



# Zenith Economic Quarterly

A Publication of Zenith Bank Plc

Vol. 5 No. 1 January, 2009

ISSN: 0189-9732

## NIGERIA: OPTIONS & STRATEGIES FOR SURVIVING ECONOMIC STORM



## FINANCIAL MELTDOWN: The Fate & Shape of Capital Markets

**EDITORIAL** ■  
all involved; all concerned

**PERISCOPE** ■  
economy: navigating murky waters

**POLICY** ■  
market performance in 2008  
and the outlook for 2009

**ISSUES** ■  
quality and internal control  
challenges: internal surveillance  
- *Chuks Nwaze*  
nigeria: sailing through  
macro-economic storm  
- *Michael A. Uzor*  
gas master-plan: prioritising  
domestic demand

**FOREIGN INSIGHTS** ■  
the spirit of democracy:  
how to make democracies work  
- *Larry Diamond*  
germany - nigeria trade:  
more room for exchange

**GLOBAL WATCH** ■  
financial meltdown:  
the fate & shape of capital markets

**FACTS & FIGURES** ■  
economic, financial and business indices

# Zenith Economic Quarterly



## C O N T E N T S

### EDITORIAL

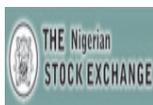
#### PERISCOPE

Analyses some major developments in key sectors of the economy in the fourth quarter 2008; highlighting a number of concerns for the future. Pg. 5-11



#### POLICY

Discusses in full Stock Market Performance in 2008 and presents an outlook for 2009. Pg. 12-20



#### ISSUES I

Discusses some key Quality and Internal Control challenges facing today's banks in Nigeria from the perspective of Internal Surveillance. Pg. 22-29



#### ISSUES II

Attempts a diagnosis of the Nigerian macro-economy in 2008 and highlighting major fiscal challenges the government faced in the period, and the ways forward. Pg. 30-39



#### ISSUES III

Discusses the Nigerian Gas Master-Plan and its focus on tackling domestic demand. Pg. 40-47



#### FOREIGN INSIGHTS I

Explores the 'how' and 'why' of democracy as well as the future of democracy. Pg. 49-56



#### FOREIGN INSIGHTS II

Two economies, Germany and Nigeria benchmarked against each other; further exposing the several prospects for trade between the two nations. Pg. 57-65



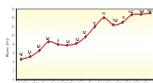
#### GLOBAL WATCH

Assesses the impact of global financial melt-down across countries' stock markets. Pg. 67-75



#### FACTS & FIGURES

Discusses macroeconomic performance for Q408 using charts and figures. Pg. 77-80



## EDITORIAL TEAM

MARCEL OKEKE  
Editor

EUNICE SAMPSON  
Deputy Editor

TONY MONYE  
Assistant Editor

ELAINE DELANEY  
Associate Editor

IBRAHIM ABUBAKAR  
SUNDAY ENEBELL-UZOR  
Analysts

JOHN LUCKY ETOH  
Production Supervisor

SYLVESTER UKUT  
ROTIMI AROWOBUSOYE  
Layout/Design

## EDITORIAL BOARD OF ADVISERS

UDOM EMMANUEL  
GIDEON JARIKRE  
PAT NWARACHE  
OCHUKO OKITI

ZENITH ECONOMIC QUARTERLY  
is published four times a year by Zenith Bank Plc.  
Printed by **PLANET PRESS LTD.** Tel 234-1-7731899,  
4701279, 08024624306,  
E-mail: [press@planetearthltd.com](mailto:press@planetearthltd.com)

The views and opinions expressed in this journal  
do not necessarily reflect those of the Bank.

*All correspondence to:*

The Editor,  
Zenith Economic Quarterly,  
Research & Economic Intelligence Group,  
Zenith Bank Plc  
7th Floor, Zenith Heights  
Plot 87, Ajose Adeogun Street,  
Victoria Island, Lagos. Tel. Nos.: 2781046-49, 2781064-65 |  
Fax: 2703192.

E-mail: [marcel.okeke@zenithbank.com](mailto:marcel.okeke@zenithbank.com),  
[zeqeditor@zenithbank.com](mailto:zeqeditor@zenithbank.com)  
ISSN: 0189-9732

  
ZENITH  
ZENITH BANK PLC  
[www.zenithbank.com](http://www.zenithbank.com)

## All Involved; All concerned

Without any iota of doubt, the world economy is in a tailspin, with things changing at a puzzling pace and national leaders seemingly at their wits' end in proffering solutions to the lingering global financial crisis. Even multilateral financial institutions also seem bereft of efficacious ideas on how to cage the raging phenomenon. Hardly is any economic jurisdiction insulated or immune to the crisis since its onset about the third quarter last year.

A number of hitherto great and globally respected financial institutions especially in the industrialized countries have collapsed; many filing for bankruptcy and yet others still gasping for stimulus or bailout packages. Commodity prices (especially those of crude oil) have crashed; virtually all capital markets are experiencing a meltdown; consumer spending continues to shrink and job losses keep mounting.

The ripple effects of all these became very



**A number of hitherto great and globally respected financial institutions especially in the industrialized countries have collapsed; many filing for bankruptcy and yet others still gasping for stimulus or bailout packages.**

evident in the Nigerian economic environment all through the fourth quarter 2008. Thus, the dramatic drop in the price of oil, for instance, undercut the 2009 Federal budget benchmark even before the enactment of the Appropriation Bill into an Act. It also translated into a steadily diminishing foreign exchange revenue that has since negatively affected the Naira exchange rate at the foreign exchange market. The nation's stock of external reserves is fast depleting; demand for foreign exchange remains high and rising; inflation also remains high and sticky at double digit level. The bear run in the capital market which began during the second quarter 2008 persists, leading to substantial loss in share value and plum-

meting of all market indices by year-end.

These developments and their concomitants are insightfully analyzed with some prognoses in our article, 'Nigeria: sailing through macro-economic storm'. Here, the author opines that "Monetary authorities don't need to wait to see industries shut down and banks empty their vault before waking up to the present reality. And this is why it is recommended that the external reserve which is being used to subsidize foreign exchange speculators be channeled into a financial markets stabilization fund to enable banks and equity traders reinforce their liquidity positions and save the stock market".

One of the touchy planks of the global financial crisis, the crashing capital markets, is also critically examined; with the full depth and expanse of the contagion explored. It is shown under the title "Financial Meltdown: The Fate and Shape of Capital Markets" that the meltdown "took its toll on virtually all markets in the world, dragging indices to record low levels". The 'shape' of the Nigerian capital market is specifically captured in our *Policy* section under "Market Performance in 2008 and Outlook for 2009".

We also have a treatise on Nigeria's effort at prioritizing the gas sector and strategically fending for local demand of the commodity. Under the rubric "Gas Master-plan: Prioritizing Domestic Demand" it is observed that "...the gas sub-sector could contribute up to 60 per cent towards doubling of the nation's GDP over the next 10 years; and investment in the sub-sector of the Nigerian economy is a win-win situation for all stakeholders". Our focus on Germany-Nigeria trade relations reveals a large room for more exchange of goods and services between the two nations.

As always, all our other sections contain masterpieces on topical issues, deliberately addressed to the sophisticated tastes of our highly discerning but widely spread readership. Enjoy the 'puding'!

*Marcel Okeke*



from our mailbox



I am directed to acknowledge with thanks the receipt of your October, 2008 edition of Zenith Economic Quarterly (ZEQ) dated Tuesday 2<sup>nd</sup> October 2008 which we find very useful.

**D. A. Onyechere-Njoku**  
**For: Ambassador**  
**Embassy of Nigeria**  
**Switzerland.**

With reference to your letter dated 2<sup>nd</sup> December, 2008 on the above subject matter. We received with thanks copies of the October, 2008 edition of Zenith Economic Quarterly which focuses on such topical issues as global financial crisis, public debt management strategies, electronic banking fraud, and corporate governance. We highly appreciate your kind gesture.

**Tayo Fakiyesi, PhD.**  
**Professor & Head of Department**  
**Department of Economics**  
**Faculty of Social Sciences**  
**University of Lagos.**

I am directed to acknowledge with thanks, the receipt of your letter dated 02<sup>nd</sup> December, 2008 and its enclosure, Zenith Economic Quarterly, and to inform you that the information contained therein, has been very useful. Please, accept the assurances of the Ag. High Commissioner's highest consideration.

**C.J. Chikezie**  
**For: Ag. High Commissioner**  
**High Commission of Nigeria**  
**New Delhi, India**

I am directed to acknowledge with gratitude the receipt of a copy of the October 2008 edition of Zenith Economic Quarterly, through your letter dated 2<sup>nd</sup> December, 2008 on the above subject matter to the Vice Chancellor.

**Nasir Bello**  
**For: Vice Chancellor**  
**Ahmadu Bello University**  
**Zaria, Nigeria**

I am directed to acknowledge with thanks receipt of your letter dated Tuesday 02 December, 2008 together with a copy of the October 2008 edition of Zenith Economic Quarterly (ZEQ).

**Warm regards.**  
**Nwachukwu N. C. (Mrs.)**  
**For: Ambassador**

**Embassy of The Federal Republic of Nigeria, Tel Aviv, Israel**

We wish to acknowledge the receipt of your letter dated December 02, 2008 and the copy of Zenith Economic Quarterly (ZEQ) publication and hereby express our gratitude to your organisation for their kind donation to MAN. As usual, the publication will be added to the collection in our library for use. Accept our kind regards and best wishes.

**Adegbite Seyi**  
**For Director-General Manufacturers Association of Nigeria**

We write to acknowledge the receipt of one (1) copy of Zenith Economic Quarterly Journal sent to our Institute on 2<sup>nd</sup> December, 2008. We wish to thank you for this interesting journal and appreciate your esteem support.

**Thank you.**  
**Demola Kehinde**  
**For: Director-General**  
**Chartered Insurance Institute of Nigeria**

This is to acknowledge the receipt of the copies of your quarterly journal, the October 2008 edition forwarded to our Department. The Department really appreciates this academic fellowship from your reputable organisation. Moreover, the academic staff and students' populace will find the journal useful.

**T. O. Asaolu (PhD)**  
**Associate Professor and**  
**HOD, Department of**  
**Management and Accounting,**  
**Obafemi Awolowo University,**  
**Ile-Ife Nigeria**

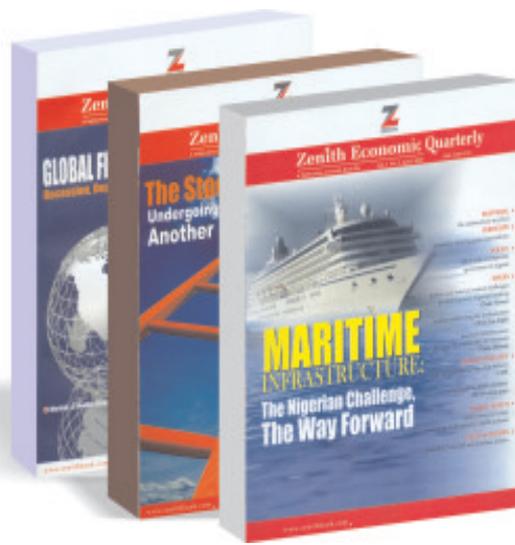
We acknowledge with thanks receipt of complimentary copy of your Zenith Economic Quarterly (ZEQ) for the month of October 2008 edition sent to the Economic Adviser/Vice Chairman, State Planning Commission. Thank you and Happy New Year.

**Cecilia Undie**  
**For: Economic Adviser/Vice**  
**Chairman State Planning Commission Government of Cross River State, Nigeria**

I write to acknowledge with thanks the receipt of one (1) perfect copy of your publication, Zenith Economic Quarterly, Vol. 3, No. 4, October 2008. The publication is not only very useful to our many users but very timely, in view of the global financial crisis and the attendant economic consequences on various institutions and nations, the world over. Please, keep us on the mailing list of your subsequent publications.

**Thank you once again**  
**J. C. Ogugua**  
**Serial Librarian**  
**For: University Library**  
**Federal University of Technology**  
**Owerri Imo State, Nigeria**

I write on behalf of Dr. Uju M. Ogubunka, Registrar/Chief Executive, CIBN, to acknowledge receipt of a copy of the October, 2008 edition of Zenith Economic Quarterly sent to him. Dr.



Ogubunka commends the consistency of your Editorial Team in publishing this magazine – Zenith Economic Quarterly. The articles in the publication are quite rich and the quality of production outstanding. He is appreciative of your kind gesture. Please, keep this up.

**Onyeacholem, P. C. (Mrs.)**  
**Personal Assistant to Dr. Ogubunka**  
**Registrar/Chief Executive**  
**Chartered Institute of Bankers of Nigeria.**

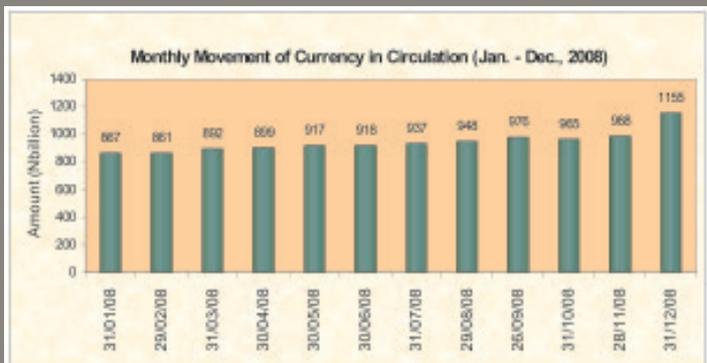
# economy: Navigating Murky Waters

\* By Marcel Okeke

For the first time in recent years, the Nigerian economy all through the last quarter 2008, found itself in a vortex of local and external developments that left uncertainty and scars in their trail. Out of the blues came the global financial meltdown, marked by the collapse of hitherto revered and great financial institutions in major industrialized regions of the world. This has since transformed into a global economic crisis, with telling ripple effects in varying degrees on virtually all countries across the globe. Concomitant to this was a sharp and massive fall in the prices of commodities, especially crude oil—the near-single foreign exchange earner for Nigeria.

The bear run in the Nigerian capital market which commenced during the second quarter 2008 worsened during the last quarter, with share prices plummeting and market indices crashing. The 2009 Federal budget, although presented to the National Assembly on Tuesday, December 2, 2008, by President Umaru Musa Yar' Adua was yet to be enacted into law. And, although the budget was couched on an oil price benchmark of 45 US dollars per barrel, oil prices have since slipped below that threshold; thus, posing a threat to the N2.87 trillion budget.

The Federal Government had also during the quarter, presented a N683 billion Supplementary Appropriation Bill, which was approved by the National Assembly. President Yar' Adua also effected a cabinet



Source: CBN

The CBN adjusted the Monetary Policy Rate (MPR) downwards from 10.25 per cent to 9.75 per cent; the Cash Reserve Ratio (CRR) from 4.0 per cent to 2.0 per cent, and Liquidity Ratio from 40.0 per cent to 30.0 per cent. On its part, Government set up a Presidential Advisory Team on capital market as well as a Presidential Steering Committee on the Global Economic Crisis.

reshuffle, dropping 20 ministers; created new ministries including the Niger Delta Ministry, and subsequently appointed new ministers.

All these formed the socio-economic milieu during the fourth quarter, and either triggered or influenced a flurry of policy reactions by the Federal Government and regulatory agencies in the financial services sector, including the Central Bank of Nigeria, the Securities and Exchange Commission, The Nigerian Stock Exchange, among others. Specifically, the CBN retained the Monetary Policy Rate (MPR) at 9.75 per cent; but adjusted the Cash Reserve Ratio (CRR) from 4.0 per cent to 2.0 per cent, and Liquidity Ratio from 40.0 per cent to 30.0 per cent. On its part, Government set up a Presidential Advisory Team on capital market as well as a Presidential Steering Committee on the Global Economic Crisis.

However, by end-December

2008, most economic performance indices had missed policy targets; some, abysmally. Inflation (year-on-year) which closed the third quarter 2008 at 13.0 per cent, rose to 15.1 per cent by the end of the year, as against the single digit target for the year. External reserves which stood at US\$63 billion at the close of the third quarter 2008, closed the year at about US\$52.9 billion. Similarly, the Naira depreciated substantially against the US dollar and other major currencies during the quarter. The national currency that remained relatively stable at around N117.50/US\$1 for most part of 2008, closed the year at an official offered rate of N135/US\$1. In the parallel or 'black market', the exchange rate deteriorated to as low as N160/US\$1 or worse. This scenario has attracted the CBN's adjustment of the Wholesale Dutch Auction System (WDAS) in forex market to Retail DAS, among other new rules.

One of the greatest shocks during the fourth quarter 2008 was the crash of the price of oil in the international oil market. From an all-time high of US\$147.25 per barrel in early July 2008, oil price plummeted to a disturbingly low of about US\$35 per barrel. This was at a time the Federal budget was crafted on a benchmark of US\$45 per barrel; thus, the crashing oil price jolted all economic agents, distorted budgetary projections, and unleashed speculators in all segments of the financial markets. The Organization of Petroleum Exporting Countries (OPEC) which effected production cuts in October 2008 embarked on another round



One of the greatest shocks during the fourth quarter 2008 was the crash of the price of oil in the international oil market. From an all-time high of US\$147.25 per barrel in early July 2008, oil price plummeted to a disturbingly low of about US\$35 per barrel.



Like most capital markets across the world, the Nigerian market went through a rough period all through the last quarter 2008, recording huge losses by the close of the year.

in December—all to stem the sliding price of the ‘black gold’. This was not achieved, as the plunge continued into 2009.

Nigeria’s non-oil sector however provided some heartening performance, recording an estimated annual growth rate of 9.6 per cent in 2008. The Nigerian Export Promotion Council figures show that non-oil exports—mostly agricultural produce—recorded unprecedented growth of 60 per cent during the last quarter 2008, up from 40 per cent in the first quarter. And, for the first time, Nigeria made a shipment of garments to the USA under the African Growth and Opportunities Act (AGOA). During the fourth quarter also, Merrill Lynch, one of the world’s leading financial management and advisory companies—ranked Nigeria among the ten least vulnerable economies in the world. The ranking was based on such indicators as current account financing gap; Export/GDP ratio; Private Credit/GDP ratio, Private Credit Growth; Banks Capital/Asset ratio, etc. Also, in the latest edition of its sovereign ratings, Standard and Poor’s Rating Services in December 2008, assigned its ngAA+ long term and ngA-1 short term ratings to Nigeria. This reflects Nigeria’s high level of credit worthiness—and stands a good appeal to companies and governments seeking to raise funds in Nigeria.

### THE CAPITAL MARKET

Like most capital markets across the world, the Nigerian market went through a rough period all through the last quarter 2008, recording huge losses by the close of the year. According to the Nigerian Stock Exchange (NSE) data, equity market capitalization dropped from a high of N12.64 trillion on May 3, 2008, to a low of N6.21

trillion on December 16, before finally closing at N9.56 trillion on December 31, 2008. On the whole, the NSE All-share index (ASI) dropped by 45.8 per cent or 26,539.44 points to close at 31,450.78 in 2008. This, according to the NSE, was attributable to “tightening of liquidity in the banking sector arising from the decline in public sector spending, excess supply of stocks necessitated by profit taking by investors, among others”. The ASI grew by 74.73 per cent in 2007 and closed at 57,990.22 points. Also, due to liquidity constraints arising from the economy-wide slowdown, there was very limited activity in the primary segment of the market in the last quarter 2008 as against the previous quarters. In fact only three companies came for fresh funds from the market during the last quarter; they are: Ecobank



Transnational Incorporated plc (ETI), Crusader Insurance plc and Honeywell Flour Mills plc.

In the secondary segment, the stock market also witnessed paucity of fresh funds during the quarter, owing to a significant level of cross transactions (deals). However, turnover on the NSE closed the year at N2.4 trillion (or 10.4 per cent of GDP), up by 14.04 per cent on the N2.1 trillion (9.1 per cent of GDP) recorded in 2007. The bulk of the transactions were in equities, which accounted for N2.376 trillion or 99.85 per cent of the turnover value compared to N2.08 trillion or 99.86 per cent recorded in 2007. In 2008, as in 2007, the banking and

insurance subsector accounted for 19 of the top 20 companies by turnover volume, essentially due to their being the most capitalized subsectors and having the largest float.

Statistics show purchases by foreign investors during 2008 to be in excess of N151.202 billion, representing about 6.4 per cent of the aggregate turnover; this is a decline when compared with the N256 billion recorded in 2007. The total market value of the 301 securities listed on The Exchange dropped by 28.1 per cent, from N13.295 trillion to stand at N9.563 trillion by year-end. This resulted mainly from price depreciations by equities, the de-listing of 19 companies and the maturing of outstanding bonds.

At year-end 2008, 20 companies emerged with the highest market capitalization, accounting for about 50 per cent of the total market capitalization of the NSE. They comprise 15 banks and five non-bank quoted com-

national rating agency in its 2008 edition of the Global Stock Markets Fact-book, ranked The Nigerian Stock Exchange number eleven among 106 stock exchanges globally. The ranking was based strictly on return on investment in US dollar terms. Significantly, none of the developed countries' exchanges featured on the list of the World's Top 25 performing exchanges on the S & P ranking.

**BANKING AND FINANCE**

In spite of the global financial turmoil during the quarter under review, competition among operators in the financial services sector – especially banks – kept momentum. Mergers and acquisitions, branch network expansion, new products development, among others, remained the key strategic positioning activities of the banks. In fact, in a move regarded as the first major acquisition between two quoted companies on the Nigerian Stock

Exchange, Bank PHB's mandatory bid for the acquisition of (majority stake) over three billion shares of Spring Bank Plc sailed through. Consequent upon this development, the CBN approved the constitution of a new board for (the new) Spring Bank Plc. Bank PHB had on November 28, 2008, opened a N21billion bid for more than three billion units of Spring Bank plc shares in an effort to raise its stake in the bank to more than 51 per cent.

In a similar vein, Ecobank Nigeria Plc acquired (the liquidated) African International Bank (AIB) –taking over its private and public sector deposit liabilities – under the 'purchase and assumption' arrangement. Ecobank had earlier on acquired Allstates Trust Bank and Hallmark Bank under the same arrangement. Offshore, the United Bank for Africa (UBA) acquired the majority stake in the state-owned Banque Internationale du Burkina Faso (BIB) – sequel to due approvals from apex regulatory financial institutions in Burkina Faso.

Access Bank Plc on its part, opened a full-fledged banking subsidiary with six branches in Zambia, after obtaining banking license and satisfying all regulatory requirements of the Southern African nation. Skye Bank Plc also branched offshore, opening a subsidiary – Skye Bank Sierra Leone Limited – its first in the West African region. Outside the African continent, Intercontinental Bank Plc and Access

**West Africa's Top-20 Banks**

Regional Rank	African Rank	Bank	Date of Results	Country	Capital (\$m)	Assets (\$m)
1	6	Zenith Bank Plc	June-08	Nigeria	2,500	12,800
2	8	Oceanic Bank Plc	Sept-07	Nigeria	1,777	8,265
3	9	Intercontinental Bank Plc	Feb-08	Nigeria	1,696	11,781
4	11	Access Bank Plc	Feb-08	Nigeria	1,431	10,055
5	12	Guaranty Trust Bank Plc	Feb-08	Nigeria	1,382	6,223
6	15	United Bank for Africa Plc	Sept-07	Nigeria	1,245	9,479
7	16	First City Monument Bank Plc	Apr-08	Nigeria	1,018	3,567
8	17	Union Bank of Nigeria Plc	Feb-07	Nigeria	826	5,460
9	19	First Bank of Nigeria Plc	Feb-07	Nigeria	604	6,855
10	23	Ecobank Transnational	Dec-07	Togo	514	6,550
11	27	Diamond Bank Plc	Apr-07	Nigeria	423	2,506
12	36	Stanbic-IBFC Bank Plc	Dec-06	Nigeria	297	864
13	38	Ecobank Nigeria	Dec-07	Nigeria	295	2,640
14	40	First Inland Bank Plc	Apr-07	Nigeria	292	1,556
15	41	Platinum-Habib Bank Plc	Jun-07	Nigeria	284	3,001
16	42	Spring Bank Plc	Dec-05	Nigeria	267	1,052
17	44	Nigerian Int'l Bank Ltd	Dec-06	Nigeria	263	872
18	49	Fidelity Bank Plc	Jun-07	Nigeria	234	1,706
19	50	Skye Bank Plc	Sept-07	Nigeria	233	3,563
20	53	AfriBank Nigeria Plc	Mar-07	Nigeria	221	1,428

Source: *African Business* October 2008

panies, led by First Bank of Nigeria Plc and followed by Zenith Bank Plc.

It should be noted however that in spite of its seemingly dull performance, Standard and Poor's, the inter-

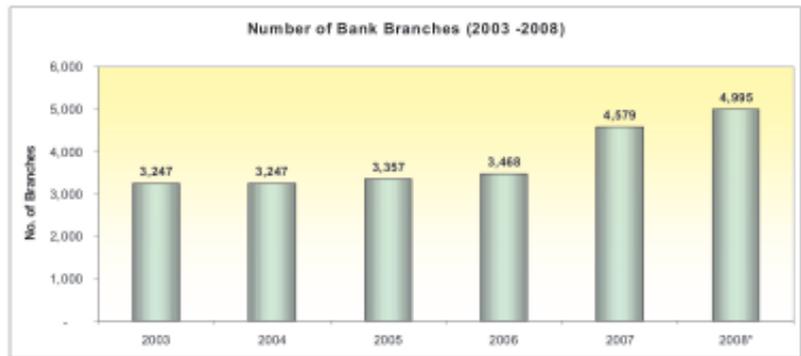
Bank Plc commenced operations in the United Kingdom. Both banks opened full-fledged wholly owned subsidiaries in London.

There were also some strategic alliances involving a number of banks during the last quarter 2008. Specifically, Zenith Bank Plc, for instance, entered into a strategic partnership with Lufthansa, the German Airline, with the launch of a variant of the MasterCard aimed at boosting the operation of the Airline's Merchant Club. The Lufthansa Merchant Club is aimed at meeting the needs of the Airline's frequent fliers, especially in accessing cash easily in the more than 220 countries where the MasterCard is in use.

In the insurance industry, the apex regulatory body – NAICOM – and the Nigeria National Petroleum Corporation (NNPC) approved 'consortium bidding' for the Consolidated Insurance Programme (CIP) of the NNPC. This arrangement allows domestic underwriting companies and brokers to participate in the oil and energy risks to grow local retention capacity. By this agreement, domestic underwriting companies and brokers will bid for the NNPC accounts as a consortium instead of bidding individually. The NNPC had hitherto insisted that insurers in Nigeria do not have the capacity to insure its businesses, but underwriting companies wishing to participate in its oil and gas insurance programme must bid individually and have a minimum net asset of N5 billion. Under the 'Local Content Initiative' the Federal Government had set a target of 45 per cent in 2006, increasing to 70 per cent by 2010 for local participation in the energy sector by Nigerian insurance companies.

In a related arrangement, the NNPC (representing

the Federal Government) and a consortium of banks have established a N40 billion (US\$340 million) Nigerian Content Support Fund (NCSF). The Fund is to empower Nigerian Oil Service Providers, and enable them compete on a more level playing field with their foreign counterparts. The 'Local Content Initiative' seeks



\* As at June  
Source: CBN

to significantly improve the quantum of composite value added created in the Nigerian economy through the effective utilization of Nigerian human and material resources for the provision of goods and services to the oil and gas industry.

On the industry regulation, the Central Bank of Nigeria took a number of policy initiatives, especially in the face of the unfolding global financial meltdown. Specifically, to arrest the fast depreciating exchange rate of the Naira, the apex bank not only returned to the Retail Dutch Auction System (abandoning WDAS), but also reduced banks' foreign exchange net open position from 20.0 to 10.0 and further to five per cent of shareholders' funds. The CBN also elected to begin to participate actively in the daily inter-bank foreign exchange market by buying and selling through the 'two-way quotes'. It mandated the Bureau de Change (BDCs) to buy and sell forex only within two per cent around its (CBN) rate.

In the last quarter 2008 also (but effective January 5, 2009), the apex bank began deploying its staff as resident examiners to banks. Such staff according to the CBN "will continuously monitor and assess the banks' financial condition and risk management systems through participation in

In spite of the global financial turmoil during the quarter under review, competition among operators in the financial services sector—especially banks—kept momentum.



meetings as observers, review of management reports and discussion with bank officials as and when necessary”. The resident examiners are to attend board and management meetings (including their committees) as observers; query banks’ systems as and when necessary and, carry out other functions necessary to accomplish the objectives of banks’ supervision.

In pursuit of keeping interest rates within a moderate range, the CBN also during the last quarter 2008, began publishing interest rates to act as guide in the choice of banks to patronize. The underlying motive is to make rate regimes competitive and in the process moderate it. The apex bank also banned ‘exclusive clauses’ in the agreements signed by Nigerian banks with International Money Transfer Operators. In this regard, the CBN noted that “such exclusive clauses aimed at protecting the interest of the International Money Transfer Operators constitute a restraint on competition and unnecessarily increase the cost of money transfer services to the users”.



In the electricity sub-sector, a consortium of five banks, also during the quarter under review, pooled resources to build 625 megawatts of independent power generating plants in four locations in the Niger Delta.



### OIL, GAS AND POWER

The last quarter 2008 saw oil price volatility in the international market sustained, increasingly by the weaker outlook of world economy—with many national economies already in recession. In fact, the OPEC Reference Basket (ORB) price which stood at US\$96.86/b in September, crashed to US\$49.76/b by end-November 2008. In daily terms, the Basket fell to US\$36.67/b in December,

the lowest level since January 2005. During this period, the Organization of Petroleum Exporting Countries (OPEC) cut its members’ production quota twice; first in October and again, in December.

According to OPEC production data, Nigeria’s quota reduced to 1.903mb/d in November 2008, following the production cut of 133,00b/d. With another 319,000b/d OPEC cut for Nigeria in December 2008, the nation’s crude oil export dropped further. And although the 2009 Federal budget is predicated on US\$45/b and production level of 2.29mbpd (2.45mbpd in 2008), the price of oil and production volume respectively have since remained below these thresholds. Even with these, the country all through the quarter, depended largely on imported petroleum products for local consumption. As in the previous quarters, local refineries were either out of service or operated at minimal capacities. This has kept the prices of petroleum products high at levels that the Government had been sustaining through the Petroleum Support Fund (PSF). Petroleum Products Pricing Regulatory Agency (PPPRA) data show that about N1.5 trillion from the PSF was spent in 2008 on



subsidizing of petroleum products.

In the electricity sub-sector, a consortium of five banks, also during the quarter under review, pooled resources to build 625 megawatts of independent power generating plants in four locations in the Niger Delta. The two local banks (United Bank for Africa and Oceanic Bank) and three foreign banks (PNB Pribas, Barclays Capital and UBS) put together US\$4 billion for the building of four thermal power stations in Delta State. Similarly, First Bank of Nigeria entered into an agreement with a Chinese firm, Shenzhen Energy Investment Company Limited, to build a US\$2.4 billion 3000 mega watts gas turbine power plant in Nigeria. A Memorandum of Understanding (MoU) has been signed by the involved parties.

