africa maintained the unenviable position of the region with the most prevalent fraud problems (77 per cent), among the regions surveyed…We have recorded high success rate of frauds from this class of individuals just with the collusion of bank officials. In fact, before I left banking, we had started seeing the incidences of more internal frauds than external; which means it is very difficult to curb…It is those who know your systems and controls that compromise to assist external fraudsters. If banks can find a way to minimize the cooperation of their employees with these fraudsters, there is going to be a reduction in the number of successful fraud cases".

**Comment:** Although the above statistics is believed to be considerably understated, in view of the fact that many fraud cases are not reported, the situation is frightening enough. The truth of the matter is that the genuine net profit after tax of some banks in Nigeria may not be more than 2.4% of their total revenue. In other words, such banks lose more money through fraud than they make as net profit!

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

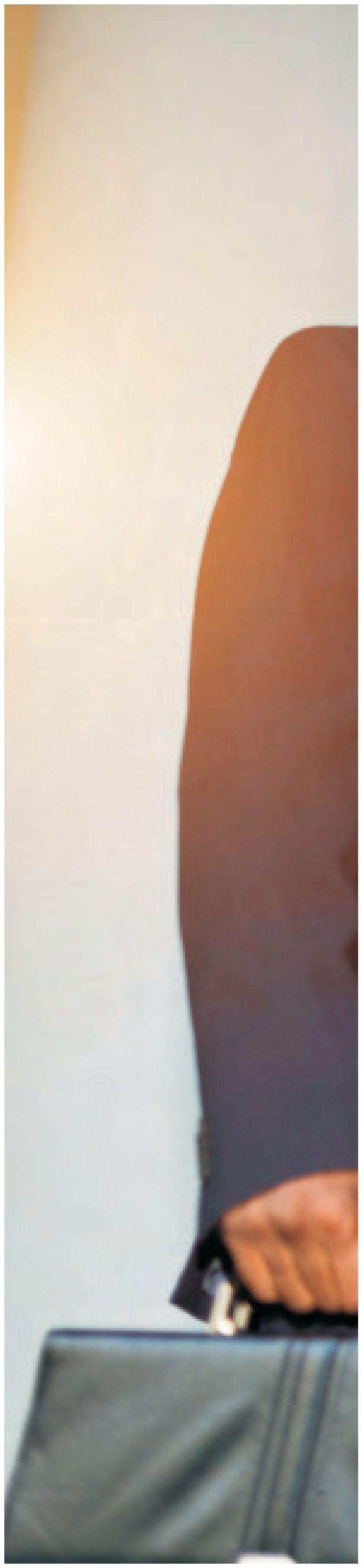
ISSUES

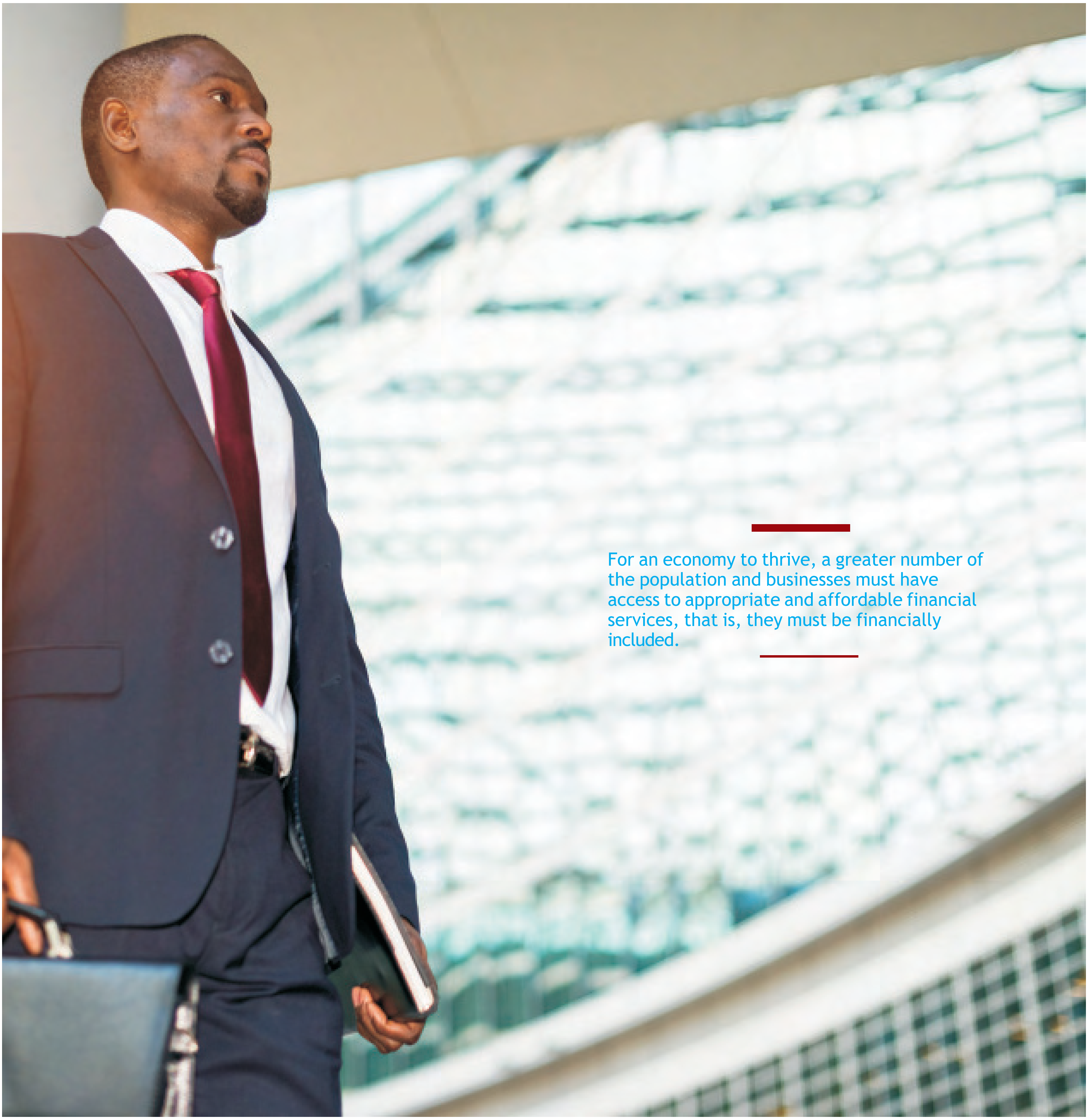
# FINANCIAL INCLUSION: Taking Banking to the Hinterlands

By **Sunday Enebeli-Uzor**

Financial inclusion has been widely acknowledged as a critical policy priority for poverty alleviation, economic growth and wealth creation. In Nigeria, the Central Bank of Nigeria (CBN) has adopted several measures aimed at accelerating the pace and deepening of financial inclusion. Although there has been some progress over time, Nigeria's financial inclusion rate remains low relative to peers in many of the indices of inclusion. A recent survey by Enhancing Financial Innovation & Access (EFInA) indicates that although improving, 40 percent of adult Nigerians are still financially excluded. The survey also reveals that although 60 percent of the adult population are financially served, only 48.6 percent are formally included, that is, included in the formal financial services sector. According to the World Bank Global Financial Inclusion (Global Findex) database, only 44 percent of the adult Nigerian population had an account in the formal banking system in 2014. This coverage is low compared to 50 percent for the world average, 70 percent in South Africa, and 75 percent in Kenya.

The significance of high rate of financial inclusion in an economy cannot be overstated. The pursuit of financial inclusion is not just a policy option for policy makers but has become a necessary component of monetary policy toolkit. For an economy to thrive, a greater number of the population and businesses must have access to appropriate and affordable financial services, that is, they must be financially included. There is a preponderance of evidence that the benefits of greater access to formal financial services has enormous economic benefits for both individuals and firms, and may help reduce income inequality and accelerate economic growth and wealth creation. According to the World Bank, financial inclusion has been broadly recognised as critical in reducing poverty and achieving inclusive economic growth. Financial inclusion also facilitates efficient allocation of productive resources, signifi-





For an economy to thrive, a greater number of the population and businesses must have access to appropriate and affordable financial services, that is, they must be financially included.

cantly reduces the cost of capital, and eliminates exploitative informal sources of credit.

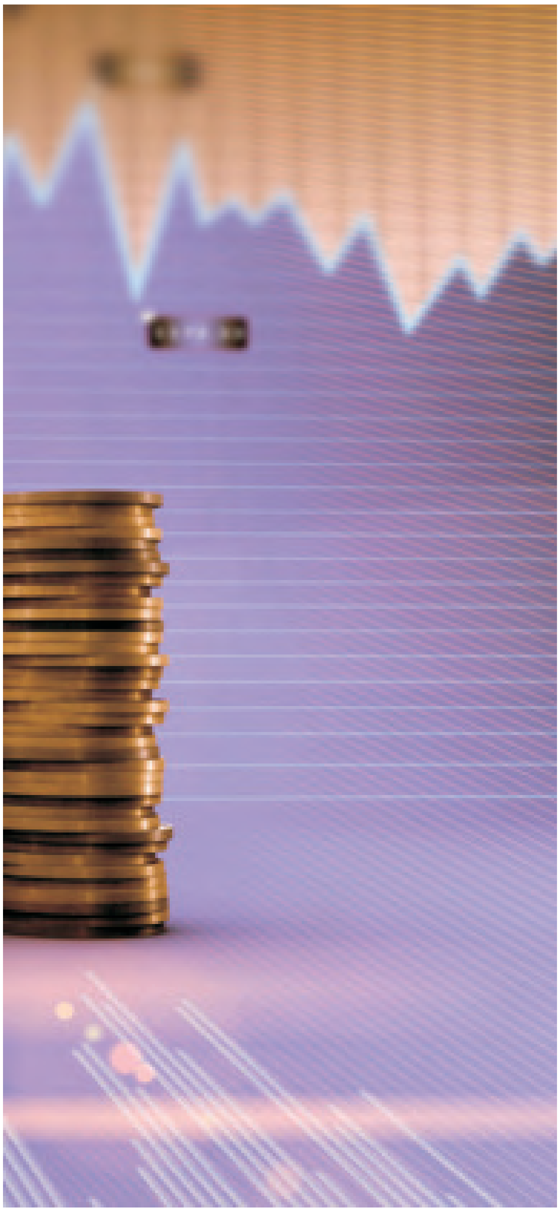
At its most basic level, financial inclusion starts with persons and businesses having bank accounts. More broadly however, financial inclusion is achieved when adults have easy access to a broad range of formal financial services that meet their needs at an affordable cost. The services include, but are not limited to, payments, savings, loans, insurance, and pension products. According to the World Bank, financial inclusion is not an end in itself, but a means to an end as there is growing evidence that it has substantial benefits for individuals. Evidence also abound that when people participate in the financial system, they are better able to start and expand businesses, invest in education, manage risk, and absorb financial shocks. Access to accounts and to savings and payment mechanisms increases savings, empow-ers women, and boosts productive investment and consumption, while access to credit also has positive effects on consumption as well as on employment status and income and on some aspects of mental health and outlook.

## Nigeria's National Financial Inclusion Strategy

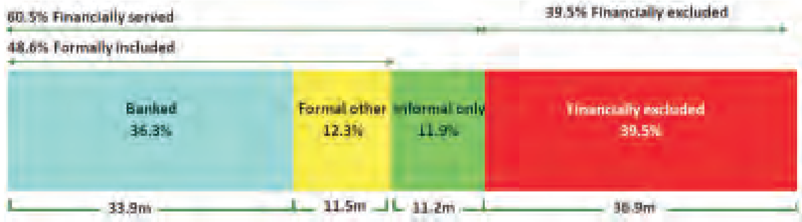
In Nigeria, the CBN launched the National Financial Inclusion Strategy (NFIS) in 2012 with set formal targets and ambitious goals for financial inclusion to significantly increase both access to and use of financial services by 2020. Broadly, the strategy aims to reduce the percentage of adult Nigerians that are excluded from financial services from 46.3 percent in 2010 to 20 percent by 2020. It also aims to increase the number of Nigerians included in the formal financial services sector from 36.3 percent in 2010 to 70 percent by 2020. The strategy also targets access to credit to reach 40 percent of the adult population in 2020, while 70 percent are expected to be making payments through financial services. Other targets for financial inclusion are: 60 percent of the adult population to be making savings, 40 percent will have access to credit, 40 percent will have insurance policy, and

40 percent will have pensions.

According to the National Financial Inclusion Strategy, financial inclusion will promote a sound financial system in Nigeria and ensure monetary and price stability. Specifically, it will lead to the development of a stable financial system funded by non-volatile savings that are robust and provide cushion against external shocks. Also, increased access to finance for Medium and Small Micro Enterprises (MSMEs) as a result of financial inclusion will lead to greater productivity and increased non-oil exports/foreign exchange earnings. In all, the CBN will be better able to influence savings, investment and consumption behaviour through interest and exchange rate changes, a direct result of



**Financial Access Strand**




Source: Enhancing Financial Innovation & Access (EFInA)

the increased participation of Nigerians in the formal financial sector.

According to the CBN, the goals of financial inclusion will be pursued through a broad range of coordinated interventions. These include: transformation of the existing uniform Know-Your-Customer (KYC) regulation into a simplified risk-based tiered framework that allows individuals that currently do not have the required formal identification measure to enter the banking system; articulation and implementation of a regulatory framework for agent banking to enable financial institutions to bring banking services to the currently unbanked in all parts of the country; and definition and implementation of a national financial literacy framework to increase awareness and understanding of the population on financial products and services with the goal of increasing sustainable usage. Other interventions include: implementation of a comprehensive consumer protection framework to safeguard the interest of clients and sustain confidence in the financial sector; continued pursuance of mobile-payment system and other cashless policy efforts to lessen the cost and enhance the ease of financial services and transactions.

Other policy intervention measures include: implementation of a credit enhancement schemes/programmes to empower micro, small and medium enterprises. Establishment of a Micro, Small and Medium Enterprises Development Fund (MSMEDF), 60% of which will support the on-lending activities of microfinance banks and institutions, loans to women and women-owned enterprises, establishing the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) and Entrepreneurship Development Centres (EDCs), and restructuring and refinancing facilities for SMEs, and SME Credit Guarantee Scheme.

