Zenith Economic Quarterly

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Nigerian Banks: The Challenges of Adopting International Financial Reporting Standards

Economic Crises: Weighing the Stimulus Packages

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Zenith Economic Quarterly

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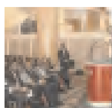

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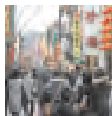

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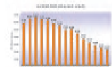

E D I T O R I A L T E A M

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Layout/Design

E D I T O R I A L B O A R D O F A D V I S E R S
UDOM EMMANUEL
GIDEON JARIKRE
PAT NWARACHE
OCHUKO OKITI

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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,
zeqeditor@zenithbank.com

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Routes to Normalcy

It is already a self-evident truth that no nation is really immune to the ravaging global economic and financial crises. In point of fact, virtually every country, business organization or economic agent is immersed in the adjustments, positioning and restructuring to lessen the pangs or free themselves from the clutches of the dreadful phenomenon. Heads of Governments of the Group of Twenty (G-20) industrialized countries have met in London, the European Union, African finance ministers and central bank governors have held confabs; various professional, labour and civil society organizations across the globe have held symposia and other forums—all focused on taming and stemming the 'monster' that looms large. But what has become critical in all this is the role of national governments in 'checking' the imperfections or 'excesses' of the free market.

In this regard, apart from the bi-/multilateral approach, a number of countries have put together what are now popularly known as 'stimulus packages' in tackling the recession (or even depression) that is the real colour of the economic crises. In the U.S., where the financial meltdown began, banks and manufacturing companies (especially automakers) are literally going cap in hand to get lifelines from the government, while in other climes all manner of creativity is being applied in tinkering with fiscal regimes to stimulate economic growth. Whether in Japan, the U.K., Germany, France, China, South Africa or Nigeria, the buzzword is stimulus package. Even the Bretton Woods Institutions—the International Monetary Fund (IMF) and the World Bank—that seem to have been at their wits' end are now also giving 'doles' to a few beleaguered countries to boost the stimulus initiatives. The United Nations has also put together the 'cognoscenti', mainly economic gurus, to deal with the global challenge and fashion out a 'New World Financial (system) Order'. And seven months into the crisis (taking September 2008 as onset), we looked at these initiatives and efforts under the title "Economic Crisis: Weighing the Stimulus Packages". Here, we conclude that "if there is one lesson the world must go home with, from the recent experiences, it is that government cannot completely hands off the business of running the economy".

One other thing the unfolding crisis has brought to the fore is the confusion about the true meaning of good corporate governance and the so-called global best practices—especially when some of the 'best' and 'most successful' business entities worldwide are among those that went under with the meltdown. Yet, the tide of globalization is already so pervasive that 'global standards' do not seem to accommodate any other standard. Thus, even under the excruciating pangs of the economic crises, surviving business organizations seek ways and means of asserting their integrity and rectitude. This, perhaps, explains the creeping in of the 'International Financial Reporting Standards' into the competitive tools' kits of many a Nigerian bank in recent couple of months. So, as part of heralding the entry of the global accounting format into the Nigerian business space, we crafted an article tagged "Nigerian Banks: The Challenges of Adopting International Financial Reporting Standards". In this piece, the meaning and origins of the standards, methods and processes of introducing them into any and every economic jurisdiction are explored and analyzed.

One other thing the unfolding crisis has brought to the fore is the confusion about the true meaning of good corporate governance and the so-called global best practices—especially when some of the 'best' and 'most successful' business entities worldwide are among those that went under with the meltdown.

We have also analyzed the state and fate of the manufacturing sector in the face of the persisting economic meltdown under the topic: "Economic Meltdown: The Realities for the Manufacturing Sector". Also analyzed in this package is the 'Nigeria-Japan relations', where we exposed the yawning trade gap between the two nations. The imperatives for good governance of business associations; role of bankers in quality and internal control matters in banks as well as a treatise on the macroeconomic developments in the Nigerian economy during first quarter 2009, all form parts of this masterpiece in your hands. Read, and as usual, be better enriched. Till the next edition…