The Federal Government has also signed a Memorandum of Understanding with France on a bilateral relationship aimed at developing Nigeria's power sector. Under the new relationship, Nigeria would engage the French National Transmission System (Reseau de transport d'electricite) in conducting an audit of its power sector. On its part, the Oyo State Government has also signed a Memorandum of Understanding (MoU) with Entec Power and Utilities Limited to provide the state with over 250 megawatts of power under the Integrated Power Project (IPP) scheme. The first phase of the project is to cost US\$35 million while the second phase is projected to cost US\$400 million.

In the effort to further boost power generation, the Nigerian Electricity Regulatory Commission (NERC) has put a set of incentives together to encourage individuals, corporate entities and sub-national governments to invest in power. These incentives include tax holidays to those who choose to build power stations in economically disadvantaged sites; treating the power sector generally as an infant industry; expedited processing of licenses and other approvals, etc.

## TELECOMMUNICATIONS

The telecommunications industry continues to be marked by intensifying competition—evidenced in the avalanche of promotional activities, corporate and products ad-

vertisements. The upshot of all this has been the growth of the sector in leaps and bounds. Thus, by the close of the last quarter 2008, the Nigerian Communications Commission (NCC) statistics showed that the country's active connected telephone lines had hit 64.2 million; up from 41.95 million in 2007. Teledensity (number of lines per 100 persons) now stand at 45.93 as against about 30 at end-December 2007. With this record growth, Nigeria has overtaken South Africa (with about 50 million subscribers) as Africa's largest telecom market.

According to NCC figures, the phenomenal growth in the number of active subscribers in 2008 was largely driven by the mobile segment of the industry. Thus, the

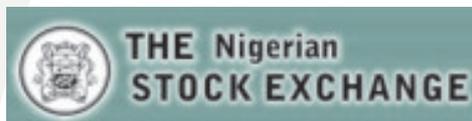
### Telecoms Subscriber Status, 2008

		1 <sup>st</sup> Qtr 08	2 <sup>nd</sup> Qtr 08	3 <sup>rd</sup> Qtr 08	4 <sup>th</sup> Qtr 08
	<b>OPERATOR</b>				
<b>Active Lines</b>	Mobile (GSM)	43, 786,542	47,897,527	51,710,456	56,935,985
	Mobile (CDMA)	567,185	2,113,350	4,125,826	6,052,507
	Fixed Wired / Wireless	1,545,984	1,602,102	1,239,382	1,307,625
	<b>Total</b>	<b>45,899,711</b>	<b>51,613,149</b>	<b>57,075,664</b>	<b>64,296,117</b>
<b>Installed Capacity</b>	Mobile (GSM)	79,625,308	85,125,308	87,125,308	95,291,096
	Mobile (CDMA)	3,170,000	2,630,00	8,989,377	10,611,867
	Fixed Wired / Wireless	5,676,481	7,230,417	3,866,637	6,830,245
	<b>Total</b>	<b>88,471,789</b>	<b>94,985,725</b>	<b>99,981,322</b>	<b>112,733 208</b>
	Teledensity	32.79	36.87	40.77	45.93

Source: NCC

number of GSM subscribers rose from 40 million in 2007 to 56.9 million in 2008, a growth of over 40 per cent. The CDMA segment grew by about 1,474 per cent during the period, from only 384, 000 lines to about six million in December 2008. The NCC figures also show that the telecom market is still dominated by MTN Nigeria Communications Limited and Globacom Limited which account for 36 per cent and 27 per cent respectively as at end-September 2008.

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



# Market Performance In 2008 And The Outlook For 2009

## 1.0 The Operating Environment

As in the preceding year, the economy performed below projection, with estimated GDP growth of 6.77%, as against the target of 9.8% set for the year but higher than the 6.2% recorded in 2007. Growth was driven largely by the non-oil sector, as the continuing crisis in the Niger-Delta area and other operational difficulties constrained crude oil exploration and production. By year-end, crude oil production shut-in stood at 0.6mbd, while the non-oil sector recorded an estimated annual average growth rate of 9.6%. The Nigerian Export Promotion Council (NEPC) confirmed that non-oil exports, mostly in agricultural products recorded unprecedented growth of 60% during the last quarter of 2008, up from 40% during the first quarter. For the first time, Nigeria made a shipment of garments to the USA under the African Growth and Opportunity Act.

OPEC reduced the country's official quota by 0.113mbd from 2.4mbd to 2.287mbd effective from November 1, 2008. Also, at a scheduled OPEC meeting on December 17, 2008, the country official output was further reduced by 0.319mbd effective January 1, 2009 to 1.97mbd in an onslaught to shore up prices. Evidently, the cut would exert pressure on Nigeria's export revenues, trade balance and external reserves.

The downstream sector of the petroleum industry remained comatose and the country relied on imported refined petroleum products for domestic and industrial operations. Meanwhile, the Federal Government awarded the contract for the Turnaround Maintenance (TAM) of the Kaduna Refining and Petrochemical Company (KRPC) at a cost of N6.8 billion. In the schedule, Port Harcourt Refinery would undergo TAM in 2009 while

the Warri Refinery is slated for 2010.

The contribution of the manufacturing sector to macro-economic development remained insignificant as the ever-promising sector had to contend with myriads of challenges during the year leading to massive under-capacity utilization. According to CBN, the estimated index of manufacturing production stood at 88.0 by June 2008 (1990=100), having dropped by 3.1% from the December 2007 level. These challenges included late release of the 2008 budget, poor power supply, infrastructural bottlenecks (as shown by inadequate water supply, deplorable road conditions), insecurity of lives and properties, high lending rates, multiple taxation and levies, weak domestic demand coupled with influx and dumping of adulterated foreign products into the country that are in most cases smuggled to mention just a few. The deplorable state of infrastructure posed a major challenge in terms of raising the cost of doing business in the country.

The telecommunications sector sustained its impressive growth with Nigeria being ranked as the eighth fastest growing telecommunications environment in the world. Altogether, we have over 60 million telephone subscribers connected to the five mobile networks, Code Division Multiple Access (CDMA) and fixed lines operators. Expectedly, Global System for Mobile Communications (GSM) subscribers accounted for about 95%.

Overall, the fundamentals of the Nigerian economy remained strong as attested to by notable international rating agencies. In the latest edition of its sovereign ratings, Standard and Poor's Rating Services had in December 2008 assigned its ngAA+, long term and ngA-1 short-

term ratings to Nigeria. This reflected Nigeria's high level of credit worthiness. The scale is expected to appeal to a wide range of entities including companies and any tier of government seeking to raise funds in Nigeria.

## 2.0 The Global Stock Market

The financial crisis that began in the USA in the 2007 aftermath of the subprime mortgage lending crisis and the attendant credit squeeze continued in 2008 on a global scale causing severe economic and operational dislocations across the globe. It reached a climax in September 2008, with the sudden collapse of several major financial institutions in the United States. Lehman Brothers and Merrill Lynch, two of Wall Street's biggest investment banks both collapsed while American officials seized American International Group to prevent the giant insurer's going under. Merrill Lynch was later acquired by Bank of America in a deal worth about \$33 billion in stock.

Other effects of the crisis included the increased fear of global recession, increased unemployment and inflation worries. Though the US was officially declared to have been in recession since December 2007, Japan and the euro area fell into recession (applying the definition of two quarters of negative growth) during 2008. Some analysts have described the global economic meltdown as the worst since 1945.

The persistence of the credit crunch compelled many governments especially in US and Europe to provide extra-ordinary measures including providing substantial financial support or bailout packages to stabilize the banking system in a bid to get credit markets functioning again while central banks took steps to boost liquidity by dropping key interest rates to near zero, lower than they have ever been. Also, US Federal reserve implemented unusual market interventions such as buying large amounts of short-term debt issued to companies to enable day-to-day financing. Some of the measures taken to date by the US Fed are shown below and it is expected that most governments will continue to monitor events closely due to the scale of the global problem:

- March 17<sup>th</sup> - Bear Stearns sold to JP Morgan
- Aug 6<sup>th</sup> – Aug 8<sup>th</sup> : Freddie Mac and Fannie Mae both report fourth consecutive quarterly losses and cut dividends
- Sep 7<sup>th</sup> - Government bails out Fannie Mae and Freddie Mac
- Sep 15<sup>th</sup> - Lehman Brothers files for bankruptcy
- Sep 16<sup>th</sup> - Treasury backs \$85bln deal to avert collapse of insurer AIG
- Sep 23<sup>rd</sup> - Ben Bernanke and Hank Paulson seek sup-

port for \$700 billion rescue plan to buy "toxic" assets

- Sep 29<sup>th</sup> - House of Representatives rejects bail-out
- Oct 3<sup>rd</sup> - House agrees revised plan
- Oct 7<sup>th</sup> - G7 industrialized nations agree to take "all necessary steps"
- Oct 14<sup>th</sup> - Paulson says he will start buying equity in banks
- Nov 12<sup>th</sup> - Paulson drops plan to buy "toxic assets"
- Nov 16<sup>th</sup> - G20 leaders promise united action on the global crisis

Consequent upon the turmoil in the financial system and the worst global recession, equity prices crashed in most exchanges such that the global stock market gains of previous years were wiped out. The fear of a big plunge led to the closure of some stock exchanges for days. The authoritative UK-based Guardian estimated that \$14 trillion (£9.7trillion) was wiped off world share values in 2008 as many stock markets around the world suffered their worst 12 months of trading.

African economies that were considered relatively insulated from the contagion are now as vulnerable as other regions. The South African stock exchange lost 27% in 2008 and the rand slipped almost 30% while in Nigeria, The NSE All-share index dropped by 45.8%.

The Nigerian stock market felt the impact of the global meltdown from the second quarter with equity market capitalization dropping from a high of N12.64 trillion on May 3 to a low of N6.21 trillion on December 16 before finally closing at N9.56 trillion on 31<sup>st</sup> December 2008. The correction was hoisted by the tightening of liquidity in the banking sector arising from the decline in public sector spending, excess supply of stocks necessitated by profit taking by investors. Despite the declines in key market indicators, the **fundamentals of our stock market remained strong** as indicated by strong corporate earnings and growth potentials. Although, we observed that the stock market exhibited some signs of recovery during the last two weeks in December 2008, investors are still being ruled by cautious optimism while studying the effect of the global financial crisis on the domestic market.

## 3.0 Activity In The Secondary Market

The stock market witnessed paucity of fresh funds as we recorded a significant level of cross transactions (deals) between August and December. Also, a significant portion of the funds that left the Stock Market for the Private Placement Market are still locked-in, as many of the issues have not yet applied to the Nigerian Stock Ex-

change for listing.

Turnover on The Exchange closed the year at N2.4 trillion or 10.4% of GDP, up by 14.04% on the N2.1 trillion (9.1% of GDP) recorded in 2007. Average daily activity rose from 570.6 million shares worth N8.62 billion in 2007 to 775.65 million shares valued at N9.55 billion in 2008.

The bulk of the transactions were in equities, which accounted for N2.376 trillion or 99.85% of the turnover value compared to N2.08 trillion or 99.86% recorded in 2007. Transactions in the Industrial bonds sector accounted for N3.53 billion or 0.15% compared to N2.87 billion or 0.14% in 2007. The Preference Stocks subsector was inactive in 2008.

In 2008 turnover on Federal Government bonds on The Exchange stood at N1.0 million. Significantly, a turnover of N10.44 trillion in 78,248 deals was recorded in the Over-the-Counter (OTC) market for Federal Government bonds, as against N4.13 billion in 30,182 deals recorded in that market in 2007.

Overall, The Exchange's Turnover Ratio dropped from 28.21% in 2007 to 21.86% in 2008 attributed to the decline in stock prices. The following is a list of the year's 20 most active stocks (by turnover volume [see table]):

1. Investment & Allied Assurance Plc	- 26.74 billion shares
2. Universal Insurance Co. Plc	- 12.4 billion shares
3. Spring Bank Plc	- 8.3 billion shares
4. Lasaco Assurance Plc	- 5.4 billion shares
5. Intercontinental Bank Plc	- 5.32 billion shares
6. Fidelity Bank Plc	- 5.15 billion shares
7. Transnational Corporation of Nig. Plc	- 5.2 billion shares
8. Equity Assurance Plc	- 4.9 billion shares
9. Afribank Nigeria Plc	- 4.83 billion shares
10. Access Bank Plc	- 4.8 billion shares
11. Oceanic Bank International Plc	- 4.8 billion shares
12. First Bank of Nigeria Plc	- 4.74 billion shares
13. NEM Insurance Co. Plc	- 4.4 billion shares
14. First City Monument Bank Plc	- 4.3 billion shares
15. United Bank for Africa Plc	- 4 billion shares
16. First Inland Bank Plc	- 3.61 billion shares
17. Continental Reinsurance Plc	- 3.6 billion shares
18. Guaranty Trust Bank Plc	- 3.2 billion shares
19. Platinum Habib Bank Plc	- 3.14 billion shares
20. Mutual Benefits Assurance Plc	- 3.1 billion shares

As in the preceding year, the banking and insurance subsectors accounted for 19 of the Top 20 companies by turnover volume consequent upon their being the most capitalized subsectors and having the largest float.

#### 4.0 Trading In Rights

Investors traded rights in four companies, compared to seven companies in 2007. In all, 61 deals valued at N357.05 million were executed in this market segment in 2008, up by 71.9% on the N207.73 million value of transactions in the previous year. The companies whose rights were traded during the year are:

- Zenith Bank Plc
- Skye Bank Plc
- Custodian & Allied Insurance Plc
- African Petroleum Plc
- Crusader Plc

#### 5.0 Foreign Portfolio Investment

Despite the huge outflow from the stock market especially from panic divestments, foreign investors continued to demonstrate confidence in the Nigerian economy during the year. This was based on their belief in the resilience of our market without forgetting the high returns, liquidity and safety of investments. Available statistics show purchases by foreign investors during 2008 to

be in excess of N151.202 billion, representing 6.4% of the aggregate turnover. This is a decline when compared with the N256 billion recorded in 2007. Concurrently, total sales during the year was in excess of N557.142 billion, culminating in a net outflow of about N405.94 billion.

#### 6.0 Market Capitalization

The total market value of 301 securities listed on The Exchange dropped by 28.1% from N13.295 trillion to stand at N9.563 trillion by year-end. The decline in market capitalization resulted mainly from price depreciations by equities, the delisting of 19 companies and the maturing of outstanding bonds.

By year-end, the market capitalization of the 213 listed equities accounted for N7 trillion or 73.1% of the aggregate market capitalization (2007: 212 equities accounted for N10.301 trillion or 77.5% of market capitalization).

At the end of the year, the following 20 companies emerged with the highest market capitalization, in descending order:

Company	Market Capitalization (N'Bn)
1) First Bank of Nigeria Plc	524.848
2) Zenith Bank Plc	368.385
3) Nigerian Breweries Plc	308.931
4) United Bank for Africa Plc	283.467
5) Ecobank Transnational Incorporated	273.396
6) Oceanic Bank International Plc	267.767
7) Intercontinental Bank Plc	243.055
8) African Petroleum Plc	231.888
9) PlatinumHabib Bank Plc	206.387
10) Stanbic IBTC Bank Plc	204.375
11) Ecobank Nigeria Plc	201.817
12) Guaranty Trust Bank Plc	194.907
13) Dangote Sugar Refinery Plc	186.000
14) Union Bank of Nigeria Plc	176.012
15) Guinness Nigeria Plc	146.755
16) Wema Bank Plc	145.562
17) Fidelity Bank Plc	135.837
18) Afribank Nigeria Plc	129.801
19) Nestle Nigeria Plc	126.455
20) Access Bank Plc	116.211

*The above 20 Most Capitalized Companies account for about 50% of the Total Market Capitalization of The Exchange. Changes in the prices of these stocks impact substantially on the Total Market Capitalization and the All-Share Index.*

### 7.0 The All-Share Index

The Nigerian Stock Exchange All-Share Index dropped by 45.8% or 26,539.44 points to close at 31,450.78, a reversal of the record-setting growth of 74.73% recorded in 2007. The Index closed at 57,990.22 in 2007. The Index had on March 5, 2008 recorded an historic value of 66,371.20 before dropping to its year end level. The performance of the Index reflects significant reduction in prices of most quoted equities during the year. By year end, 78 stocks recorded price appreciations and 111 stocks recorded price declines while the prices of 24 remained constant.

### 8.0 New Issues

There was increased recourse to the stock market by companies and governments as shown by the number of applications received during the year. Though the primary market was active at least up till the third quarter in terms of issues actually offered for public subscription,

we however note the limited activity during the fourth quarter. This was attributed to liquidity constraints from the economy-wide slowdown. In 2008, The Exchange considered and approved 70 applications for new issues and merger & acquisition in excess of N2.2 trillion or 9.53% of GDP, as against 65 applications for new issues valued at N2.4 trillion in 2007 or 10.5% of GDP.

The non-bank corporate issues accounted for 51.6% with 59 applications valued at N1.124 trillion while the banking sector accounted for 35.8% with 10 applications valued at N779.8 billion. Government bond issue accounted for N275 billion or 12.62% of the total amount approved during the year. Of the non-bank applications, The Foreign Listings and Insurance subsectors accounted for N295 billion and N150.45 billion or 13.54% and 6.9%, respectively of total applications considered.

Further analysis of new issues approved in 2008 showed that the sum of N608 billion was raised through Initial Public Offerings (IPO) and supplementary issues; N376.51 billion through rights issues; and N279 billion through bonds issue, including the Lagos State Government Bond.

Listing by Introduction accounted for N368.85 billion, in addition to eleven applications for supplementary listings valued at N277.4 billion while Shares Placing accounted for N91.4 billion. Also approved was one application for merger and acquisition valued at N3.8 billion and five applications by Unit Trusts for memorandum listings valued at N15.4 billion. Merger activity dwindled compared with 2007. Similarly, the Council approved new tradable instruments – Exchange Traded Funds (ETFs) with one application valued at N2 billion.

### 8.1 Top Five New Issues Approved In 2008

S/No	Issuer	Amount N)	Type of Issue
1	Union Bank of Nigeria Plc	301.933 billion	Hybrid: Public and Rights Offers
2	Ecobank Transnational Inc.	295 billion	Hybrid: Public and Rights Offers
3	3rd Lagos State Government Bond	275 billion	Bond
4	Ecobank Nigeria Plc	119.82 billion	Rights
5	PlatinumHabib Bank Plc	77.290 billion	Placing

**9.0 New Listings in 2008**

The number of securities listed on The Exchange dropped to 301 from 309 in 2007. The new listings were:

1. Dangote Flour Mills Plc
2. Universal Insurance Co. Plc
3. Goldlink insurance Co. Plc
4. Consolidated Hallmark Insurance Plc
5. Skye Shelter Fund Plc
6. Nigerian Bag Manufacturing Co. Plc
7. Aso Savings & Loans Plc
8. Investment & Allied Assurance Plc
9. Regency Alliance Insurance Plc
10. Fidson Healthcare Plc
11. Omatek Ventures Plc
12. Tantalizers Plc
13. Starcomms Plc
14. FTN Cocoa Processors Plc
15. Capital Hotels Plc
16. Union Diagnostics & Clinical Services Plc
17. Chams Plc
18. DAAR Communications Plc
19. Multiverse Resources Plc
20. Abbey Building Society Plc
21. Mass Telecom Innovation Nigeria Plc

Also, there were four Memorandum Listings compared to five in 2007:

- FBN Heritage Fund
- ARM Aggressive Growth Fund
- Kakawa Guaranteed Income Fund
- Stanbic IBTC Guaranteed Investment Fund

**9.1 Sector Reclassification and Change of Name**

Three new subsectors – Information Communication and Telecommunications, Media and Real Estate Investment Trusts were created on the Daily official List as a result of rising profiles of our listed companies. By this action, the number of subsectors in the equity sector of the Daily Official List increased to 35.

Also, Crusader (Nig) Plc and Royal Exchange Plc were moved from the Insurance subsector to the “Other Financial Institutions” subsector consequent upon the expansion of their operations beyond insurance business. Similarly, Cutix Plc migrated from the Second-tier market to the First-tier and was reclassified in the Engineering Technology sector.

The name IBTC-Chartered Bank was changed to Stanbic IBTC Bank Plc following the acquisition of majority shareholding by Standard Bank Group.

**9.2 Delisting in 2008**

Twenty-nine (29) Securities were delisted during the year compared to eleven (11) in the preceding year. The Council of The Nigerian Stock Exchange was very pro-active in ensuring compliance with the post-listing requirement of The Exchange. Consequently, Council approved the delisting of the following nineteen (19) dormant Companies in two tranches. These were effected on Thursday, September 18, 2008 and on Monday, October 6, 2008. The Companies delisted were:

1. ACEN Insurance Plc
2. Amicable Assurance Plc
3. BAICO Insurance Plc
4. Atlas Nigeria Plc
5. Ceramics Manufacturing Plc
6. Beverages (WA) Nigeria Plc
7. Enpee Plc
8. Tate Industries Plc
9. Maureen Laboratories Plc
10. Rietzcot Nigeria Plc
11. Intra Motors Nigeria Plc
12. Aviation Development Co. Plc
13. Grommac Industries Plc
14. Onwuka Hi-Tech Industries Plc
15. Nigerian Lamps Industries Plc
16. Nigerian Yeast & Alcohol Manufacturing Plc
17. Security Assurance Plc
18. Sun Insurance Plc
19. Nigerian Textiles Mills Plc.

As the terminal dates, the 19 delisted companies had issued 2.85 billion shares valued at N4.3 billion.

Bonds delisted on confirmation of repayment:

- FRN 22nd DS 2008
- FGN Bond 2011 Local contractors Debt
- FGN Bond 2012 (Local Contractors Debt Series 3)
- FGN 26th Floating Rate Bond 2008
- 2nd FGN Bond 2007 Series 6
- 2nd FGN Bond 2008 Series 5
- FGB Bond for Payment of Local Contractors
- Special FGB Bond for Local Contractors
- Special FGN Bond for Local Contractors
- African Paints Plc N20 Million Redeemable Debenture Stock 1997/2000

Equities delisted as a result of restructuring

- NFI Insurance Plc

**10. Market Development**

As in previous years, The Exchange implemented certain initiatives in 2008 to broaden participation in our

market, expand services, improve liquidity, and generally propel the market to greater height. These initiatives are in the important areas of capacity building, investor education, international cooperation, and new products development, including:

#### • **Launch of Nigerian Journal of Securities and Finance**

One of such initiatives was the launch of the new publication titled Nigerian Journal of Securities and Finance (NJSF). The Journal is a refereed and accredited scientific half-yearly publication of The Nigerian Stock Exchange. NJSF publishes theoretical, empirical and policy articles in the following disciplines (and cognate subjects): Securities Trading, Money and Capital Markets, Corporate Governance, Banking & Finance and Economics. The mission of NJSF is to publish and disseminate scientific knowledge from any academic school of thought. Authors may prepare papers for the Journal on country-specific capital market or economic issues though issues of international/cross-country coverage will also be welcomed. The views expressed in articles in the Journal are personal to the Authors and do not in any way reflect the official position of The Nigerian Stock Exchange.

Contributors of articles are requested to follow these guidelines to ensure speedy processing of materials for the Journal. The NJSF forwards all articles submitted to it for anonymous or blind assessment by three assessors, with at least two of these assessments required to be positive before the article will be slated for publication. Submission of an article to the NJSF presupposes that the author is committed in publishing in the journal and that the same article is not being simultaneously submitted to any other publication nor has it been published elsewhere.

#### • **Market Technology & New Data Centre**

We commenced the upgrade of the Horizon, our trading software. We hope to complete the upgrade early in 2009. Expectedly, the upgrade to the latest version of Horizon comes with improved functionalities that would impact positively on trading on The Exchange, especially with regard to derivatives and bond trading in the years to come.

During the year, The Exchange also commenced and concluded the construction of a state-of-the-art Data Centre in our premises. The construction of the Data Centre was in consonance with The Exchange's strategy to leverage on technology to drive its businesses and continually serve stakeholders' needs. The facility was built in accordance with industry best practice and will ac-

commodate all our IT and power equipment necessary for meeting the strategic growth objectives of The Exchange and its market.

As we go into the New Year, The Exchange will leverage on this facility to serve the market better, especially with regard to the dissemination of market data (giving live feed to financial information vendors) and remote access to the Trading Engine.

#### • **Expanded Branch Network**

The Nigerian Stock Exchange now has 11 branches across Nigeria other than its world class trading floor in Lagos. These are: Abuja, Kaduna, Port Harcourt, Kano, Onitsha, Ibadan, Yola, Benin, Uyo, Ilorin and Abeokuta.

We commissioned the Ilorin Branch and its Electronic Trading Floor on Monday January 14, 2008. The same function was performed in Abeokuta, Ogun State on Monday, November 17, 2008. Also, The Nigerian Stock Exchange on Friday, February 15, 2008 commissioned the Electronic /Automated Trading Floor of the new branch office complex donated by the Anambra State Government in Onitsha. The branch was initially commissioned in February 1990. The ceremonies were well attended. By year-end, The Exchange had eleven branches across the country trading on line real time. We shall in the first quarter of the New Year expand our branch network to Owerri, Imo State and Bauchi, Bauchi State. Plans are at advanced stages to open a branch in Oshogbo, Osun State.

#### • **Extension of The Exchange's Working Hours**

In a bid to align The Exchange's working hours with other sectors in Corporate Nigeria, we adjusted The Exchange's working hours from 8.00a.m – 4.30p.m. to 8.00a.m. – 5.00p.m. With this, The Exchange's staff would be available to attend to more enquiries from market operators.

#### • **Review of The NSE Fees**

At the height of the market slow down, there was a strategic meeting of financial market regulators on Tuesday, August 26, 2008 with the Federal Government of Nigeria. Participants at this meeting were Central Bank of Nigeria, Securities and Exchange Commission and The Nigerian Stock Exchange (NSE) in a combined effort to arrest the sliding prices at the stock market.

As a follow up to the meeting, The NSE announced a reduction in the Application Fee from 0.6% to 0.3% while The NSE Fees on secondary market transactions was reduced from 0.5% to 0.3%. Subsequently, the Securities

and Exchange Commission (SEC) and other market operators followed suit.

#### • **New Products**

In 2008, work continued in the effort to deepen the Nigerian capital market by creating new products. Some of the new products considered by The Exchange include: Exchange Traded Funds, Mortgage-Backed Securities, Asset-Backed Securities. We listed the first Real Estate Investment Trusts (REITs) i.e. Skye Shelter Fund Plc on February 26, 2008 while Union Homes Savings and Loans Plc offered for public subscription the largest REIT investment worth N50 billion.

As part of the effort to expand the product range, The Nigerian Stock Exchange has created five new tradable indices, which would be launched in the first quarter of 2009. These indices namely:

- NSE 30 Index
- NSE Banking 10 Index
- NSE Insurance 10 Index
- NSE Food/Beverage 10 Index
- NSE Oil/Gas 5 Index

Each would be based on various criteria including liquidity and would form the platform for an array of new products. One application has been received to create an Exchange Traded Fund on The NSE 30 Index.

#### • **Licensing of Market Makers**

We are currently processing five applications for companies seeking to operate on The Exchange as Market Makers. Market makers are wholesale operators who create liquidity in the stock market by either buying shares when there is a glut or selling shares when there is scarcity. In essence, they are to ensure liquidity in the stock market by acting as buyers and sellers of last resort. Four of the companies have been registered by the Securities and Exchange Commission (SEC), in keeping with the requirements of The Exchange. However, they are further required to provide information on their Liquidity Providers (banks and other non-bank financial institutions) and the stocks in which they plan to make market before they are licensed to operate as Market Makers. We hope they will be able to meet these regulatory conditions in January to enable them commence operation during the first quarter of 2009.

#### • **Inspection of Dealing Member Firms**

The Compliance Department inspected 243 dealing firms out of 248 scheduled for the year. The five firms that were not inspected were inactive. The operating perfor-

mances of the firms inspected were mixed. On the average, most dealing firms performed well in terms of profitability. Eighty percent of firms inspected have completed automation of their accounting, stockbroking and administrative processes. The rest have been enjoined to automate their operations during 2009. Up to twenty percent of firms inspected have capitalization in excess of N1 billion.

#### • **New Dealing Member Firms**

Six new firms commenced operations in 2008. They were:

- Cardington Securities Limited
- Aims Asset Management Limited
- Rencap Securities Limited
- Redasel Investment Limited
- Northbridge Investment and Trust Limited
- Peace Capital Market Limited.

All the new firms have capitalization in excess of N1 Billion Naira.

#### • **Complaints/Infractions**

In 2008, a total of 341 complaints / infractions were reported against dealing firms. Out of this, 243 cases were amicably resolved while 98 are still under investigation.

#### • **Cross-Border Listing**

On January 9, 2008, Diamond Bank Plc achieved the feat of being the first West African Bank to be listed on the Professional Securities Market (PSM) of the London Stock Exchange (LSE). This was the second Nigerian company to be listed on the London Stock Exchange and the first on the Professional Securities Market.

#### • **Investor Education**

The Exchange sustained its investor education initiative during the year. The 9th National Essay Competition for secondary schools and tertiary institutions was organized, culminating in an award ceremony in Lagos on November 24. About 15,000 entries were considered for the various awards. One Hundred students from secondary and tertiary institutions were specially honoured at the award ceremony for their outstanding performance during the national essay competition. The event was widely publicized.

#### • **NSE Annual President's Award**

On November 15, we held the 31st edition of The Nigerian Stock Exchange Annual President's Merit Award ceremony in Lagos. The Former Secretary to the Government of the Federation and current Minister of The Ministry of Niger Delta, Obong Ufot Ekaette, CFR was

the Special Guest of Honour. First Bank of Nigeria Plc won the Quoted Company of the Year award. Awards were conferred on 18 quoted companies drawn from 17 industrial groups that cut across the broad spectrum of the Nigerian economy for their outstanding performance and commitment to the realization of the ideals of good corporate governance. Some of these companies won the award for the first time, while others have won several times in the past.

#### • International Investment Road Shows

During the year, The Nigerian Stock Exchange and major market operators participated in International Investment Road Shows that took participants to Spain, Italy, Monte Carlo, Malta, Tunisia and Charlotte USA. Despite the huge outflow from our market arising from the global meltdown, we have begun to see the renewed commitment by foreign investors and Nigerians in diaspora in our market.

#### • Technical Assistance to Stock Exchange of Sierra Leone

In the last quarter of 2008, The Exchange hosted the Chief Executive Officer of Sierra Leone Stock Exchange on a Study Tour of our market, preparatory to the commencement of operation by the Sierra Leone Stock Exchange in 2009. Following the success of the study tour, the Council of Sierra Leone Stock Exchange has requested The Nigerian Stock Exchange to pilot the initial operations of their stock exchange.

In consideration of this request and our role as a leading stock exchange in the continent, The Nigerian Stock Exchange has undertaken to deploy a senior member of staff to Sierra Leone Stock Exchange to guide the new exchange in the first three months of stock trading. It would be recalled that The Nigerian Stock Exchange facilitated the establishment of the Ghana Stock exchange in 1990.