## Current Status of Financial Inclusion in Nigeria

In terms of population distribution, Nigeria currently has 93.5 million adult population, of which 56.6 million are financially served while 36.9 million are financially excluded, according to EFInA. Among the financially served population, 33.9 million are banked, 11.5 million are served by other formal services, while 11.2 million are informally served. Furthermore, the EFInA report shows that financial inclusion in Nigeria is skewed towards urban areas as 28.6 million adults (47.8 percent of the rural population) are financially excluded in rural areas whereas, only 8.4 million adults (24.8 percent of the urban population) in urban areas are financially excluded. The top ten states with the greatest number of excluded adults account for 45.3% of the total financially excluded population in Nigeria.

From the survey result, financial access in Nigeria is skewed towards males. Whereas 21.4 million females (42.7% of the total female population) are financially excluded, and 34% had no formal

education, only 15.6 million males (35.8% of the total male population) are financially excluded. The top ten states with the greatest number of excluded adult women account for 45.6% of the total adult women that are financially excluded. The report also shows that there are only five states where the number of men that are excluded exceeds the number of women that are excluded. The states are Ekiti, Gombe, Sokoto, Taraba and Yobe. Kano State has the greatest number of adults who are financially excluded, 2.5 million adults of which 1.5 million are women and 1.0 million are men.

Financial access by age group indicates that 47.4 percent of adults between 18 and 25 years are financially excluded while 34.6 percent of adults between 26 and 33 years are financially excluded. Also, 34.2 percent of adults between 34 and 45 years are financially excluded, 34.9 percent of adults between 46 and 55 years are financially excluded, and 41.7 percent of adults that are 56 years or older are financially excluded. Also, 26.7 million financially excluded adults (72.4% of excluded adults) are interested ("strongly interested" and "interested") in financial matters. The top three financial topics that they are interested in learning about are how to open a bank account, how to save regularly, and how to save for old age. Interestingly, 13.9 million adults (38.3% of excluded adults) who are financially excluded own mobile phones. In terms of awareness of potential locations for providing financial services, provision shops and pharmacies have the highest levels of awareness.

## Barriers to Financial Inclusion in Nigeria

In Nigeria, as in many developing African countries, physical proximity to a bank branch is the most significant barrier to accessing basic financial services. In a survey, 61% of Nigeria's unbanked population expressed a desire to have an account, but there was no bank near enough to make these simple wishes a reality. According to a recent policy brief on financial inclusion in Nigeria, in terms of accessibility, the average distance to a Deposit Money Bank branch varies

**National Financial Inclusion Strategy targets**

| | TARGETS | 2010 | 2015 | 2020 |
|---|---|---|---|---|
| % of total adult Pop. | Payments | 21.6% | 53% | 70% |
| | Savings | 24% | 42% | 60% |
| | Credit | 2% | 26% | 40% |
| | Insurance | 1% | 21% | 40% |
| | Pensions | 5% | 22% | 40% |
| Units per 100,000 adults | Bank branches | 6.8 | 7.5 | 7.6 |
| | MFB branches | 2.9 | 4.5 | 5.0 |
| | ATMs | 11.8 | 88.5 | 203.6 |
| | POS | 13.3 | 442.6 | 850.0 |
| | Mobile Agents | 0 | 31 | 62 |
| % of Pop. | KYC ID | 18% | 59% | 100% |

Source: National Financial Inclusion Strategy (NFIS)

widely, from almost 60km in Kebbi State to less than 1km in Lagos State. When branch proximity is compared to rates of service usage, it is apparent that physical access to a financial institution is a major contributing factor to financial inclusion and might even be the most important factor. Aside from proximity to a bank branch, other barriers to financial inclusion identified by EFInA include: irregular income, unemployment, and illiteracy.

Another major barrier identified by the policy brief on financial inclusion in Nigeria is the rate of population growth. Nigeria's population is expected to reach 221.4 million by 2020 with an annual population growth rate of 3.2%. With the continuous rise in population, there is also an increase in the number of proportion of low income earners mostly in rural areas. While there has been significant growth in both bank branches and the banked population, profitability considerations make for a poor geographical correspondence between the growth in banking and the growth in population, leading to the high level of regional variation in bank spread. Conflict has now also become a major barrier to financial inclusion, as witnessed by the slowdown in inclusion in the northeast region. Another reason for high levels of exclusion in the north is the religious prohibition of interest, and the population's aversion to interest based finance.

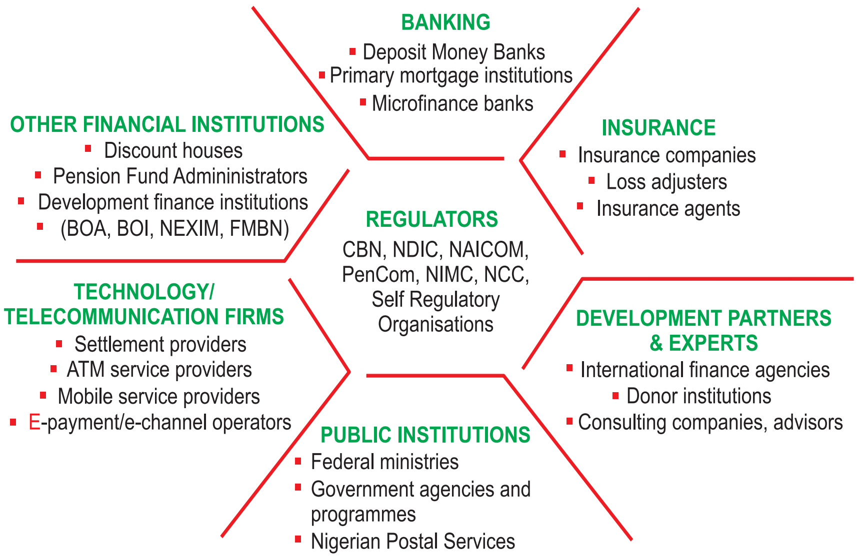
Microfinance represents Nigeria's first concerted effort at financial inclusion with the launching of the Microfinance Policy, Regulatory and Supervisory Framework in 2005 and subsequently revised in 2011.

## Microfinance and Financial Inclusion

Globally, microfinance has evolved to become a major driver of financial inclusion. Microfinance in all its variants is essentially the provision of small (micro) loans and savings products for people living at the base of the economic pyramid who are usually excluded from the traditional banking system – the unbanked. Although microfinance has existed in various forms for centuries, modern microfinance was popularised by Mohammed Yunus in the 1970s when he began experimenting with giving small loans to groups of rural poor women in Bangladesh. Yunus' idea – which won him a Nobel Prize and has been expanded to commercial microfinance, is credited with helping several millions of people exit poverty, and has expedited the pace of financial inclusion.

Microfinance represents Nigeria's first concerted effort at financial inclusion with the launching of the Microfinance Policy, Regulatory and Supervisory Framework in 2005 and subsequently revised in 2011. In Nigeria, the CBN has a vision and robust framework for an effective and sustainable microfinance sub-sector that will deepen financial inclusion and provide access to a range of financial and non-financial services to low income earners and vulnerable groups. This vision and framework nonetheless, the microfinance sub-sector has so far struggled to achieve the desired objectives. In a recent study on microfinance and financial inclusion, EFInA identified limited affordable capital as the major challenge besetting microfinance banks in Nigeria. According to the report,

Financial Inclusion Stakeholders in Nigeria




Source: National Financial Inclusion Strategy (NFIS)

microfinance banks in the country are constrained by lack of adequate capital for growth and expansion. They lack diversified portfolio of products, and capital with a matching diversified tenure. Another challenge of microfinance banks stems from the fact that majority of them are legacy community banks and still have capacity constraints. These challenges amongst others have impeded their performance and their ability to provide credit to Micro, Small and Medium Enterprises (*MSMEs*), and to deepen financial inclusion.

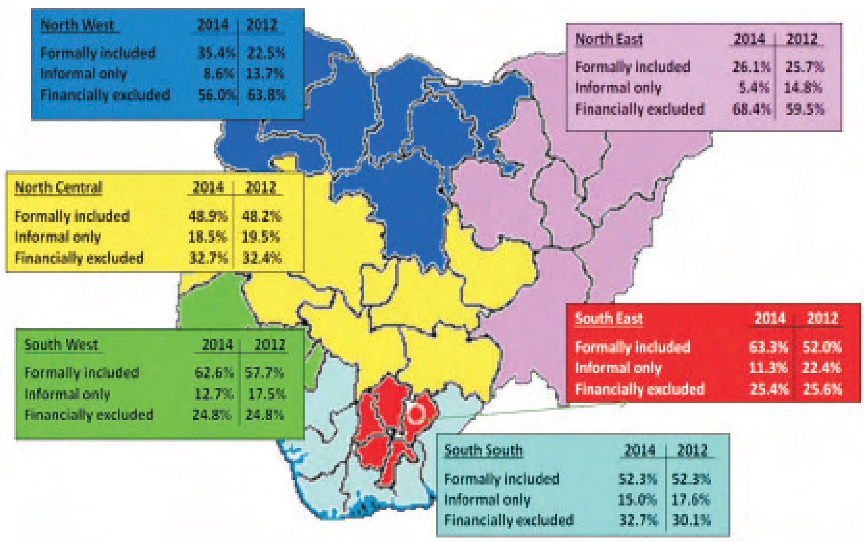
## Agent Banking and Mobile Banking - The New Frontiers

Agent banking and mobile banking represent the newest and most viable platforms for the advancement of financial inclusion. According to most surveys, proximity to a bank branch is a recurring reason why most of the unbanked population are excluded from the formal financial system. On the part of banks, the cost outlay to establish branches in every nook and cranny is simply prohibitive. To bridge the gap and offer banking services to customers outside of areas where there are no branches, banks now engage agents to offer their services. Agent banking is the provision of financial services to customers by a third party (agent) on behalf of a licensed deposit taking financial institution and/or mobile money operator (principal). The banking agent is usually a retail or postal outlet. According to EFInA, in terms of awareness of potential locations for providing financial services in Nigeria, provision shops and pharmacies have the highest levels of awareness. Survey findings suggest that about three-quarters of all

Nigerian adults can get to a provision store within 10 minutes. Agent banking offers a novel frontier through which banks can offer a range of services in a commercially viable way, and at the same time, reduce fixed costs and encourage customers to use the services more often, thus deepening financial inclusion.

Mobile banking is another veritable frontier through which banks allow their customers to conduct a range of financial transactions remotely on a 24-hour basis using a mobile device such as a mobile phone or tablet. Mobile banking has been widely embraced since the overwhelming success of M-Pesa in Kenya which was introduced in 2007.

### Financial Access by Geo-Political Zones




Source: EFInA Access to Financial Services in Nigeria 2012/2014 Survey

Mobile banking represents a possibility that will probably revolutionise the financial services industry in the future. It has a wide range of advantages that enables the unbanked to overcome many of the constraints that exclude them from the financial system. Mobile banking offers a major opportunity for financial inclusion in Nigeria but has not been as successful as expected. According to analysts, the major reason why mobile banking has not blossomed in Nigeria is the exclusion of telecommunication companies (telcos) as mobile banking agents. Although the regulatory framework for mobile payment services in Nigeria, recognises the importance of Mobile Network Operator (MNOs) in the operations of mobile payments and appreciates the criticality of the infrastructure they provide, the telco-led model (where the lead initiator is an MNO), is precluded from operation in Nigeria.

Nigeria with over 150 million active mobile telephone lines and teledensity of 107.87 is unarguably the biggest and most attractive mobile financial services market in sub-Saharan Africa (SSA). However, the subsisting guideline on mobile financial services precluding the telco-led model is a serious impediment to the growth of mobile banking and financial inclusion. According to survey findings, a whopping 13.9 million financially excluded adults own mobile phones. Telcos are well suited for mobile money considering their spread and coverage in the country. Overwhelming evidence from other climes suggests that telecommunication companies are responsible for the success of mobile banking and financial inclusion. The world's most successful mobile money story – Kenya's M-Pesa, is driven by a mobile operator – Safaricom, and that is a model that has been successfully replicated in other climes.

***(Sunny Enebeli-Uzor is a Research Economist, Zenith Economic Quarterly)***

ZENITH ECONOMIC QUARTERLY 2005 10 2015

# Years of Consistent

We gratefully acknowledge receipt of your April 2013 edition of the Zenith Economic Quarterly (ZEQ). Thank you for your goodwill and the important information provided by the Journal. They will definitely enhance our knowledge of the global economy and that of Nigeria for strategic policy decisions. Please accept the assurances of the Chief of Air Staff's warm regards.

***CN Chukwu***
***Air Vice Marshal, For Chief of the Air Staff Nigerian Air Force, Ministry of Defence***

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

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

I am directed to acknowledge with thanks receipt of the Zenith Economic Quarterly and we wish to inform you of the abundant value of the information it has added in the course of our numerous assignments. We look forward to much more of this and more innovative ideas. Warm regards.

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

# Exceptional Service Delivery

I am directed to acknowledge with profound thanks, receipt of the Zenith Economic Quarterly (ZEQ) for the month of April, 2012 that the Embassy just received. I am to add that the Embassy deeply appreciate the contents of the quarterly magazine as it would help our Mission in its investment drive in Thailand as well as in Myanmar our country of concurrent accreditation. While thanking you once again, please accept the assurances of the Ambassador's highest regards.

***Daniel Ayuba***
***For: Ambassador, Embassy of Nigeria, Bangkok, Thailand***

I am directed to acknowledge receipt of a copy 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***

I am directed by the Honourable Minister of State for Defence, Erelu (Dr) Olusola Agbeja Obada to acknowledge as well as express her gratitude for the copy of your Zenith Economic Quarterly (ZEQ) sent to her. The Honourable Minister is excited about the focus of this edition "option for sustainable development of Nigeria" which is an avenue to analyzing the economy for growth which is part of the Transformation Agenda of Government headed by President Goodluck Ebele Jonathan. More grease to your elbows. Please accept the assurances and esteemed regards of the Honourable Minister of State for Defence.