Marcel Okeke

from our mailbox

I am directed to acknowledge, with thanks, the receipt of your letter dated 9th February, 2009 together with a copy of the January 2009 edition of your Economic Quarterly. Your quality magazine, which is usually stuffed with articles of interest and enduring value, has continued to endear itself to a considerable number of readership both at home and abroad. In this wise, the Embassy wishes to commend the magazine's Editorial Team and Board of Advisers respectively for their choice and publication of articles that cut through to the heart of issues under spotlight; and also to the management of Zenith Bank Plc for its wise decision of sending complimentary copies of the magazine to both private and public institutions, including people outside its long list of clientele. Please, keep it up!
Best regards.
G.O. Arokoyu
For: Ambassador
Embassy of Nigeria
Republic of Congo

I write to inform you the Honourable Minister of Foreign Affairs, Chief Ojo Maduekwe, has received with thanks your January 2009 complimentary copy of ZEQ.
He has directed that his appreciation be conveyed to you and the Management of Zenith Bank Plc. Kindest regards from the Minister as he affirms as always the assurances of his highest esteem.
Iro, O.I. (Mrs.)
For: Honourable Minister
Ministry of Foreign Affairs, Abuja

We acknowledge with thanks the receipt of complimentary copies of Zenith Bank Plc's journal: Zenith Economic Quarterly including the January 2009 edition, "Nigeria: Options & Strategies for Surviving Economic Storm". We would also like to acknowledge that Zenith Economic Quarterly is informative, educative and rich in financial and other social and economic matters. We strongly believe that the journal will certainly impact positively on the financial sector in particular and the economy in general, especially, at this critical period of the infamous global meltdown. The publication, in our view, is a must read by banking and financial industry operators, economic analysts, investors and potential investors, decision makers, researchers, students, educationists, etc. On behalf of Dr. Erastus B.O. Akingbola, OON, FCIB, President/Chairman of Council, Management and Staff of the Chartered Institute of Bankers of Nigeria, I congratulate you, the editorial team and the bank for this consistent effort while hoping that you will continue to improve on the standard which you have set.
Ben Igbokwe
Personal Assistant to the President/Chairman of Council, The Chartered Institute of Bankers of Nigeria

We wish to acknowledge with deep gratitude the receipt of a copy of your Zenith Economic Quarterly Magazine (ZEQ) which focuses on surviving the global financial crisis. We also appreciate the in-dept analysis on critical issues on Nigeria and other global economy business policies.
Thank you.
Mal. Ibrahim Yusuf Moh'd
SMTrg/Learning & Development
For: Executive Chairman,
Federal Inland Revenue Services
Learning & Development Department
Corporate Development Group

I am directed to acknowledge with thanks, the receipt of your letter dated February 9, 2009 forwarding a copy of the January, 2009 edition of the Zenith Economic Quarterly. Please, accept the assurances of our warm regards.
I.O. Elegbede
For: Principal Secretary to the Vice President, State House Abuja, Nigeria

We wish to acknowledge with thanks, receipt of your letter dated 9th February, 2009 together with two (2) copies of Zenith Economic Quarterly (ZEQ). The magazine has continued to serve as rich reference material for the Consulate General.
S.O. Olaniyan
For: Consul General
Consulate General of Nigeria
New York

I write to acknowledge the receipt of the January 2009 edition of Zenith Economic Quarterly. The information contained therein are of immense benefits to the activities of the commission, especially in the compilation of our corporate annual report. Please accept the assurances of my best regards.
Thank you.
Engr. Mustafa Bello, FNSE
Executive Secretary/CEO
Nigerian Investment Promotion Commission
Abuja

We wish to acknowledge the receipt of January 2009 edition of Zenith Economic Quarterly (ZEQ) publication and hereby express our gratitude to your institute for sending this issue.