### 11. Future Outlook

The New Year poses a serious challenge to the Nigerian economy especially those emanating from decline in the crude oil price, Naira devaluation and inadequate infrastructure. With crude oil trading below \$40pb and production quota at 1.9mpd, the challenge becomes daunting for policy makers' considering that budget 2009 was formulated on assumed crude oil price of \$45pb. Similarly, sustained recession in the U.S will continue to impact negatively on global crude oil demand. The World Bank has forewarned that some emerging economies are likely to face serious challenges, including bank failures and currency crises, even if global bail-out plans

start restoring confidence in financial markets. Meanwhile, the Federal government envisaged a GDP growth rate of 8.9%, which is achievable provided the Niger Delta crisis is resolved and supportive infrastructure being provided at optimal levels. Consequently, the expected growth rate in 2009 would be defined by the economy's ability to cope with the volatility of investment and crude oil price conditions. We hope that budget 2009 would be passed by the National Assembly early in the New Year so as to prevent any unnecessary delay as witnessed in the preceding year.

We commend the Federal Government for sustaining the issuance of bonds through the Debt Management Office (DMO). During 2008 and having realized that the economy cannot grow without long-term funds, the maturity profile of government bond was extended to 20 years. In the 2009 budget recently presented to the National Assembly, the Federal Government promised to sustain its domestic borrowing programme and to complement this with the issuance of a Naira-denominated international bond issue of US\$500million to fund the expected deficit. However, for the purpose of transparency and pricing efficiency, we once again request that the DMO should consider migrating trading on the OTC to The Nigerian Stock Exchange trading platform, which has the technology to deliver on transparency and efficiency and has already been used to execute such trading seamlessly in 2008.

Like any organization operating in today's dynamic economic environment, The Nigerian Stock Exchange commits itself to sustained transformation of its policies, people, processes and practices. In today's globalised environment, we are resolved to match competition for access to capital from anywhere in the wide world that it is available. In this regard, the areas to be covered include but are not limited to:

- Demutualization
- Dematerialization
- New Product development
- Capacity building
- Continuous IT programme management

Over time, we have brought to the fore challenges militating against stock market development in the country. These challenges include the incidence of multiple tax regimes on businesses and investors, slow pace in the implementation of the privatization programme especially those earmarked to be consummated through the stock market. Therefore, we urge the National Assembly to expedite action on all Bills on Tax, Oil and Gas reforms, Privatization and Capital Market Reforms cur-

rently before it.

Based on objective market assessment and in line with cyclical patterns of stock markets globally, **we are optimistic that the Nigerian market will rebound in the not too distant future** considering the most recent resurgence of activities by the bulls whose activities are translating into improved liquidity in our market and renewed, howbeit gentle confidence build up. The Primary Market promises to be busy during 2009 considering that a number of Companies obtained Council approval during 2008 but are yet to make the issues available in the market. We expect some companies to recapitalize using the instruments available in the market.

The secondary market promises to be busy as we expect the conclusion of many Private Placements embarked upon during 2008 while we hope to sustain our public awareness programmes to sensitize the investing public on the various opportunities available in the stock

CBN, SEC and other members of the Financial Sector Regulation Coordinating Committee (FSRCC), while maintaining relationship with operators in the international arena with a view to facilitating the flow of international investment capital to Nigeria, especially through our partnership with the 2000-member Association of Nigerian Physicians in the Americas (ANPA). We will continue to take pro-active measures that will enhance the quality of the overall market.

Let me advise investors not to allow the ongoing market corrections to becloud their judgment on the myriads of opportunities available in our capital market. I would advice investors to work with duly licenced market operators now in identifying genuine opportunities to make good investments. As equities become cheaper, it presents a greater opportunity to maximize returns when market stabilizes again and assumes a bullish trend. It should also be noted that in spite of the global melt-down, S&P, the international rating agency in its 2008

**Statistical Summary of Market Performance In 2008**

	<u>2008</u>	<u>2007</u>	<u>%Change</u>
Market Capitalization	₦9.56 trillion	₦13.295 trillion	(28.1)
The NSE All-Share Index	31,450.78	57,990.22	(45.8)
Total Turnover Volume	193.14bn shares	138.1bn shares	39.85
Total Turnover Value	₦2.4 trillion	₦2.1 trillion	14.3
Average Daily Volume	775.65 million Units	570.6 million	Units35.94
Average Daily Turnover	₦9.55 billion	₦8.62 billion	10.8
New Issues Approved	₦2.2 trillion	₦2.4trillion	(8.3)
Number of Listed Companies	213	212	0.5
Number of Listed Securities	301	309	(2.6)
Number of Trading Days	249	242	2.9

**Statistical Summary of Market Performance in US Dollars**

	<u>2008</u>	<u>2007</u>
Market Capitalization	\$80.6 billion	\$105.65 billion
Total Turnover Value	\$20.1 billion	\$16.6 billion
Average Daily Turnover	\$80.5 million	\$68.51 million

market. Also, we are hopeful that the Bureau of Public Enterprises (BPE) would consummate the decision of the National Council of Privatization to list the shares of Nigerian National Petroleum Corporation (NNPC), NITEL and some other government parastatals like PHCN on our market in 2009. The market has enough capacity to absorb these and other issues.

Also, The Exchange will continuously work to support government and its agencies towards the realization of Nigeria’s economic development and growth objectives, working closely with the Federal Ministry of Finance,

edition of the Global Stock Markets Factbook, ranked The Nigerian Stock Exchange number 11 (Eleven) among 106 stock exchanges globally on return on investment in Dollar terms. Significantly, the ranking showed that none of the developed exchanges featured on the list of the World’s Top 25 performing exchanges. It is our intention to improve on this ranking in the New Year.

*This is a review By Professor Ndi Okereke-Onyiuke, Director General/Chief Executive Officer*

# Quality And Internal Control Challenges: Internal Surveillance

\* By Chuks Nwaze

Having carried out a comprehensive diagnosis of the causes, symptoms and effects of poor internal control and service quality in the banking environment in the previous editions of this serial, the stage is now set for us to enter the all-important phase of fraud prevention, which is the ultimate objective of all internal control measures.

By way of an overview, our discussion has been organized from three perspectives viz.: management internal control measures, enforcement of compliance with operational standards as well as the political dimension to internal surveillance regimes.

We shall now proceed to examine these measures in detail. But as has earlier been mentioned, fraud prevention in an absolute sense is a misnomer and utopian; in fact, no such paradise exists in our planet. It is understood, therefore, that we are actually referring to fraud reduction which is a genuine objective in real life.

## 1. MANAGEMENT INTERNAL CONTROL MEASURES

Although the skeleton of internal control remains the same for all business organizations, the flesh varies from bank to bank. Generally, however, internal control is defined as “the whole system of controls, financial and otherwise, established by management to carry on the business of the enterprise in an orderly and efficient manner, safeguard the assets, and secure as far as possible the completeness and accuracy of the records.”

An important observation that flows from the above definition is that internal control is neither a process nor an activity to be assigned to any department or unit of a bank; rather it is an executive management function which has to be exclusively performed by them. It is a policy statement that must be made and religiously implemented by management.

The academic or professional qualifications coupled with the relevant experience and innate qualities of the staff involved are crucial factors that must be considered before setting up a control system in a bank or any organization for that matter.

Hence, irrespective of the structure of a bank or any organization for that matter, the following controls are necessary if fraud is to be minimized.

### 1.1 Defined Responsibilities

The bank should have a plan for defining and allocating responsibilities and identifying lines of reporting for all aspects of the bank's operations, including the various controls. The delegation of authority and responsibility should also be clearly defined.

### 1.2 Segregation of Duties

Distinct and unambiguous segregation of duties should exist among:

- Those with power to authorize a transaction and to commit the bank to execute it.
- Those charged with the responsibilities to input or record transactions in the bank's books
- Those who have custody of assets and can determine their release, utilization or expenditure.

The import of the above is the fact that a veritable ground for fraud would be prepared if an individual is allowed to initiate, record and also carry through the processing of a complete transaction. Segregation of duties reduces the risk of fraud through the vital element of independent checking, verification and confirmation from one point to another. Functions that should be segregated include those of authorization, accounting system, programme development, amendment and daily operations.

### 1.3 Physical Custody Controls

These are concerned mainly with the custody of assets, including procedures and security measures designed to ensure that access to assets is limited only to authorized personnel at all times. Controls in this respect assume even greater importance in the case of valuable, portable, exchangeable or prized assets not easily obtained.

### 1.4 Effective Supervision

Whatever business system that is in use must incorporate supervision by responsible officials for the day to day transactions as well as the recording of same in such a

## Continuous Surveillance



**T**his refers to a continuous programme of operational vigilance drawn up and carried out in such a manner as to constantly monitor the day to day activities of a bank on an on-line, real-time basis i.e. as the transactions are being performed. It comprises some procedural routines designed to achieve a level of comfort or assurance that all is well from the viewpoint of the various stakeholders.

**Even the realization that the internal auditor is watching the operations and ensuring that adequate care and due diligence are exercised is a sufficient deterrent to unscrupulous staff who might nurse the ambition of getting rich quick be committing fraud.**

manner that ensures transparency and accountability.

### 1.5 Recruitment of Personnel

There should be a clear procedure for recruitment that ensures that personnel have capabilities that are commensurate with the responsibilities assigned to them. Undoubtedly, the satisfactory functioning of any system has a lot to do with the competence and integrity of those operating it. The academic or professional qualifications coupled with the relevant experience and innate qualities of the staff involved are crucial factors that must be considered before setting up a control system in a bank or any organization for that matter.

The well respected John C. Maxwell (2001) has suggested that the following traits should be seriously considered while considering candidates for employment

- a. Honesty
- b. Integrity
- c. Self discipline
- d. Teachability
- e. Dependability

- f. Perseverance
- g. Conscientiousness
- h. Strong work ethic
- i. Patience

This is a critical factor in the fraud prevention campaign.

### 1.6 System of Authorization and Approval

Every transaction should be subjected to authorization or approval by an appropriate or designated officer in line with corporate policy. In order not to unwittingly create monsters or induce bizarre behaviour, limits for these authorizations must also be specified which must be commensurate with the responsibilities given to the staff.

## 2. ENFORCEMENT OF COMPLIANCE WITH STANDARDS

Having discussed the aspects of internal surveillance that have to do with management commitment and policy implementation, the stage is now set for us to consider internal surveillance from the point of view of enforcement of compliance with operational standards and guidelines as contained in the rule books which every bank has. The name of the rule book is Operations Manual while the department or unit of the bank usually charged with the responsibility for enforcement is variously called inspection, internal audit, compliance or internal control

The name of the rule book is Operations Manual while the department or unit of the bank usually charged with the responsibility for enforcement is variously called inspection, internal audit, compliance or internal control depending on the arrangement or modalities adopted by a particular bank.

depending on the arrangement or modalities adopted by a particular bank.

For our current purposes, however, we shall recommend the following arrangement where two departments of the bank undertake the functions stipulated; that is the more popular practice in most of the banks at the moment.

- **Internal Audit Department:** Maintains internal operational surveillance on a daily basis as the transactions are being carried out i.e. on-line, real-time surveillance, including call-over of previous day's transactions for authentication.

- **Inspection Department:** Maintains internal operational surveillance through periodic reviews and snap checks to ensure that transactions carried out in the past conform with standards as stipulated in the operations manual.

It is important to note that different banks have different nomenclatures and operational features, hence, some banks have rolled these two departments into one for their own convenience to suit their operations. It is for this reason that we are going to concentrate on the actual functions being performed, instead of the name or title of the unit performing them, after all, the message is more important than the messenger.

### 2.1 The Internal Audit Function

#### 2.1.1 The Internal Audit Department: Organization

The internal audit department is usually headed by a management staff who reports directly to the managing director. The job is essentially to prevent fraud through the enforcement of the internal control policies and programmes already established by management as well as suggestions

## Recruitment of Personnel

**T**here should be a clear procedure for recruitment that ensures that personnel have capabilities that are commensurate with the responsibilities assigned to them. Undoubtedly, the satisfactory functioning of any system has a lot to do with the competence and integrity of those operating it.

The academic or professional qualifications coupled with



the relevant experience and innate qualities of the staff involved are crucial factors that must be considered before setting up a control system in a bank or any organization for that matter.

for the improvement of same. In terms of modus-operandi, every branch of a bank should have a full-time internal auditor who is the 'eye' of management in that branch.

For small branches or cash centres, however, an internal auditor can cover more than one office. In order not to unduly acclimatize or compromise their positions, it is a vital requirement that internal auditors be rotated after a pre-determined duration.

Once again, it should be noted that internal auditors are also variously called internal control officers, resident inspectors, branch inspectors etc. depending on the bank. It has already been emphasized that we only need to appreciate the surveillance functions that they perform and not the name they are called.

### 2.1.2 Continuous Surveillance

This refers to a continuous programme of operational vigilance drawn up and carried out in such a manner as to constantly monitor the day to day activities of a bank on an on-line, real-time basis i.e. as the transactions are being performed. It comprises some procedural routines designed to achieve a level of comfort or assurance that all is well from the viewpoint of the various stakeholders. To do this, we have the following objectives in mind:

- Accurate book keeping and accounting
- Prompt correction of observed errors
- Proper origination and completeness of transactions
- Well defined authorization and approval procedures
- Minimal disruption of day to day activities
- Accounting officers to discharge their duties efficiently
- Consistent adherence to the tenets of internal control
- Early detection of errors and frauds
- Reliability of real-time balances and other financial information
- Ensure the reasonableness and integrity of account balances.

## The Internal Audit Function

**T**he internal audit department is usually headed by a management staff who reports directly to the managing director. The job is essentially to prevent fraud through the enforcement of the internal control policies and programmes already established by management as well as suggestions for the improvement of same. In terms of modus-operandi, every branch of a bank should have a full-time internal auditor who is



the 'eye' of management in that branch.

For small branches or cash centres, however, an internal auditor can cover more than one office. In order not to unduly acclimatize or compromise their positions, it is a vital requirement that internal auditors be rotated after a pre-determined duration.

The implicit philosophy in all the above is simply to induce a culture of disciplined approach in the handling of banking transactions by providing a consistent deterrent mechanism bank-wide. Even the realization that the internal auditor is watching the operations and ensuring that adequate care and due diligence are exercised is a sufficient deterrent to unscrupulous staff who might nurse the ambition of getting rich quick by committing fraud.

### 2.1.3 Transaction Call-over

The concept of call-over implies taking another look at the transactions of the previous day as represented by the postings into the various accounts, to ensure that there were no errors of omission or commission and that the spirit and the letter of the transactions were accurately captured and that no fraud was committed.

There is considerable controversy as to whether transaction call-over is an operations function or a control function. In other words, who is in a better position to carry out that sacred duty; the person who performed the function or an independent umpire.

From my several years of experience on each side of the divide, my position is that call-over is essentially an

operations function but there is no guarantee that it would be properly done by the same people that performed the initial activity. Besides, what if he has a hidden agenda to cover-up, perhaps a fraudulent one. It is against this background that the internal auditor (or resident auditor) comes in as a preferred person for this assignment.

**(a) Imperatives for Transaction Call-over**

In addition to the introductory remarks made earlier, the rationale for call-over arises from the following considerations.

- The possibility of errors by operations staff in the normal course of business which does not guarantee that the customer’s mandate has been captured and executed accurately and faithfully.
- The inherent imperfections of the human faculty which does not guarantee that the customer has written down

correctly and unambiguously the transactions that have been consummated for him and that no loophole has been capitalized upon to defraud him.

- The strong possibility of fraudulent intent which might result into unprofessional actions or decisions by operational staff.
- To ensure that instruments that have been honoured are genuine and regular and were duly approved prior to payment.
- Possibility of computer system malfunctioning that might result into unreasonable or unreliable reports being generated from genuine inputs but which could be intentionally used for ‘other’ purposes
- Intentional collaboration between the customer and staff to sabotage laid-down procedures for mutual benefit at the expense of the bank.

There is no doubt, whatsoever, that the issues at stake are serious enough that the transactions of the previous *day* must, as a matter of urgency and expediency, be subjected to scrutiny immediately they are concluded. For practical purposes, this means that call-over should be carried out first thing the succeeding day.

**(b) Requirements For Call-over**

The following items must be present before call-over can be conducted.

- The voucher to be called-over suitably segregated into the various input means such as Teller Transactions (TT), Funds Transfer (FT), etc. Illegible or obscure narrations on vouchers should be jettisoned.
- The Transaction Journal (TJ) for the day in question, which must contain all the transaction details properly described.

**(c) What to Look For**

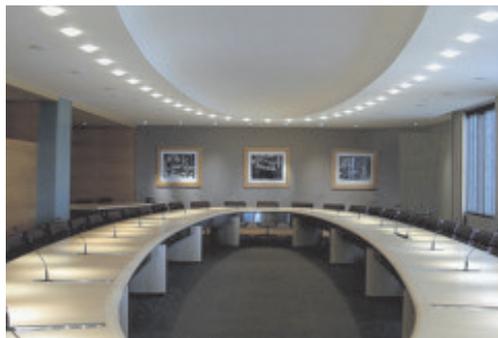
The following details must be satisfactorily established on the face of the instruments or vouchers before being ticked off:

- Alterations, if any, to be initialed by the drawer
- Date not irregular (i.e. not post-dated)
- Amount in words and figures must synchronize
- Instrument or voucher to be properly signed

**Inspection Department: Organization**

The inspection department operates along the following lines:

- The chief inspector reports to the board through the managing director. This is because the position of chief inspector is a statutory requirement and he is also expected to check the excesses, if any, of management. In fact, the appointment has to be approved by the CBN, because the position is also a regulatory requirement.
- Inspectors for the periodic review go out in teams of two or three persons and each team has a team leader who organizes the work and ensures that the desired results are achieved.
- The duration of each assignment



depends not only on the size of the branch, but also the number of inspectors in a team. It also has to do with the length of time being reviewed; CBN insists that operating units should be fully inspected twice a year.

- A full inspection report is produced at the end of every detailed review. This is a comprehensive report on the operation of the unit in relation to standards and extent of compliance. It is usually a vital document for regulatory examiners during their own visit.

## Transaction Call-over

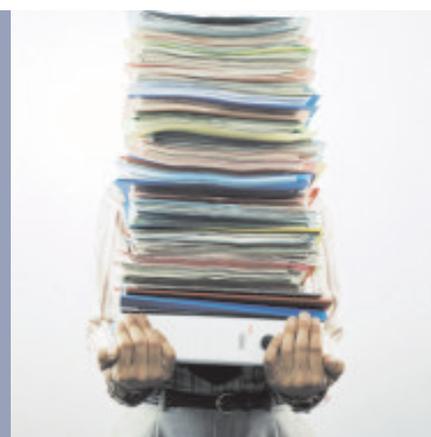
**T**he concept of call-over implies taking another look at the transactions of the previous day as represented by the postings into the various accounts, to ensure that there were no errors of omission or commission and that the spirit and the letter of the transactions were accurately captured and that no fraud was committed.

There is considerable controversy as to whether transaction call-over is an operations function or a control function. In other words, who is in a

better position to carry out that sacred duty; the person who performed the function or an independent umpire.

From my several years of experience on each side of the divide, my position is that call-over is essentially an operations function but there is no guarantee that it would be properly done by the same people that performed the initial activity.

Besides, what if he has a hidden agenda to cover-up, perhaps a fraudulent one. It is against this background that the internal auditor (or resident au-



ditor) comes in as a preferred person for this assignment.

- Cheque/voucher to be duly approved for payment
- Any stamp, crossing, endorsement, payee name etc. on cheque to be properly done.
- Account code on voucher to be regular

### (d) Effective Call-over: Two persons

To achieve an effective call-over, two persons should be involved: One person reads out the information on the voucher while the other compares this with what is contained on the TJ and ticks if he is satisfied. A one-man call-over is not very effective unless supported with other control measures to mitigate the obvious risk of omissions in the course of the exercise.

### (e) Internal Auditor: Compliance Check list

Whether the resident internal auditor is doing the call-over himself or it is being done by the operations staff is not cast in stone. However, in the event that the function is being performed by the operations staff, the internal auditor is expected to ensure and certify that this operations duty is satisfactorily performed with the help of the following check-list:

- Does a call-over roster exist and does it involve all operations staff, excluding the branch manager?
- Is the roster being strictly followed?
- Is the exercise carried out early enough the next day?
- Is the TJ signed after call-over?
- Are the vouchers securely bound together both before and after call-over?
- Is the call-over register suitably ruled to contain the following information:
  - (i) Date being called over and by who?
  - (ii) No. of credit vouchers and amount
  - (iii) No. of debit vouchers and amount

- (iv) Date call-over was actually executed
- (v) Record of anomalies and corrective actions taken

### (f) Limitations of Call-over

Call-over would not achieve the desired objective in the following circumstances:

- Executive fraud (e.g. over invoicing)
- Where certain vouchers have been omitted
- Collusion between the person doing the call-over and those that carried out the initial transaction.

## 2.2 The Inspection Department Function

Having discussed how the internal audit department exercises internal surveillance over the on-line, real-time operations of the bank, we shall now focus our attention on how another unit of the bank, inspection department, conducts its own surveillance by looking backwards to see whether the operations of the bank during a specified period under review complies with the standards and guidelines laid down by management in the Manual or otherwise.

### 2.2.1 Inspection Department: Organization

The inspection department operates along the following lines:

- The chief inspector reports to the board through the managing director. This is because the position of chief inspector is a statutory requirement and he is also expected to check the excesses, if any, of management. In fact, the appointment has to be approved by the CBN, because the position is also a regulatory requirement.
- Inspectors for the periodic review go out in teams of two or three persons and each team has a team leader

who organizes the work and ensures that the desired results are achieved.

- The duration of each assignment depends not only on the size of the branch, but also the number of inspectors in a team. It also has to do with the length of time being reviewed; CBN insists that operating units should be fully inspected twice a year.
- A full inspection report is produced at the end of every detailed review. This is a comprehensive report on the operation of the unit in relation to standards and extent of compliance. It is usually a vital document for regulatory examiners during their own visit.

### 2.2.2 Periodic Review

The periodic review system is designed for the purpose of carrying out regular, detailed, and thorough review of specific banking functions and operations on a historical basis. By this process the entire activities of a branch or department is completely x-rayed for a specific period under reference. This periodic detailed review is intended to further strengthen the audit processes carried out by the internal auditors, and more importantly to enforce compliance with the bank's operations manual as well as statutory and regulatory requirements.

In a nutshell, the periodic review system ensures that the following controls are in place:

- Adherence to operations manual
- Satisfactory documentation of transactions
- Proper record keeping and adherence to accounting policy
- Detection of errors and fraud where evident
- Compliance with statutory and regulatory guidelines
- Adequate protection of assets and resources
- Detection of control weaknesses

### 2.2.3 Snap Checks

Snap checks or spot checks are usually carried out by one inspector for one day if there are no unforeseen circumstances. The essential ingredient of a snap check is that it is conducted without prior notice to confirm that the operations of an organization such as a bank, or an arm of it, are carried out in a manner that is consistent with laid down procedures, guidelines or manuals. It comprises the whole system of checks, reviews, tests, routine comparisons and examination necessary to make reasonable inferences about the control situation in the branch or department.

It is important to note that unlike

the other types of internal surveillance methods, a snap check has no pattern and no predictable procedure, whatsoever.

It is like taking a photographic snapshot of the operations of a branch or department of the bank as it is on that day and comparing it with the provisions of the rule books to ascertain the extent of deviation. The element of surprise or suddenness is very important.

#### (a) Objectives of Snap Checks

Snap checks are deliberately structured to accommodate adequate compliance and substantive procedures in such a way as to ascertain that the operations of the unit are carried on at all times based on the following;

- Adherence to internal control principles
- Observance of internal and external deadlines
- Proper documentation of transactions
- Compliance with statutory and regulatory guidelines
- Satisfactory origination and completeness of transactions
- That authorization and approval of transactions are within limits

#### (b) Effectiveness of Snap Checks

The following reasons are responsible for the effectiveness of snap checks:

- The elements of surprise and suddenness
- It is stripped of normal procedures and delays in planning
- It can be used as first aid pending detailed investigation
- Undue influence on inspectors and auditors is much less
- It is used for pre-empting imminent fraud on "tip off"
- The timely application is advantageous (i.e. swift and sharp)
- Through the approach, fraudsters

## Periodic Review

The periodic review system is designed for the purpose of carrying out regular, detailed, and thorough review of specific banking functions and operations on a historical basis. By this process the entire activities of a branch or department is completely x-rayed for a specific period under reference.



This periodic detailed review is intended to further strengthen the audit processes carried out by the internal auditors, and more importantly to enforce compliance with the bank's operations manual as well as statutory and regulatory requirements.

may be “caught in the act”

- It improves control consciousness in the generality of staff
- Staff members are “on guard” and on “red alert” at all times

### 3 CONTROL GROUP: POLITICS AGAINST PERFORMANCE

By now it must be obvious in the mind of the reader that the modern approach to internal surveillance for fraud control in the banking industry is a bi-cameral system of internal audit and inspection. While the former looks at the present activities as they are being performed, the later reviews the transactions carried out in the past to confirm that all is well or otherwise. The basic objective is the same but the approach is different for each of them. The two departments constitute the control group.

This is a sacred duty which can only be satisfactorily performed by serious minded and highly dedicated men and women of strong character, good education, rel-

competent, disgruntled, relegated or out-of-favour staff, otherwise one will only have a group whose operators are looked at with scorn and disrespect and would not be perceived in good light. Surely, this will negatively affect the quality of work coming from such people.

(v) Control personnel should not lag behind in promotions, staff welfare, compensation, or any form of motivational package, whatsoever, otherwise what is expected to be a potent biting force might turn out to be a toothless bulldog.

#### 3.2 Control Group: Role Conflict with Management

The reason for conflict between management and control group usually centre on the interpretations placed on the auditor’s terms of reference. Management will, inevitably, try to prevent audit encroachment into the ‘management patch’ and thus try to restrict auditors to the ‘policeman’s’ role, whereas the auditor views his role as one of independently reviewing all operations by all levels of management.

INTERNAL AUDIT	PERCEPTION BY INTERNAL AUDITOR	PERCEPTION BY AUDITEE
Nature of work	Adviser (assists all levels of management)	Policeman (with backing of authority)
Authority	Informal (invited to examine)	Formal (power to examine)
Source of authority	Personal abilities (good relations)	Senior management (directed by)
Sanction	Suggestion (recommendation)	Coercion (report)

Similarly, where senior people are the subject of control enforcement, they may regard internal audit as an unnecessary check and the auditor’s report as an instrument of punishment highlighting the few fail-

evant experience and credibility.

#### 3.1 Control Group: Management Commitment

The above are basic qualities for the individuals concerned but they are not enough to engender an effective and result-oriented control function in a banking environment. Management has the following roles to play in this direction among others:

- Control staff must have previously acquired operations or control experience within the banking industry. No “green horn” should be assigned to perform control function.
- No control officer should remain in that job function for more than a few years before being injected into mainstream banking and replaced by others.
- Control personnel should not be used to fill a vacancy created as a result of control function. For instance, if a branch manager is relieved of his position as a result of an inspection report, an inspector should not be used to fill that vacancy.
- The control group (i.e. internal audit and inspection departments) should not be a dumping ground for in-

ures that occurred despite all the successes they have recorded.

#### 3.3 Control Group: Image Conflict with Operators

Internal audit may find itself with the conflicting roles of both policeman and adviser. In order to obtain evidence, the auditor tries to be seen to be of assistance and to give advice. However, the auditee perceives him as a policeman, because the audit report on the auditee is received by higher management and because the auditor is invested with wide powers of examination and interrogation. The following diagram illustrates the conflict in the image of audit as seen by the auditor and by the auditee as suggested by J.S.R. Venables & K.W. Impey (1985).

(\* Chuks Nwaze is the Managing Consultant, Control & Surveillance Associates Limited)



# Nigeria: Sailing Through Macro-economic Storm

\* By Michael A. Uzor

**B**etween the 2008 and 2009 national budgets, the Nigerian economy has faced two different dimensions of fiscal challenges. Last year, government could not optimally put available funds to work to fix

broken down infrastructure and in the current fiscal year, revenue shortfall is very likely to threaten the implementation of critical projects. In 2008, the budget implementation machinery of government was affected by both politics and bureaucracy and much of capital votes released closed the year in the vaults of the Central Bank.

In 2009, a dismal revenue outlook, generated by crude oil price plunge isn't going to let government meet spending priorities without adding more to the already huge internal debt overhang. The sudden swing from economic stability to fiscal crisis has to do with crude oil price volatility; and throws up a challenge for government to make the needed transition of utilising oil wealth to develop

the non-oil economy. That this transition was not made during the longest running oil boom (which ended late last year) has left the economy vulnerable to the vicissitudes of 'boom and burst' of the oil market.

Macro-economic and financial instability is the cost the nation might have to pay for failure to accumulate significant fiscal surpluses during the period of robust oil earnings. At present there are dark clouds on both the global and domestic economic horizons with a number of warning signals.

The ability of the political administration and its economic and financial policymaking team to steer the ship of state out of a looming macro-economic storm is

now in focus. Fiscal 2009 is critical for government to raise its performance on the score board after its average implementation of the 2008 budget.

The ability of government to fast-track economic performance in 2009 is being challenged by the fact that its projected revenue covers only recurrent expenditures and statutory transfers. Funds needed to provide what government has termed 'critical infrastructures' will have to be borrowed.

That, in itself, isn't the problem. Irrespective of its sources of financing, fiscal stimulus appears necessary for the economy to head off recession in 2009.

But whether or not the economy is saved from likely recession isn't a function of the fiscal size alone. The quality of the spending and how supportive monetary policy will be, in the end, determine how much of fiscal objectives are realised. With monetary and fiscal policies apparently out of alignment for fiscal 2009, it is to be seen whether government spending is allowed to stimulate production or will be mopped up to defend the single digit inflation rate target of the Central Bank.

### Economic Performance in 2008

Despite the inability to achieve stimulatory spending in 2008, the economy grew by a surprising 6.8 per cent, according to the Central Bank's estimate. This means that economic growth mildly accelerated for the second year from 6.2 per cent in 2007 though a wide deviation from the targeted growth of 11 per cent. This is a great accomplishment in the light of the turbulent global and domestic conditions under which economic actors operated in 2008.

Non-oil sector provided the spur for economic growth in 2008 with an annual growth estimated at 9.6 per cent. Growth in non-oil exports was exceptionally strong in the last quarter at 60 per cent, according to the Nigerian Export Promotion Council. It nevertheless accounts for less than 10 per cent of government export revenue.

The industrial sector declined by 3.1 per cent, accord-

GDP Growth Rate %	
2004	6.5
2005	6.2
2006	5.6
2007	6.2
2008	6.8
2009*	8.9
*Proposed	

ing to estimates reflecting declines in manufacturing output due to poor power supply experienced in the year and other frustrating infrastructure situation. Average electricity generation fell by 10.5 per cent in the second quarter, according the Central Bank's estimates. The decline followed a drop in water levels at the hydro power stations and vandalizing of gas supply pipelines to the thermal power stations during the

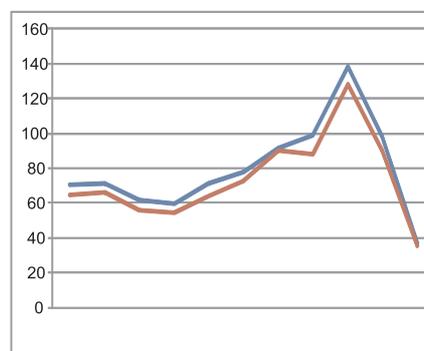
period.