Yours Faithfully,
***Babatunji Omole***
***SA (HMOSD)***
***Ministry of Defence, Federal Republic of Nigeria***

I am directed to acknowledge with many thanks your letter of 28th June, 2012 which you sent a copy of the April, 2012 edition of your above mentioned journal which focused On the "Cashless Economy: Imperatives for Legal and Regulatory" and an analysis of the Prospects of Nigerian Maritime Sector etc. Importantly, the Mission found the journal very educative, informative, current and very relevant in the course of our numerous assignments outside Nigeria. We appreciate your kind gesture in providing the Embassy with the publications. Please accept the assurances of the Ambassador's highest consideration.

***M.S. Ogundero (Mrs)***
***For: Ambassador, Embassy of the Federal Republic of Nigeria, Budapest, Hungary***

# A world Drowning in Oil with No Sign of A Chinese Lifeboat

*"It's tough to makes predictions, especially about the future..."*
Yogi Berra, Baseball player and noted malaprop (1925-2015).

**- By Neil Hitchens**

**As we had confidently predicted** and were completely correct, but simultaneously had worried about making such an overtly pessimistic prediction while many others were far more and ultimately fatally optimistic, 2015 drew to a close with the major identifiers for a global and possible short-term economic and investment slowdown in full view.

Yet many who had predicted with the utmost confidence that 2015 would follow 2014 in being good for investors, whether they be in equities or other instruments, they had, in most cases, managed to completely miss the bigger picture. Certainly our well-founded pessimism about the real state of the Chinese economy was at odds with some very prominent and distinguished macro-economic forecasters.

Further cash injections by the Chinese authorities into the stock market have already been seen to be of little value and if they continue they will ultimately prove futile, I am afraid to say. The Chinese stock market at the moment is in the throes of the start of an uneven decline that is more than likely, if not fated, to continue well into Q1 2016 (if not beyond) after the temporary respite seen at the end of 2015, as gravity regains its hold on the main indices.

This delayed adjustment of the speculative bubble seen over the past couple of years when the Chinese stock market accelerated higher on the back of 'not as bad as feared' economic data was sharply reversed as the indices imploded in the Second Quarter of 2015 when the Shanghai Composite fell from over 5,000 in mid-June 2015 to 3,500 a month later. After a short-term speculative rally within a few weeks, the Composite regained 4,000 by mid-August only for the declines set in again to push the index back to around 3,000 in a matter of weeks. It then spent the rest of 2015 moving in a band between 3,000 and 3,500, only to move back to the lower 3,000's as the New Year began.

Such moves were exacerbated by heavy-handed Government intervention to prevent a rapid decline to the 3,000-3,500 bands that at the time might have been a natural inflection point were there to have been no Central interference: such intervention unintentionally led to far more volatility whose ripple effects adversely impacted all global indices. Such intervention can, in reality, only be fleeting. Indeed

Weakening the currency may actually make things worse. China needs a strong currency to shift resources away from the export and investment-led type of growth seen up till now and more towards consumption driven growth.

continued intervention might well result in the index eventually falling to where it all began in mid-2014, at around the 2,100 level – about another 40% or so from the 2015 closing mark of 3,539.

Yet Chinese officials continue to maintain official policy (as well as 'face', a much vaunted idiosyncrasy) that they will 'look after' stock investors and that there are 'no plans' to devalue the Yuan (despite the reality being that money is flowing out of the country at the moment at an unprecedented rate).

Both statements highlight the futility of such policies even in the quasi-capitalist Chinese Communist Republic.

There is a salutary lesson here that ensuring stock investors do not get too badly burnt in the face of a volatile and negatively biased stock market does not reflect the reality of an economy that is not performing very well.

On the other hand, devaluation may also not be the ideal solution. People want to get their money out of China because they see investment returns collapsing and the reason why is a failure to rebalance the economy.

Weakening the currency may actually make things worse. China needs a strong currency to shift resources away from the export and investment-led type of growth seen up till now and more towards consumption driven growth. As a result they are currently not in a good place for economic growth because the more they talk about not needing to devalue the more people become increasingly more nervous that this is exactly what *will* happen.

Yet the bubble that has been created and now imploded has far wider ramifications globally. In the past the US and other stock markets would have shrugged off such a move. However because of the enormous expansion of the Chinese economy to such a globally significant size this means that such a change these days impacts everyone. People are having a difficult time getting their minds round what is happening in the real Chinese economy (as opposed to the official guidance on growth) and how it affects the global economy as well as how the Chinese stock market fits in with the reality of the situation.

Indeed it has been abundantly clear for the past year that the stock market bears ***no*** relation to the economic reality which explains, in part, our well advised, correct and extreme caution over the past years. However the adjustment now happening to the Chinese economy in the short-term will have some negative effects on the entire global, capitalist economy. But there are also, perversely, some positive effects to come as over-capacity in China is reined in, which is an essential move.

Until the general investor finally realises that the Chinese stock market and Chinese economy are at odds with each other and until such a wide gulf begins to narrow there will, certainly for the first couple of quarters of 2016, be no compelling reason whatsoever at current levels to invest in the Chinese stock market directly. It is highly likely, if not inevitable, that during this shake-out there will be continuing contagion from Shanghai into the other global indices, which in turn will probably indicate depressed or negative returns this side of the summer break.

Such nervousness, whether implicit, inferred or actual can only lead to very volatile equity markets in Q1 2016.

However our other continuing caution over the unending weakness in the price of oil, not helped by the perverse-

ness of all producers in ramping up production, while totally correct, could not fully encapsulate the depths of the bloodbath that has beset the oil industry – while we had expected oil to fall to around the $40 levels, which indeed happened, we had not expected such a positive and swift resolution to the long-running Iran financial embargoes which in turn continues to add to the negative bias to the oil price.

This embargo resolution was totally at odds with our expectations around a year ago where it was mooted that Iran might well find itself painted into a corner if it continued with its defiance of the International Atomic Energy Authority (IAEA) and proceeded with its uranium enrichment programme: the potential ensuing backlash from the likes of the US could have led to Iran trying to directly sabotage Gulf oil production – a possibility at the time.

But suddenly reason and sense has returned to the Iranian leadership.

The downside of all of this is that we can shortly expect around an additional ½ million [Iranian] barrels a day to officially flood an already oversaturated supply chain – something that has led the already febrile oil trading community brains to short-circuit and conclude that oil is in a vicious bear market – which in a way it already is as prices have fallen from over $100 to settle in the $30 area, which is a mental dividing line that seemingly separates a rational response to fundamentals from an irrational fear where the only way forward is down, down, down.

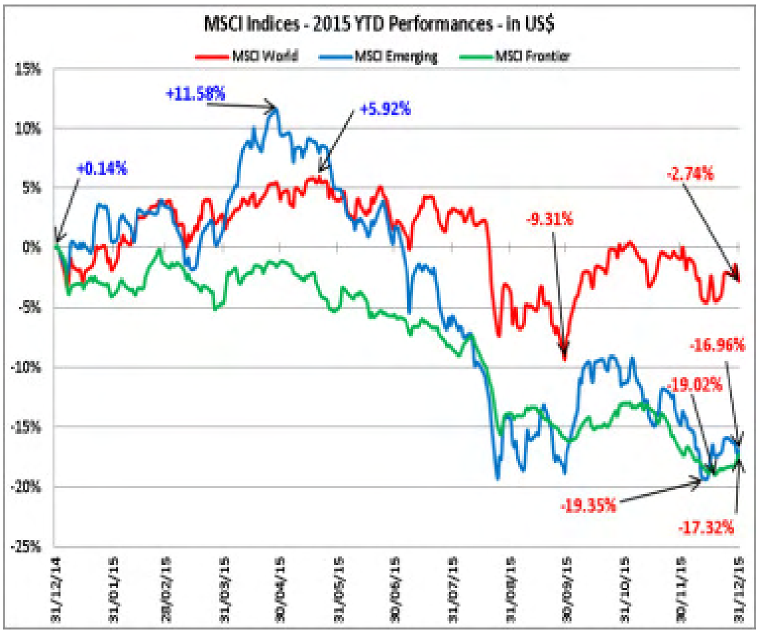
We are seeing a change in oil traders' minds from rationality to extreme, almost animal lunacy – not a phrase we would usually use in a measured and rational economic overview. We are most certainly seeing, thanks to the momentum-driven algorithmic traders and big hedge funds, the price of oil being driven far beyond the point that even once-bearish analysts say is justified — at least in the medium-term — by supply and demand.

This freakish setup is different from most of the period of 2013 to early 2015, when we saw the long, drawn-out move from $100 a barrel broadly viewed as an often painful, sometimes lumpy adjustment to a fundamentally "new normal" in which OPEC would no longer restrain its supply. Such an adjustment would have left U.S. shale drillers to balance the market, which they did by proving remarkably agile, slashing costs and drilling in sweet spots to keep the oil flowing. As they did so, prices lurched lower and lower.

For the new chairman of the Saudi state oil company, Aramco, to publicly state the current price is "irrational" is almost unheard of. Even with prices supposed to be set by the marginal costs of production which are usually around $30, it is a fairly obvious truism that at the moment most traders do not expect a quick recovery from this year's slump amid pressure from the deep supply glut and signs of economic weakness in China – the world's No. 2 oil consumer.

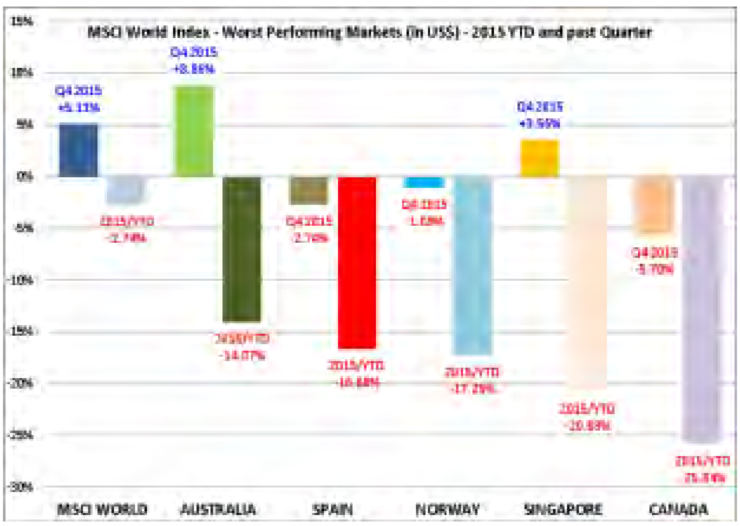
Still, the growing sense of unrealism about the probable unsustainable spot price below $30 is mounting. U.S. shale producers are, in general, teetering on the brink of bankruptcy. Canadian oil sands producers are losing money on every barrel as their crude trades at $15 – due to the higher refining costs associated with distilling such a heavy product, something that has in turn profoundly and negatively impacted the resource reliant Canadian stock market to make it the worst performing Developed Index in 2015. Elsewhere, [heavy] oil extraction in Venezuela and Colombia continues to lose money hand over fist – a factor in the loss of power in Venezuela by the long-term ruling Socialists.

The oil market was probably just looking for an excuse to




Source: MSCI/Barra

If oil prices are, somehow, seen as detached from fundamentals, there might just be the eventual possibility of a rebound higher.




Source: MSCI/Barra

sell. We have seen a rising U.S. dollar on the back of emerging markets non-oil commodity weakness, the aforementioned Chinese stock market collapse and vague worries that the recent diplomatic failure between Saudi Arabia and Iran eliminated the possibility of a near-term OPEC production deal. There are also some fundamental excuses for a weak oil price – such as the warmest December weather on record.

It is ultimately highly likely that the core of the selloff has been driven by commodity funds using extremely short-term but complex algorithms to trade which have, in turn, managed to accelerate market movements at the outer trading extremes.

But, even at these lower levels bulls have been so badly burned that they have stopped trying to pick a buying level. If oil prices are, somehow, seen as detached from fundamentals, there might just be the eventual possibility of a rebound higher. As such oil producers may choose to hold out rather than totally capitulate which will only postpone the point of maximum discomfort

that bearish traders are waiting for.

Certainly overreaction in oil markets tends to be part of everyday life rather than being the exception, and with oil most definitely remaining in oversold territory for at least the next quarter it does not mean that a recovery is imminent or indeed likely.

While some have proposed that relentless selling could push oil as low as $10 a barrel it is an opportune moment to remember the sage advice from John Maynard Keynes warning that a market "can stay irrational longer than you can stay solvent".

Certainly while attending a recent private briefing it is obvious that Saudi Arabia is far from ready to consider abandoning its shock therapy.

## Equities - a disappointing 2015, but there is hope... sooner or later

As we expected, predicted and anticipated 2015 was not a year for equity investors. All three main MSCI composite indices ended 2015 in negative territory, which is unusual but not unheard of.

Certainly the contagion from the Chinese worries from the second quarter of the year onwards never really disappeared and what had looked like a promising, but more measured year for equities where potential returns of around 5% had looked possible for Developed Markets instead saw investors suffer almost 9 months of investment pain.

However in the Developed Markets Index the worst performers, as can be seen on the accompanying chart, are markets with previous red flags against them.

High to low moves in indices such as we saw in 2015 are again slightly unusual, but the MSCI World Index move from +5.92% to -9.31%, a net -15.23% change from peak to trough is actually a very restrained range even if the index itself still managed to end the year with a negative return of -2.74%.

Similar but far more worrying moves were seen in the Emerging and Frontier indices: the MSCI Emerging Market Index (which now includes that perennial dog, Greece) had a range of from a +11.58% advance in April only for it to slip to -19.35% in December, a net move of -30.93% and still ended 2015 with a loss of -16.96%.

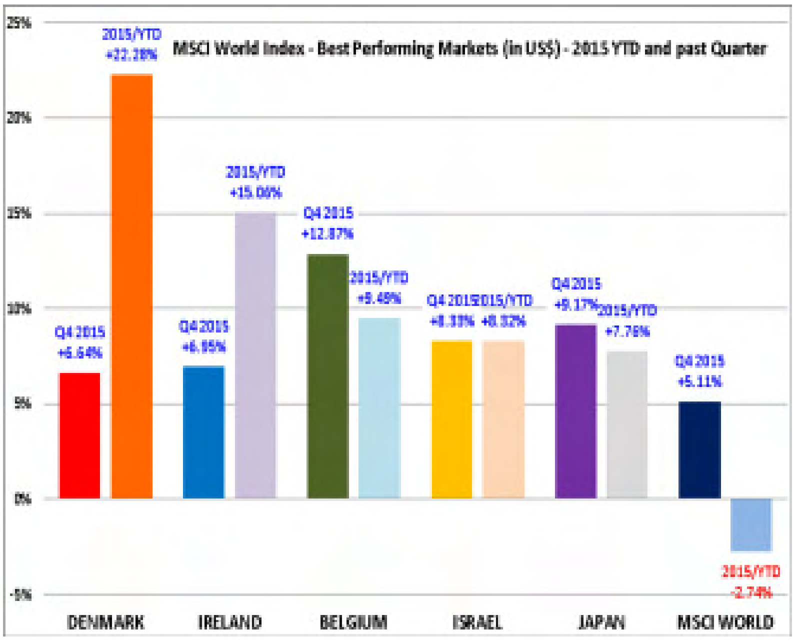
The MSCI Frontier index was, for once, negative for all but the first trading day of 2015.