Thank you very much for your very interesting journal which allows us to have a synthetic objective overview on the Nigerian economy. Please accept our kind regards and best wishes.
Marie-France Derbier
Deputy Commercial Counsellor
Embassy of France in Nigeria, Economic Department

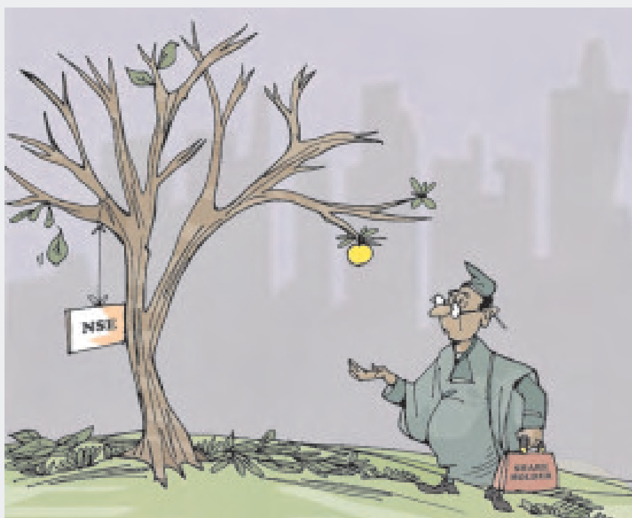
I am directed to acknowledge the receipt of your Zenith Economic Quarterly (ZEQ) January 2009 edition and letter dated February 9, 2009. Also, I am to appreciate your kind gesture towards a sustainable economic growth of our great country. Please, be assured that this publication would be put in good use in our Library. Accept the highest esteem regards of my Director/CEO at all times.
O.J. Sangokunle
For: Director/CEO
National Centre for Genetic Resources and Biotechnology
Federal Ministry of Science and Technology

Economy: Searching for New Paradigms

* By Marcel Okeke

The Nigerian economy, during the first quarter 2009, was hit with the full import of the global financial meltdown that has since transformed into an economic crisis, widely described as the worst since the 1930s. Events during the quarter proved Nigeria to be an integral part of the 'global village', vulnerable to the vagaries of issues and activities even in far-flung climes of the globe. Thus, the quarter was marked by the continued sliding and unsteady prices of crude oil, the mainstay of the Nigerian economy; declining external reserves; persisting bear run in the capital market; fast depreciating local currency and persisting double digit inflation.

The 2009 budget was also passed by the National Assembly and signed into law during the quarter, just as a bunch of policies were churned out by the Federal Government and its agencies to cushion the unfolding negative impacts of the lingering financial meltdown. For instance, the Federal Government set up a Financial Services Regulation Coordinating Committee to effectively monitor and review developments in the financial services industry. Withdrawal from the Excess Crude Account (ECA)—which was suspended in December 2008 was resumed— with a disbursement of US$1.5 billion to the three tiers of government; downward review of the remuneration of political, public and judicial office holders. The Central Bank of



Trends in the Nigerian capital market during the period were typical of the situations in several jurisdictions: dominance of the bear run. Specifically, the Nigerian Stock Exchange (NSE) All Share Index (ASI) lost about 37 per cent of its value at end-December 2008 to close the first quarter 2009 at 19,852 while the market capitalization shed 35.60 per cent to hit N4.48 trillion during the period.

Nigeria on its part, adopted a broad spectrum of interventionist measures to conserve the nation's external reserves as well as narrow the gap between the official and parallel exchange rates of the naira. It also adopted some new paradigms in its supervisory approach—including the 'consolidated supervision framework'.

Similarly, the Securities and Exchange Commission came up with a new code of corporate governance—for quoted companies in Nigeria, and received the report of a committee on capital market structure and processes it had earlier set up. The National Insurance Commission (NAICOM) also unveiled a code of ethics for the insurance industry. There is also the establishment of the N200 billion "commercial agricultural credit scheme" (CACS) by the Federal Government through the CBN to stimulate commercial agriculture; adoption of export support policies such as the removal of excise duty on some classes of items; dropping of bank guarantee as a requirement for exporters to receive their Negotiable Duty Credit Certificates (NDCCs), etc.

The perceived impact of the global economic meltdown during the first quarter 2009 also robbed off on Nigeria's 'outlook' ratings by some international agencies. Specifically, Standard & Poor's, a leading provider of independent credit ratings, while affirming Nigeria's "BB-" foreign currency and "BB" local currency long-term sovereign credit ratings, lowered her 'outlook' from "stable" to "negative". S & P hinged its position on the "considerable uncertainty" that surrounded the outlook for the country's finances because of the high government spending and OPEC quota limits to oil production. The agency said because of the country's "overwhelming reliance" on oil which accounts for about 80 per cent of government revenue and 95 per cent of foreign exchange earnings, its 2009 budget projections may be difficult to attain.