The wide deviation of economic growth from target was clearly my concern in the 2008 budget analysis published in Zenith Economic Quarterly of January 2008. In it I stressed that the level of government spending envisaged in the year was quite inadequate to achieve that level of growth in the economy. I had pressed for government to step up capital spending votes by raising the President's crude oil benchmark of \$59 per barrel. While the oil price benchmark was marked up by the National Assembly to \$65 per barrel, spending priorities favoured

### Crude Oil Price Trend

Period	Bonny Light [\$/barrel]	OPEC Basket [\$/barrel]
2nd Qtr 06	70.5	64.9
3rd Qtr 06	71.5	66.2
4th Qtr 06	61.6	56.1
1st Qtr 07	59.9	54.6
2nd Qtr 07	71.2	64.3
3rd Qtr 07	77.8	73.1
4th Qtr 07	92.0	90.0
1st Qtr 08	98.9	88.4
2nd Qtr 08	138.7	128.3
3rd Qtr 08	98.52	90.32
4th Qtr 08	36.89	35.58

Source: CBN/OPEC



recurrent expenditures.

The domestic economy was shielded from the effects of the global financial crisis for a greater part of last year. This is as a result of the low level of integration with the global economy. The main channel of transmission of the global crisis to Nigeria is crude oil price, which attained a new peak of \$147.50 per barrel in July before crashing to the lowest mark in four years in December.

On the average, oil price stayed well above the 2008 budget benchmark of \$65 a barrel. At its peak in the year, oil price was more than twice the Nigerian budget

benchmark. Nigeria did not experience revenue constraint in 2008 with federally collected revenue standing at N1,880.26billion at the end of the second quarter, a clear 25.6 per cent above the proportionate budget estimate for the period.

Crude oil receipts exceeded proportionate budget mark by 32 per cent, accounting for 82.9 per cent of total federally collected revenue. That was in spite of the suspension of production by some joint venture companies due to youth restiveness in the Niger Delta during the second quarter.

Other economic indices that recorded wide deviations from target in 2008 are inflation rate and interest rates. The Central Bank had targeted single digit inflation rate in the year at 8.5 per cent against the estimated 15.1 per cent achieved at year-end. Single digit inflation rate for 2008 was apparently a tall order in the light of increased government spending programme in the year.

The absorptive capacity of the real economy for government stimulatory spending is low and fiscal expansion is therefore certain to result in higher domestic prices in the short-term. Besides, achieving single digit inflation rate isn't of greater priority than letting the economy grow with higher output and employment generating capacity in the private sector even if they happen at a higher rate of inflation.

**Interest rates: a broken promise**

Interest rate development in 2008 looked unfavourable to the industrial sector that counted on the single digit interest rate target of the Central Bank. A rise in interest rates after a five-year declining trend was therefore another unexpected development in the economy in 2008. Against the single digit interest rate expectation, bank lending rates rose from about 18 per cent to a range of 22 –

25 per cent. Given the fact of inability to lock inflation, interest rates had no other way to go but upwards.

Higher interest rates were needed to keep financial instruments attractive in the environment of rising do-



mestic prices. Manufacturers, after raising their own product prices, seem to fail to appreciate that the price of money needed to rise as well. It is apparent that the increase in interest rates is first a consequence of higher rate of inflation.

The Central Bank however didn't put the matter that simply. It claimed it raised interest rates in order to check inflationary government spending. However, the monetary instrument appears to have been misapplied. For government spending to result in higher interest rates for the private sector is clearly not ideal. After all, the purpose of fiscal expansion is to stimulate investment, output and employment in the private sector. The idea should not be for government to spend money and the Central Bank mops it up into the sterile vaults. This is because government spending needs to prop up private sector activity, for the economy to achieve growth and development.

**A stir in the forex market**

Exchange rate depreciation added further to the high operating cost environment for business and industry in 2008. The other production constraining factors were a drop in power supply to the lowest in recent years and credit crunch arising

**Inflation Trend**

December 2005	11.9%
December 2006	8.5
March 2007	7.9
June 2007	6.4
September 2007	4.1
December 2007	6.6
March 2008	7.8
June 2008	12.0
September 2008	13.0
December 2008	15.1

from stock market meltdown.

In the absence of accumulated fiscal surpluses, excess crude oil earnings over the years have enabled the Central Bank to build up the external reserve to the peak of \$63 billion in September 2008. In the event of the fall in the oil price to the level that made the oil price benchmark of \$45 per barrel for the 2009 budget look somewhat overambitious, it was apparent that the strength in sustaining the external reserve build up had been broken. The stock of the nation's external reserve was seen to be more likely to fall than to rise. This was interpreted to mean that the ability of the Central Bank to defend the exchange rate of the naira is sure to come under strain. The prospect for the highly import-dependent industrial sector surviving under another phase of local currency depreciation remains slim.

The move by traders by year-end to take advantage of the likely development ahead of time led to a surge in foreign exchange demand, which resulted in further depreciation of the naira long before the fears about the market fundamentals materialized. The initial effort by the apex bank to defend the naira exchange rate led to a rapid decline in the stock of external reserve from \$63 billion in September to \$52.7 billion in December 2008.

The development forced the monetary policy committee of the Central Bank back into the policymaking room: whether to defend external reserve or the naira. The outcome was the Central Bank's abandonment of the deregulated Wholesale Dutch Auction System [WDAS] and a return to demand management of the foreign exchange market once again, otherwise called Retail Dutch Auction System.

### Capital budget unspent

The modest capital vote of N630 billion for fiscal 2008 was largely unspent but government's total expenditure is likely to exceed budget targets. At the end of the second quarter fiscal deficits exceeded the proportionate target by a wide margin despite that revenue targets were significantly exceeded.

While up to 70 per cent of capital votes had been released by early August, according to the finance ministry, funds utilisation rate averaged 24 per cent. The rate of utilisation was as low as 15 per cent in some ministries, departments and agencies. One of the most critical effects of this scenario was a major setback in power generation, which is counted as one of seven elements of the President's seven point agenda. Power generation suffered a major drop to as low as below 1,000 megawatts in the course of the year against the estimated in-

stalled capacity of 7,000 megawatts. The minimum need of the nation is estimated at 25,000 megawatts.

The big drop in power generation is attributed to poor plant maintenance, frequent vandalizing of gas pipelines and inadequate supply of gas to the thermal power plants. It is estimated that up to 1,200 megawatts of power generation is lost due to non-availability of gas. Only 30 per cent of the gas requirements of the plants are said to be effectively delivered due to frequent technical problems at the gas fields. Egbin thermal plant, Nigeria's biggest power station generates less than one half of the 1,320 megawatts installed capacity due to both low gas supplies and non-functioning of some units.

### The State of Power Plants

Power Plant	Installed Capacity	Current Output/State
Egbin Thermal Station, Lagos	1,320 mw	560 mw. Plant needs overhauling
Afam Thermal Station, Rivers State	710	Out of service
Afam VI Thermal Station, Rivers State	650	150, nearing completion
Sapele Thermal Station, Delta State	1,020	Out of service
Ijora Thermal Plant, Lagos	60	
Kainji Hydro Station, Niger State	578.4	300 mw
Jebba	570	350 mw
Shiroro Hydro Station, Niger State	600	400 mw
Geregu	414	184 mw
Others	2,500	

Source: BPE/Datatrust

In the effort to address the gas supply problem government has awarded contracts worth N78 billion to extend the Escravos-Lagos gas pipeline carrying gas from Shell and Chevron oil fields to various power generating plants across the country. The project is expected to be completed in 24 months though concerns about the security of gas pipelines still remain.

### Stock market meltdown

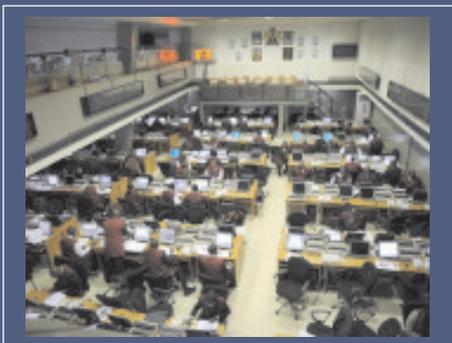
By far one of the most crippling developments in 2008 took place in the stock market. The market went down with a full load of private and institutional capital as well as a huge volume of bank funded debt. Market capitalisation fell from N13.3 trillion in 2007 to

N9.56trillion at the close of trading in December 2008. By the end of 2008, share prices had generally returned to their levels in 2006. The all-share index (ASI) of the Nigerian Stock Exchange dropped by 45.8 per cent to 31,450.78, and also by 52.6 per cent from its all-time high of 66,371.20 in March 2008. Investors and their credit providers have been left with tiny fractions of the values they started with. The development has distributed cash and credit squeeze to all corners of the economy.

The ravaging global financial crisis provided a cover for regulators to attribute the stock market crash here to the global financial meltdown. That, to me, is sweeping to the corner a number of prevarications that affected the market's foundation pillar: investor confidence. The level of integration of the domestic economy with the global market is low and not capable of a direct consequence of that scale. That explains why the global crisis didn't result in credit losses to banks and corporate earnings crisis here as elsewhere in the industrial society.

**Policymaking back and forth**

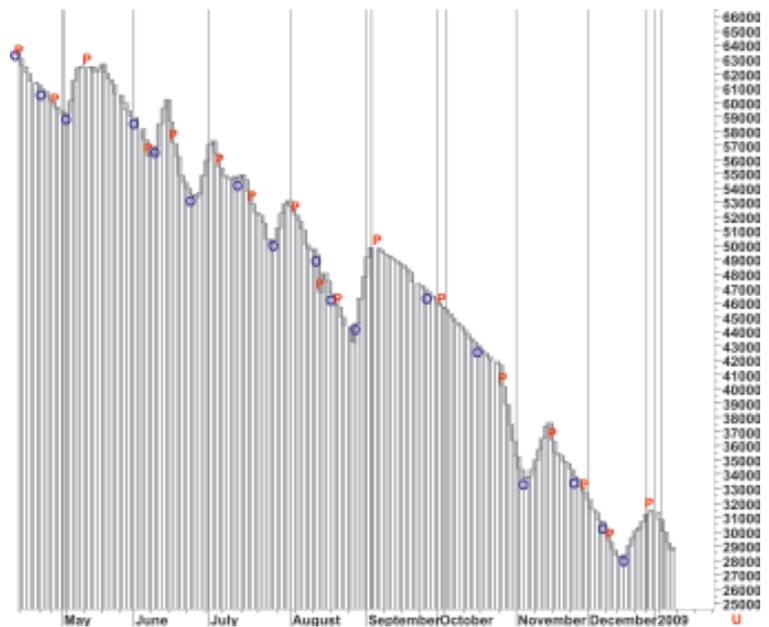
The financial markets environment in 2008 was replete with records of back and forth swings in policymaking



By far one of the most crippling developments in 2008 took place in the stock market. The market went down with a full load of private and institutional capital as well as a huge volume of bank funded debt. Market capitalisation fell from N13.3 trillion in 2007 to N9.56 trillion at the close of trading in

December 2008. By the end of 2008, share prices had generally returned to their levels in 2006. The all-share index (ASI) of the Nigerian Stock Exchange dropped by 45.8 per cent to 31,450.78, and also by 52.6 per cent from its all-time high of 66,371.20 in March 2008.

share Index April 2008 – January 2009



in disregard to investor sentiments and stock market psychology. The year opened with the Senate Committee's investigation of bank public offers and the alleged suspension of further bank public offers that appeared to have 'ended without head or tail'. The next was the policy of common accounting year for banks, which the Central Bank served before it was packaged. It was eventually cancelled for spurring undesirable effects in the money market. Then came the masterstroke of suspension of margin facilities that had to be reversed after it had unleashed havoc on investor confidence and left banks and other lenders with a meagre fraction of the values they gave out.

Again the recapitalisation and consolidation programme in the capital market that had set market operators in search of unrealistic minimum capital benchmarks was suspended for being non-implementable. This shows that the policy came more as a bandwagon instrument than out of proper consultation with stakeholders. There was also stock market stabilisation fund that died at its conception.

Even the midway change of interest rate direction was sufficient to put the highly geared stock market on edge. The low interest rate policy by the Central Bank for the year encouraged borrowing and by the time the bank began jerking money market rates up, margin traders had been trapped by a downward creep in share prices.

Regulators also poured cold water on market sentiments by clamping down on private placements. The Securities and Exchange Commission and the Nigerian Stock Exchange chorused serious warnings about private placements that extended bearish sentiments to the primary arm of the capital market. SEC poured more cold water with its highly publicised investigation of alleged share price manipulation.

### Outlook for the economy in 2009

With early progress made in getting the 2009 budget ready, there seems to be eagerness on the part of government to achieve full implementation of the critical spending votes. But another challenge waiting it is the availability of the funds earmarked. The budget that is built to run principally on crude oil revenue [at 57.3 per cent of federally collectible revenue] and expected to deliver accelerated economic growth, critical infrastructures, single digit inflation and interest rates, doesn't seem to have adequate shock absorbers.

The crude oil benchmark of \$45 per barrel appears too ambitious in the light of the present and unfolding international market realities. Global economic growth is projected to be flat in 2009 and advanced economies are forecast to decline by 0.5 per cent. The prospects for a full blown global economic recession have increased and the world has come face to face with economic meltdown of a magnitude never witnessed since the 1930s.

The US economy, the world's largest crude oil consumer declined by 0.5 per cent in the third quarter of 2008, according to official data and consumer spending shrank 3.8 per cent during the period. The decline is reckoned to be the biggest since 1980.

China, the world's fastest growing economy has lost its oil-propelled high growth momentum and a downturn has set in. The demand for crude oil by China, the world's second largest energy consumer, declined for the first time in nearly three years by 3.2 per cent in November 2008 over the corresponding period in 2007. Despite OPEC's biggest ever output cuts totalling 4.2

mbd or 5.0 per cent of global oil supply, the price of oil is still headed downward.

The budget reference oil price was apparently fixed in the light of the challenging revenue situation facing the government. If there had been accumulated fiscal surpluses, it is very likely that government would have considered a much lower price for crude oil of perhaps \$30 per barrel in planning the 2009 budget. Nigeria is the only oil exporting country that ran fiscal deficits consistently during the nine years of sustained high crude oil prices.

There is a big chance that crude oil price will for some time, remain below the budget price benchmark, which has the potential for disorganising the fiscal plan. In the event of oil market disappointment, exchange rate depreciation below the budget reference mark of N125 to the dollar might come handy in making up for the short-

Key Federal Budget Numbers 2009

Budget Item	Presidents Proposal [N billion]	Senate Amendment [N billion]
Aggregate Expenditure	2,870.51	3,049.14
Recurrent Expenditure	1,649.43	1,709.69
Capital Expenditure	796.74	890.14
Total Federal Revenue	1,780	2,291.69
Fiscal Deficit	1,090	757.45
Statutory transfers	140.69	165.72
Debt Service	283.65	283.65
Capital votes for works, housing/urban development and environment	146.93	171.75
Recurrent Expenditure for ministry of defence	166.22	176.22
Exchange Rate	N110/\$	N125/\$
Crude oil price benchmark	\$45/ barrel	\$45/ barrel
Crude oil output	2,292 mbd	2,292 mbd

fall in government revenue. Without the adoption of a lower exchange rate for the naira by the Senate, the initially proposed federal government revenue of N1.78 trillion is barely sufficient to cover recurrent expenditures and statutory transfers. The indication is that revenue shortfall will warrant additional government borrowing to meet recurrent expenditures.

Under the finalised 2009 fiscal plan, much of the funds needed for capital spending will be borrowed. With revenue targets more likely to be missed than exceeded, it can be expected that government will end up borrowing much more than the budget provision in 2009. The reduced fiscal deficit of N757.45 billion represents 24.8 per cent of aggregate expenditure in 2009.

Fiscal deficit has consistently exceeded budget provision in normal times when government revenue was at its peak. It appears quite unrealistic to expect that this year's target will be kept when the revenue situation is very tight. It is important to note that this is a year when it will be more meaningful to judge government actions by impact on the economy than the resulting macro-economic indices.

### Monetary and fiscal policy conflict

Fiscal expansion is appropriate for the economy in 2009 in line with the global effort to tackle economic recession. The expected result of the aggressive fiscal stimulus being pursued presently at global level is clearly much more important than how it is financed. No matter the size of the fiscal deficit and how it is financed, whether internally or by external borrowing, it needs to happen.

Monetary policy needs to be supportive of fiscal policy for the objective of fiscal expansion to be realised. Saving the economy from imminent recession is a task that

needs to be accomplished even if it is to happen at a high rate of inflation. The Central Bank needs to let government spending stimulate growth in the private sector to ensure that if the economy grows, it does so with a higher level of output and employment in the private sector.

Targeting to mop up government spending made to keep up aggregate spending in the economy undermines the fiscal policy objectives. Unless monetary policy is supportive or at worst neutral, it suggests that the fiscal objectives are misdirected and should not have happened in the first place. Inflation is, in the present circumstance, the lesser evil and clearly not worth the whole effort and attention the Central Bank places on it.

It is better to let the economy run with double digit inflation rate but let government spending have the chance to take roots in the productive sectors and drive growth in the private sector. The Central Bank needs to discard its single digit inflation rate target for the economy in 2009 and face the more important job of liquidity management in the financial system.

### Monetary policy puzzle

It is of course doubtful how the apex bank plans to achieve single digit inflation and interest rates under an expansionary fiscal policy and a depreciating local currency environment. Fiscal expansion will tend to lead to inflation and so will exchange rate depreciation. The Central Bank is very likely to drive interest rates up instead of down as an anti-inflationary measure. It also needs high interest rates as a demand management tool in the foreign exchange market.

Yet it will be expected to move interest rates down in tune with the global trend to reinforce fiscal policy in creating the much desired economic stimulus. The situation challenges the single digit interest rates stance of the Central Bank in 2009. The low interest rate objective looks quite unrealisable for the second year.

It is apparent that the concern this year will shift from interest rates to the availability of bank credit itself. Will banks that are already shutting credit windows even have the liquidity to give out at any rate of interest? The situation leaves monetary policy in dilemma as to which of conflicting objectives to pursue and which to be discarded.

Measures to reinforce the liquidity of the banking system appear imperative for the current fiscal year, as bank liquidity and lending capacity have been strained by the margin lending saga in the stock market. Regulatory assurances about the operating conditions of banks might be insufficient to create the needed financial market's sta-



**T**he Central Bank would have to stand ready to play the traditional role of lender of last resort this year in the face of tightening international credit windows. The bank may consider creating a financial market stabilisation fund from which needy banks can refinance their operations. Without access to such a fund, banks are likely to step up asset liquidations in a general shift from assets to cash as a survival strategy. If the Central Bank lets that happen, monetary policy will be failing to support the stimulatory objective of fiscal policy. If it takes further steps to hurt private sector spending by using monetary policy to soak off the so called excess liquidity coming from government spending, the economy could drift into a recession.

bility.

The Central Bank would have to stand ready to play the traditional role of lender of last resort this year in the face of tightening international credit windows. The bank may consider creating a financial market stabilisation fund from which needy banks can refinance their operations. Without access to such a fund, banks are likely to step up asset liquidations in a general shift from assets to cash as a survival strategy. If the Central Bank lets that happen, monetary policy will be failing to support the stimulatory objective of fiscal policy. If it takes further steps to hurt private sector spending by using monetary policy to soak off the so called excess liquidity coming from government spending, the economy could drift into recession.

The Central Bank and other financial market regulators need to forge coordinated policy actions towards stabilising the stock market. This is necessary to create the environment for banks to return to the stock market for new money before the conditions of the most vulnerable ones deteriorate. It is important to ensure that in the tight bank credit situation, the capital market does not remain almost shut as a source of investment capital. Inability to secure bank facilities or raise equity funding through the capital market will certainly compound the problems of business and industry in the current year.

### Economic growth prospects

Government is targeting a real GDP growth rate of 8.9 per cent in 2009, indicating hopes for an accelerated growth for the third year running from 6.8 per cent in 2008 and 6.2 per cent in 2007. Actual growth has however continued to show wide deviations from targets over the years when government revenue maintained rapid growth. This year that government revenue situation is dicey and credit and capital raising windows are virtually shut, the indication is that the economic growth projection also looks unrealistic.

A strong growth recorded in the non-oil sector last year is expected to be repeated in the current year. The expectation is that non-oil exports will sustain the exceptional growth achieved last year. This is based on the

presumption that threats of worsening global recession will not materialise to further depress the commodities market.

Growth in the oil sector is likely to be low in the light of declining global demand, official output cuts and production shut-in - that may approach one-third of total output this year. Nigeria's crude oil output was cut twice in the last quarter of 2008 under OPEC's programme to reduce the group's total production volume by 12 per cent.

Further production cuts by OPEC may be needed in the course of the year to shore up oil prices to the projected level of \$75 per barrel. Oil exporters agree that \$75 per barrel is the minimum oil price benchmark that will permit new investments in oil fields development.

Growth in the industrial sector is likely to remain negative for yet another year, as it is likely to operate under worsening infrastructure situation for a good part of this year. Three additional developments are likely to compound the situation of the industrial sector in 2009. These are exchange rate depreciation, the likely further increase in interest rates

as well as the growing credit crunch. The same funding problem is bound to affect growth in the service sectors.

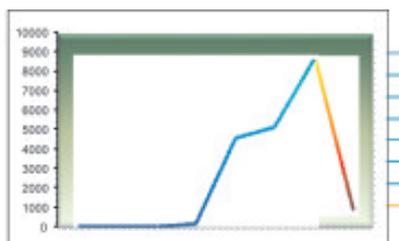
### Responding to exchange rate developments

The Central Bank's objective of achieving exchange rate stability easily proves unsustainable in the face of declining crude oil price and revenue. The rapid drop in external reserve in December last year is a demonstration of how fast the stock of external reserve that looked huge in normal times could easily disappear when there is panic. Considering the external reserve position in September, some 16 months of total disbursements, the Monetary Policy Committee of the Central Bank had assured the nation that the impact of the global financial crisis will be limited. The reality is proving otherwise.

The Central Bank's initial response to a speculative surge in foreign exchange demand was to defend the exchange rate, which is in line with its set objective of exchange rate stability. It however shifted position almost immediately from defending the exchange rate to

Net Foreign Exchange Inflow [\$m]

2nd Qtr 07	179.32
3rd Qtr 07	4,608.35
4th Qtr 07	5,164.16
1st Qtr 08	8,701.09
2nd Qtr 08	914.14



defending external reserve. It is quite obvious that the increase in demand for foreign exchange was not anticipated by the bank.

The fall of the oil price below the 2008 budget benchmark and the consequent setting of the 2009 budget reference price at \$45 to a barrel are enough signals to prepare for a battle with foreign exchange speculators. A sudden fall in the net foreign exchange inflow through the Central Bank in the second quarter is a confirming signal. Net foreign exchange inflow had sunk from \$8,701 million in the first quarter to \$914 million in the second, the lowest since the third quarter of 2007.

The deregulated foreign exchange market system was clearly not going to stand the demand pressure and the return to demand management is a necessity. The lesson there is that the WDAS is an oversized coat for an economy without a diversified and stable export revenue base.

Faced by a surge in speculative demand for foreign exchange, it is appropriate for the Central Bank to let the naira fall rather than use official reserve to subsidise traders. Its intervention in the market to defend the naira will only be appropriate under the reintroduced Retail Dutch Auction System [RDAS] that filters off foreign exchange speculators and directs resources to genuine productive activities.

There is a serious indication of capital flight from the economy under WDAS, as those who have a clear appreciation of the oil market cycle would have anticipated the present fiscal crisis. In my analysis in the Banking & Economy Report, 2005, I said "... in view of the fact that the high GDP growth is induced by an oil price windfall and not sustainable if oil price should collapse, the presence of fiscal deficits at all in a period of boom speaks rather of fiscal misconduct. If the Central Bank still wants to do ways and means advances to fund government spending in a year that Nigeria seems to be at the peak of a boom that could at some point turn into a burst, then government is only one step away from fiscal crisis."

Available data show that a greater proportion of for-

ign exchange disbursements goes to the productive sectors. This is however not reflected in terms of actual output in the industrial sector, which declined for the second year in 2008. The level of productive investment is in no way comparable to the high and rising volume of transactions in the foreign exchange market.

Having returned to RDAS, it is important that the Central Bank takes steps to ensure exchange rate stability, which is the key to economic stability. A free fall of the naira exchange rate needs to be avoided in order to sus-

tain inflow of foreign investment and the gradual return of flight capital. Inability to defend the exchange rate could worsen capital outflow and prolong the strain in the financial markets.

It is important to consider and resolve early enough the implications of the depreciation of the naira on the import dependent capital projects. As at press time, the exchange value of the naira was already more than N25 short of the budget benchmark exchange rate of N125 to the dollar. If the naira equivalent is made available to the spending units, they will be unable to meet project cost in dollar terms.

It is therefore important to resolve early where the additional funds needed to complete capital projects at the depreciated exchange rate will come from. This will avoid the chance of frustrating the critical infrastructure projects for yet another year. A key

part of the critical infrastructures is power generation, which is expected to rise to 6,000 megawatts at the end of 2009.

### Dealing with fiscal challenges

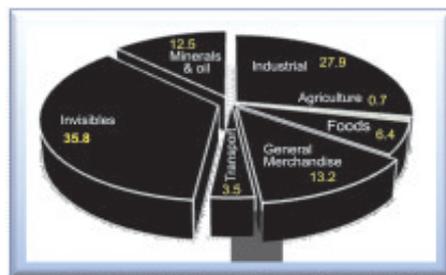
With crude oil revenue accounting for more than 57 per cent of federally collectible revenue in 2009, the fiscal situation shows great potentials to get out of hand this year. Missing the revenue target will result in a precarious situation for government. There is wisdom therefore for government to move in the two directions that the President has identified. These are cutting down recurrent expenditures and opening the non-oil revenue channels wider.

Cutting the wage bill and administrative expenses appear to be viable options for government in order to rule out a situation of having to use borrowed money to

**Sectoral Utilisation of Foreign Exchange 2<sup>nd</sup> Quarter 2008**

Sector	% Utilisation
Industrial	27.9
Agricultural	0.7
Foods	6.4
General Merchandise	13.2
Transport	3.5
Invisibles	35.8
Minerals & Oil	12.5

**Sectoral Utilisation of Foreign Exchange 2<sup>nd</sup> Quarter 2008 - %**



fund recurrent expenditures. The President has already begun moving to cut expenditures and it can be expected that the pressure to extend action in that direction will mount in the months ahead.

The presidents' cost cutting targets are non-priority capital spending, international travels and training and local travels. Full deployment of information technology to all MDAs in the year is expected to edge out non-critical staff and curtail personnel cost.

On the side of revenue drive, it can be expected that government will be aggressive about non-oil revenue generation out of fiscal desperation. Tax reform and other measures being taken to drive non-oil revenue are likely to succeed and a strong growth in non-oil earnings can be expected in 2009. A reasonable success in cost cutting as well is likely and these could enable government minimise possible shortfalls in oil revenue. The hard drive for revenue will however run counter to the need for tax and other incentives required to support fiscal stimulus.

### Deaf Ears to Bailout

A cut in its monetary policy rate from 10.25 per cent to 9.75 per cent and a 50 per cent slash in cash reserve ratio to 2.0 per cent are all that the Central Bank has to offer so far as its own 'stimulus package.' This is amid the wave of huge bailout and stimulus packages around the world under which upwards of \$2.0trillion has been either injected or proposed for direct injection.

The US government has approved \$700billion rescue plan to buy 'toxic' assets. The Chinese State Council has authorised \$586billion of stimulus spending over the next two years. South Korea has unveiled its plan to raise \$100billion investment fund to save troubled businesses.

The British government has committed \$58billion to bail out its banks. Japan has announced a \$51billion package of economic support spending in addition to the \$8.5billion injected by the Bank of Japan to drive interest rates down.

The French, Luxembourg and Belgian governments have spent over \$25billion to bailout two major European banks, Dexia and Fortis Bank. Dutch government is pumping \$13.4billion to one of its largest banks, ING and Germany plans to inject \$32billion to stimulate its economy.

Why isn't government following the examples of these countries that have always been cited as models to copy in economic and financial markets development? The CBN is right in admitting that the stock market meltdown here isn't a function of poor corporate fundamentals but wrong to claim that banks, equity traders

and the larger investment community here need no stimulus support after losing more than N6 trillion of investment capital largely funded by margin facilities. Even, most stock broking firms and fund managers are already out of business.

It is also important to consider why corporate earnings grew strongly last year and whether that performance can be repeated in the current year. The major link between the domestic economy and the global economy is crude oil price, which remained high and even rose to a new peak last year while the global economy has been in crisis since 2007.

The global crisis affected the backbone of the Nigerian economy only towards the end of last year, which has already resulted in exchange rate challenges with serious implications for industrial production and domestic inflation. Monetary authorities don't need to wait to see industries shut down and banks with empty vaults before waking up to the present reality. And this is why it is recommended that the external reserve which is being used to subsidise foreign exchange speculators be channelled into a financial markets stabilisation fund to enable banks and equity traders reinforce their liquidity positions and save the stock market.

(\* Mike Uzor is the Managing Director/CEO Datatrust Consulting Limited)

### References

1. Banking Industry Survey 2008, Datatrust/Moneywise, November 2008
2. Budget Office of the Federal Republic of Nigeria, 2009 Budget Statement
3. Central Bank of Nigeria, Economic Report for the Second Quarter, Vol. 3, Issue 2, June 2008
4. Central Bank of Nigeria, Monetary Policy Committee Reports 2008, Various Issues
5. Ndi Okereke-Onyiuke, A Review of Market Performance in 2008 and Outlook for 2009, January 2009
6. Nigeria Banking & Economy 2008, Datatrust, Lagos, April 2008
7. Okeke Marcel, "Growth Drivers: Charting the Path to Development", Zenith Economic Quarterly, Vol. 1, No. 2, April 2005
8. OPEC, Price Trend of OPEC Basket of Crudes, [www.opec.org](http://www.opec.org)
9. The Stock Market Guide, Vol. 5, No. 2, January 2009
10. Uzor Mike A., "Budget 2008: Inspiring Prospects for Double Digit Economic Growth", Zenith Economic Quarterly, Vol. 3, No. 1, January 2008
11. Verity Communications Ltd, Nigeria 2008: Politics, Economy, Business, Lagos, July 2008

# Gas Master-Plan: Prioritising Domestic Demand

\* By Sunday Enebeli-Uzor

**T**he plummeting price of crude oil in the international commodity markets and environmental considerations as a result of global warming and climate change has rekindled interest in natural gas. Natural gas which has been christened “fuel of the future” is fast becoming the toast of energy consumers globally and its annual consumption is projected to hit 163 trillion cubic feet in 2030. It is one of the cleanest sources of petroleum-based energy (more favourably considered in terms of greenhouse emissions) with wide industrial applications, and has become an efficient source of energy and cheaper alternative to crude oil.

The gas sub-sector of the petroleum industry holds enormous economic potential to the Nigerian economy. There exists a robust natural gas reserve base which in energy terms is at least twice that of crude oil reserves, being in the region of 187 trillion cubic feet (proven reserve). This places Nigeria as the world’s seventh largest reserve of the commodity. However, a United States Geological Survey estimates that gas reserves potential in Nigeria could be as high as 600 trillion cubic feet. This estimate is likely to be true because there has not been dedicated search for gas in Nigeria as all the proven reserves were discovered during oil exploration. The enormous gas reserve in Nigeria has led many energy analysts to conclude that Nigeria is actually a gas province which has some oil.