It rose +0.14% on January 2nd and then proceeded to sink as low as -19.02% to then have a small year-end rally to end 2015 with a loss of -17.32%.

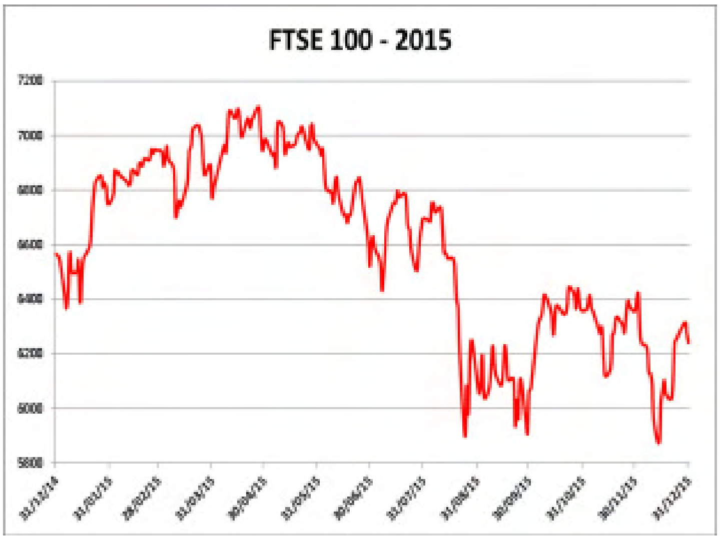
While such returns are disappointing we will spend the first quarter of 2016 taking a closer look at these indices, which have the potential to rally sharply on any commodity price recovery.

On an index by index basis there were the usual hot spots. As we have already noted in previous editions some of the usual soft areas where positive returns of any significant nature are unlikely to appear for some time continue to be rated as an 'Avoid'.

The best performing Developed indices for 2015 were Denmark, +22.28%, where softer monetary policy linked with trying to keep the Danish Kroner in a tacit peg to the Euro of 7.46 meant the Danish Central Bank had to do everything they could to maintain this mark and had to match interest rates, negative or otherwise in line with the moves



Source: MSCI/Barra




Source: Reuters

made by the European Central Bank (ECB).

Ireland we had previously noted as an economy which is booming again like its near neighbour the United Kingdom. The UK continues to grow despite problems on mainland Europe. The historic ties between these two countries will always ensure that Ireland will, eventually, always follow the growth path of the UK.

The one country that does not appear anywhere this year in either the top or bottom performers is the US where indices were effectively flat for the year reflecting both the Chinese contagion but also the market angst that always appears after the Federal Reserve start to raise interest rates, which they finally did at the last meeting of the year. A rise of +¼% to ½% was not exactly unexpected and was probably somewhat overdue. Given the perceived weakness in the Far East the market may be factoring in potential rate rises ahead of the curve: certainly a further +½% rise to 1% would be a good move as this would actually give some traction to the short term treasury market.

However in the Developed Markets Index the worst performers, as can be seen on the accompanying chart, are markets with previous red flags against them.

Canada (-25.84% for 2015), Norway (-17.25%) and Australia (-14.07%) have heavily resource dependent economies and the oil weakness has certainly hit Canada and Norway hard. Australia has also seen weakness in its non-oil commodity businesses.

The poor performance from Singapore (-20.83%) was in part due to the nearness of it to the weakening Chinese economy.

However it is Spain (-16.68%) that actually does not surprise those who have followed its fluctuating fortunes closely. Certainly post bail-out, the economy itself is growing after a fashion and headline GDP figures of over +2% certainly do make for an interesting read

However a closer inspection of the figures shows an economy that remains fragile and that the much expected internal market reforms simply are not happening. Austerity that is meant to be propelling the economy out of its slump does not seem to be happening and there is not much evidence that the promised structural reforms are also happening.

In short the economy remains fragile despite the benefit from a number of tailwinds, but remains acutely vulnerable to another global downturn.

Spain's export performance has been trumpeted as its strong point. Certainly buoyed by a cheap Euro, exports have boomed over the past two years. There is also some extreme pessimism about the much vaunted cost adjustment process where wage costs have been slashed but have not actually done much good. The flip-side of a buoyant export sector has been falling imports as suffering Spaniards continue to endure lower living standards and ingrained high unemployment rates.

The composition of the exports should also cause concern.

Over half of the growth has come from low-value goods - foods and fuel - but it does undermine the claim that export success is directly linked to much-sought after structural reforms and deregulation. Were reforms to boost innovation and productivity, this would be visible in a structural shift in favour of higher-valued goods in the composition of Spanish exports.

Quite simply it isn't happening.

Spain's recovery, while laudable, will remain problematic so long as unemployment, productivity and debt remain in their current ranges and would mean the economy remains extremely vulnerable to another exogenous shock or the possible, but growing, likelihood of a gradual decline into another global recession.

Spain remains mired in deflation.

Falling prices may be a boon for economic growth as they bolster consumer income but with consumer prices falling by -0.9% in September, such an entrenched descent into deflationary territory is dangerous for economic growth and exacerbates spiralling debt costs.

Spain's nominal GDP still remains stubbornly lower than seven years ago.

Falling prices are particularly pernicious in an economy with a high debt burden. Spain's current debt-to-GDP ratio stands at 94% and the process of deleveraging, or paying off, this debt is significantly harder in a deflationary sinkhole and as such we find that Spain's overall debt level is higher than in 2008.

Spain's recovery, while laudable, will remain problematic so long as unemployment, productivity and debt remain in their current ranges and would mean the economy remains extremely vulnerable to another exogenous shock or the possible, but growing, likelihood of a gradual decline into another global recession. This though is part of the increasing worry that business and investment cycles seem to be growing shorter with accompanying deeper and sharper downturns.

Almost as a final insult to the Spanish economy, political risk looms large in Spain: the end of year elections shattered Spain's long-dominant two-party rule. While Prime Minister Rajoy's Peoples Party was the largest individual party, they also had their worst performance since 1989. However the opposition Spanish Socialist Party also had a bad result with the newcomers, Podemos, holding the balance of power. If you add into this the growing possibility of a semi-formal secession of the Catalan region in a move that the Central Government deems to be unconstitutional then 2016 does not augur well for Spain, its economy or its stock market.

Away from the Iberian peninsula investors might be tempted to look at the one European economy that is performing well, has low inflation as opposed to deflation, a Central Bank that appears at times to be gearing up for a series of extended interest rate rise, has a stable political infrastructure after a shock win for the ruling party and is economically open for business.

I am of course referring to the United Kingdom and the FTSE 100 index.

However, as can be seen the index has had quite a torrid and volatile 2015.

Starting the year at 6,566.09 it rapidly hit new all-time highs as prospects for a bumper growth year increased and it peaked on April 27th at 7,103.98, before the May General Election. It then treated the Conservatives unexpected majority with almost total indifference moving only from 6,900 back to 7,050 in the days after the result and by the end of May the 7,100 level had been probed again and rejected. After these worries over the greater global, Chinese induced, slowdown came to the fore and were quite seamlessly joined into growing domestic political contagion over the growing possibility of a British exit – Brexit – from the European Union.

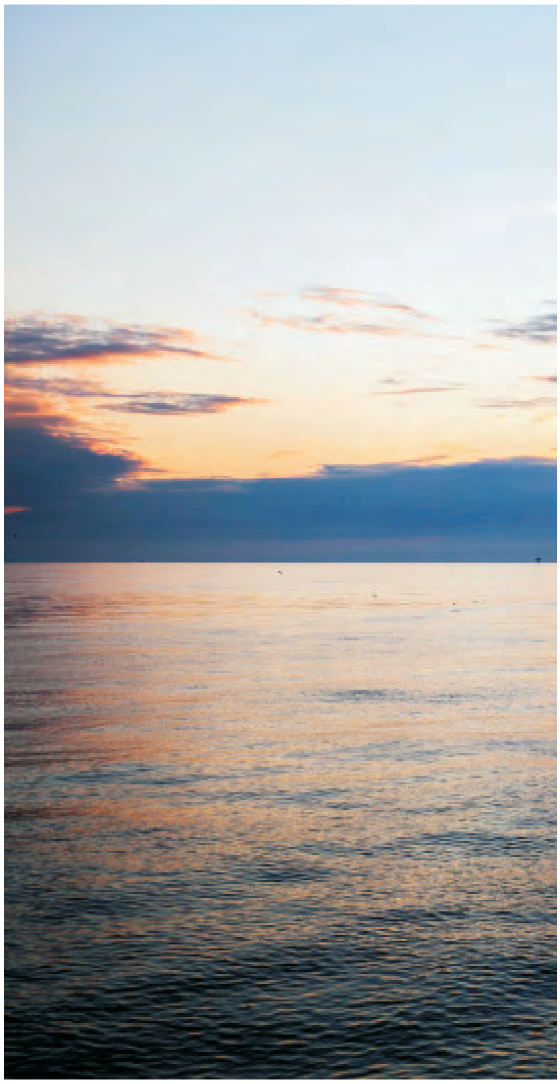
While the chart may apparently show a possible triple bottom in the 5,875 – 5,900 area this looks distinctly like a false bottom and the potential for 'lower lows' remains.

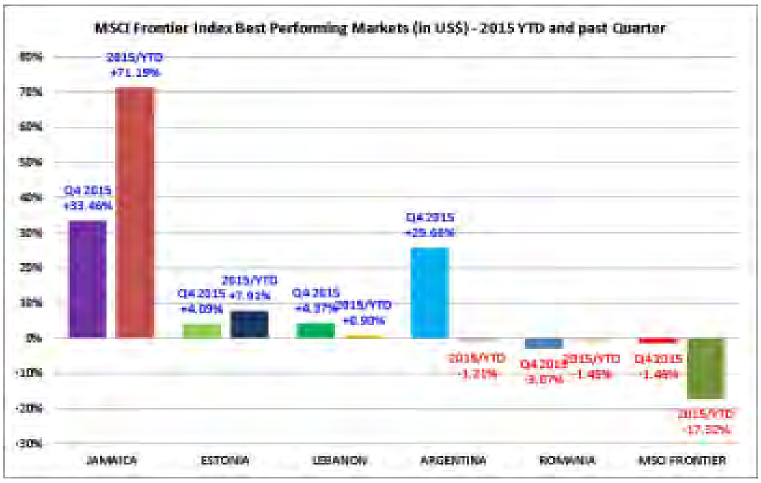
Over the longer term while the new all-time high is most welcome, the fact that for the third time in 15 years the index has probed the 7,000 levels and failed is, for those of a technical disposition, very disquieting.

If we recap the past 15 years the index first flirted with the 7,000 level in early 2000; it ended 1999 at 6,930 and then declined to 3,287 on 12th March 2003, after the terrors of 9-11 and the Iraq war.

The FTSE then rallied from mid-2003 to peak in October 2007 at 6,721 when RBS managed to pick the top of the market almost perfectly by completing the ill-fated acquisition of ABN Amro. The ensuing financial crisis saw the index crash to 3,529 on 5th March 2009 before starting the most recent 6 year rally that resulted in the 7,000 breach seen in 2015.

Inflation adjusted, using a convenient benchmark of a 2.0% inflation rate, such a 15 year net zero gain turns into a missed opportunity of around +31.95% - or in other words were the index to have moved just with inflation over the past 15 years we should have seen the FTSE 100 add **2,214** points to be posting an inflation adjusted new high of **9,144** rather than the actual overall rise in total of only a net 173 points – or, in other words, the index in 15 years has risen only 11.5 points net per year: +2.5% in total or +0.17% annualised.






Source: MSCI/Barra

However, were you to have adopted a more dividend driven approach, such as the one that I have personally applied you would now be in the invidious position of instead of a net +2.5% rise at the April 2015 peak, you would instead have seen a change in the order of +4% - +5% net a year – in other words a total return of around +85.19%.

Food for thought indeed!

Away from the largest capitalised indices the second tier, Emerging Markets, with a net -16.96% return for 2015 tells a tale of a speculative bubble gone wrong. The Developed Markets Index showed 11 positive components vs. 27 losing – a win-loss ratio of 29%:71%. The Emerging Markets had but a single, solitary market that had positive returns.

The other 44 components all lost money.

Hungary at +33.12% for the year is the index 'poster-child' of some long overdue domestic reforms. Such positive moves by Budapest shows that in relatively smaller economies, when the government actually knuckles down and delivers its promised reforms, there are many positives to be had. Rising share prices reflect first of all the substantial improvement of Hungarian economic outlook with higher 2016 GDP estimates, a significant drop in credit defaults and a benign but not soft interest rate environment. Additionally we are also seeing a positive credit rating outlook which should lead to an expected ratings upgrade during 2016.

Were you to adopt a rolling stop initiative, something that for the smaller market has to be an absolute must, then…

Readers will be surprised to see the appearance of Chinese shares after such a pessimistic report. As we have stressed in the past for those willing to buy and hold no more than an index weighted position and hold these for the longer term there is the distinct possibility that overall returns will be significantly positive.

Were you to adopt a rolling stop initiative, something that for the smaller market has to be an absolute must, then you could have easily exited your quasi-trading position once the Shanghai Index had slipped to your predetermined stop level from the 5,100 high and not returned to the markets till around 3,000. I would be more than happy to provide such guidance to any reader.

However when we examine the 2015 returns for the bottom 5 markets we again see some familiar faces and it should come as no surprise that, yet again, Greece has managed to lose -62.13% due in no little part to the exchange being forcibly closed between June 15th and August 3rd on the back of the latest near-miss default crisis.