The demand profile for natural gas is rising in the international commodity markets especially from the US, Asia, and Europe. World natural gas consumption rose by 3.1 percent in 2007. In 2008, gas consumption was exceptionally strong in North America, rising by 5.2 percent, the highest



growth in 18 years. The Energy Information Administration (EIA) and US Department of Energy expect energy needs to continue to grow despite the global economic meltdown. World energy demand has been forecast to grow by about 2-3 percent annually on the average. Non-OECD countries notably China and India will account for most of the growth. China and India's demand for energy has witnessed exponential growth in recent times due to high levels of industrial production and electricity generation. On the domestic scene, there is also growing demand as a result of power generation and industrial utilisation of the commodity. Domestic gas consumption rose by 7.69 percent between 2006 and 2007. It is believed that natural gas will play a significant part in the unfolding global energy supply mix in the near future.

### The Nigerian Gas Master-Plan

The Nigerian gas master-plan which was approved by the Federal Executive Council in February, 2008, seeks to guide gas infrastructure investment in Nigeria. It provides an integrated and holistic framework for the optimisation of the nation's gas potential to, first, meet its domestic energy needs and also earn foreign exchange. The gas mas-

ter-plan, declares in no uncertain terms that the government seeks to prioritise domestic use of the nation's proven reserves over export. The plan envisages setting up a mechanism to ensure domestic industries (in particular power stations) – can buy natural gas at affordable rates.

A major challenge of the gas sub-sector has been how to harness the enormous reserves and link it to the market. This brings to the fore the poor state of infrastructure and low level of investment in the sector. Shipping Liquefied Natural Gas (LNG) – gas super cooled for easier transport, to Europe, the US and Asia has become highly profitable for western

multinationals thereby skewing investments in favour of export at the expense of domestic utilisation. The master-plan does not intend to cripple the export market but it seeks to ensure that the domestic market is not at the mercy of the vertically integrated joint venture arrangements of the multinationals. To this end, the Domestic Gas Supply Regulation component of the master-plan mandates gas producing firms to set aside a certain portion of gas production for the domestic market as an intervention scheme.

**The gas sub-sector of the petroleum industry holds enormous economic potential to the Nigerian economy. There exists a robust natural gas reserve base which in energy terms is at least twice that of crude oil reserves, being in the region of 187 trillion cubic feet (proven reserve).**

# Gas Flaring

**G**as flaring is a major challenge in the gas sub-sector of the Nigerian economy. Nigeria is reputed as one of the biggest gas flaring nations, in spite of the associated environmental hazards. The country is estimated to flare as much as 2.5 billion cubic feet of gas a day, a quantity that drives the economy of Trinidad and Tobago, and almost as much as Nigeria exports as LNG. The quantity of gas flared is about 31 percent of estimated daily production capacity. The World Bank estimates that gas flaring in Nigeria accounts for some 35 million tonnes of carbon dioxide emitted annually into the atmosphere. Besides the hazardous environment impact of gas flaring, enormous revenue is lost in the process. The Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC), says Nigeria currently loses about 2.5 billion dollars to gas flaring annually.

Government has repeatedly blamed multinational oil companies for the delay in the termination of gas flaring in the country. Apparently, the companies over the years opted to pay the fines imposed as penalty. Gas



flaring was outlawed in Nigeria in 1979 with the intention of achieving zero level of flare by 1984. Unfortunately, this target was not achieved and since then oil producing companies and the government have blamed each other as being responsible for the continued wasting of an economic resource. The 30 cents fine imposed for every 1,000 cubic feet of gas flared by the oil companies is seen as not enough to deter them from flaring gas. It is believed that this has encouraged flaring rather than serve as a punitive measure since it makes economic sense to flare and pay the stipulated fine, given the huge capital required to harness the resource.

## Appropriate Pricing Policy

Lack of an appropriate pricing policy has been a major impediment to the optimal utilisation of natural gas for domestic needs in the country – especially power generation. The price of gas in the domestic market is lower relative to prices in the international commodity markets. To this end, the federal government also recently approved a Gas Pricing Policy aimed at addressing the strategic sectors of the economy. The policy seeks to make the commodity more affordable by creating an efficient pricing formula. It is aimed at ensuring short and long term gas availability at affordable prices for domestic consumption and for sectors that have significant multiplier effects on the national economy. The new pricing framework divides the domestic market into three categories comprising power, strategic gas-based industries, and wholesale distributors.

The policy is expected to boost the pace of industrial development in the country by ensuring competitive gas prices for all gas consuming sectors of the economy. Under the new pricing policy, gas will be supplied at the lowest commercially sustainable prices to the strategic

domestic sector which provides electricity for residential and light commercial users. The new policy for the country's Strategic Industrial Sector, comprising industries that require gas as their main feedstock, such as fertilizer and methanol producers, is expected to make such industries as competitive as their counterparts in other low-cost gas producing countries. It further stipulates that all operators in the nation's oil industry must realign their gas development portfolios in order to ensure that gas resources are directed to strategic domestic sectors. The objective is to ensure that natural gas is preferentially deployed for domestic use rather than for export. Consequently, oil and gas developers in the country are ex-

**Government has repeatedly blamed multinational oil companies for the delay in the termination of gas flaring in the country. Apparently, the companies over the years opted to pay the fines imposed as penalty.**



As a mark of its commitment to develop the gas sub-sector, government has threatened to impose harsh penalties on international oil companies that fail to offer a certain amount of gas for domestic consumption. The new targets of 300 trillion cubic feet of gas reserves by 2018 from the present 187 trillion cubic feet is no doubt an ambitious stride aimed at enabling the country implement the gas master-plan and properly situate Nigeria in the comity of energy supplying nations.

pected to allocate a specified amount of gas from their reserves and annual production to the domestic market.

### Government sets 300 trillion cubic feet target

The federal government has set a new target of 300 trillion cubic feet of natural gas reserves by 2018 from the present 187 trillion cubic feet. Government also recently gave approval for the beginning of a selection process for investors interested in constructing new gas infrastructure in the country. This forms part of efforts to boost gas production in the country. As a mark of its commitment to develop the gas sub-sector, government has threatened to impose harsh penalties on international oil companies that fail to offer a certain amount of gas for domestic consumption. The new targets of 300 trillion cubic feet of gas reserves by 2018 from the present 187 trillion cubic feet is no doubt an ambitious stride aimed at enabling the country implement the gas master-plan and properly situate Nigeria in the comity of energy supplying nations.

### Domestic Market and Consumption

Nigeria is well on track to become the world's second fastest growing LNG supplier globally, after Qatar. Regionally, Nigeria is the leading gas producer in West Africa and is poised to exploit the sub-regional market as demand is growing. The Bonny NLNG ranks as one of the fastest growing LNG facilities in the world with six operational trains and scope for a seventh train. The Bonny NLNG current export capacity is about twenty-two million tonnes per annum. There are other LNG plants in Nigeria and these include the Brass and Olokola plants.

There are about twenty gas fired power plants being proposed in the country, with combined generating capacity in excess of 12,000 mega watts by 2010. The power sector alone could utilise above 5.2 billion standard cubic feet of gas per day as

from 2010. On the other hand, the non-power sector will demand an aggregate volume of about seven billion standard cubic feet of gas per day by 2015. The multiplier effect of gas supply to the power sector could contribute as high as 18 percent to the Gross Domestic Product by 2020.



Nigeria is well on track to become the world's second fastest growing LNG supplier globally, after Qatar. Regionally, Nigeria is the leading gas producer in West Africa and is poised to exploit the sub-regional market as demand is growing. The Bonny NLNG ranks as one of the fastest growing LNG facilities in the world with six operational trains and scope for a seventh train. The Bonny NLNG current export capacity is about twenty-two million tonnes per annum. There are other LNG plants in Nigeria and these include the Brass and Olokola plants.

### Gas Flaring

Gas flaring is a major challenge in the gas sub-sector of the Nigerian economy. Nigeria is reputed as one of the biggest gas flaring nations, in spite of the associated environmental hazards. The country is estimated to flare as much as 2.5 billion cubic feet of gas a day, a quantity that drives the economy of Trinidad and Tobago, and almost as much as Nigeria exports as LNG. The quantity of gas flared is about 31 percent



The World Bank estimates that gas flaring in Nigeria accounts for some 35 million tonnes of carbon dioxide emitted annually into the atmosphere. Besides the hazardous environment impact of gas flaring, enormous revenue is lost in the process.

of estimated daily production capacity. The World Bank estimates that gas flaring in Nigeria accounts for some 35 million tonnes of carbon dioxide emitted annually into the atmosphere. Besides the hazardous environment impact of gas flaring, enormous revenue is lost in the process. The Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC), says Nigeria currently loses about 2.5 billion dollars to gas flaring annually.

Government has repeatedly blamed multinational oil companies for the delay in the termination of gas flaring in the country. Apparently, the companies over the years opted to pay the fines imposed as penalty. Gas flaring was outlawed in Nigeria in 1979 with the intention of achieving zero level of flare by 1984. Unfortunately, this target was not achieved and since then oil producing companies and the government have blamed each other as being responsible for the continued wasting of an economic resource. The 30 cents fine imposed for every

## Natural Gas – Taking the Centre Stage Globally

**A** meeting of major gas producing nations was held on 23 December 2008 in Moscow, Russia to properly situate gas in the global energy mix. The meeting adopted a charter that gave birth to a permanent international organisation for gas exporting countries similar to OPEC. The meeting which held as Organisation of Gas Exporting Countries Forum (OGECF) had some of the world's leading gas producers in attendance. Countries that attended the meeting include Algeria, Bolivia, Brunei, Egypt, Equatorial Guinea, Indonesia, Iran, Libya, Malaysia, Nigeria, Qatar, Russia, Trinidad and Tobago, the United Arab Emirates and Venezuela. Kazakhstan and Norway were observers.

The forum is seeking to establish rules that will gov-



ern the production and sale of gas for the optimum benefit and return on investment for its members. It is seeking to guarantee equilibrium between gas suppliers and to coordinate policies between consumer and producer countries.

1,000 cubic feet of gas flared by the oil companies is seen as not enough to deter them from flaring gas. It is believed that this has encouraged flaring rather than serve as a punitive measure since it makes economic sense to flare and pay the stipulated fine, given the huge capital required to harness the resource.

Government in conjunction with the multinational oil companies set a deadline of December 2008 for zero-flare in line with the United Nations deadline to end flaring by 2008 under the 1997 Kyoto Protocol. Multinational oil companies admitted having challenges in meeting the 2008 deadline. Some operators suggest that the closest feasible date for zero gas flare is 2013. However, in a bid to quicken the pace of achieving zero gas flaring in the country, the Federal Government is adopting a Gas Oil Ratio (GOR) formula. Consequently, the Department of Petroleum Resources (DPR) under the ministry of petroleum has been mandated to provide the ministry with the quantity of oil and gas ratio in the respective oil wells in the country. The GOR formula entails the evaluation of oil wells with the ratio of oil and gas determining whether to classify it a gas field or otherwise. If the gas ratio is significantly higher, only gas may be exploited from the field, thereby foreclosing the flaring of gas to obtain crude oil.

The Nigerian legislature has sought to apply its full legislative weight to end gas flaring in the country. A bill before the upper chamber of Nigeria's legislature seeks to adopt stringent punitive measures to ensure zero gas flaring. The bill provides three months jail term for owners of any company or persons that continue to flare gas in the country in addition to the payment of 50 percent of the cost of gas flared as fine. The bill also bars granting of operational licences to gas companies which do not provide evidence of comprehensive programme for the utilisation of natural gas for domestic and export purposes.

### The Trans-Sahara Gas Pipeline Project

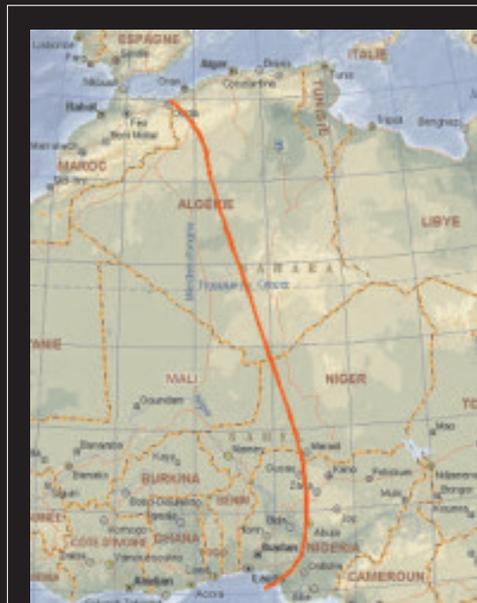
The proposed Trans-Sahara Gas Pipeline project is a 4,300 kilometres pipeline across the Sahara desert - Nigeria (1,050km); Niger (750km), and Algeria (2,500km) which when completed will connect Nigeria's gas reserves to Europe via Algeria's Mediterranean coast. This ambitious project will supply gas from Nigeria to Europe and will certainly put Nigeria in an enviable position in global energy security. The project will cost over \$10 billion and will deliver its first gas in 2015. The pipeline will transport 20 billion to 30 billion cubic metres of natural gas from Nigeria to Europe. Nigeria would be setting aside between 13 and 15 trillion cubic feet of gas for the

project for the first 25 years.

The project has received global attention especially as the European Union seeks to diversify its sources of gas. The bloc consumes some 300 billion cubic metres of gas a year but demand is projected to double by 2030, prompting a search for new sources as domestic production declines. China is also wooing the Federal Government over the construction of the Trans-Saharan Gas Pipeline project.

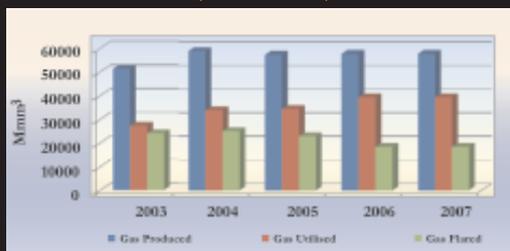
### Nigeria Partners Russia on Gas Exploration

Nigeria and the Russian Federation recently signed a Memorandum of Understanding (MoU) to facilitate relevant joint venture agreement that will allow the Russian national gas firm, Gazprom, to explore and develop the huge natural gas reserve in Nigeria. The pact between

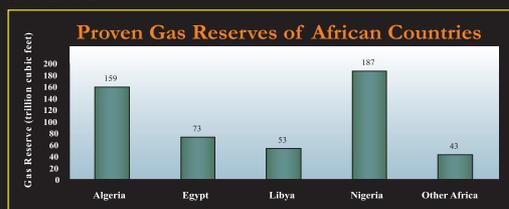


The proposed Trans-Sahara Gas Pipeline project is a 4,300 kilometres pipeline across the Sahara desert - Nigeria (1,050km); Niger (750km), and Algeria (2,500km) which when completed will connect Nigeria's gas reserves to Europe via Algeria's Mediterranean coast. This ambitious project will supply gas from Nigeria to Europe and will certainly put Nigeria in an enviable position in global energy security. The project will cost over \$10 billion and will deliver its first gas in 2015.

**Gas Production and Utilisation in Nigeria (2003 – 2007)**



Source: CBN



Source: BP Statistical Review of World Energy

**World Top 10 Natural Gas Reserves**

Country	Rank	Proven Reserves (trillion cu ft)
Russia	1	1,577
Iran	2	982
Qatar	3	904
Saudi Arabia	4	253
UAE	5	215
U.S.	6	211
Nigeria	7	187
Venezuela	8	182
Algeria	9	159
Iraq	10	112

Source: BP Statistical Review of World Energy

Russia unarguably holds the world's largest gas reserve of 1,577 trillion cubic feet (TCF) followed by Iran with a proven reserve of 982 trillion cubic feet (TCF). Qatar, Saudi Arabia, and the United Arab Emirates hold proven reserves of 904 trillion cubic feet (TCF), 253 trillion cubic feet (TCF), and 215 trillion cubic feet (TCF) respectively. The United States has the sixth largest proven reserve of 211 trillion cubic feet (TCF) while Nigeria with 187 trillion cubic feet (TCF) holds the seventh largest proven natural gas reserve of the world. Venezuela – 182 trillion cubic feet (TCF), Algeria – 159 trillion cubic feet (TCF), and Iraq – 112 trillion cubic feet (TCF), complete the world's ten top proven reserve of natural gas.

Gazprom and the Nigerian National Petroleum Corporation (NNPC) has paved the way for joint projects execution in exploration, production and transportation of hydrocarbons, processing of associated gas and construction of power plants in Nigeria. It is also planned that a joint Nigerian company will be formed. The Russian national oil giant has identified Nigeria as one of its new

investment destinations. The firm has proposed a multi billion-dollar investment package for Nigeria thus positioning itself to play a bigger role in the nation's oil and gas sector. This move is one of Gazprom's boldest forays in the global fight for African energy assets. Besides Gazprom, Chinese and Indian firms are seeking to build refineries in the Niger Delta region and to explore new gas resources.

### The West African Gas Pipeline (WAGP)

Another major project in the gas sub-sector is the West African Gas Pipeline (WAGP). This is a 678 kilometres long pipeline from the gas reserves in Nigeria's Escravos region of Niger Delta area to Benin, Togo and Ghana. The pipeline consists of three sections. The 569 kilometres long offshore section runs parallel to the coastline, approximately 15 kilometres to 20 kilometres offshore. Together with the Escravos-Lagos Pipeline (ELP), the total length of the pipeline is 1,033 kilometres. The project costs around US \$700 million. After several postponements, the West African Gas Pipeline finally made its first natural gas deliveries to Ghana on December 11, 2008. The World Bank provided a US\$125mn investment guarantee for WAGP, after funding the initial feasibility studies in 1992, in order to attract private investment. The pipeline is operated by WAPCo, a consortium of Chevron (38%), Nigerian National Petroleum Corporation (NNPC; 25%), Royal Dutch Shell (17%), Takoradi Power Company (16%), Société Togolaise de Gaz (SoToGaz; 2%) and Société Beninoise de Gaz (SoBeGaz; 2%). The pipeline is considered as an important step towards economic integration of the region and as a way of making the region more attractive for future investment. In the long term, it is possible that the WAGP could be extended to Côte d'Ivoire and even to Senegal.

### Natural Gas – Taking the Centrestage Globally

A meeting of major gas producing nations was held on 23 December 2008 in Moscow, Russia to properly situate gas in the global energy mix. The meeting adopted a charter that gave birth to a permanent international organisation for gas exporting countries similar to OPEC. The meeting which held as Organisation of Gas Exporting Countries Forum (OGECF) had some of the world's leading gas producers in attendance. Countries that attended the meeting include Algeria, Bolivia, Brunei, Egypt, Equatorial Guinea, Indonesia, Iran, Libya, Malaysia, Nigeria, Qatar, Russia, Trinidad and Tobago, the United Arab Emirates and Venezuela. Kazakhstan and Norway were observers.

The forum is seeking to establish rules that will gov-

ern the production and sale of gas for the optimum benefit and return on investment for its members. It is seeking to guarantee equilibrium between gas suppliers and to coordinate policies between consumer and producer countries. Specifically, the forum is seeking: to foster the concept of mutuality of interests by favouring dialogue between producers, between producers and consumers and between governments and energy-related industries; to provide a platform to promote study and exchange of views; to promote a stable and transparent energy market.

Although the forum ended with a pledge to represent the interests of producers and exporters on the international market, Russia's Prime Minister, Vladimir Putin, told the gathering that the time of cheap energy sources and cheap gas is surely coming to an end. If the longer-term goals of the forum are realized, it holds the potential to extend an OPEC-like model of price modulation to another basic commodity, even as natural gas is expected to play a larger role in global energy supplies. The forum agreed to set up an Executive Office and a Secretariat in Doha, Qatar although Russia's Prime Minister offered to give GECF full diplomatic status in a location in St. Petersburg.

### Global Gas Reserve

Russia unarguably holds the world's largest gas reserve of 1,577 trillion cubic feet (TCF) followed by Iran with a proven reserve of 982 trillion cubic feet (TCF). Qatar, Saudi Arabia, and the United Arab Emirates hold proven reserves of 904 trillion cubic feet (TCF), 253 trillion cubic feet (TCF), and 215 trillion cubic feet (TCF) respectively. The United States has the sixth largest proven reserve of 211 trillion cubic feet (TCF) while Nigeria with 187 trillion cubic feet (TCF) holds the seventh largest proven natural gas reserve of the world. Venezuela – 182 trillion cubic feet (TCF), Algeria – 159 trillion cubic feet (TCF), and Iraq – 112 trillion cubic feet (TCF), complete the world's ten top proven reserve of natural gas.

It is believed that 187 trillion cubic feet is a conservative estimate of the Nigeria's natural gas reserve. It is however estimated that the nation's gas reserve is in the region of 600 trillion cubic feet (TCF). With this quantity of the commodity, natural gas is set to overtake crude

oil as the nation's major foreign exchange earner and with good investment, Nigeria's weighting in the calculus of global energy security will increase further.

### An Investment Haven

Investment opportunities abound in the gas sub-sector of the Nigerian petroleum industry. Increased attention is now on this vital sector. Government's aspirations for the gas sub-sector include capturing economic value and generating as much revenue from gas as from crude oil



by 2010 and surpassing it in the years to come. The Nigerian Gas Master-plan and Gas Pricing Policy seek to ensure greater penetration of gas into the nation's regional locations and sustain gas use in such a way that it displaces other fuels in the Nigerian energy mix. This therefore provides opportunities to explore, develop, process, transport, and distribute gas to Nigerian industries and homes.

On-going gas transmission programmes would entail commercialization of about 14,750 mmscf/d of gas by 2011 (80 percent for LNG). However, an estimated \$30 billion investment is required by 2010 to capture opportunities in gas and power by 2010. The private sector therefore has a critical role to play in the realisation of this objective. It is believed that the gas sub-sector could contribute up to 60 percent towards doubling of the nation's GDP over the next 10 years. Investment in the gas sub-sector of the Nigerian economy is a win-win situation for all stakeholders.

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

# The Spirit of Democracy: How to Make Democracies Work

\* By Larry Diamond

Over the past three decades the world has been transformed. In 1974, nearly three quarters of all countries were dictatorships; today, more than half are democracies. But the 1999 coup in Pakistan was the harbinger of something different. It took place when the third wave of democratization was seemingly at its peak. And it reflected deep-seated problems of governance with which many other new and fragile democracies were also struggling. Since then, “democratic recession” has affected many crucial parts of the world, including Russia, Venezuela, or Nigeria.

Despite these setbacks, the desire for

democracy runs deep around the world. There are no global rivals to democracy as a broad model of government. Communism is dead. Military rule lacks appeal everywhere, and is tolerated only as a temporary expedient to restoring order or purging corrupt rulers. One-party states have largely disappeared. Only the vague model of an Islamic state has any moral and ideological appeal – and only for a small portion of the world’s societies. The single example of an Islamic state is the increasingly corrupt, discredited, and illegitimate “Islamic Republic” in Iran, whose own people overwhelmingly desire to see it replaced by a truly democratic form of government.

But how and why exactly does democracy progress? Is it really possible to build free and democratic societies throughout the world? Doing so must involve more than the creation of new political structures; it requires the generation of new *norms*, as Gandhi put it, “change of the heart.” Democratic structures will be mere facades unless people come to value the essential principles of democracy.

The fate of democracy is not simply driven by abstract historical and structural forces. It is a consequence of struggle, strategy, ingenuity, vision, courage, conviction, compromise, and choices by human actors. In order to spur a renewed democratic boom, new emphasis must be placed on good governance, the rule of law, security, protection of individual rights, vibrant civil society, and shared economic prosperity. Only then will the spirit of democracy be secured.

### Democracy's Waves and Ebbs

In the mid-1970s, you had to be a crank or a romantic to believe that the bulk of the world's countries would become democratic over the next quarter century. That pessimism was driven in part by the preeminence of *modernization* theory, which found a powerful correlation between democracy and the level of economic development. Most of the world's democracies at the time were the advanced industrial countries of the West. And yet, of the 110 non-democratic states in 1974, 63 subsequently made a transition to democracy. The democratic wave grew into a *global* phenomenon. Today, not only the rich Western countries are democracies, but so are 90 percent of Latin American and Caribbean states, almost two-thirds of the former communist countries, and two-fifths or more of Asia and Africa. How did a world that seemed so naturally and even ineluctably authoritarian in 1975 become predominantly democratic?

When the Movement of the Armed Forces overthrew the nearly fifty-year-old dictatorship in Portugal on April 25, 1974, there was no reason for anyone to expect that it would mean very much for the future of

gave rise to the democratic boom are still very much alive. The central challenges are whether the new democracies can deliver what their peoples expect in terms of development and decent, lawful governance, and whether the rich, established democracies can summon the will and wisdom to refashion and sustain their efforts to promote democracy.

### The Challenge of Making Democracies Work

The third wave has brought about a sense of euphoria about global democratic gains and prospects. If democracy had spread so far so fast, why could it not spread everywhere? The recent democratic recession cooled that optimism, but in principle has not denied the open-ended possibilities of democracy – including the possibility that the whole world can become democratic. However, it is not enough for the whole world to *become* democratic. The more consequential questions are, can those countries that become democracies remain democracies, and can they achieve a level of democracy that their people judge as worth having?

Many new democracies around the world are performing very poorly and are in fact quite “illiberal,” if they can be called democracies at all. Yes, they had competitive elections, even real uncertainty about which party would win power, and even alternation in power, but for much of the population, democracy is a shallow or even invisible phenomenon. What many (or most) citizens actually experience is a mix of distressed governance: abusive police forces, domineering local oligarchies, incompetent and indifferent state bureaucracies, corrupt and inaccessible judiciaries, and venal, ruling elites con-

temptuous of the rule of law and accountable to no one but themselves.<sup>2</sup>

As a result, people – especially in the bottom strata of society, which in many new democracies comprise the majority – are citizens only in name. There are few meaningful channels of participation and voice open to them. There are elections, but they are contests between corrupt, clientelistic parties that serve popular interests only in name. There are parliaments and local governments, but they do not represent or respond to broad constituents. There is a constitution, but not constitutionalism – a commitment to the principles and restraints in that hallowed charter. There is democracy in a formal sense, but people are still not politically free. As a result,

Calling a political system a democracy doesn't mean it is a good or admirable system, or that we needn't worry much about improving it further.



democracy. But democracy would boom during the quarter century after the Portuguese revolution. That boom – what Samuel P. Huntington calls the *third wave* of global democratic expansion<sup>1</sup> – expressed the spirit of democracy. During the 1980s and 1990s, democracy became a *zeitgeist*, literally “the spirit of the time.”

More recently, however, democratic progress around the world has stalled.

Although the democratic boom has given way to recession, there remains considerable underlying momentum and potential for democratic progress in the world. Increasingly, democratic values and aspirations are becoming universal. If we look at the causes of democratic expansion in the world, we see that the factors that

there is widespread public skepticism, even cynicism and disillusionment, toward “democracy.”

How, then, can young democracies move beyond fleeting hope toward making their political systems more mature, durable, and effective? It is useful at this point to consider a bit more closely what is necessary for a country to be termed a *democracy*. To many who live or believe they live in a democracy, the term is so intuitive it seems straightforward. But a more careful analysis reveals that democracy varies in depth and may exist above two distinct thresholds: “thin” electoral and “thick” liberal democracy.

### Electoral Democracy vs. Liberal Democracy

At the minimal level, if a people can choose and replace their leaders in regular, free, and fair elections, there is an *electoral democracy*. Calling a political system a democracy doesn’t mean it is a good or admirable system, or that we needn’t worry much about improving it further. It simply means that if a majority of the people want a change in leaders and policies and are able to organize effectively within the rules, they can get change. But electoral democracies vary enormously in their quality. Competitive and uncertain elections, even frequent alternation of parties in power, can coexist with serious abuses of human rights, significant constraints on freedom in many areas of life, discrimination against minorities, a weak rule of law, a compromised or ineffectual judiciary, rampant corruption, gerrymandered electoral districts, unresponsive government, state domination of the mass media, and widespread crime and violence.

Genuine competition to determine who rules does not ensure high levels of freedom, equality, transparency, social justice, or other liberal values. Electoral democracy helps to make these other values more achievable, but it does not by any means ensure them. When we speak of democracy, then, we should aspire to its realization at a higher plane, to the achievement of the ten “thick” dimensions (see box). When these exist in substantial measure, we can call a system a *liberal democracy*.<sup>3</sup> To the extent that these are greatly diminished, democracy – if it exists at all – is *illiberal*. Or there may

## The “Thick” Concept of Democracy Beyond Elections

A system is not a liberal democracy unless it also ensures the following attributes:

- Substantial individual freedom of belief, opinion, discussion, speech, publication, broadcast, assembly, demonstration, petition, and the Internet.
- Freedom of ethnic, religious, racial, and other minority groups (as well as historically excluded majorities) to practice their religion and culture and to participate in political and social life.
- The right of all adult citizens to vote and to run for office (if they meet certain minimum age and competency requirements).
- Genuine openness and competition in the electoral arena, enabling any group that adheres to constitutional principles to form a party and contest for office.
- Legal equality of all citizens under a rule of law, in which the laws are “clear, publicly known, universal, stable, and nonretroactive.”
- An independent judiciary to neutrally and consistently apply the law and protect individual and group rights.
- Due process of law and freedom of individuals from torture, terror, and unjustified detention, exile, or interference in their personal lives – by the state or nonstate actors.
- Institutional checks on the power of elected officials, by an independent legislature, court system, and other autonomous agencies.
- Real pluralism in sources of information and forms of organization independent of the state; and thus, a vibrant “civil society.”
- Control over the military and state security apparatus by civilians who are ultimately accountable to the people through elections.

be regular, multiparty elections and other formal institutions of democracy like a national assembly, court system, constitution, and so on, but the people are not able to vote their leaders out of power because the system is, in effect, rigged. Then the country has *pseudodemocracy*.<sup>4</sup>

If this distinction seems neat and manageable, it is not. First, if elections are to be considered democratic, they must be meaningful in the sense of bestowing real power to govern on those who are elected. Even if elec-

tions were free and fair today in Iran (which they are not), the country could hardly be considered a democracy when the ultimate power to decide rests with a religious “supreme leader” who is not accountable to the people. The same could be said for Morocco or Jordan, where the ultimate power remains with the monarchy, or countries where the ultimate power rests with the military, despite elections. All these systems are pseudodemocracies, or *electoral authoritarian regimes*.

The standard of “free and fair” is in fact a fairly demanding one. Elections are “free” when the legal barriers to entry into the political arena are low, when competing candidates, parties, and their supporters are free to campaign, and when people can vote for whom they want without fear and intimidation. As Miriam Kornblith, a former independent member of Venezuela’s National Electoral Council who watched the country’s president gradually subvert democracy after his election, warns, “Elections can serve to express the collective will and consolidate democracy only when the voting and all that surrounds it are free and fair. Elections that deviate significantly from such standards can serve different ends – including the consolidation of an autocracy that disdains the very democratic mechanisms it loosely and instrumentally follows.”<sup>5</sup>

### Is Democracy a Luxury?

Forty years ago, Seymour Martin Lipset argued that the richer the country, the greater the chance that it would sustain democracy.<sup>6</sup> Since then, Lipset’s argument has become conventional wisdom, and researchers have sought to solidify the argument in statistics. In one innovative and rigorous study, Adam Przeworski and his colleagues found that there was in fact a striking relationship between development level and the probability of sustaining democracy between 1950 and 1990.