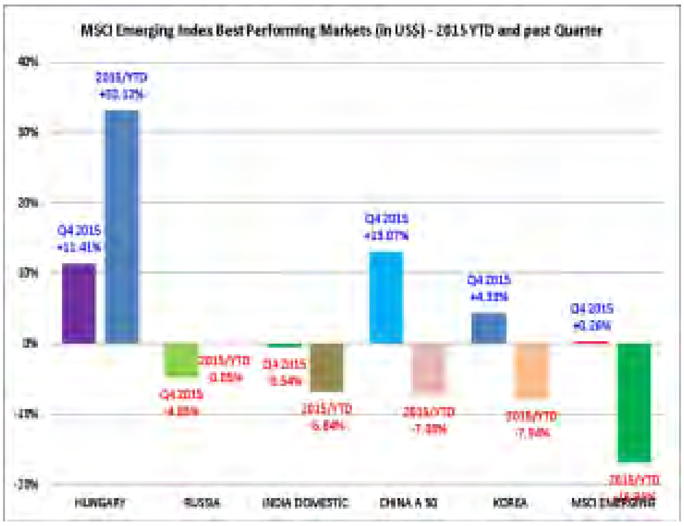
The Athens index continues to perplex and as it is now nearly 90% down from its all-time high oddly enough this now starts to be of 'interest' to bottom fishing participants – on the somewhat misguided basis that it could not go any lower.

I am afraid they are, as always, wrong – the closing level of 635 at the end of 2015 still gives you 634 points of possible downside! While, yes, I agree that were you a longer term thinker then the possibility of dipping a toe into the Athenian waters at these much reduced levels, go away for a period of 5-10 years and who knows what might happen?

In short – a lot might happen!

There is still the serious possibility of a fatal Greek default. The most recent ECB measures are at best merely a vanity sticking plaster over the gaping wound that is the Greek public finances. Additionally with the unravelling of the Schengen agreement allowing free travel between EU states this already wavering measure could well be the trigger for a more introspective Greek stance.

Finally there is always the rumbling threat of Greek expulsion from the Euro – in all honesty nothing much has changed in the past 18-24 months that does not scream out '**AVOID**'.




Source: MSCI/Barra

Were you indeed to invest say at around 500 on the ASE Index and went away for an extended period it is more than likely that while the index itself could well recover in 10+ years' time to, say, 1,500 – always possible – you are more likely than not going to be repaid not in Euros, but the "New Drachma".

If you can guess the actual exchange rate of the New Drachma in 10 years' time then you are a better analyst than possibly anyone on the planet. It could be 1 Drachma to the Dollar. It could well be 100.....and my instinct tells me that it's more likely to be towards the 100 end of the range....

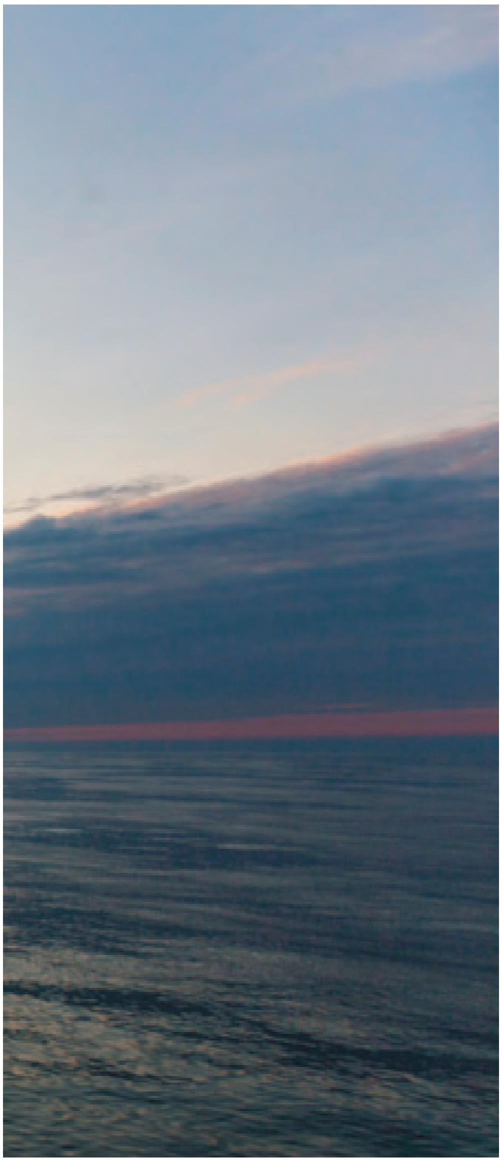
The returns from the third tier Frontier Markets Index are almost as dire as those for the Emerging Markets. While the Index itself ended the year -17.32% again the vast majority of returns were in negative territory, 3 markets had a positive return and the other 46 all lost money.

Again the micro-capitalised Jamaican mar-

ket put in an almost incredible +71.19% and as such I have looked carefully at the underlying facts about the Jamaican Stock Exchange (JSE). Over the past 20 years the exchange has had losses for most of the past 10 years: in other words the best returns came from the mid 1990's until about 2004. After that there was nearly a decade of back to back annual losses until the reorganisation of the exchange a few years ago. Since then we have seen a surging or rather resurgent market.

However while the total exchange market capitalisation has increased in 2015 to US$ 5.3 billion this is dwarfed by the market cap, say, of the Dow Jones Index at $5.23 *trillion*, or to make it a little easier the market cap of Apple is 'only' $554.5 billion – 100 times that of the entire JSE – or the Ford Motor Car company at $47 billion is mere 9 times the entire JSE capitalisation.

While it would be slightly imprudent to say this is a definite time to invest please note that the number and sophistication of the Caribbean stock exchanges is growing. With the much vaunted opening up of Cuba to hit full power in the next couple of years there is more attention being focussed on these smaller capitalised indices as there are, for certain, a few overlooked gems hiding within the overall stock listings.



As the current weighting in even the most generous of indices remains stubbornly in the low single digit per cents this might, finally, be something to watch carefully even if the JSE is likely to be buffeted by any US stock market jitters. I will though refrain from making any recommendation publicly as to how to best invest here – this will be a solution for clients.

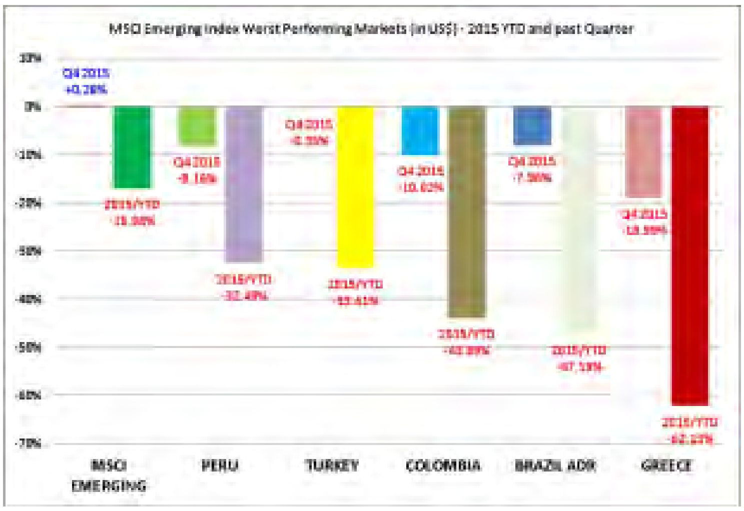
My apologies in advance.

However to top and tail this section we also show the worst Frontier Index performers which for all five participants is not that much of a surprise. All these markets remain impacted by factors totally out of their control, except from Zimbabwe which continues to suffer from self-inflicted problems, and all are likely to remain totally unloved markets during 2016.

The inclusion of Ukraine, still suffering from a large dose of unfinished Russian business, remains a salutary lesson that sometimes in the less illiquid markets opportunities to exit at your desired levels may occur only fleetingly. The Ukrainian currency, the Hryvnia has also imploded from its pre-crisis level of 8.5 to the US Dollar to an official level of around 25. On the black market the rates are nearer 100.

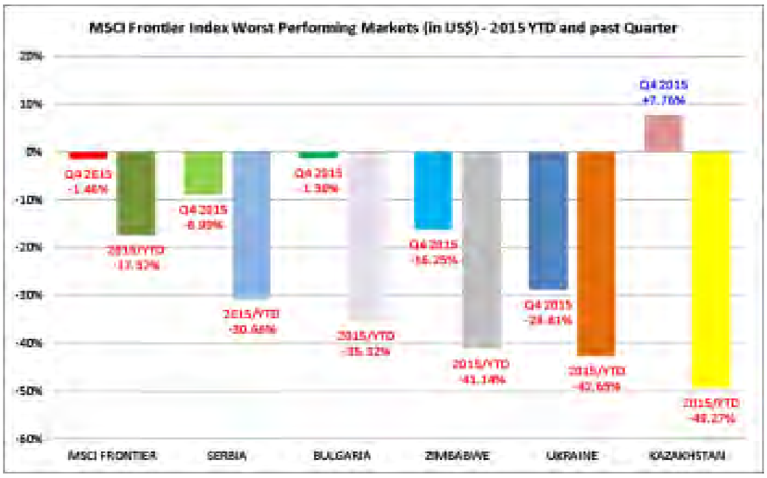
In other words while you may be able to sell your positions, extracting the money in a timely manner in such market may well not occur for a considerable period and the exchange rate may well prove a further hurdle to closure – again this is why I would always advocate indirect investment when such a strategy is appropriate.

Clearly for these markets investment is not only unwise it is currently fraught with difficulty.




Source: MSCI/Barra

## Commodities - it's all about oil...



Source: MSCI/Barra

As we commented earlier in the piece, the implosion of oil along with the price of most of the more commonly used industrial commodities has proved to be a hammer blow to the hopes of recovery to many emerging economies, causing in turn extreme stress on their currencies.

Further problems occur in countries where an implicit or actual peg to the US Dollar may no longer be appropriate but reserves that in the past could have been used to cushion the blow of moving to a freer floating currency have been squandered or simply used up as the price of oil has more than halved and government foreign currency revenue streams have simply evaporated as the financial authorities waited too long to react, possibly hoping as in the past that the correction would not be bad as has now become evident.

However the price of oil as we can see has simply fallen off a cliff over the past 18 months from what was a fairly range bound and predictable \$80-\$120 range to something that not only marks the severest bear market in the past 20 years but the effects of gravity on the price have now led some of the more nervous commentators to infer an ultimate bottoming out of the oil price in the sub-\$20 a barrel range with one forecast of a return to \$10.

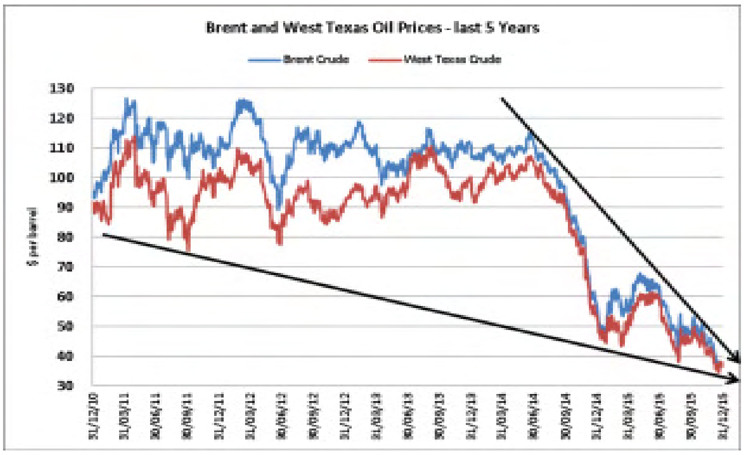
As the chart shows the converging

bear trend lines do not augur well for the first quarter of 2016 and may indeed show that a break below $30 may well see a new range between $25-$30 as the new short term norm.

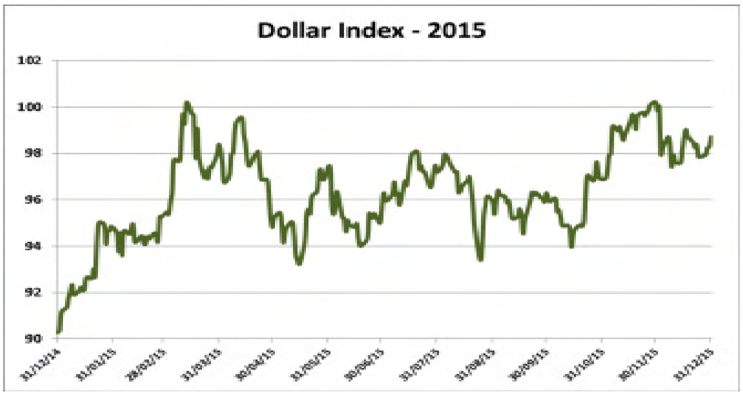
Oil prices are being driven lower by a self-fulfilling fear about economic growth. It is quite obvious that because no-one seems capable of cutting or organising and coordinating an industry wide reduction in production the world will soon be drowning in oil. There is as we have already noted a record short position by the hedge funds and we will shortly have the added promise of more Iranian oil on the world market.

However the oil crisis, for that is what it is, is now being felt by both oil consumers and producers. The International Monetary Fund (IMF) has already lowered its growth forecast on slowing China fears despite China importing a record amount of oil last year.

The weakness in oil is not only a mixture of an inability to stop production in a sensible and rational manner but should be considered in conjunction with a lessening in overall demand, partly due to the warmer than forecast Northern Hemisphere winter which saw substantially less snowfall in Central Europe for instance. In addition the rush to promote new green initiatives in developed countries through a greater usage of solar, nuclear and hydroelectric power generation while at the same time seeing the closure of many oil and coal-burning power stations across Western Europe and North America has, for instance seen the closure of the last deep level coal mine in England – for some of truly the end of an era!




Source: Reuters




Source: Reuters

The Saudi Arabian economy is getting well and truly walloped not only by the collapse in the oil price but also because of the rising U.S. dollar. As can be seen, the US Dollar has had a good 2015 and the Dollar Index has risen from 90.276 and ending 2015 at 98.693, a+9.32% appreciation.

As the Saudi riyal is pegged to the dollar, there is increasing speculation that as the Saudi reserves are being burnt trying to keep the economy ticking over, as the populace expect it to, as well as having to pay for prohibitively expensive wars on several of its borders we find, unusually, speculators betting that the Saudis will be forced to remove the long-standing currency peg.

Interestingly and very tellingly we

have recently seen all such speculation effectively outlawed.

A very unsubtle way of actually telling the market that this might well have to happen.

The logic I use here is that were the Saudi authorities not going to (have) to do anything they would let the options writers and purchasers continue to build up these extremely, supposedly, speculative positions knowing that at the end of the day nothing will happen and the speculators will merely have wasted money buying time premium on options that would not move in price.

What has actually happened has rather let the cat out of the bag – in other words something is up.....they are preparing one day soon to lift the peg.

All of a sudden, Saudi Arabia has intervened harshly with those buying options, betting on a move in the peg.

The Saudi Arabian Monetary Agency has ordered the immediate suspension of the production and sale of options contracts on Riyal forwards.

That move shows how hard the oil price collapse is hurting the Saudis and while they don't want the market to force them to scrap the Dollar peg in the short term, it is a now a possible outcome.

Not inevitable but the odds on this have substantially increased in the past few months.

The best advice for now for anyone wanting to trade oil is to step back in the short-term and truly study the intra-day moves and let the market perspective clear first.

The trend will then either continue in a bear squeeze, or stay around $30 for some time, or there may be some sense coming into the markets and production may well be cut unilaterally.

As a final outcome demand might also pick up were there to be a very late and very hard Northern hemisphere winter.

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## 2016 - Certainly Q1 is going to disappoint...

Hopefully this piece might be the last one for a while where we will continue to urge extreme caution for investors in all asset classes in the coming quarter.

However never underestimate the ability of any market to wrong-foot investors.

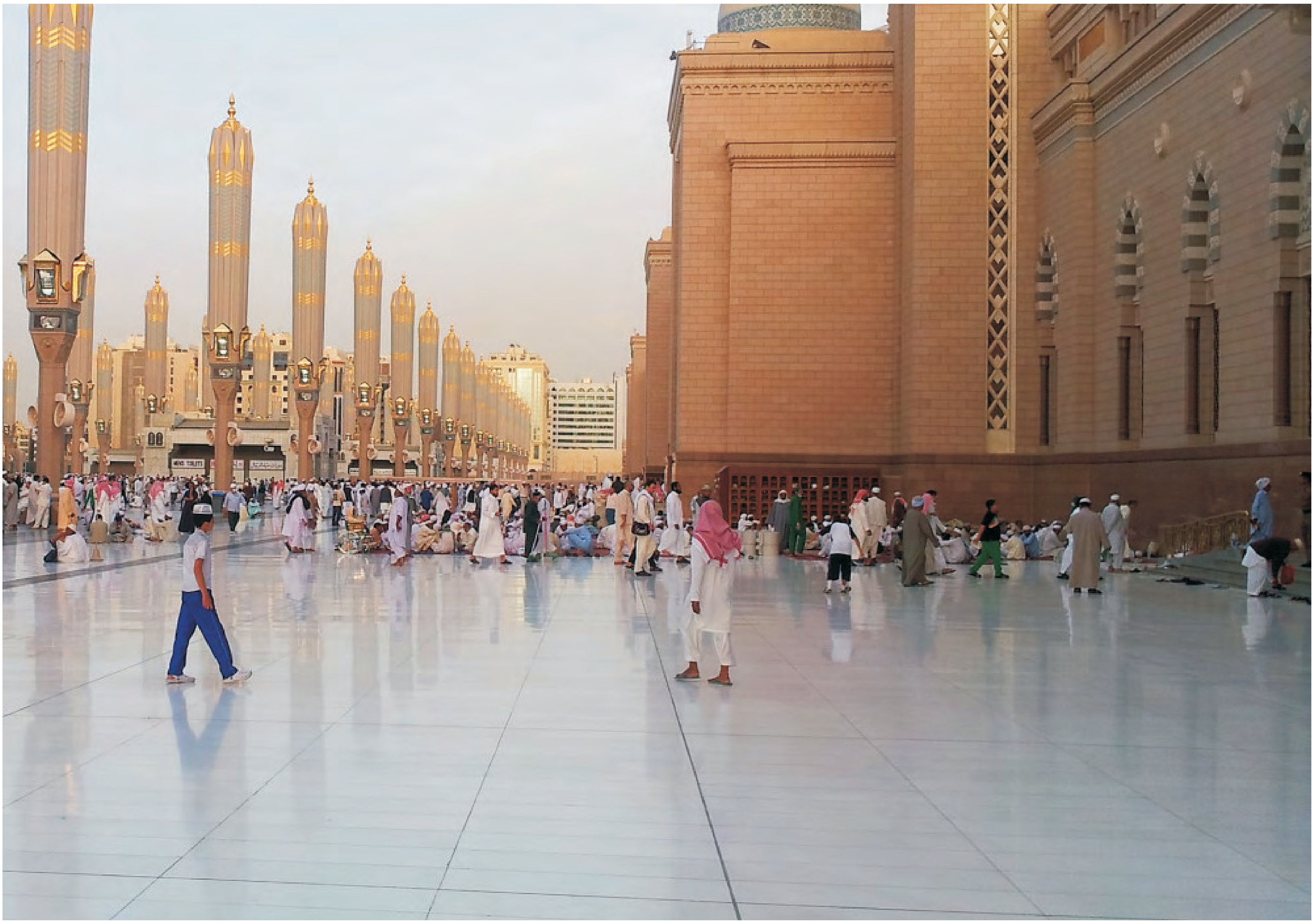
Equities may well go quiet over the next few weeks and the volatility could well drop to such a level to lure both the professional as well as the part-time investor back 'because it seems safer' only, for instance, for the Fed to announce that interest rates will definitely be heading significantly higher despite the weakness outside the US economy, or for China to interfere dangerously in its domestic markets – both moves are likely to send share prices plunging.

A true 'suckers' rally.

For as long as the oil market lacks positive momentum towards a stable price of between $35 and $40 then fear will continue to rule. Combine this with an ever closer scrutiny of the slowdown in the Chinese economy and it is unlikely that equity markets will be generous at all for investors in this coming quarter.

There will, though, be some winners in this carnage – certainly the biggest gainer will be Iran.

As soon as there is official confirmation and ratification of the lifting of sanctions against Iran it will then be able to access an amount in excess of US$ 100 billion of cash and assets that has been frozen for many years. It is uncertain this close to a final resolution how



this much delayed financial windfall might be spent, but one of the first priorities must be for the National Iranian Oil Company to almost rebuild its oil infrastructure from scratch given that there has been an almost total inability to do anything more than basic maintenance on their oil fields for more than 20 years.

This could well be the trigger for a rally in oil equipment service companies which in turn could follow through to the rest of the oil exploration and development sector.

Oddly enough there are other factors that are being totally ignored by investors – and here this more because they do not wish to contemplate the ramifications about what could happen.

An eagle eye must be kept on Russia – the longer the oil price remains distressed, the higher the likelihood of Russia trying to divert internal unrest by engaging in further military action either in the Middle East or towards its Southern borders with Ukraine.

The Ukrainian economy is in crisis and the possibility of a full-scale Russian invasion exists, as we have said previously, on the pretext of 'rescuing' Russian nationals in the Transnistria enclave from Ukrainian 'cultural oppression'.

Another and more frightening alternative would be a push to re-annex the Russian enclave of Kaliningrad which is squeezed in between Poland and Lithuania (always in my eyes the weakest link of the Baltic States). This may explain some part of why NATO is re-building abandoned bases in Germany and Poland.

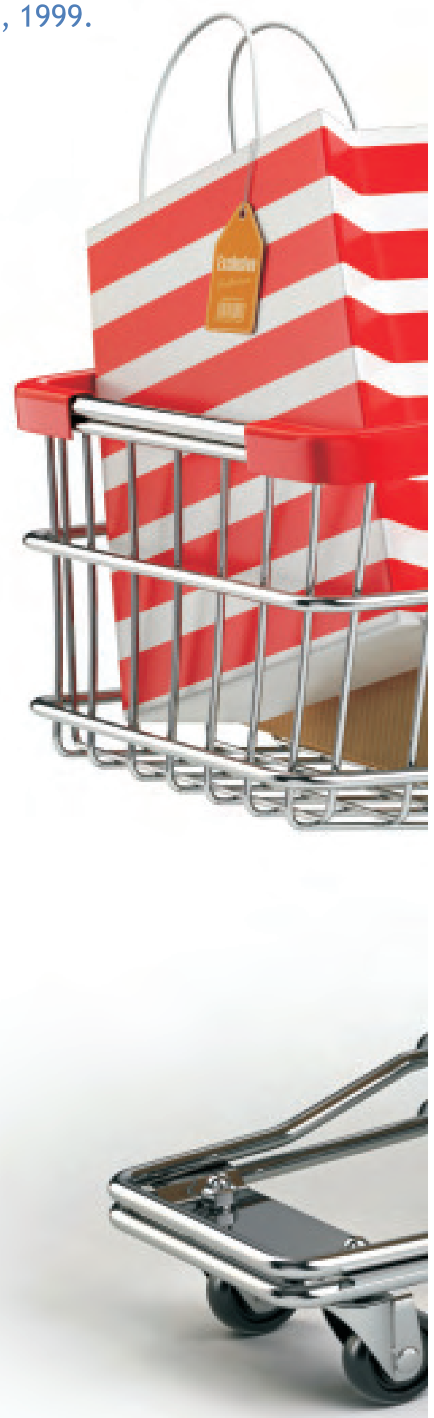
All of this leads me to finally recommend that all investors be in a high state of vigilance – it may be that the final downward push in equities comes this quarter, in which case it will be a case of re-building old positions quickly from April onward.

There may also just be an agreement in the oil market about production levels which would see the oil price jump by anything from 20%-50% in very short order.

Be patient – one way or another it will soon be time to start investing again – finally!

- *(Dr. Neil Hitchens, ACSI – Independent Investment Financial Strategist and Manager. He may be contacted at any time via email at the following email address:*
**ceo@mountross.com**

"Electronic commerce (e-commerce) has the potential to be a major engine for trade and development on a global scale" - UNCTAD, 1999.



# E-COMMERCE: Harnessing Nigeria's Potentials To Drive Inclusive Growth

**By Chinemerem David Okoro**

Nigeria's current economic situation – slowing domestic growth, slump in commodity prices, among others – restates the obvious need for a new growth driver besides oil on which the country has depended for decades. Electronic commerce, popularly called e-commerce, has the potential to be a new driver of inclusive growth and development in the country. Since the emergence of digital technologies — the internet, mobile phones, and all the other digital tools, there has been a steady shift in the place, way and manner business transactions are conducted amongst enterprises as well as consumers. Away from the traditional retail channels of bricks and mortar stores, increasing volumes of transactions are now initiated and conducted via electronic devices and platforms, in few clicks. Although there are no comprehensive official statistics on the volume and value of domestic e-commerce, industry reports put the number of online orders placed daily at 300,000 and potential industry value at about US$13 billion (N2.5 trillion).

Interestingly also, Information and Communications Technology (ICT) which fosters online businesses contributes about 8.4 per cent of Nigeria's Gross Domestic Product (GDP) and recorded a 16.4 per cent growth in 2014, according to the National Bureau of Statistics. Today,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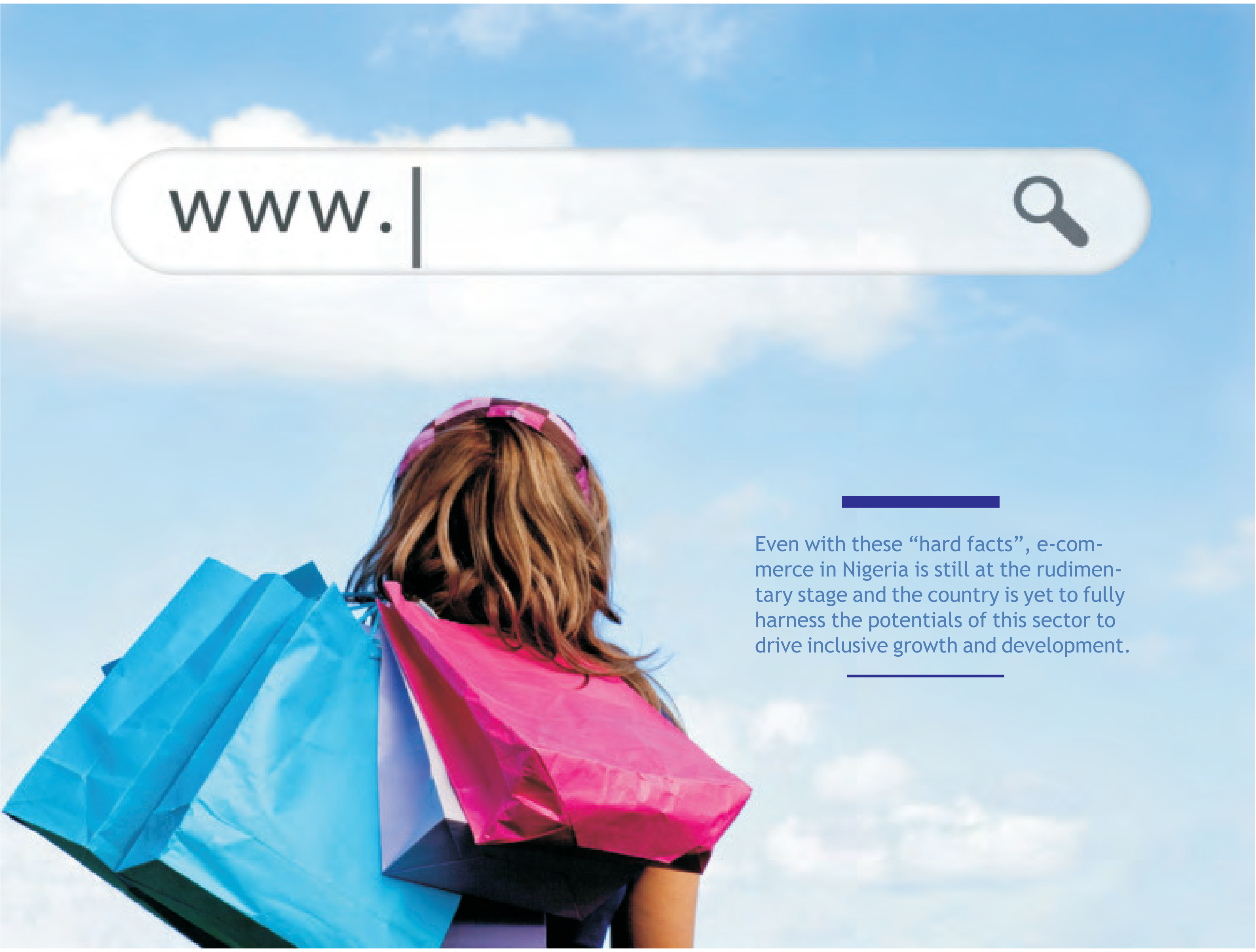



Even with these "hard facts", e-commerce in Nigeria is still at the rudimentary stage and the country is yet to fully harness the potentials of this sector to drive inclusive growth and development.