With every step up in a country’s level of economic development, the life expectancy of a democratic regime increases. In upper-middle-income countries, democracy never breaks down, whereas in the very poorest countries, democracy has a 12 percent chance of dying in any particular year, with an average life expectancy of eight years.<sup>7</sup>

Yet, since 1990, several democracies in the lowest in-

come category have outlived that expected life span, including Benin, Mali, and Malawi.<sup>8</sup> Among the bottom third of countries in terms of human development, democracy has been in place for over four decades in Botswana, for over half a century in India (with only a brief interruption), and for almost two decades in Namibia. Over the past three decades, an unprecedented number of very poor countries have embraced democratic forms of government. Of the thirty-six countries that the United Nations Development Program ranks at the bottom, with “low human development,” about a third of these (thirteen) are democracies. If democracy is the distinctive cultural attribute of the rich, mainly Western countries, why has it spread so far to the poor and the non-Western states?

Of course, it is possible to dismiss this as a fad, a product of superficial diffusion, or a temporary concession to international pressure. From this perspective, de-



Over the past three decades, an unprecedented number of very poor countries have embraced democratic forms of government. Of the thirty-six countries that the United Nations Development Program ranks at the bottom, with “low human development,” about a third of these (thirteen) are democracies.

democracy can spread anywhere, but it cannot take root and be sustained anywhere. To be sure, democracy is weak and is in serious difficulty in many poor and even some middle-income countries. But in most of these countries, the problems of democracy have more to do with the shortcomings and betrayals of elites than the apathy or authoritarian sentiments of the population. If democracy can emerge and persist for more than fifteen years in a destitute, landlocked, overwhelmingly Muslim country like Mali – in which the vast majority of adults are illiterate and life expectancy is 48 years – then there would seem to be no intrinsic reason why democracy cannot develop in every poor country, and indeed every country.

In fact, a strong case has been made that democracy is not an extravagance for the poor but a necessity.

Amartya Sen won the Nobel Prize for Economics in 1998 in part for showing that democracies do not have famines. This is because the relatively free flows of information in a democracy raise the flag on food (and other) emergencies, while the mechanisms of political accountability give politicians a powerful incentive to be responsive. Sen argues that “people in economic need also need a political voice.” Thus, “democracy is not a luxury that can await the arrival of general prosperity [and] there is very little evidence that poor people, given the choice, prefer to reject democracy.”<sup>9</sup> By this measure, there is a growing evidence of all kinds that democracy is becoming a truly universal value.

### Democracy and Development

Economic development transforms a society in several ways that make it more difficult to sustain the concentration of power in one man, one party, or a narrow elite. First, it alters a country’s social and economic structure, widely dispersing power and resources. Second, it profoundly shifts attitudes and values in a democratic direction. On the structural side, economic development enlarges the middle class and raises levels of education and information among the general public. As countries develop, incomes become more equally distributed, which diminishes the threat of excessive taxation and intense class conflict and enables the wealthy to tolerate the uncertainties of dispensing with authoritarian rule – and the less well off to be patient for change. Hence, greater equality increases the chances both for a transition to democracy and for its survival.<sup>10</sup>

Often, economic development also realigns interest coalitions, as shrewder or more visionary elites realize that the withering of extremist threats renders a dictator obsolete; that uneven development under authoritarian rule must be mitigated to preserve the state’s stability; or that newly assertive social groups must be incorporated into the political system. And the newly emerging middle class embraces so-called *psychic mobility*.<sup>11</sup> As people leave the countryside for the cities, cutting their ties to traditional oligarchs, bosses, or *caciques*, they also adopt new political attitudes and beliefs, transformed by rising education levels and expanding, and increasingly global, communication. With development, the quantity and variety of information available explodes, and more important, control over it is dispersed.

With these sweeping social and psychological changes, people in growing numbers form and join organizations – including professional and student associations, trade unions, human rights and civic groups – to service their interests and needs. As these independent organizations

grow in number, resources, and sophistication, they become more assertive and more capable of checking and challenging the state, generating the foundations for a vibrant civil society. So as a country gets richer, the balance of power shifts from the state to the society.

The most recent, comprehensive, and ambitious analysis of the relationship between development, value change, and democracy comes from Ronald Inglehart, the founder of the World Values Survey. He and a fellow political scientist Christian Welzel conclude that, “socio-economic development tends to propel societies in a common direction” – toward self-expression values and “emancipation from authority” – “regardless of their cultural heritage.”<sup>12</sup> This shift toward tolerance, trust in others, suspicion of authority, and valuing of freedom has profound political consequences. For one, it generates higher levels of peaceful protest activities (such as petitions, demonstrations, and consumer boycotts) that challenge ruling elites. And as people come to embrace self-expression values, they come to demand democracy – and not just any democracy but the institutions to protect individual freedom and choice that encompass liberal democracy.

### What Sustains Democracy?

Democracy is not sustained by cultural and social factors alone. There is a growing amount of evidence to suggest that people are more likely to express support for democracy when they see it working to provide genuine political competition, including alteration in power, and when it has at least some effect in controlling corruption, limiting abuse of power, and ensuring a rule of law.

Few features of political life are more corrosive of public trust in government and support for democracy than corruption (and other forms of abuse of power). When politicians become a class unto themselves, feeding shamelessly and lawlessly at the public trough, they generate an open invitation for citizens to reject democracy. A spirited civil society plays a vital role in checking and limiting the potential abuse of state power, but it also sustains and enriches democracy. Civil society organizations provide channels, beyond political parties and election campaigns, for citizens to participate in politics and governance, to air their grievances, and to secure their interests.

Sustaining and consolidating democracy therefore entails making it more accountable to the people. Stable democracy requires a rule of law, in which the constitution is supreme, all citizens are equal before the law, no one is above the law, corruption is punished, state authorities respect the rights of citizens, and citizens have

effective access to the courts to defend their rights. A democratic rule of law requires a judiciary that is, at every level, neutral, independent from political influence, and reasonably competent and resourceful. An independent judiciary, however, is only one type of democratic institution to constrain the abuse of power. A good democracy requires a dense web of institutions that check and balance the executive (and one another).

### **Sustaining Democracy in a Developing Country**

As discussed earlier, the persistence of democracy in developed countries presents no real mystery: economic development naturally brings about transformations in individual values and social structure that press societies toward democracy and make it difficult to sustain non-democratic government. This is not an invitation to apathy. There is a natural human tendency to want to corner power and monopolize resources, and thus democracy remains continually vulnerable. For rich countries, the success of reform determines the quality and scope of democracy. For poor countries, the survival of democracy is at stake.

At the most general level, two things sustain democracy: the decent functioning and gradual deepening of democracy and a rising hope for a better life. India is a telling example. Over time, Indian democracy has worked substantially to provide electoral choice, rotation of power, checks on ruling elites, exposure of abuse of power, and legal and political redress of grievances. The gains have been uneven, but aggrieved groups have seen that the constitutional system can be made to work for them – and for everyone. Citizens have come to know that democracy means more than occasional elections, that it provides an ongoing means for achieving accountability and responsiveness, and for making the political leadership more broadly representative.

At the same time, democracy in India has worked in another political sense, with huge implications for other divided societies. Democracy has provided peaceful means to manage and accommodate deep differences. Again, these have not progressed without serious setbacks, but constitutional and legal instruments have prevented or contained large-scale violent conflict while deepening groups' stakes in the democratic system. India's federal structure, its electoral and party systems, and its rules for empowerment of minorities have worked because they fit the country's particular circumstances and because they have been able to adapt to changing circumstances over time.

Finally, Indian democracy has been powerfully sustained by the steady expansion of the public's hope in it.

Until the last decade or so, India's economic development was unnecessarily retarded by a long-lingering ideological devotion to socialist principles of state intervention and economic autarky. Since the liberalization and opening of the Indian economy began in 1991, economic growth rates have risen well beyond the tortoise-like "Hindu rate of growth" of the country's first four decades, and transformation is finally under way. And if the earlier rate of growth did not lift nearly enough people out of poverty, it did at least make gradual progress in improving people's lives.

With a better understanding of the kinds of economic policies that promote development and of the technical means to fight disease, increase crop yields, and improve human capacity, most developing countries today have the potential to grow faster than India did during its first four decades. But the lesson of India's remarkable experience is that even modest but consistent economic development, combined with a decent functioning and gradual deepening of democratic institutions, can sustain a free political system just about anywhere.

### **New Democracies at Risk**

If many new and unstable democracies do not last, the challenge before us will not be extending the democratic tide but instead managing the implosion of democracy, what Samuel Huntington would call the *third reverse wave*. Therefore, the near-term fate of democracy will mainly be determined in countries that have only become democratic in the last decade or two.

To remain a global value and destination, democracy must be seen to be a viable model. It is still the case that the most powerful demonstration effects are regional ones.<sup>13</sup> Is it plausible to imagine that China will democratize if democracy in Taiwan sinks deeper into political polarization and a crisis over national identity? Or to imagine that Vietnam (and eventually Laos, Cambodia, and Burma) will move toward democracy if it rots in Indonesia? What prospect does democracy have in the former Soviet world if it does not strengthen in Central and Eastern Europe? How will the blatantly authoritarian half of Africa democratize if the continent's emerging democracies, beginning with South Africa, cannot make democracy work?

To be sure, the gains for freedom in the world have been real and diffuse. But the celebration of democracy's triumph has been premature. Outside of the long-industrialized democracies, only a few countries have achieved a stable and liberal democracy of reasonably high quality. And even in many of these countries that we take for granted as democratic success stories there

## Democracy and Development

**E**conomic development transforms a society in several ways that make it more difficult to sustain the concentration of power in one man, one party, or a narrow elite. First, it alters a country's social and economic structure, widely dispersing power and resources. Second, it profoundly shifts attitudes and values in a democratic direction. On the structural side, economic development enlarges the middle class and raises levels of education and information among the general public. As countries develop, incomes become more equally distributed, which diminishes the threat of excessive taxation and intense class conflict and enables the wealthy to tolerate the



uncertainties of dispensing with authoritarian rule – and the less well off to be patient for change. Hence, greater equality increases the chances both for a transition to democracy and for its survival.<sup>10</sup>

Often, economic development also realigns interest coalitions, as shrewder or more visionary elites realize that the withering of extremist threats renders a dictator obsolete; that uneven development under authoritarian rule must be mitigated to preserve the state's stability; or that newly assertive social groups must be incorporated into the political system. And the newly emerging middle class embraces so-called *psychic mobility*.<sup>11</sup>

are real problems of governance and deep pockets of disaffection.

### The Path to Democratic Renewal

The triumph of democracy and the march to prosperity are largely a story of taming abuse of power, opening up access to political and economic markets, and binding the naturally predatory tendencies of rulers to impersonal, impartial rules and institutions. Several innovations are necessary in order to move a society from a state of predation and closure to one of openness and democracy.

First, horizontal relations of trust and cooperation must be constructed, ideally across ethnic and regional divides, to challenge elitist hierarchies and personal rule. This requires building a dense, vigorous civil society, with independent organizations, mass media, think tanks, and other networks that will generate social capital, foster civic norms, press public interests, raise citizen consciousness, break the bonds of clientelism, scrutinize government conduct, and lobby for good governance reforms.

Next, effective institutions of governance must be constructed to constrain the discretion of rulers, to open their decisions and transactions to inspection, and to hold them accountable before the law. This means building institutions of vertical and horizontal accountability. The premier institution of vertical accountability is a genuinely democratic election.

Others include public hearings, citizen audits, and a

freedom of information act. In complement, horizontal accountability invests some agencies of the state with the power and responsibility to monitor the conduct of other agencies, officials, or branches of government.<sup>14</sup> These include judiciaries, parliamentary committees, public audits, ombudsmen, electoral commissions, and counter-corruption bodies.

Third, poorly performing democracies need better, stronger, and more democratic institutions linking citizens not just to one another but also to the political process. Primarily, this means political parties, parliaments, and local governments. Of course, in all democracies, by definition, these institutions exist in a formal sense. But in shallow democracies, political participation does not really amount to much except occasional voting because politics is so elite-dominated, corrupt, and unresponsive. In such circumstances, the people are largely excluded from effective participation and representation of their interests, and power and resources are narrowly held. Here reform requires internal democratization of political parties by improving their transparency and accessibility and making other representative bodies more inclusive and effective.

Finally, reforms must extend into the economic sphere, foremost with reforms generating a more open market economy in which it is possible to accumulate wealth through honest effort and initiative in the private sector, with the state playing a limited role. "Legal and regulatory reforms that reduce administrative barriers to do-

ing business serve to minimize incentives for corruption,” while corporate governance programs to “inculcate values of [business] responsibility, transparency and accountability” can address the “supply side” of the corruption problem.<sup>15</sup>

Strong guarantees of property rights, including the ability of small holders and informal sector workers to get title to their land and business property, set a broader institutional landscape that limits government corruption. All of these challenges must be met to some degree if a democracy is to work well – or work at all.

## Conclusion

There is a good reason to question whether a shallow rendition of democracy can legitimately be termed anything more than a competitive authoritarian regime. But whether a regime is competitive authoritarian or merely

a badly governed, low-quality democracy, the challenge remains: For democratic structures to endure – and to be worthy of endurance – they must be more than a shell. They must have substance, quality, and meaning. They must, over time, hear people’s voices, engage their participation, tolerate their protests, protect their freedoms, and respond to their needs.

In the coming decade, the fate of democracy will not be determined by the scope of its expansion to the remaining dictatorships of the world. Too many of these regimes have learned practical if ugly lessons on how to frustrate democratic change and the odds of a great many of them becoming electoral democracies (not to mention liberal democracies) before 2015 are unfortunately small. Some of these regimes might collapse because of a sudden crisis or a split within the ruling ranks, but in the near term this might usher in a new brand of authoritarian rule rather than democracy.

Beyond the next decade, the prospects for renewed global expansion of democracy will depend primarily on three factors. One will be gradual economic development that lifts levels of education, information, and autonomous citizen power and organization. The second will be the gradual integration of countries into a global economy, society, and political order in which democracy remains the dominant value and the most attractive type of political system. As for the third factor that will determine whether democracy booms again as it did in the 1980s and 1990s: before democracy can spread farther, it must take deeper root where it has already sprouted.

The new democracies that have come into being since 1974 must demonstrate that they can solve governance problems and meet citizens’ expectations for freedom, justice, a better life, and a fairer society. If democracies do not work better to contain crime and corruption, generate economic growth, relieve economic inequality, and secure justice and freedoms, sooner or later, people will lose faith and embrace (or tolerate) non-democratic alternatives. The new democracies must be consolidated, so that all levels of society become committed lastingly and unconditionally to democracy as the best form of government and to democratic norms of tolerance and restraint. In other words, for democracies to endure, their leaders and citizens must internalize the spirit of democracy.

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

**(\* Larry Diamond is a senior fellow at the Hoover Institution and the Freeman Spogli Institute for International Studies at Stanford University.)**

## Endnotes

- 1 Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).
- 2 See: Larry Diamond, *Developing Democracy: Toward Consolidation* (Baltimore: Johns Hopkins University Press, 1999), pp. 43-63.
- 3 *Ibid.*, pp. 10-13. When a democracy meets all the institutional attributes of liberal democracy, it also satisfies “thick” conceptions of what a democracy should be.
- 4 Diamond, *Developing Democracy*, pp. 15-16. There are many other pseudonyms for this species of regime, including virtual democracies, electoral authoritarian and competitive authoritarian regimes.
- 5 Miriam Kornblith, “The Referendum in Venezuela: Elections versus Democracy,” *Journal of Democracy* 16 (January 2005): 136.
- 6 Seymour Martin Lipset, *Political Man* (Baltimore: Johns Hopkins University Press, 1981). The first edition of this book was published in 1960, and in fact Lipset’s essay on this theme, “Some Social Requisites of Democracy,” was published in the *American Political Science Review* in 1959.
- 7 Adam Przeworski, Michael E. Alvarez, José Antonio Cheibub, and Fernando Limongi, *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990* (Cambridge: Cambridge University Press, 2000), pp. 98-106.
- 8 Their poorest category was under \$1,000 in 1985 purchasing power parity dollars, which is equivalent to \$1,449 in year 2000 dollars.
- 9 Amartya Sen, “Democracy as a Universal Value,” in Larry Diamond and Marc F. Plattner, eds., *The Global Divergence of Democracies* (Baltimore: Johns Hopkins University Press, 2001), pp. 12-13.
- 10 Carles Boix, *Democracy and Redistribution* (Cambridge: Cambridge University Press, 2003).
- 11 Daniel Lerner, *The Passing of Traditional Society: Modernizing the Middle East* (New York: Free Press, 1958).
- 12 Ronald Inglehart and Christian Welzel, *Modernization, Cultural Change and Democracy: The Human Development Sequence* (Cambridge: Cambridge University Press, 2005), p. 54.13 Huntington, *The Third Wave*, p. 105.
- 14 Andreas Schedler, “Conceptualizing Accountability,” in Andreas Schedler, Larry Diamond, and Marc F. Plattner, eds., *The Self-Restraining State: Power and Accountability in New Democracies* (Boulder, Colo.: Lynne Rienner, 1999), pp. 13-28.
- 15 Center for International Private Enterprise, “Helping Build Democracy That Delivers,” 2007, <http://www.cipe.org/about/DemocracyDelivers07.pdf>, p.4.



## Germany - NIGERIA Trade Relations: More Room for Exchange

\* By Tony Monye

**T**he two countries, Germany and Nigeria, have so many things in common. Both of them belong to the western regions of their continents; Europe for Germany and, Africa for Nigeria. Administratively, Nigeria and Germany share some similarities too as both are federal republics, administered along states as their component units. They are also economic powerhouses in their continents and in a way, the world. Germany, apart from being Europe's largest economy is also the third largest in the world behind the United States and Japan. On the other hand, the Nigerian economy is the dominant one in West Africa, third largest in the continent behind South Africa and Egypt whilst positing as the fortieth in the world in a table where South Africa is ranked twenty-seventh. Comparatively, both countries can be said to be on different pages on any book on development. The Germans, mildly put, are several pages ahead while the Nigerians can be regarded as swiftly and impatiently turn-

ing the leaves given their acknowledged potentials. Germany presents to the West Africans (Nigerians) a good import source, especially for plants, machineries and even manufactured goods. German automobiles are wave-makers in Nigeria. On the other hand, Nigeria is a good supplier of energy (petroleum and natural gas) to the Germans.

### Nigeria V Germany: Some Demographic and Physical Features

On the basis of population size, Germany and Nigeria, are second and first, respectively, compared with other nations in their continents. Germany, with a population size of about 82.4million, is striding behind Russia (140.7million) as the second most populated country in Europe while Nigeria, with 146.25million as at end-2007, is several paces ahead of other African countries on the same parameter. Nigeria and Germany pale behind other countries in their respective continents on one particular measure - landmass area. With less than



*International Conference Centre, Abuja*



*City Hall and Frauenkirche*

a million square kilometres, Nigeria is the twelfth largest in Africa, led by war-torn Sudan with two and a half million square kilometres. On the other hand, Germany, with slightly over three hundred and fifty seven thousand square kilometres, ranks as the eighth largest in Europe where Russia tops the list. Russia is also the world's largest country with over seventeen million square kilometres. Nigeria's annual population growth rate has continued to dwindle, ending the year 2008 with an estimated figure of 2.025 per cent – a commendable number compared with previous years'. Germany, on the other hand, was one of the very few countries with annual replacement rate well below the 1.00 per cent. In fact, it has been estimated that the German figure as at mid-2008 was in the negative to the tune of 0.04 per cent. This means that the German population is suffering some decline apart from the fact that it is also aging. It is less puzzling therefore that government in the European country tries to discourage emigration whilst at the same time, encouraging growth in family size through some well-thought out policies. The steady decline in the Nigerian figure over the past decade has been largely assisted by the average citizen's attitude towards family size especially amongst the post-Civil War generation (those born after the Nigerian-Biafran Conflict, 1967 – 1970). Other factors include late marriages, especially amongst the female segment of the population, improving health and medical awareness, acceptance of birth control measures and the declining practice of bigamy and polygamy. It is however being speculated that the recent remarkable economic growth in the West African nation might lead to a reversal in the declining trend. Will this turn out to be true?

**Demographics: Nigeria V Germany**

The average German is expected to live much longer compare to his Nigerian counterpart. Many factors can account for this disparity in life expectancy of citizens of the two nations.

**The average German is expected to live much longer compare to his Nigerian counterpart. Many factors can account for this disparity in life expectancy of citizens of the two nations. The Germans have better healthcare and facilities; they have better living and even working conditions.**

The Germans have better healthcare and facilities; they have better living and even working conditions. Germany's per capita income is massive compared to the Nigerian figure. With 79.1years as overall figure for life expectancy, Germans are almost anticipated to live about twice (1.7 times) that of an average Nigerian whose number is less than the fiftieth-year mark.

Females in both countries live, on the average, longer than their male counterparts. German women, on the average, live up to 82.26years as against the Nigerian value estimated at 47.32years. Improved maternal health and facilities, better nutrition etc are some of the factors that gave the German values a shot

in the arm. Nigerian men, on the average, live for up to about 45.78 years according to figures from the World Fact Book, a country by country information website owned and maintained by the Central Intelligence Agency (C.I.A.). On the other hand, German men, live, on the average slightly above the 76<sup>th</sup> year mark. Medical, nutritional and health facilities in Germany are some of the finest in the world. In fact, in some parlance, Germany is regarded as one of the exporters of medical and health services and facilities to the rest of the world.

Fertility trends in both nations have a common direction – downward-looking. Attitude to family size in Nigeria has witnessed some dramatic changes in the past twenty years, especially since the period when the Structural Adjustment Programme (S.A.P.) was introduced in the eighties. Nigerians are now more in favour of smaller family size than in the past. Average family size in the West African country continued to decline in the previous decade, leading to further drop in the new millennium. As at end-2008, it has dropped to five children per woman. This figure is large compared to the German average which is about one and a half children per woman. That is, three children for two women. Apart from a change in attitude to family size, Nigerians are now more welcoming to birth control ideas and other population-checking initiatives of the government and other non-governmental agencies. Nigerians have also resorted to challenging some traditional beliefs that led the thoughts of the past. Some of them emphasised the virtual strengths in quantity over the real and lasting power of quality. These, like they say, are changing times!

In percentage terms, with 2.18 per cent of the nation's entire area submerged by water, Germany has a greater value compared to Nigeria's figure put at just 1.41 per cent. In actual values, the West African nation's waterways dwarf the Germany figure, 13 thousand kilometres as against eight thousand kilometres, respectively. This offers potential for the growth of seafood and other related industry for the West African nation. Arable land size in both nations compared to total land is about the

same in percentage terms. With 3.14 per cent, Nigeria has a larger forest reserves than Angela Merkel's country with 0.6 per cent. The two nations, Germany and Nigeria, have similar governance structure – federal system. Germany has a sixteen-state structure with Berlin as capital while Nigeria has thirty-six states with Abuja as capital.

**Political Relations: Nigeria and Germany**

Much of Nigeria's political relations with the Federal Republic of Germany appear to be governed largely by economic considerations. To the Germans, Nigeria remains a good energy source and according to the Nige-

Table 1: Key Demographics and Physical Features: Nigeria and Germany

Index	Nigeria	Germany
Population (millions)	146.3 (July 2008 est.)	82.4 (July 2008 est.)
Population Growth Rate (%)	2.025 (2008 est.)	-0.04 (2008 est.)
Life Expectancy at Birth:		
Total Population (years):	46.53	79.1
Male (years):	45.78	76.11
Female (years):	47.32 (2008 est.)	82.26
Total Fertility Rate (TFR):	5.01 Children born / Woman (2008 est.)	1.41 (2008 est.)
HIV/AIDS Adult Prevalence Rate	5.4% (2003 est.)	0.1 (2001 est.)
Land Area:		
Total (sq. km)	923,768	357,021
Land (sq. km)	910,768	349,223
Water (sq. km)	13,000	7,798
Land Boundaries (km)	4,047	3,621
Land Use:		
Arable Land:	33.02%	33.13%
Permanent Crops:	3.14%	0.6%
Others:	63.84% (2005)	66.27% (2005)
Administrative Divisions	36 States and a Federal Capital Territory (FCT) Abuja	16 states with Berlin as capital

Source: Central Intelligence Agency and other websites

rian-German Business Forum, the West African nation is, 'by far the biggest coherent domestic market of Africa with a strong extractive industry consisting of three major sub-sectors: the oil sector, the gas sector and the solid mineral sector.' To underscore the importance the Germans attached to their relationship with Nigerians, the German President, Horst Kohler, paid a highly publicized and successful state visit to the West African nation in the last quarter of 2008. Kohler offered German technical assistance in the field of electricity and power generation, but suggested the decentralization of power supply. About a year and half earlier, the German Chancellor Angela Merkel had invited Nigeria's President Umaru Musa Yar'Adua when Germany played host to the G8 (a group of eight most industrialized nations) in the northeastern town of Heiligendamm.

On the debt cancellation enjoyed by Nigeria in the latter half of 2005, Germany, as a very influential member of the Paris Club of Creditors played a very remarkable role. Encouraged by the debt cancellation, by April, 2006, the West African nation became the first African country to fully pay off its external debt (estimated \$30billion) owed to the Club. Furthermore, under the auspices of the European Union, Germany is offering assistance to Nigeria especially given the return of democracy. President Kohler also during his visit promised to help efforts in strengthening democratic pillars as well as in the areas of education, diversification of the economy and the growth of the small scale industries.

### Economy: Nigeria V Germany

Germany belongs to the big league of players in the world as the third largest economy behind United States and Japan and the Aryan nation, a member of the exclusive list of trillion dollar economies. The latest entrants to the list are India and Australia. Nigeria is well behind this enviable roll in spite of some recent postings in terms of economic growth. Some experts believe that it will take a reasonable while before the West African nation is ranked among the countries on this listing.

GDP (at purchasing power parity - PPP) in both countries are far apart. According to the World Fact Book, at US\$296.1billion, Nigeria's figure is about ten times less than the German value estimated at US\$2.81trillion as at end-2007. It shows the dizzying difference between the two economies – one ranks as the third largest in the world and the first in its continent whilst the other, the third largest in the world's poorest continent, Africa and about the fortieth in the world. The most industrialized country in Africa, South Africa with US\$467.8billion as GDP, still leads the others, fol-

lowed by Egypt with US\$405.4billion. Kenya is at the bottom of the top-ten economies in Africa.

As at the end of the year 2007, the two economies, Nigeria and Germany grew at different paces. The West

African country did much better compared to its Western European counterpart. The Nigerian economy grew by a commendable 6.4 per cent as against 2.5 per cent for the German economy according to the World Fact Book. Analysts and discussants have at various times argued that the factors that worked in favour of the growth of one of the economies, the Nigerian, antagonized that of the other, the German. In fact, it must be noted that most countries in the euro-zone fell into recession occasioned by (and as a spillover effect of) the credit crunch, financial market meltdowns and mortgage crisis in the United States. On the other hand, the Nigerian economy has been largely aided by the rise in crude oil prices in the international market, improving contributions from the nation's non-oil sectors. To the Germans, the rise in crude oil prices has affected the price competitiveness of most of her exports in a negative sense, leading to some dwindle in demand from other countries of the world.

If a country's per capita income can be truly used as an assessment criterion to determine her citizens' wealth and standard of living, then, with US\$34,100 as per capita income for Germany, one of the highest in the world; citizens of the European nation can be said to be much wealthier than an average Nigerian. The Nigerian per capita income hovered around US\$2,100 as at end-2007; a figure that is quite poor even when compared with some economic weak-houses in Africa. The German figure is over sixteen times that of Nigeria, a reflection of the difference in the quality of

**Table 2a: Top-10 Economies in Africa at end-2007 by GDP (PPP)**

Ranking	Country	GDP (Billions of USD)
1	South Africa	467.8
2	Egypt	405.4
3	Nigeria	296.1
4	Algeria	222.3
5	Morocco	125.0
6	Angola	95.46
7	Sudan	80.98
8	Tunisia	76.07
9	Libya	74.72
10	Kenya	61.22

Source: World Fact Book as at end-December 2008

**Table 2b: Top-10 Economies in Europe at end-2007 by GDP (PPP)**

Ranking	Country	GDP (trillions of USD)
1	Germany	2.81
2	United Kingdom	2.13
3	Russia	2.097
4	France	2.075
5	Spain	1.361
6	Turkey	0.854
7	Netherlands	0.646
8	Belgium	0.377
9	Sweden	0.339
10	Switzerland	0.303

Source: World Fact Book as at end-December 2008

life of citizens of both countries. Germany is said to be a country with one of the most productive workforces in the world as against that of Nigeria, a rising industrious labor force.

The two countries have dissimilar levels of private sector participation in the economic life of the states as reflected in the value of traded securities. Germany leads Nigeria on this index with US\$1.221trillion as against US\$32.82billion for the West African nation, which for a very long time operated a mixed economy largely planned and financed by the government. The depth of the private sector involvement in Germany is over thirty-seven times that of Nigeria. In the West African nation, Nigeria, private sector contribution as a percentage of GDP (at PPP) as at end-2006 was slightly over the 11 per cent mark. The

German value was recorded at over 43.5 per cent as at end-2005. The global financial meltdown that began in the West and gradually sipped into the West African nation has affected the market in



***Olympiapark, Munich***

many ways in both countries.

**Nigeria and Germany have continued to maintain reasonable foreign reserves positions as a precaution against ‘rainy days’ and for speculative reasons.**

Nigeria and Germany have continued to maintain reasonable foreign reserves positions as a precaution against ‘rainy days’ and for speculative reasons. At US\$1,652, per capita foreign reserves remains much higher for the Germans benchmarked against the Nigerian figure of US\$350.85. Nigeria is ranked as being

amongst the highest accumulators of foreign reserves in Africa. With US\$126.9billion and US\$79.00billion, respectively for Algeria and Libya, these Maghreb nations lead the pack in the continent, with Nigeria coming on their heels as the third largest in Africa. Some analysts posit that the German economy has the capacity to maintain bigger foreign reserves base. Others have different opinion, arguing that the country suffers from the same global financial meltdown and in fact, presently can be said to be in recession and therefore could not have much to be set aside as

reserves. On the other hand, falling crude oil prices have affected the rate of reserves accumulation for Nigeria.