Nigeria ranks as a global leader in e-commerce growth, with annual real growth of 177 per cent in 2015, according to the Euro monitor International.

Even with these "hard facts", e-commerce in Nigeria is still at the rudimentary stage and the country is yet to fully harness the potentials of this sector to drive inclusive growth and development. In the first instance, the number of internet users – internet penetration, is still very low, compared to the population size. The huge potential of the digital economy is underexploited with broadband penetration still between four and six per cent, according to the Nigerian Communications Commission (NCC).

Based on industry reports, countries that have successfully leveraged the e-commerce sector to foster growth and development, such as the United Kingdom, the United States and Norway, have correspondingly high Internet penetration rates of above 80 per cent.

Also, although many entrepreneurs are already leveraging digital technologies to create successful businesses and make significant economic impact, that number could be increased to create more jobs and business opportunities for Nigeria's growing populace. Indeed, this sector holds great potentials to attract foreign investments, create more jobs, increase standards of livings, and contribute more to real economic growth if stakeholders and the government will come together to evolve an effective national e-commerce strategy that will address the numerous, yet surmountable challenges – underdeveloped financial system, weak legal and regulatory framework, risk of cybercrime and fraudulent activities among others – that are impeding the growth and development of the sector.

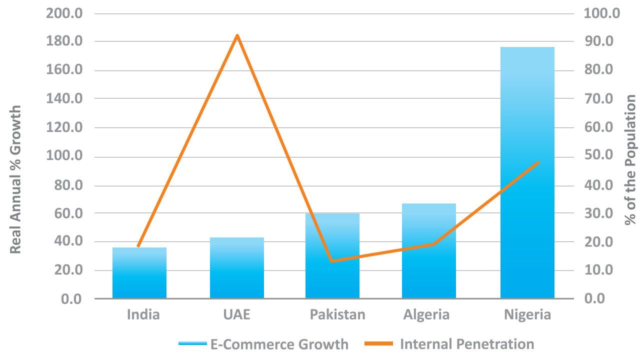
Nigeria's e-commerce space, which had little commercial viability a few years ago, has started to gain wide acceptance in the country.

## E-commerce and the Nigerian landscape: From bricks to clicks

Essentially, electronic commerce (e-commerce) involves the trading, whether sale or purchase, of goods and services, conducted over computer networks, using personal computers, laptops, tablets and mobile phones of varying levels of sophistication. It may also involve physical goods as well as intangible products and services. It draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, and online transaction processing. While the goods or services are ordered through electronic methods, the payment and the final delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals and governments. E-commerce transaction between businesses is referred to as B2B; transactions between businesses and consumers, referred to as B2C, involve sales by e-commerce companies to consumers using a dedicated, e-commerce website. A relatively modern version of e-commerce involves sales between consumers (C2C) while Business to Government (B2G) involves transactions between business and a government entity.

Nigeria's e-commerce space, which had little commercial viability a few years ago, has started to gain wide acceptance in the country. The entrance of e-commerce has revolutionized the country's retail industry, changing the traditional method of shopping and doing business from open-air markets and modern malls (bricks) to online shops and outlets just clicks away. This massive consumer behavioral change in favour of e- commerce has led to the emer-

**E-COMMERCE GROWTH AND INTERNET PENETRATION IN SELECTED MARKETS: 2015**




Source: Euro Monitor International

gence of many e-commerce companies like Konga.com; Jumia.com; Buyam.com; Gloo.ng; DealDey; OLX; Cheki.com.ng; Lamudi.com; Camudi.com; Jiji.ng; Yudala.com; Supermart.ng; Efritin.com; among others. These companies offer variety of goods and services mostly to final consumers, although some provide platform for consumer to consumer transactions. Industry reports show that these companies currently boasts of about 300, 000 online orders daily, up from about 15,000 in 2012 and the industry potential is put at over US$13billion. Growth in Nigeria's middle and high-income classes and growing internet penetration have accelerated the pace of e-commerce usage in Nigeria.

## Key drivers of e-commerce growth

Consummating an online transaction is influenced by several factors. Primarily, internet access for both buyers and sellers is a key driver of e-commerce growth. In Nigeria, the growing shift of consumers from traditional shopping malls to online malls and outlets through e-commerce is mainly attributed to the growth in affordable internet access, especially via smartphones. According the Nigeria Communication Commission (NCC), active internet subscription via Global System for Mobile Communication (GSM) stood at 97 million as at December, 2015, equivalent to penetration of about 64 per cent of total active GSM lines. On the part of the seller, a web presence for accepting orders is necessary (even if outsourced to a third party). The number of e-commerce websites is a useful indicator of the capabilities for receiving online orders.


Another key component is an efficient and safe mechanism(s) for paying for goods and services ordered online. For all forms of e-commerce, whether Business to Business (B2B) or Business to Consumer (B2C), access to a competitive and secure payment solution is a critical factor. Payment system could be account-based, electronic currency and other systems. The most common form of e-commerce payment system is the account-based payment which entails the payment for goods and services ordered online from an existing personalized account using a credit card, debit card, mobile money or online banking. In Nigeria, besides the use of cash, the use of debit/credit card remains the dominant method of payment in e-commerce, either online or via point of sale (PoS). The increasing growth in the use of account-based payment system is aided by the cashless policy of the Central Bank of Nigeria (CBN) which has also played a role in facilitating growth in electronic commerce.

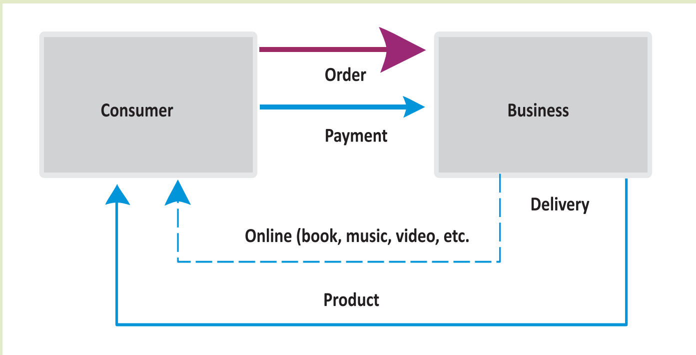
E-commerce depends largely on a very reliable and effective delivery solution/system. In fact, the convenience of receiving ordered goods and services, whether electronically or physically, is one of the attractions of e-commerce to consumers. In order to meet the complex needs of their numerous customers, many e-commerce companies in Nigeria are establishing their own independent distribution networks, given the soft infrastructure problems and lack of a fully reliable postal service in the country. Thus, the growth of e-commerce depends largely on the availability and functionality of these critical drivers.

## Harnessing opportunities in e-commerce

The emergence of e-commerce as a modern retail industry tool has opened new opportunities that economies can leverage to drive inclusive growth and development. In Nigeria particularly, the increasing acceptance and potential worth of e-commerce provides huge growth opportunities for discerning corporate organisations, small and medium enterprises as well as government. Firstly, e-commerce provides a handy tool to drive Small and Medium Enterprises (SMEs) which are considered as growth engines for Nigeria's mono-product economy. As a single most important driver of innovation and competitive growth, e-commerce provides a perfect business platform for Nigerian entrepreneurs to access markets around the world and participate in the international value chain by offering innovative services that can be customized to meet the needs of clients; thus significantly lowering logistical and geographic barriers. This could create new opportunities that are capable of stimulating growth in the non-oil economy in the medium to long term.

Also, the potential of e-commerce to serve as catalyst for job creation is limitless. According to the National Bureau of Statistics (NBS), of the 104.3 million economically active population or working age population (persons within ages 15 - 64) in third quarter of 2015, a total of 20.7 million persons were either unemployed or underemployed. Meanwhile, about 427,000 new net jobs were created in

**e-Commerce Transaction Processes**




Source: United Nation Conference on Trade and Development (UNCTAD)

Q3 2015 which were inadequate to match the over 1.9 million new entrants into the labour market in the same period. E-commerce offers opportunities for the unemployed populace to become self-employed as well as become employers of labour. In addition, growing trends in e-commerce are capable of providing direct and indirect job linkages for web designers, logistics personnel and affiliated services in warehousing, advertising, production, payments, among others, thereby ensuring inclusive growth, rising standard of living and shared prosperity.

Perhaps remarkably, e-commerce is capable of being a modernization tool for the whole economy by integrating the informal economy into the formal financial structure. With e-commerce growth, business transactions that were hitherto conducted outside the formal economic system, are brought into the formal structure using payment channels. This modernizes the economy, ensures financial inclusion and increased government revenue through taxes. Also, the surge in e-commerce has the potential to drive increased investment in the Nigerian economy. According to industry reports, the Nigerian e-commerce sector is increasingly becoming the toast of investors, attracting over US$200 million foreign investments from various sources such as the Africa Internet Group (AIG).

## Challenges of e-commerce in Nigeria

Nigeria's e-commerce sector, in recent times, has indeed been witnessing increased acceptance and growth. However, the sector has not been able to yield the much desired gains like is the case in other countries such as China and Norway. The major challenges inhibiting the performance of the sub-sector include poor internet penetration. Although Nigeria may be the most populous country in Africa with more than 170 million citizens, the level of broadband penetration is still very low, between four and six per cent, with much of Nigeria's internet users accessing it through smartphones. According to the 2015 International Telecommunications Union (ITU) State of Broadband Report, Nigeria ranked 130th in broadband penetration, out of the 189 member states of the ITU ranked, an indication of the low internet penetration index. This has greatly hampered the growth and adoption of e-commerce in the country.

Another major obstacle which constrains the expansion of online purchases within the industry is information/data security (cyber security). According to the Nigeria Inter-Bank Settlement System (NIBSS), the greatest number of fraudulent transactions took place on ATMs in 2014. E-commerce accounted for 8.8 per cent of the total. This poses a challenge to online retail shops as customers prefer to pay for products when delivered (cash on delivery). Available studies show that cash-based transactions limit the volume of sales and also increase the risks faced by delivery agents. It also breaks the linkage of the entire financial system, thereby reducing the impact of the industry on other sectors of the economy.

Logistics and supply chain still remains a tough challenge to e-commerce in Nigeria due to poor road networks and infrastructure. In fact, delivery within a space of 24 hours is not feasible in Nigeria as most cities do not yet have a standardized physical address system. Where such exist, poor road networks and traffic congestions add to the delay in delivery. Other factors that act as potential constraints on e-commerce include inadequate ICT infrastructure and use, unreliable and costly power supply, limited use of credit cards, low purchasing power, an underdeveloped financial system as well as low level of awareness on e-commerce.

## Next steps

The prospect of e-commerce in Nigeria as a driver of growth is promising. The industry offers hope for young entrepreneurs who want to seize opportunity of the large market and the strategic position that Nigeria occupies in Africa to start an e-commerce business. However, harnessing the economic potentials of this sector requires appropriate actions that would address the observed challenges. There is need to evolve an effective national strategy that would enhance the net benefits of e-commerce.

The formulation of a national broadband policy for the period 2013-2018 is a step in the right direction. In recognition of the role of broadband infrastructure as an enabler of economic and social growth, the Federal Government formulated a policy plan to pursue, by the end of 2017, a fivefold increase in broadband penetration (over the 2012 penetration rate) to 30 per cent by 2018. As "modest" as this target is, relative to what obtains in other countries, it should be pursued with the vigour it deserves as the plan addresses issues relating to ICT infrastructure, cybersecurity, encouraging start-ups, local content, among others.

Tied to the broadband policy plan, the Central Bank of Nigeria (CBN) should continue to drive financial inclusion, through its cashless polices, as well as provide more efficient transaction options. It should also, from time to time, bring together stakeholders in the e-commerce industry to review progress, brain-storm on ways to tackle industry challenges, and make inputs towards the national e-commerce strategy. In addition, there is need to improve the overall business environment in the country to encourage growth in small and medium scale enterprises that will leverage the availability of ICT to drive growth in the economy. Social Infrastructures like power supply, good road networks, among others, should be a priority for the government as this will facilitate the ability of producers to sell online and of consumers and other stakeholders to purchase online, thereby enhancing the net benefits of e-commerce. Taking these steps will position the industry as a non-oil driver of growth and shared prosperity.

**(Chinemerem David Okoro is a Research Economist, Zenith Economic Quarterly)**

# GBF PROMOTING CSR

### Growing Businesses Web Clinic

The Growing Business Web Clinic (GBWC) is an initiative of the Growing Businesses Foundation (GBF), enables businesses and empower young entrepreneurs to innovate as well as leverage the opportunities that the internet and e-commerce create.

The maiden edition of the GBWC in February, 2012 was sponsored by Zenith Bank and Visafone in collaboration with the Central Bank of Nigeria (CBN). The 2 day clinic built the capacity and empowered 208 businesses who were trained on various web applications, proficiency and utility. The GBWC was launched by the Vice President of the Federal Republic of Nigeria, Arch. Namadi Sambo during the 2012 Annual CBN Medium, Small and Micro Entrepreneurship (MSME) Conference and Awards.

### CBN-GBF-Citi Awards

The CBN MSME Conference and Awards was introduced to convene policy makers, stakeholders and also recognize outstanding stakeholders that have demonstrated exceptional commitment to the development of the microfinance sub-sector in collaboration with Growing Businesses Foundation (GBF).

The Awards and Gala night is held annually and it focuses on recognizing the achievements of micro entrepreneurs and micro finance institutions across Nigeria in 9 categories which are; Best Micro entrepreneur, Best Micro-Business Model, Most Marketed Product, Most Innovative Product, Best Employment Generation, Best Woman Micro entrepreneur, Most Innovative Microfinance Institution, BEST SME (Small Business Model), BEST SME (Most Innovative Product/Service).