***Tinapa Business Resort, Calabar***

Germany is one of the world’s great industrial bases, contributing its own highly technical and innovative products to the world market; one of the many indicators of its developed status as a nation. For instance, German companies registered 28 per cent of the world’s mechanical engineering patents in 2008. With 0.9 per cent as contribution to the economy, the German primary industry, agriculture, can be seen as having the least involvement in the economy. The Services sector leads the others with over 69 per cent while industry contributes just over 30 per cent. On the other hand, a growing economy

like Nigeria, recently classified as one of the new emerging markets, could only boast of a slightly different composition to gross domestic product reflecting her status. With 17.7 per cent contribution to GDP as at end- 2007, Agriculture, once the largest contributor to GDP in Nigeria has lost its slot to the Industry sector with 52.7 per cent. This is understandable as agriculture is still mainly being practised on subsistence basis by rural households and only a handful of States (led by Kwara) in the country encourages large scale commercial farming. The Ser-

on the eastside of the unemployment curve amongst EU-member countries. The German figure has not been helped by several phenomena that shook most Western economies in the past half a decade. Some of which include: credit crunch, mortgage and sub-prime losses and of course, financial meltdowns. It is hoped that economies in that part of the world and others (given their close linkage) will rise up to the challenges of these phenomena. For Nigeria, the picture of the future being created by the reputable Goldman Sachs, a leading economic and financial institution is good and, in a way, positive. The question then becomes, 'should the West Africans rest on their oars waiting for the future as created by Goldman Sachs?

**Table 3: Gross Domestic Product (GDP) (billions of US Dollars) – Trillion Dollar Economies**

S/No.	Country	Nominal GDP	Estimate as of
1.	World	60,109.392	2008
2.	United States	14,334.034	October 2008
3.	Japan	4,844.362	October 2008
4.	Peoples Republic of China	4,222.423	October 2008
5.	Germany	3,789.968	October 2008
6.	France	2,978.121	October 2008
7.	United Kingdom	2,787.371	October 2008
8.	Italy	2,330.005	October 2008
9.	Russia	1,698.647	October 2008
10.	Spain	1,622.511	October 2008
11.	Brazil	1,621.274	November 2008
12.	Canada	1,571.070	November 2008
13.	India	1,232.946	November 2008
14.	Australia	1,046.789	November 2008

Source: Wikipedia

vices sector sits in between the two sectors with 29.8 per cent contribution to GDP. The three sectors' contributions to employment are a reversal of the trend to the GDP picture. Agriculture which contributed the least to GDP in Nigeria employed the greatest number of people (70 per cent – farming is still largely cultivated on subsistence basis) while the industry sector was the source of employment to the least with the proportion estimated at 10 per cent.

The millennium ushered in a new period of growth for Nigeria leading to acknowledgement that the country is amongst the few experiencing brain-gain, as her professionals in the Diaspora make a return home. This has added to other drivers of growth in the West African country leading to a drop in the unemployment rate that is at present estimated to be about 4.9 per cent – one of the lowest in the sub-region. Germany, on the other hand, ended year 2007 with an unflattering unemployment rate of about 9 per cent – a figure that put her

financial crisis ravaging most countries in the northern hemisphere. On external debts, Nigeria's figure of slightly over US\$8.007billion is way off the German figure, estimated at US\$4.489trillion. Here, it seems being big has a huge price-tag as a result of the debt overhang.

Nigeria and Germany are blessed with a good expanse of arable land. In fact, both nations have the same percentage (33%) share of land that can be used for farming or agricultural purposes. Nigeria is one of the leading suppliers to the world food market, especially from the continent that serves as home to the world's longest river, The Nile (6,695km). Germany too, on the other hand, is one of the leading producers of wheat and suppliers to the European and world markets. The largest quantity of cassava to the world's market is from Nigeria. Cocoa, another cash-crop from Nigeria, is fast rising to its former pride of place as one of the nation's major cash crops. Some of Nigeria's agricultural produce are cocoa, peanuts, palm oil, corn, rice, sorghum. Others are

Others are

millet, cassava etc. Nigeria also has a thriving live-stock industry. Germany supplies Europe and the rest of the world with potatoes, wheat, barley and sugar beets. Both countries, Nigeria and Germany enjoy nature's blessings in the form of natural resource endowments. They both have natural gas (for Nigeria, one of the largest natural gas reserves in the world), iron ore, coal and large expanse of arable land. Nigeria, on her own, has lead, zinc, limestone, niobium while Germany has lignite, timber, copper and nickel.

Nigeria and Germany are steeply into world trade as exporting and importing nations. Germany is a great player in the international export markets as it contributed a whopping US\$1.354trillion, a figure that dwarfed the world's largest economy's (United States) contribution of about US\$1.149trillion as at end-2007. Nigeria's share of world exports was about US\$61.79billion, a value that was almost insignificant placed along side Germany's. The West African nation's exports are overly tilted in favour of petroleum and petroleum products. Nigeria's other notable export commodities are cocoa and rubber. The Germans have a greater variety of goods that are exported to the international markets. Some of these are machinery, vehicles, chemicals and metals. Others are manufactures, foodstuffs and textiles. German goods are quite popularly with her neighbours as they consume about 45.8 per cent of the Aryan nation's exports. Some of the leading consumers of German goods in Europe include France (9.7%), United Kingdom (7.3%), Italy (6.7%), Netherlands (6.4%), Austria (5.4%), Belgium (5.3%) and Spain (5.0%). The popularity of the Nigerian exports cuts across the continents of America, South America and Europe. United States leads the rest of the world as Nigeria's

Table 4: An abridged list of German Companies in Nigeria

S/No.	Some Nigeria-Based Companies With German Interest
1	Aluminium Manufacturing Co. of Nigeria Plc (ALUMACO)
2	Aluminium Smelter Co. of Nigeria Ltd. (ALSCON)
3	Anambra Motor Manufacturing Co. (ANAMMCO-MB)
4	Asea Brown Boveri (ABB)
5	Dornier Aviation Nigeria AIEP (DANA) Ltd
6	Brewtech Nigeria Ltd
7	BASF (Nigeria) Ltd
8	International Tools Ltd
9	Heidelberg Nigeria Ltd
10	CommerzBank Representative Office (Nigeria) Ltd
11	Nigerian Development & Construction Comp. Ltd
12	Daimler Chrysler
13	DHL International Ltd
14	Julius Berger Nigeria Plc
15	Nestle Nigeria Plc
16	Lufthansa German Airlines
17	Siemens Ltd
18	Underwater Engineering Co. Ltd
19	S. A. P. Limited
20	United Trading Co. (UTC)

Source: Research & Economic Intelligence Group Database

main export destination with 51.6 per cent, followed by Brazil (8.9%) and Spain (7.7%) as at end-2007. Nigeria's exports to member-countries of the Economic Community of West African States (ECOWAS) are not significant because of product similarity.

Both countries, Nigeria and Germany enjoyed positive balance of trade with the rest of the world as imports pale behind the two nations' exports. Nigeria imports as at end-2007 stood at US\$38.5billion, leaving her with a positive balance of trade of US\$23.29billion. On the other hand, Germany's import was over a trillion dollars. That figure, notwithstanding, is still behind

Table 5: German Imports from Nigeria (thousands of US\$)

	2002	2003	2004	2005	2006	2007
Livestock	14.30	2.60	3.90	2.60	0.00	14.30
Raw products	59.80	525.20	31.20	49.40	107.90	55.90
Luxury Goods	19.50	18.20	136.50	513.50	585.00	369.20
foodstuffs of animal origins	972.40	1,051.70	947.70	858.00	650.00	1,151.80
Goods returned	1,713.40	2,880.80	4,343.30	5,959.20	5,445.70	5,512.00
Finished Goods	6,423.30	2,100.80	2,267.20	3,699.80	15,692.30	10,570.30
Semi-finished goods	24,251.50	6,468.80	7,095.40	7,251.40	41,011.10	58,104.80
foodstuffs of vegetable origins	50,323.00	77,867.40	38,073.10	35,924.20	64,681.50	79,287.00
Raw Materials	644,839.00	787,035.60	331,906.90	882,174.80	1,694,665.70	1,029,849.60
Total Imports	728,616.20	877,951.10	384,805.20	936,432.90	1,822,839.20	1,184,914.90
Oil + Gas	638,866.80	776,198.80	320,225.10	859,391.00	1,677,328.90	1,013,727.00

Source: Delegation of German Industry and Commerce for West Africa (original figures were in Euro. Converted at Euro/1.3US\$)

**Table 6: Nigerian-German Trade (German Imports {oil + gas}) in thousands of US\$**

Nigerian-German Trade (German Imports {oil + gas})						
	2002	2003	2004	2005	2006	2007
<b>Total Imports</b>	728,616.20	877,951.10	384,805.20	936,432.90	1,822,839.20	933,929.10
<b>Oil + Gas</b>	638,866.80	776,198.80	320,225.10	859,391.00	1,677,328.90	1,013,727.00
<b>Oil + Gas Share(%)</b>	87.68	88.41	83.22	91.77	92.02	108.54

Source: Delegation of German Industry and Commerce for West Africa (original figures were in Euro. Converted at Euro/1.3US\$)

the value of her exports. Both countries bought goods from other countries to the value of US\$1,113.5billion. Nigeria’s key imports include machinery, chemicals, transport equipment, manufactured goods, food and live animals etc. Germans too imported goods that were broadly similar to Nigeria’s imports. With 10.6 per cent of Nigeria’s imports total, China is the West African nation’s largest exporter. Other countries whose goods are quite popular in Nigeria are Netherlands (7.9%), United States (7.8%), South Korea (6.6%), United Kingdom (5.7%), France (4.2%) and Germany (4.1%). The German import sources are more varied compared with her export destinations though most are member-states of the European Union. Netherlands is Germany’s main import source with about 12 per cent. France, Belgium, China contribute 8.6, 7.8, and 6.2 per cents, respectively to the German import total.

**Nigeria – Germany Trade**

The high quality of German products is not in doubt and the quality of the Nigerian crude oil is highly regarded in the international market. This has helped in trade interactions between the two nations. Germany’s exports to Nigeria have witnessed some increase in the past decade, placing the Western European nation as the fifth largest supplier of goods and services to Nigeria, behind China, United States, Belgium and the United Kingdom. Germany is also the seventh largest importer of Nigerian goods, behind United States, Brazil, Spain, United Kingdom, and Netherlands. In Germany’s foreign trade, Nigeria ranks not as high as the Germans are to Nigerians, placing 62<sup>nd</sup> for exports and 58<sup>th</sup> for imports as at end-2007.

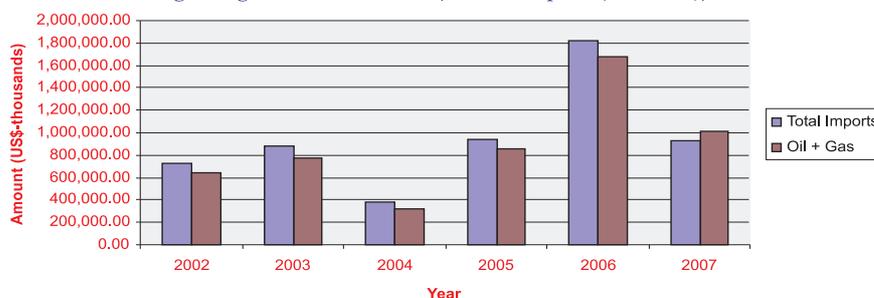
The Germans also have some direct investments in Nigeria, although the value has dropped by

about 68.5 per cent, from an all-time high of US\$387.4billion in 2001 to US\$122.2billion as at end-2006. With over 50 companies in the country, the Germans have a huge presence in the Nigerian business landscape. Some of these firms operate production plants while others have offices. They include ABB Lummus Global, Aluminium Manufacturing Company (ALUMACO), Aluminium Smelter Co. of Nigeria (ALSCON), BASF Nig. Ltd and CommerzBank Representative Office. Others are Daimler-Chrysler, DHL International, Siemens and the queen of them all, Julius Berger. The agreement on reciprocal investment protection and promotion between the two countries, Germany and Nigeria, was signed in 2000 and ratified in August 2007 and it came into force in September 2007. Most of the trade agreements/pacts between Germany and Nigeria largely fall within the scope of the European Union and the African Caribbean and Pacific countries, from the Lome Convention through the Cotonou Convention and to the yet to be signed agreements which is supposed to define multilateral trade interactions between the two economic blocs into the next decade.

**Nigeria-Germany Trade Relations: Import Figures**

The range of goods traded between the two countries appears to be quite slim. In fact, on a significant scale, Germany imports only about ten items from Nigeria.

**Fig. 1: Nigerian-German Trade (German Imports {Oil + Gas})**



Source: Delegation of German Industry and Commerce for West Africa (original figures were in Euro. Converted at Euro/1.3US\$)

The bulk of which is mainly to feed the nation's energy needs. Raw materials, foodstuffs of vegetable origins, semi-finished goods and finished goods are some other import items of interest to the Germans from Nigeria. The German consumption of Nigeria's Bonny light crude went up, on the average, between year 2002 and 2007 with the exception of the year 2004 when it dipped. Germany's total imports (excluding crude oil exports to Germany) from Nigeria have been on the rise since 2002, dropping only in 2004. Exports to Germany went up by 62.6 per cent, from US\$728.616million achieved in 2002 to US\$1.185billion as at end-2007. Raw materials from Nigeria to Germany took up the second slot while foodstuffs from vegetable origins came third during the period.

The amount of crude oil imported from Nigeria by Germany as a fraction of the sum of other imports is astonishingly high. In fact, on the average, crude oil as a percentage of imports was about 92 per cent. There was also a noticeable pattern as it went up consistently with the exception of 2004 when it dropped. In 2007, crude oil export from Nigeria to Germany was, in value terms, more than the sum of non-oil exports to the EU member-nation.

### Nigeria-Germany Trade Relations: Export Figures

The main German exports to Nigeria are machinery, chemical and electrical products and of course, vehicles. For the first time in many years, the German exports to Nigeria crossed the US\$1.3billion mark in 2007. It is being suggested that the rise in German exports to Nigeria is as a result of the increased import by Nigerians of semi-finished and primary products. Overall, Nigeria has in the past decade consistently maintained a positive balance of trade in her exchange relationship with Germany, although interspersed with a few years when trade took a different trend. One thing that is worrying is the nature of the exchange which suffers a heavy slant in favour of crude oil, the Nigerian chief export to Germany. This, in a way, leaves out a host of goods and services (non-oil) that can be exported to Germany as foreign exchange earners to the West African country. On the other hand, German exports cut across a wider range of goods and services.

Nigeria and Germany do understand the strategic na-

ture of their relationship with each other. Germany under the auspices of the European Union (EU) regards Nigeria as one of the few nations in Africa of great importance even beyond the fact that the West African nation is a good source of energy. The only time in recent history that there was a lull in their relationship was during the era of the late Nigerian Head of State, General Sani Abacha when bilateral development cooperation was suspended, with only projects in progress continuing until completion. However, since the re-birth of democracy in Nigeria, visits have been exchanged even at the highest level of Head of States with the Nigerian President Umaru Musa Yar'Adua attending the G-8 Summit in 2008 on the invitation of the German Chancellor Angela Merkel. In return, in the dying days of 2008, the German President, Horst Kohler paid a State Visit to

Table 7: Nigerian-German Trade Statistics (Millions of Dollars)

	Balance	Export	Import	Volume
1998	-552.5	375.7	928.2	1,303.9
1999	-716.3	245.7	962.0	1,207.7
2000	-223.6	601.9	825.5	1,427.4
2001	-447.2	815.1	1,262.3	2,077.4
2002	261.3	956.8	695.5	1,652.3
2003	-36.4	937.3	973.7	1,911.0
2004	676.0	1,162.2	486.2	1,648.4
2005	-88.4	1,062.1	1,150.5	2,212.6
2006	-678.6	1,612.0	2,290.6	3,902.6
2007 (Sept)	269.1	1,297.4	1,028.3	2,325.7

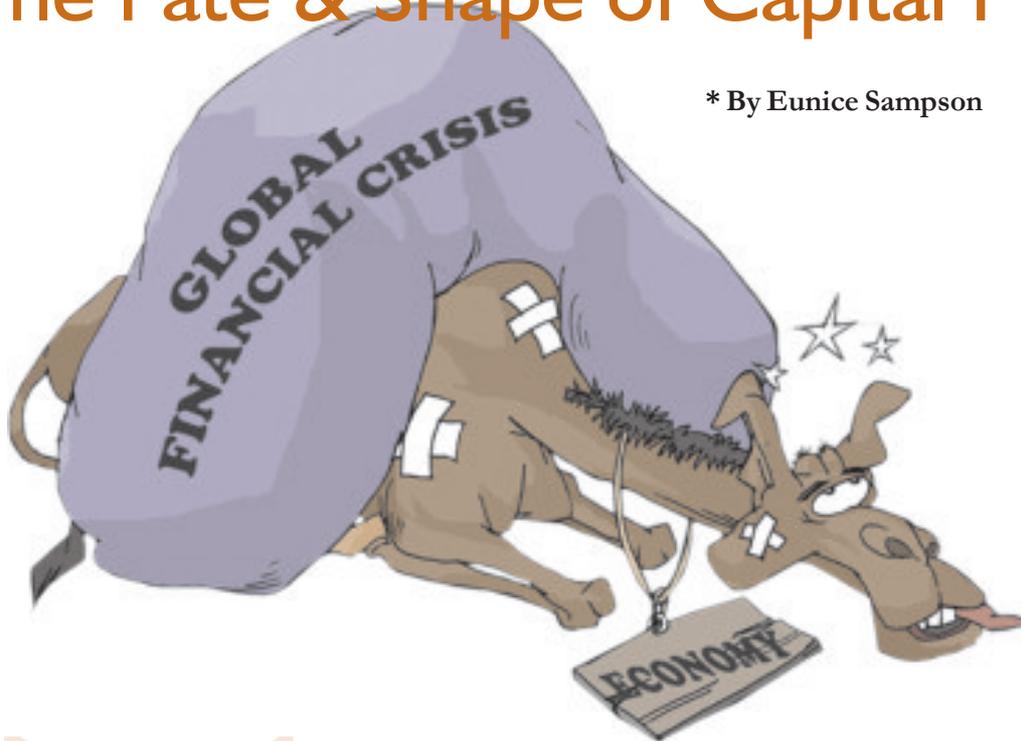
Source: Delegation of German Industry and Commerce for West Africa (original figures were in Euro. Converted at Euro/1.3US\$)

Nigeria. In bilateral talks, the two nations are now more deeply concerned not only with intensifying relations between them, including economic exchange, but also with multilateral issues. These include security and development in Africa as well as questions relating to the African Union, the West African regional organisation ECOWAS and the United Nations. On economic and trade fronts, the two nations, Germany and Nigeria, must understand that they are yet to attain their fullest potential. On the Nigerian side, the exports to Germany are overwhelmingly tilted in favour of crude oil in spite of the fact that the West African nation has more than enough of non-oil products to offer the German market. Germany too can do more for Nigeria especially in the areas of energy, fresh business probes and a deeper exploration of mining potentials.

(\* Tony Monye is an Assistant Editor, Zenith Economic Quarterly)

# Financial Meltdown: The Fate & Shape of Capital Markets

\* By Eunice Sampson



Today the global financial system is faced with the calamitous consequences of years of audacious and devious investment practices kick-started in the United States and embraced in most advanced economies.

Not for the first time, major global financial players paid deaf ears to Alan Greenspan's *rhetoric* on "irrational exuberance", a term he coined during the stock market (dot.com)

boom of the 1990s that ended in a devastating burst.

The housing market boom that preceded the current financial meltdown smirked of 'irrational exuberance' all right. Yet everyone, (governments, regulators, rating agencies) looked the other way – after all, it translated to economic prosperity.

Standard & Poor's in the year-end edition of its monthly publication, "World By Numbers", reports that the major stock markets lost over \$17 trillion in 2008. The report which reviewed the performance of 46 global equity markets that comprise the S&P Global Broad Market Indices shows that all 46 countries in the index posted losses in 2008, with the global return dropping by 44%

From the West, there emerged bouquets of diverse innovative, craftily packaged financial products that today have landed the world in this catastrophic muddle, and ensuring that there is no soft landing anywhere, not even in the traditionally double-digit-growing Chinese economy.

The tragic economic fracture reiterates the truism that 'the world never learns'. But like the story of 'nemesis', what goes around comes around.

Much of the wealth generated through these market manipulations is now being wiped out; much faster than they were accumulated. In 2008 alone, it is estimated that about \$30 trillion was lost in the global equity market to the financial crises.

From third world perspectives, yet another worrisome dimension to the crises has surfaced. After months of cautious optimism, it is now clear that initial assumptions about the possible immunity of developing economies from the raging storm were too hasty.

In much of less developed economies, the spreading crises have significantly impacted capital markets, foreign exchange earnings, value of local currencies, foreign reserve positions, fiscal stability, etc.

Decades of western-styled market practices – deregulation, privatisation, and other free market idealisms that have from time to time raised economic dusts and given sceptics even more reasons to ponder – have exposed the fragile markets to the global crises sooner than anticipated.

**THE SHAPE OF CAPITAL MARKETS**

This is not the best of times for global capital markets. The many downswings in most markets, especially during fourth quarter 2008, are comparable to the Black Monday incidence of 1987. It is reported that nine of the 10 largest intraday point swings that have taken place since 1987 occurred during the ongoing crisis.

Following unprecedented huge losses, some economies closed down their markets, albeit temporarily. The Indonesian stock market stopped trading on October 8 after a 10% drop in value in one day. This was one of the numerous frantic measures taken by regulators during a weeklong turmoil in major capital markets that have been tagged the "Black Week".

During that week (beginning October 6), the Dow Jones Industrial Average (DJIA) closed lower every day, dropping by 1,874 points or 18%, its worst performance ever. The S&P 500 also tumbled by over 20%.

The losses suffered in most markets on October 24 were even more widespread. World media reported major exchanges recording their biggest ever drop in the double-digit region in most instances.

In the primary segment of the global capital market, the situation has been no different. A report (*Global IPO Update*) published by Ernest &

**Worst 10 Performing Stock Markets in 2008**

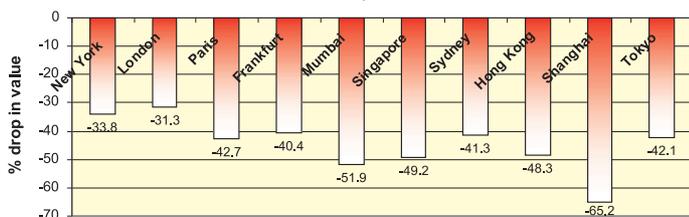
1.	Iceland	-94%
2.	Bulgaria	-80%
3.	Ukraine	-73%
4.	UAE	-72%
5.	Serbia	-71%
6.	Lithuania	-71%
7.	Romania	-70%
8.	Slovenia	-68%
9.	Vietnam	-67%
10.	Greece	-66%

**Best 10 Performing Stock Markets in 2008**

Tunisia	10%
Costa Rica	-4%
Morocco	-6%
Venezuela	-9%
Botswana	-15%
Slovakia	-19%
Lebanon	-21%
Chile	-23%
Mexico	-25%
South Africa	-27%

Source: BBC; "Stock markets in 2008: a year to forget or learn from?"; Dec. 29, 2008

Performance of World's Major Stock Markets in 2008



Source: BBC

Young (UK) for year-end December 2008 showed that the value and volume of initial public offerings (IPOs) dropped ‘by more than half compared to the 2007 position. The report also shows that “during the first 11 months of 2008, a total of 745 IPOs worldwide raised US\$95.3 billion in capital. This compares with 1,790 IPOs over the same period in 2007, which raised US\$256.9 billion in capital”.

Standard & Poor’s in the year-end edition of its monthly publication, “World By Numbers”, reports that the major stock markets lost over \$17 trillion in 2008. The report which reviewed the performance of 46 global equity markets that comprise the S&P Global Broad Market Indices shows that all 46 countries in the index posted losses in 2008, with the global return dropping by 44%. The emerging markets were the worst hit, with stock market returns declining by 54.72%, while developed markets fell by 42.72%.

Among countries in the index, analyses show that Russia was the overall worst performer, with its equity market falling by 73.6% in 2008. The other three BRIC countries also declined significantly – Brazil (-57.35%), India (-64.51%), and China (-53.21%). Morocco’s stock market was the best performer in the emerging markets, and the overall best among the 46 countries reviewed, having declined by only 15.8% in 2008.

Ironically, the United States, which saw a market loss of 38.6%, was the third “best” performer among developed markets and fifth best among all global equity markets measured.

## COUNTRIES’ EXAMPLES

**BRAZIL** – After five consecutive years of rapid expansion, Brazil’s stock market was in 2008 hit hard by the global financial crises. Sao Paulo Stock Exchange main index, *ibovespa* lost 41% points during the year, its worst yearly declines since 1971. Market value closed about 50% lower, losing \$835 billion from the closing value in the preceding year.

In the primary equity segment, only four initial public offerings were held, as against 64 in 2007. Brazilian firms raised \$11 billion in overseas issues (equity and debt) in the year under review, as against \$16 billion in the preceding year. Sovereign overseas bond yielded a mere \$525 million, down from \$2.88 billion in 2007.

The Brazilian economy after a robust 5.4% growth in 2007 driven by a credit boom, soaring domestic consumption and lower interest rates, ended the last quarter of 2008 with an estimated 4.6% decline.

JP Morgan Chase recently lowered its 2008 growth projection for Brazil from 2.0% to 1.5%; while Morgan Stanley predicts a 0% growth for the economy in 2009 as consumer spending and demands for exports commodities recede and the global financial crises deepen.

**CHINA** – China’s stock market shed a value of 20 trillion Yuan (\$292 billion) in 2008. The Shanghai Stock Market alone dropped by 17.3 trillion Yuan, ending the year with a market value of 9.7 trillion Yuan as against the 27 trillion Yuan level at which it opened. The market went down by a staggering 65%. The Shenzhen Stock Market also shed 63% in 2008, shrinking from 5.7 trillion Yuan in 2007 to end the year at 2.4 trillion Yuan.

The Stock Exchange in Sao Paulo, Brazil



A brokerage house in Beijing, China



Trading volume in both stock markets also declined significantly, by 28% and 44%, respectively.

At the rate of 9%, China in 2008 recorded its first single-digit growth since 2003 and its lowest in seven years. China however remains the world's fastest growing nation and the only country in the list of top 10 economies that witnessed positive quarterly growth all through 2008.

**SOUTH AFRICA** – The South African economy has not been spared the hurdles of the current financial crises. The country's capital market, which is the most *globalized* in Africa, recorded huge losses during the year. The Johannesburg Stock Exchange (JSE) all share index fell 25.7% points year-on-year, while the market capitalization closed the year at 4.5 trillion rands (\$477 billion), dropping 20.2% in value from the 5.6 trillion rands (\$824.4 billion) it opened in 2007. In US dollar terms,

GDP growth rate is projected at below 2%.

**JAPAN** – Understandably, the highly export-dependent Japanese economy has been one of the most affected by the global credit crunch. Series of record-breaking capital market losses characterised much of the last quarter of 2008. On Monday 27 October, Japan's Nikkei suffered its biggest fall in 26 years, sliding by over 6% in one day. By the end of December, its benchmark Nikkei 225 Industrial Average index had dropped by 42%. Stock prices of key economic drivers, including Toyota Motor Corp, suffered critical losses as the companies experienced dwindling fortunes arising from drastic cuts in export demand. Toyota is expected to end its current financial year (ending March 31, 2009) with a record of its first corporate loss in its 70-year history.

In mid-December, Japanese government announced it was sending a bill to parliament seeking to be allowed



• The New York Stock Exchange

The US stock market shed about 35% of its value during 2008 as the global financial crises, which started in that country in 2007 over ran every part of the globe. In New York, the Dow Jones Industrial Average lost 35.3% in its biggest loss since 1931; NASDAQ was down 42.3%; while S&P 500 was down 40.1%. Stocks of financial services companies suffered the biggest losses after investors' confidence plunged following the failure of US financial giants like Washington Mutual, Lehman Brothers, AIG, etc.

the JSE actually lost over 40% of its market value owing to the free fall of the rand against the dollar in 2008. Volume and value of trade were also down 18 and 10%, respectively.

In the face of setbacks in the capital market in the year under review, compounded by growing current account deficit and falling industrial production capacity, South Africa was lucky to have escaped with a 0.2% growth in the third quarter after advancing 1.6% and 5.1% in the first two quarters of the year. Year end 2008

to purchase 20 trillion yen (\$227 billion) worth of stock to help stabilise the ailing stock market. Government has in recent times also toyed with the idea of intervening to lower the value of its currency. The Yen is currently trading close to a thirteen-year high against the US dollar, a major disincentive for export, coinciding with a period of record low demand for Japanese products abroad.

Both intervention plans have received heavy criticisms; but Japanese authorities are bent on going ahead with them if they are considered to be in the country's overall

economic interests.

Japan, which officially slipped into recession in the third quarter of 2008 (declined 0.9% and 0.1% in the second and third quarters, respectively) is battling to overcome high public pessimism. The plan to inject \$600 into each Japanese family of four, as part of the \$275 billion economic stimulus package announced in October, has not helped to boost consumer confidence.

**UNITED KINGDOM** – After consecutive record breaking stock price tumbles in 2008, UK’s FTSE 100, its main index, experienced its worst performance in its 24-year history, dropping by a staggering 31.3%. Investors engaged in massive sell-offs as crisis in the global financial system deepened and credit crunch sounded notes of caution in the entire western hemisphere.

The UK capital market in 2008 shed billions of pounds sterling of its value to the current global slowdown. The economy sunk into recession at the end of the year, recording a decline of 0.6% in the third quarter and 1.5% in the fourth quarter, its first economic recession in 18 years.

**UNITED STATES** – The US stock market shed about 35% of its value during 2008 as the global financial crises, which started in that country in 2007 over-ran every corner of the globe. In New York, the Dow Jones Industrial Average lost 35.3% in its biggest loss since 1931; NASDAQ was down 42.3%; while S&P 500 was down 40.1%. Stocks of financial services companies suffered the biggest losses after investors’ confidence plunged following the failure of US financial giants like Washington Mutual, Lehman Brothers, AIG, etc.

Not surprisingly, the US economy fell 3.8% in the last quarter of 2008, its worst performance in 26 years. That quarter, business investments fell by over 20%; export was down 19.7%; and imports contracted 15.7% as the US struggles with its worst economic crises since the Great Depression.

**NIGERIA** – But for its overdependence on crude oil exports for its foreign earnings; and a capital market that was already struggling to overcome a sudden drop in investors’ confidence, it would have taken a while before the Nigerian economy was hit by the global crises, having just emerged from a financial services sector reform that was adjudged one of the most successful in the developing world.

The Nigerian Stock Exchange (NSE) until recently rated one of the top performers, has dropped in all indices since the beginning of the crises. It was one of



• The Tokyo Stock Exchange

Understandably, the highly export-dependent Japanese economy has been one of the most affected by the global credit crunch. Series of record-breaking capital market losses characterised much of the last quarter of 2008. On Monday 27 October, Japan’s Nikkei suffered its biggest fall in 26 years, sliding by over 6% in one day trading. By the end of December, its benchmark Nikkei 225 Industrial Average index had dropped by 42%. Stock prices of key economic drivers, including Toyota Motor Corp, suffered critical losses.



• The floor of the Nigerian Stock Exchange

But for its overdependence on crude oil exports for its foreign earnings; and a capital market that was already struggling to overcome sudden drop in investors’ confidence, it would have taken a while before the Nigerian economy was hit by the global crises, having just emerged from a financial services sector reform that was adjudged one of the most successful in the developing world.



the first to be hit in the developing world since the market was already vulnerable.

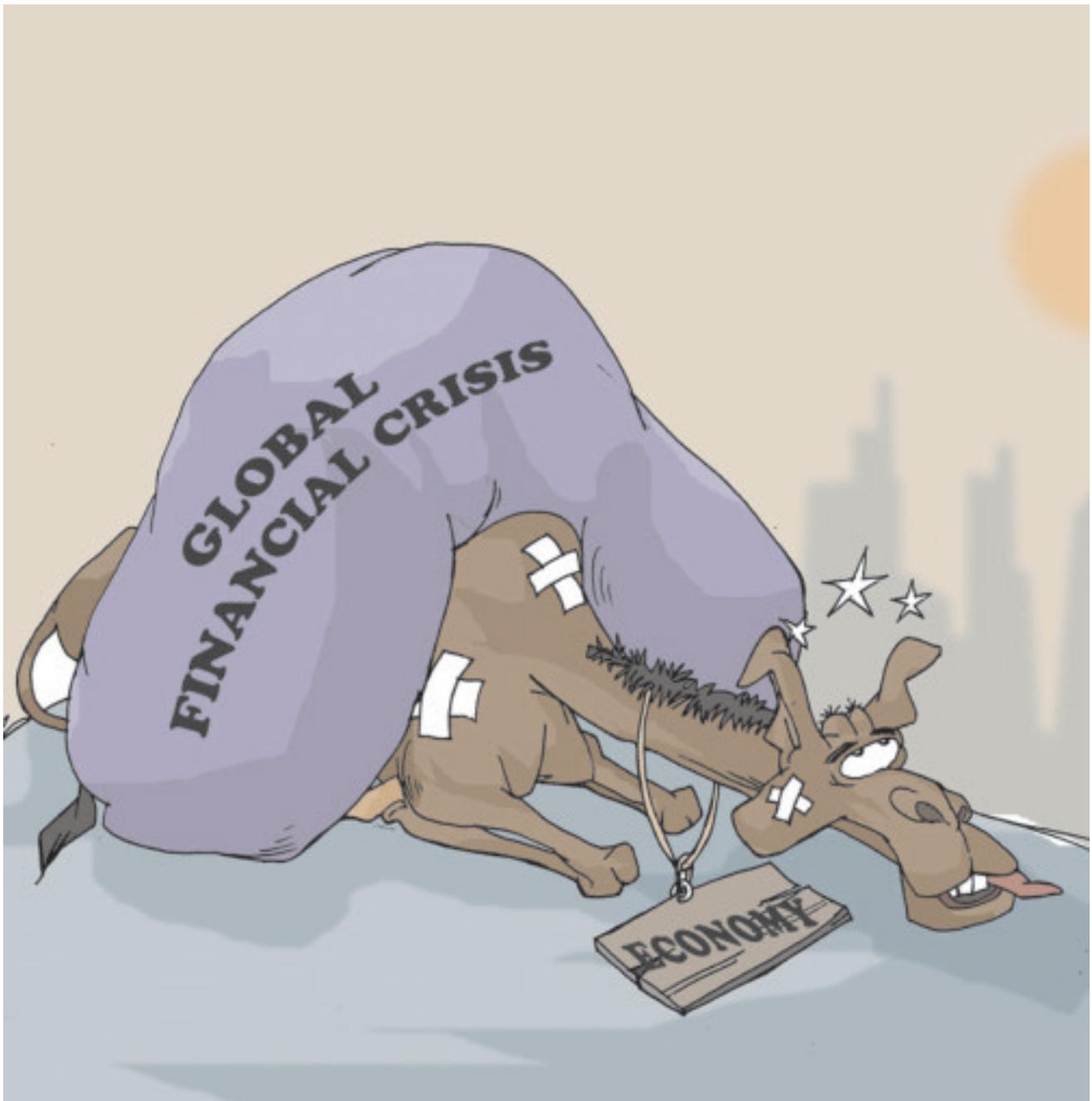
To begin with, the NSE was undergoing a price correction circle following an unprecedented boom and high investors' optimism. This was fuelled by unpopular regulators' policies and a negative aftermath of over reliance on margin debts by market players. Unfortunately, the struggle to shake off these upsets coincided with the emergence of one of the worst financial crises in world history, making quick recovery difficult.

From a position of N10.18 trillion (\$73.2 billion) at the end of the preceding year, market capitalisation of 301 listed securities in 2008 dropped 31.6% to close at N6.95 trillion. From an all-time high of N13.2 tril-

lion (\$114 billion) during first quarter, the NSE lost a total of N6.3 trillion (\$45 billion) value in 2008. All Share Index also dropped from a high of 57,990 points to end the year at 31,450.

Owing to the global financial meltdown, foreign investments in the Nigerian Stock Exchange fell by a record N105.87 billion

**From third world perspectives, yet another worrisome dimension to the crises has surfaced. After months of cautious optimism, it is now clear that initial assumptions about the possible immunity of developing economies from the raging storm were too hasty.**



(\$760 million), heightening liquidity squeeze in the troubled market.

For the country’s capital market to experience any expedited turnaround in 2009, government and regulators would have to take more radical intervention measures.

Meanwhile, its capital market woes notwithstanding, preliminary reports show that the Nigerian economy grew above 6% in 2008, driven by the non-oil sector. Growth

prospects for 2009 would however depend significantly on how quickly the global economy bounces back and commodity prices – especially crude oil – rebound.

**CAPITAL MARKET AS CASUALTY**

After the financial services institutions and, perhaps, the commodities market, the next biggest casualty in the ongoing crises is the capital market. The financial meltdown has taken its toll on virtually all markets in the world,



The economic meltdown has taken its toll on virtually all markets in the world, dragging down indices to record low levels. The near collapse of virtually all capital markets in 2008 is the result of falling investors' confidence even as the credit crunch reduced the ability and willingness of investors to stake in new stocks or retain existing portfolios.

dragging down indices to record low levels. The near collapse of virtually all capital markets in 2008 could be attributed, among other factors, to falling investors' confidence even as the credit crunch reduced the ability and willingness of investors to stake in new stocks or retain existing portfolios.

Capital flights and massive divestments are especially characteristic of stock markets of developing economies during this crises period. As the financial meltdown assumes a global dimension, big foreign investors are fleeing developing economies they see as less stable; preferring instead to either repatriate their investments back home or to other economies perceived as more stable. Rising unemployment, falling income and a slow down in the diaspora remittances in most economies have also contributed to pulling down market indices.

A country like Iceland which capital market lost 94% of its value in 2008, the worst in any history of capital market meltdown, will not forget the ongoing financial crises in a hurry. While all major banks in Iceland were nationalised in 2008, and the country sought for financial bailout from IMF, yet there is no other segment of the economy that suffered as much setbacks owing to the global crises as its capital market.

For Iceland and many other less developed economies, especially those that only recently started exploring the gains in capital market investments; it might take a longer while for the highly damaged investors' confidence to be rebuilt.

## PROSPECTS FOR RECOVERY

The ongoing financial crisis is too complex and widespread to succumb to a single, one-dimensional dose of treatment. The plan to halt the cancerous setback and put the global economy on the path of recovery would need to be tackled from diverse, multifaceted angles.

Upturning the financial meltdown would depend on how quickly global spending is stimulated and the West, especially the United States, finds a feasible way out of the quagmire. In the absence of any extraordinary developments (there are suggestions that China could leverage its financial muscle to bail out the crisis-ridden global financial system), the way out of a problem that was triggered off in the United States could only be more easily

DROP IN GLOBAL EQUITY VALUE IN 2008				
	1-MONTH	3-MONTHS	6-MONTHS	12-MONTHS
<b>Emerging Markets</b>	<b>5.80%</b>	<b>-28.35%</b>	<b>-48.39%</b>	<b>-54.72%</b>
Morocco	7.86%	-11.10%	-29.29%	-15.85%
South Africa	13.52%	-17.70%	-32.15%	-42.41%
China	10.87%	-12.78%	-35.12%	-53.21%
Egypt	12.54%	-34.35%	-54.07%	-55.89%
Brazil	0.36%	-38.11%	-61.45%	-57.35%
Indonesia	20.49%	-40.91%	-57.16%	-62.30%
India	10.82%	-28.54%	-38.13%	-64.51%
Russia	-8.25%	-50.46%	-73.01%	-73.67%
New Zealand	5.36%	-23.71%	-35.94%	-52.45%
Singapore	7.54%	-28.92%	-47.28%	-52.95%
Australia	6.76%	-29.32%	-48.98%	-54.08%
South Korea	20.86%	-26.08%	-44.65%	-55.90%
<b>Developed Economies</b>	<b>3.77%</b>	<b>-22.89%</b>	<b>-35.10%</b>	<b>-42.72%</b>
Japan	8.07%	-7.79%	-24.58%	-29.22%
United States	1.53%	-23.85%	-30.60%	-38.68%
France	8.41%	-20.59%	-34.42%	-44.67%
Germany	13.17%	-20.97%	-37.97%	-47.64%
Canada	-1.81%	-34.05%	-49.47%	-49.04%
United Kingdom	-2.91%	-27.72%	-43.26%	-50.86%
<b>Global</b>	<b>3.95%</b>	<b>-23.39%</b>	<b>-36.52%</b>	<b>-44.01%</b>

Source: "World By Numbers"; Standard & Poor's Year-End 2008 Report

Index	Current		Performance			
	Index Value (Dec 31, 2008)	Since High	Date	Since Nov 21	Week	2008
MSCI World Index	305.2	-45.5%	31 October 2007	19.3%	3.6%	-42.1%
MSCI Emerging Markets Index	567.0	-37.6%	29 October 2007	22.7%	2.4%	-54.9%
DJ Industrial Index	8776.4	-38.0%	9 October 2007	16.2%	3.6%	-33.8%
S&P 500 Composite Index	909.3	-42.3%	9 October 2007	20.9%	4.0%	-34.9%
Nasdaq Composite Index	1917.0	-44.6%	31 October 2007	18.8%	3.4%	-40.9%
Russell 2000 Index	498.6	-41.6%	13 July 2007	28.6%	6.2%	-34.8%
Canadian S&P/TSX Composite Index	8807.7	-40.4%	18 June 2008	18.3%	6.1%	-35.0%
Dennismark OMX Index	4810.2	-40.7%	18 July 2007	14.9%	3.6%	-40.4%
Paris CAC 40 Index	3218.0	-47.6%	1 June 2007	9.7%	3.5%	-42.7%
UK FTSE 100 Index	4434.2	-34.1%	16 June 2007	14.4%	6.2%	-37.3%
Vietnam AFX Index	1750.8	-44.6%	9 July 2007	12.1%	1.4%	-61.2%
Brazilian IBO Index	1808.8	-56.6%	20 May 2007	2.9%	3.4%	-53.9%
Copenhagen OMX Index	247.7	-52.1%	11 October 2007	4.9%	0.7%	-49.6%
Helsinki HEI Index	6403.6	-57.3%	7 November 2007	3.9%	2.4%	-51.4%
Osaka TOPIX Index	2343.0	-76.6%	1 June 2007	1.4%	0.3%	-86.2%
Jakarta AEX Index	245.6	-56.2%	18 July 2007	6.7%	1.1%	-52.3%
Oslo Benchmark Index	235.6	-57.0%	18 July 2007	18.6%	4.8%	-54.1%
London FTSE 100 Index	6341.3	-55.1%	17 July 2007	9.2%	1.7%	-51.3%
Spanish BSE 35 Index	6598.8	-42.3%	8 November 2007	15.7%	1.4%	-39.4%
Swiss SPI Composite Index	4567.8	-41.0%	1 June 2007	4.4%	2.4%	-34.0%
Stockholm OMX Index	204.2	-42.2%	18 July 2007	12.4%	1.2%	-42.0%
Australian All Ordinaries Index	3896.3	-46.6%	1 November 2007	9.8%	4.1%	-43.0%
NZ Wellington NZSX 50 Index	2716.7	-37.3%	24 May 2007	2.7%	1.8%	-32.8%
Nikkei 225 Index	8898.6	-61.6%	9 July 2007	15.3%	4.0%	-42.1%
Singapore STI/STI Index	1761.6	-34.6%	11 October 2007	9.7%	1.4%	-49.4%
Head Bang Index	14307.6	-34.6%	30 October 2007	17.7%	1.4%	-48.3%
Bangkok Composite Index	1817.7	-70.2%	16 October 2007	-9.4%	2.6%	-85.9%
Bombay SENSEX Index	8803.6	-52.6%	6 January 2007	17.7%	3.6%	-51.2%
Brazilian Ibovespa Index	32590.3	-48.6%	20 May 2008	12.4%	3.0%	-41.0%
Russian Trading Corridor Index	451.6	-46.2%	16 May 2008	23.8%	7.4%	-69.9%
Warsaw WIG Composite Index	36090.1	-32.4%	2 May 2007	0.9%	2.2%	-17.4%
South African All Share	21309.2	-38.3%	21 May 2008	23.2%	2.4%	-25.1%

Secondary source: "Global Stock Markets: Torrid 2008 Ends with Guarded Hope" by Prieur du Plessis; January 4, 2009 (seekingalpha.com)

How fast capital markets and the entire global economy wakes up from the financial lull is contingent on how rapidly the austerity-stricken wealthy nations begin to spend again. This too hinges on the level of liquidity in the system and consumer confidence - at the moment, both are at record low.



Source: "Global Stock Markets: Torrid 2008 Ends with Guarded Hope" by Prieur du Plessis; January 4, 2009 (seekingalpha.com)

A country like Iceland which capital market lost 94% of its value in 2008, the worst in any history of capital market meltdown, will not forget the ongoing financial crises in a hurry.

found there.

Fortunately, there is a new wave of public optimism emanating from the recent swearing in of the new President, Barack Obama. If the current feeling of 'change' and hope is sustained, it would go a long way in boosting the peoples' psyche and rebuilding dwindling public confidence in the US economy – just what is needed at this critical time.

Aside from the United States and Europe, Asian emerging giants, India and China, would have critical roles to play – especially in invigorating global appetite for consumption of commodities and finished products.

The Bretton Woods institutions, the World Bank, the

International Monetary Fund, IMF, and even the United Nations, would have to shoulder the responsibility of ensuring a coordinated financial action to address the menace, while also ensuring that the developing and third world economies do not get completely crushed under the weight of the financial meltdown.

How fast capital markets and the entire global economy wake up from the financial lull is contingent on how rapidly the austerity-stricken wealthy nations begin to spend again. This too hinges on the level of liquidity in the system and the strength of consumer confidence - at the moment, both are at record low.

But history has proven the world economy to be highly resilient. It might not be a quick fix; yet recovery is certain. "When?" remains the trillion dollar question.

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



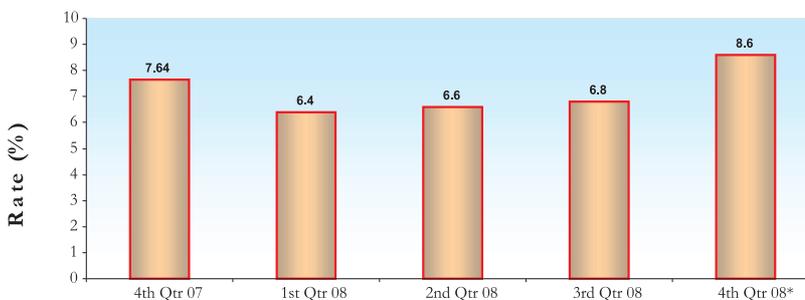
**MACROECONOMIC ENVIRONMENT**

The Nigerian economy in fourth quarter 2008, recorded mixed performance in several parameters. Some of the indicators began on a wave of optimism but fell dramatically to record low levels at the tail end of the quarter. Overall, the economy made minimal gains during the quarter. Gross Domestic Product (GDP) as at the end of fourth quarter 2008, went up. Inflation continued its upward trend. The nation’s foreign exchange reserves dipped as export revenues plummeted. It was a tale of two halves for the nation’s currency, the naira, stable in the first half of the year against some major world currencies but plunging in value in the second half. The Monetary Policy Rate remained unchanged during the quarter. Activities in the capital market continued on a downbeat. Foreign earnings dwindled as prices of crude oil nose dived to a four year low of about US\$33.87 per barrel.

**GROSS DOMESTIC PRODUCT**

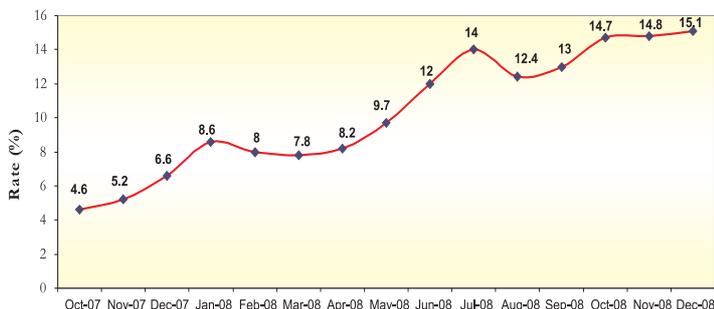
GDP growth rate in the fourth quarter was estimated at about 8.69 percent, a marked improvement when compared to 6.8 percent in the preceding quarter. The non-oil sector was the main driver of growth, with agriculture continuing its dominance over other sectors. Rainfall was abundant and well distributed in most parts of the country, contributing to a bumper harvest. For the oil sector, youth restiveness in the Niger Delta continued to stall production, as output declined by 0.81 percent from the preceding quarter. Real GDP grew 6.77 percent in 2008, falling short of the 11 percent target set by the Federal Government.

**GDP Growth Rate (4th Qtr.07 - 4th Qtr.08)**



Source: CBN, \*NBS estimate

**INFLATION, YEAR-ON-YEAR (4th Qtr.07 - 4th Qtr.08)**



Source: NBS

**INFLATION**

The year-on-year inflation rate went up in steady steps in the fourth quarter of 2008, climbing to a 3-year high of 15.1 percent in December. The headline inflation rate has remained in the ‘double digit’ zone for almost two consecutive quarters. Inflationary pressures began earlier in the second quarter, with inflation leaping to 12 percent in June, from 9.7 percent in May. Inflation dropped in the third quarter due to mass importation of rice and cement. The impact was however short-lived as the upward trend returned in the fourth quarter. Inflation rose sharply to 14.7 and 14.8 percent in October and November, respectively. It stood at

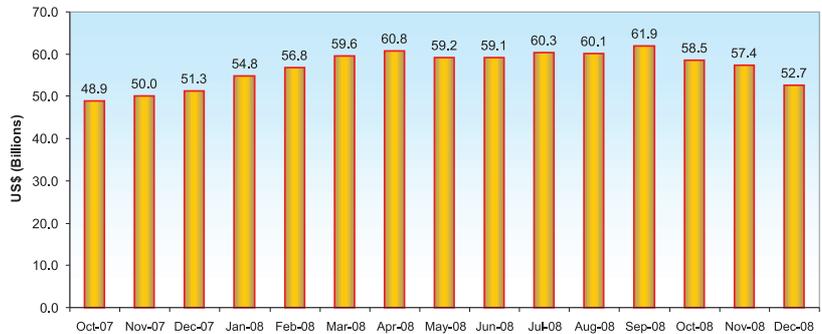
15.1 per cent in December. The inflationary pressure was attributed to rising food prices (especially maize, yam, millet, meat, fruit, vegetables etc); poor transportation; port congestion; the seasonal effect of the festive period; devaluation of the naira and the rush to spend the remaining budgetary allocations by government ministries/agencies before fiscal year end. Inflation has moved by a whopping 8.5 basis points since December 2007.



## EXTERNAL RESERVES

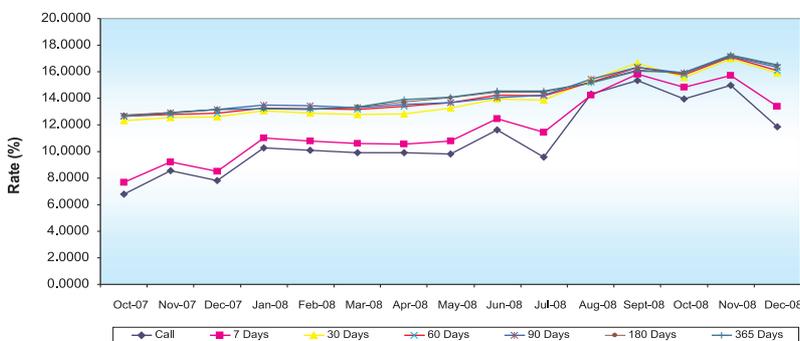
The nation's external reserves recorded mixed performance in the fourth quarter of 2008, with an impressive surge in October (to about US\$63 billion), followed by two months of slide. Stock of external reserves stood at about US\$52.7 billion at end December 2008, capable of financing up to 15 months of imports. In the preceding quarter, foreign exchange reserves reached an all-time high level of \$64 billion in August when oil prices were at record highs. By the fourth quarter, however, the reserves had been depleted by about US\$11 billion. The authorities attributed the drop to the sharp drop in the prices of crude oil; recalling of credit/trade facilities by foreign banks; lower inflows of direct/portfolio investments; relatively cheaper assets abroad, among other factors. In the upcoming quarters, the reserve could be strained further as the apex bank has indicated its readiness to use part of it to stabilise the naira.

## FOREIGN EXCHANGE RESERVE (4th Qtr.07 - 4th Qtr.08)

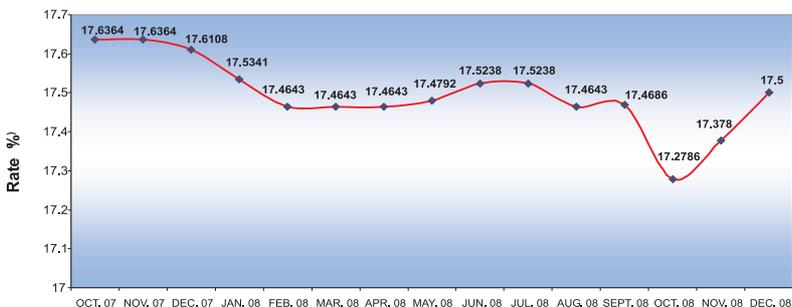


Source: CBN

## AVERAGE NIBOR (4th Qtr 07 - 4th Qtr.08)



## AVERAGE PRIME LENDING RATE (4th Qtr.07 - 4th Qtr.08)



Source: MMAN

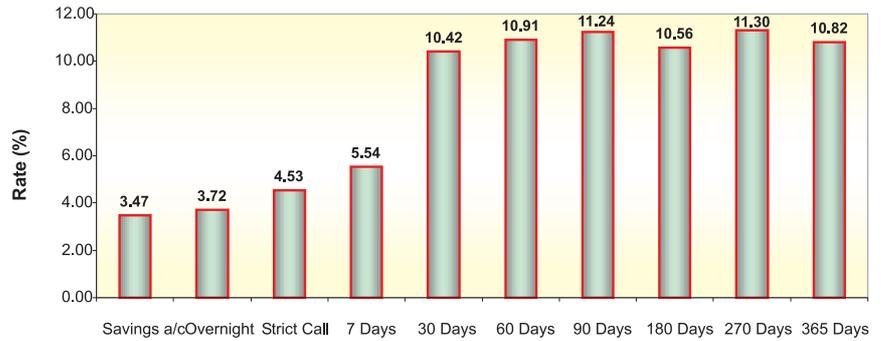
## INTEREST RATE

Faced with uncertain operating conditions, the Central Bank of Nigeria left interest rate unchanged in the fourth quarter. The Monetary Policy Rate (MPR) remained at 9.75 percent. In the previous quarter, the CBN had dropped rates by 50 basis points; from 10.25 to 9.75 percent. The average monthly interbank rates (NIBOR) experienced spiral movements across most tenors, with periods of ups and downs. Volatility was higher on the call, 7 and 30 Days tenors, reflecting tightness of short term funds. The rates on these tenors peaked at 18.29, 18.79, and 18.29 percent respectively. Rates eased in October as a result of the timely intervention of the CBN. The apex bank expanded operations in the discount window to allow for longer borrowing tenors of up to 360 days. Despite the apex bank's effort, rates however, rose in early November but dropped again in December due mainly to the following factors: maturing Treasury Bills (about US\$2 billion) hitting the system and the intraday facility offered by the CBN to banks and discount houses.



In terms of cost of borrowing, average Prime Lending Rate (PLR) went up in the fourth quarter, after signs of moderation in October. It however remained in the 17 percent range. The average deposit rate went up marginally across most investment horizons in the fourth quarter, as financial institutions adjusted to attract more funds. Rates were higher on the overnight, 270, and 90 Days deposits, which went up by 62, 72 and 60 basis points, respectively.

**AVERAGE DEPOSIT RATE (4th Qtr.08)**

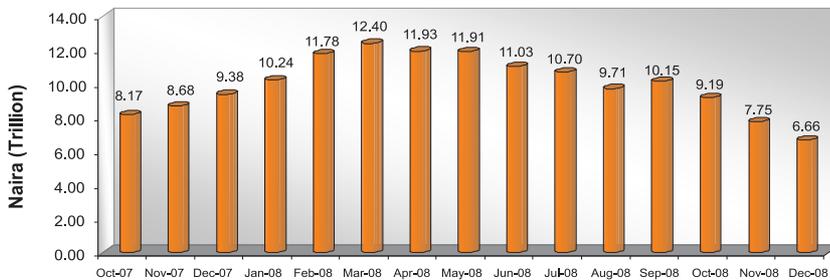


Source: MMAN

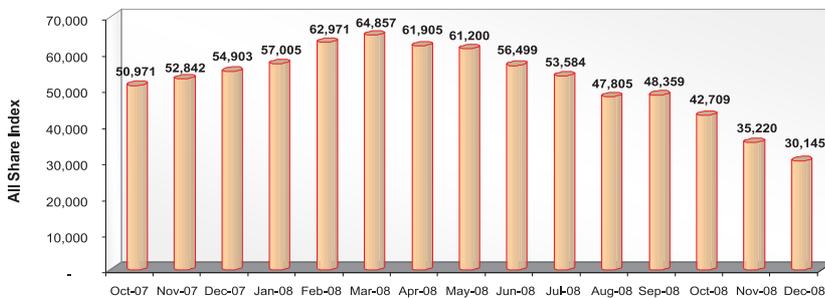
**CAPITAL MARKET**

The capital market continued its bearish trend in the fourth quarter of 2008 as market sentiments were hit by tumbling stock prices. The All-Share-Index (ASI) and market capitalisation closed the quarter lower at 31,450.78 and N6.95 trillion, respectively, from 36,325.86 and N7.96 trillion in the preceding quarter.

**NSE MARKET CAPITALISATION (4th Qtr.07 - 4th Qtr.08)**



**ALL SHARE INDEX (ASI) (4th Qtr.07 - 4th Qtr.08)**



Source: NSE

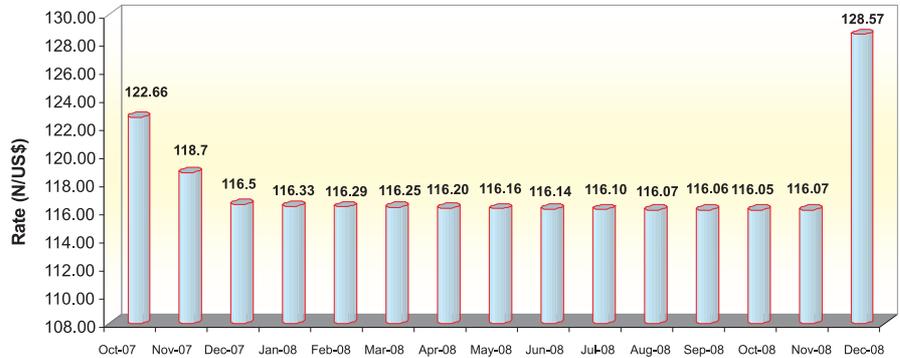
N6trillion in nine months, crashing from a record high of N12.64trillion in March to a 20-month low of N6.21trillion in December 2008. A major concern among investors has been, how long the bearish trend will continue? On a positive note, quoted companies posted impressive results, indicating that market fundamentals remained strong. There was sign of recovery in the last two weeks of December as the market awakened from its slumber; but the bears returned to dominate activities. Concerned about illiquid market conditions, the authorities brought in hybrid rules as cushion for softer landing such as the appointment of 5 market makers; allowing banks to restructure their capital market debt exposures for a longer period of up to a year; and the reversal of the 1 percent ceiling on downward share price movement.



## EXCHANGE RATE

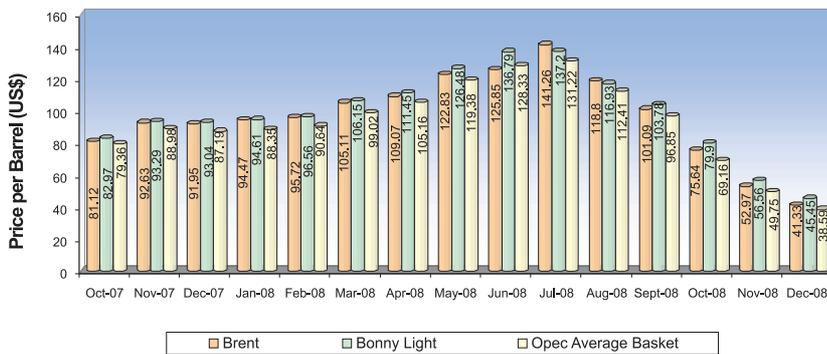
The nation's currency, the naira, which was stable in the first three quarters, took a dramatic turn at the tail end of the fourth quarter, tumbling to a 4 year low of N135/US\$ within few days. The development prompted the closure of the foreign exchange market for two consecutive days in December. In the previous quarters, the naira hovered at about N116/US\$1 and N117/US\$1 at the official and interbank markets respectively. However, in a deliberate move, the apex bank devalued the naira, to cushion the effect of dwindling oil revenues. Within days, the free fall generated uncertainties, creating an appetite to hold the dollar. The dollar became scarce despite huge sales (about US\$7 billion dollars) at the CBN's foreign exchange auctions. The CBN intervened on several occasions to create a balance in the market through a mixture of policies such as its daily participation in interbank foreign exchange market transaction through the two-way quotes; allowing Bureau de change to buy and sell forex within 2-5 percent of CBN's rate; and the reduction in banks' foreign exchange net open position from 20 to 5 percent to curb currency speculations.

AVERAGE MONTHLY EXCHANGE RATE N/US\$



Source: CBN

OIL PRICES: MONTHLY AVERAGE PRICE MOVEMENTS (Dec.07 -Dec.08)



Source: EIA, OPEC

## OIL

Crude oil prices in the international market crashed in an unprecedented fashion in fourth quarter 2008, plummeting to a four year low of about US\$34 per barrel in December. Crude oil prices tumbled almost \$115 a barrel from its July record level of US\$147.27. Thirst for oil in the first and second quarter led to surging prices, driven by high demand in countries such as China and India. In the third and fourth quarter however, fear of a sustained global economic downturn drove down the price of crude, and hitting hard on the revenues of major producers.

Nigeria's brand of crude oil, Bonny light, dropped about US\$49 in the fourth quarter; from \$99 per barrel in October to US\$44 per barrel as at end December. Industry analysts attributed the plunge to the effect of recession in major economies; lower demand from powerhouse economies such as US, China and India; rising global inventories; and the growing strength of the dollar. Concerned about dwindling revenues, OPEC announced its deepest cuts ever of about 1.5 and 2.2 million barrels per day in October and December respectively. The move was however insufficient to stem the plunge, as the market drifted lower to about US\$40 by the end of the year.