### Teenagers Growing Businesses Club (TGBC)

The Teenagers Growing Businesses Club is a Growing Businesses Foundation program founded by Ama Nnoli-Edozien to support teenagers with entrepreneurial ideas by guiding them through business best principles in a fun and engaging atmosphere. The program features quarterly workshops and an annual small business fair with 5 workshops hosted for over 80 students till date. With an efficient mentoring system.

The 6th edition of the workshop held in Abuja hosted Interswitch's CEO Mitchelle Elegbe. The Zenith Bank team at the event showcased the Children's account and extolled the importance of savings.

The TGBC franchise can be initiated in and out of schools across Nigeria.

## GBF@ 15 Impact Investing and CSR activities in Photos

GBF has operations in more than 2300 communities across 36 states of Nigeria and has positively impacted the lives of well over 2 million Nigerians via capacity building, technical assistance and empowerment since its establishment in 1999.

Dr. Ndidi Nnoli-Edozien, FMR. Vice-President Namadi Sambo HRH . Muhammadu Lamido Sanusi II at the 2012 maiden clinic

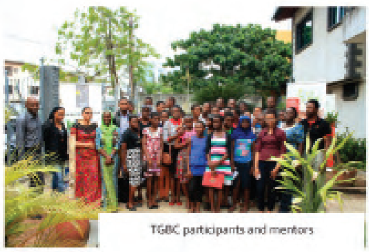
Former CEO of Citibank, President/Founder of GBF, Govenor CBN with an Awardee at the Award Event

An on-going TGBC session

An on-going session at the GBWC sponsored by Zenith bank

Group photo with FMR. Citibank CEO, Founder GBF and FMR Director Development Finance (CBN)

Awardees with DR. Ndidi and Mr Omar Hafeez



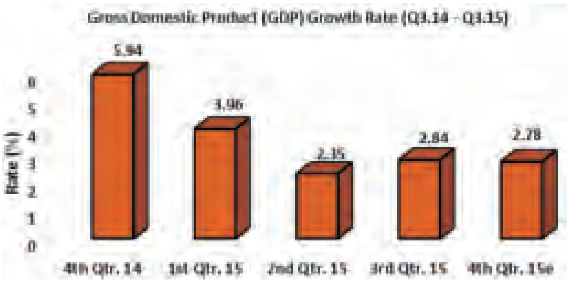
TGBC participants and mentors

## MACROECONOMIC ENVIRONMENT

In fourth quarter 2015, the Nigerian economy witnessed weakened performance in some of its key indicators as crude oil price slump, weakening foreign exchange revenues and volatile short-term capital flows took their toll. Indicators such as foreign external reserves remained under pressure despite stringent forex regulations by the Central Bank of Nigeria (CBN). Growth in Gross Domestic Product experienced a marginal decline; inflation continued its gradual but steady upward trend towards the double digit region; while oil prices showed no signs of recovery from the record low levels it had sunk.

## GROSS DOMESTIC PRODUCT

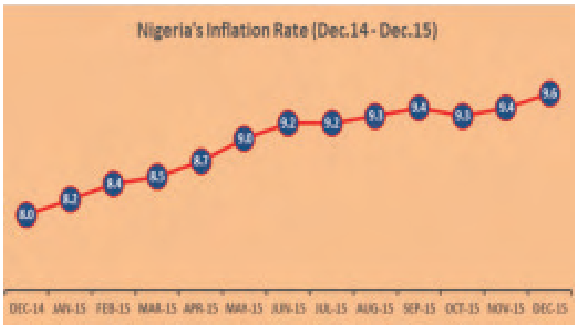
Growth in Nigeria's Domestic output, measured by Real Gross Domestic Product (GDP), dropped in 2015. A year on year comparison shows that the growth rates in each quarter of 2015 were consistently lower than the corresponding quarters of 2014. Specifically, the country's GDP in the fourth quarter of 2015 is forecast to have grown at 2.78 per cent, which is 3.16 per cent points lower than the 5.94 per cent position in the corresponding quarter of 2014. Quarter-on-quarter, growth rate in Q4 of 2015 is 0.07 per cent points lower than the Q3 2015 of the same year, implying a drop both in the year on year and quarter on quarter performance of the economy.




*Source: Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS)*

## INFLATION

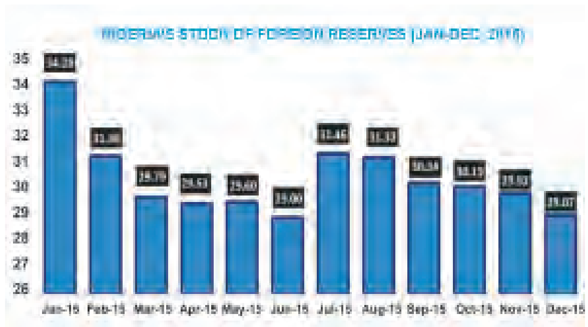
The Consumer Price Index (CPI) which measures inflation continued its marginal rise, spiraling out of the 6.0-9.0 percent benchmark range set by the Central Bank of Nigeria. Specifically, the headline index averaged 9.43 per cent in the fourth quarter 2015, up from the third quarter 2015 average of 9.3 per cent. According to the National Bureau of Statistics (NBS), although inflation slowed in October 2015 to 9.3 per cent (year-on-year) from the 9.4 per cent in the preceding month, it increased to 9.4 in November and rose further to 9.6 per cent in December. The faster pace in the headline index was as a result of higher food prices, and increases in the Transportation division as a result of shortages in Premium Motor Sprit (PMS). However, the apex bank has committed to monitoring consumer price developments with a view to formulating policies that will keep inflation in check.



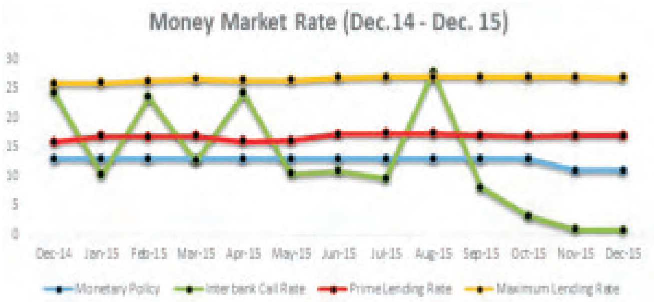

Source: National Bureau of Statistics (NBS)

## EXTERNAL RESERVES

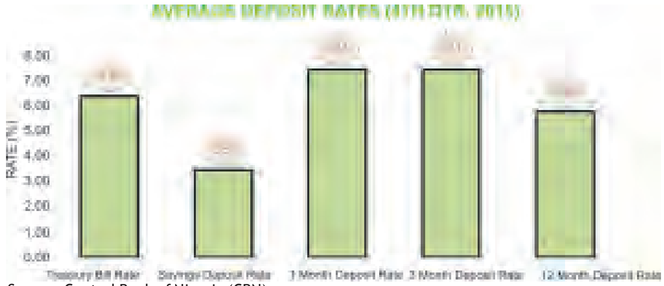
Nigeria's stock of external reserves fell by 4.22 per cent in the fourth quarter of 2015 to average US$29.73billion, lower than the third quarter average of US$31.04billion. On a month-on-month basis, stock of foreign reserves stood at US30.19billion as at end-October, 2015 but slipped to US$29.92billion at the end of November, 2015. It dropped further to US$29.07billion as at end-December 2015, just enough to finance about six months of imports. The Central Bank of Nigeria (CBN) depleted the external reserves to meet the demand for foreign exchange in order to support the local currency which has come under severe pressure in recent times.




Source: Central Bank of Nigeria (CBN)



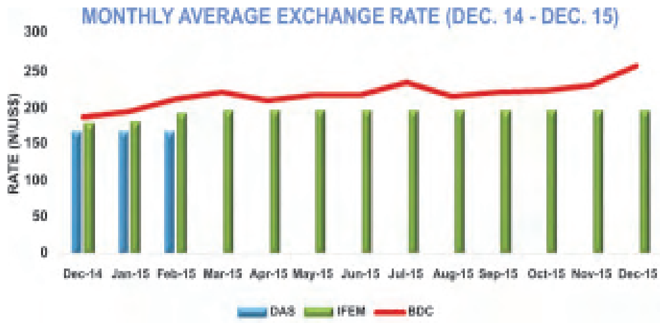

Source: Central Bank of Nigeria (CBN)




Source: Central Bank of Nigeria (CBN)

## INTEREST RATE

In a surprising move, the Central Bank of Nigeria in its November 23 and 24, 2015 Monetary Policy Committee (MPC) meeting, reduced the Cash Reserve Ratio (CRR) from 25 per cent to 20 per cent. The apex bank also reduced the Monetary Policy Rate (MPR) from 13 per cent to 11 per cent, with an asymmetric corridor of +2/-7 per cent, in a desperate move to boost growth by increasing credit flow to critical sectors of the economy. Thus, in the fourth quarter of 2015, money market interest rates were low but sometimes volatile, reflecting fluctuations in banking system liquidity. Particularly, interbank call rate averaged less than one per cent in November and closed the year at nearly the same rate. Average deposit rates also fell in Q4, relative to Q3, 2015.



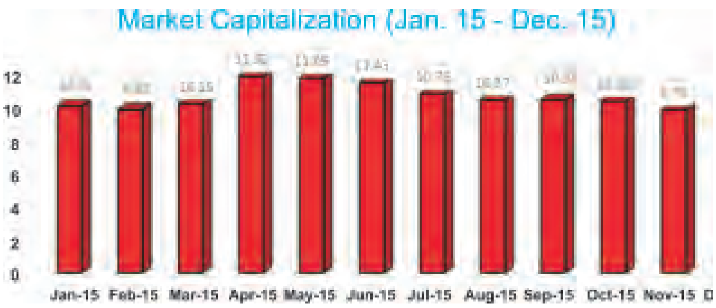

Source: Central Bank of Nigeria (CBN)

## EXCHANGE RATE

The naira remained under pressure at the foreign exchange market in the fourth quarter of 2015, particularly in the BDC segment of the market. The exchange rate opened the quarter in October at US$ N224.83/US$ and closed in December at N258.30/US$, representing a depreciation of about 14.88 per cent or N33.47k. However, the average naira exchange rate remained relatively stable at the interbank segment of the market, attributable to the sustained supply of foreign exchange from the apex Bank and other autonomous sources as well as the effects of various administrative measures taken by the Bank. The official exchange rate averaged N196.99/US$ in the period under review, owing to market interventions by the apex Bank.

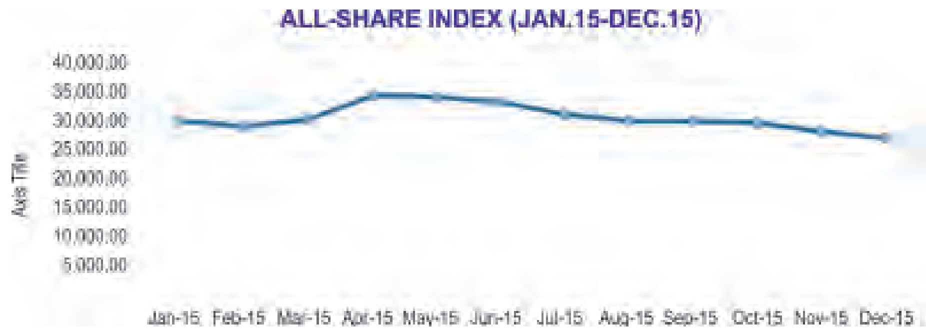
## CAPITAL MARKET

The Nigerian equity market remained bearish in the quarter under review with market indices ending the quarter on a negative note. Specifically, The Nigerian Stock Exchange All Share Index (NSE ASI), which ended the third quarter at 31,217.77, depreciated by 8.25 per cent to close the quarter at 28,642.25, after hitting a three year low of 26.537.36 sometime in December, 2015. Similarly, the market capitalisation stood at N9.85trillion at




Source: Nigeria Stock Exchange (NSE)

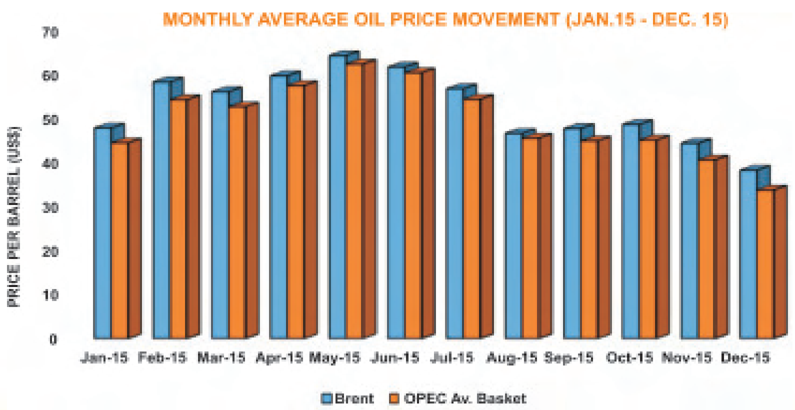
the end of fourth quarter, down by 8.2 per cent from the N10.73trillion recorded at the end of the third quarter of 2015. The market performance was affected by exits of foreign investors and weak demand engendered by negative investor sentiments over poor results, restrictive foreign exchange regime and federal government's unhurried responses to economic challenges.




Source: Nigeria Stock Exchange (NSE)

## OIL PRICES

In the fourth quarter of 2015, crude oil prices continued the downward spiral that started in mid-2014 as a result of growth in shale oil production in the United States. Also, increasing signs of slowdown in the Chinese economy, appreciation of the US dollar, and a fall in equity markets exerted pressure on oil prices in the quarter under review. Specifically, the OPEC Reference Basket, which averaged US$45.02/b in October, declined by more than 25 per cent to close the quarter at US$33.64/b. Similarly, Brent crude, which started showing signs of recovery at the beginning of the quarter, fell sharply towards the end of the quarter to close at US$38.16/b. Despite the slump in oil prices, OPEC concluded its 168th Meeting on December 4th, 2015, without mentioning production quota, effectively signaling a "limitless output" era.




Source: Organisation of Oil Exporting Countries (OPEC)