It further observed that the foreign exchange controls imposed by the CBN in February have caused the emergence of parallel foreign exchange market, multiple rates and market segmentation—adding that these controls have significantly weakened portfolio investors' confidence and could encourage capital flight. Yet, the London-based African Rainbow Consulting in their report during the quarter tagged 'Star of Africa Index', ranked Nigeria as the best investment destination for potential investors in Africa. The report which ranks 53 African countries in terms of their investment potential in various fields, also asserted that potential growth in energy, water and communications consumption could amply reward investors taking the risk.

The approval of the 2009 budget by the National Assembly during the quarter under review raised some 'concerns', a development that made the President sign it into law with "reservations". While the original proposal in December 2008 had an aggregate expenditure of N2.87

Top 20 Potential Investors' Destination in Africa

Country	Governance	Social Capital	Electricity	Water	ITC	Overall Ranking
Nigeria	42	44	1	1	1	1
Ethiopia	36	40	3	2	4	2
South Africa	4	3	10	13	12	3
Mauritius	2	4	51	52	11	4
Tanzania	17	12	4	10	15	5
Botswana	1	8	37	44	27	6
Ghana	7	31	14	8	5	7
Cape Verde	3	7	48	48	26	8
Uganda	26	13	7	7	9	9
Kenya	29	26	5	9	2	10
Mozambique	16	36	8	4	18	11
Morocco	13	9	23	19	10	12
Seychelles	6	1	53	53	38	13
DR Congo	52	43	3	3	23	14
Tunisia	8	2	50	40	44	15
Madagascar	9	18	9	11	33	16
Namibia	5	14	35	41	39	17
Senegal	15	29	19	25	7	18
Egypt	25	30	33	50	6	19
Angola	41	23	11	5	14	20

Source: African Rainbow Consulting

Source: CBN

trillion (a deficit of N1.09 trillion or 3.95% of GDP), the 2009 budget signed in March comprised N3.10 trillion aggregate expenditure and a deficit of N836.6 billion or 3.02% of GDP. The higher approved budget figure, the major source of the 'concerns', in the view of analysts, is susceptible to more funding challenges—especially in view of evolving constraints arising from the lingering global financial crisis. Already, owing to the subsisting inclement global financial environment, the Federal Government has 'suspended' the issuance of a $500 million naira denominated bond because of perceived "investor skepticism". This was to be one of the key sources of funds to finance the 2009 budget deficit. Similarly, the monthly Federation account sums shared by the three tiers of Government in the successive months during the first quarter were on the decline. While N435.40 billion was shared in January, it dropped to N285.58 billion in February, and dropped further to N250.04 billion in March.

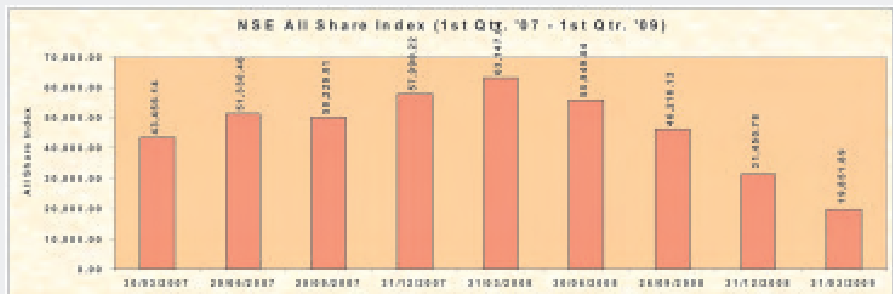
Owing to the persistently low prices of oil in the international market (average price of $45.70 per barrel) during the quarter and its concomitant declining foreign exchange earning and depleting external reserves for Nigeria, the CBN issued a barrage of policies to contend with foreign exchange management during the period. Specifically, the apex bank adopted a broad spectrum of interventionist measures to narrow the gap between the official and parallel market exchange rates of the Naira. The move is also aimed at curtailing the outflow of foreign exchange (both to speculators and the parallel market). However, by end-March 2009, although the apex bank achieved some measure of stability in the forex market, the divergence of rates at the official and parallel markets still remained significant. Thus, the Naira exchange rate (official) which closed 2008 at N135/US$1, ended the first quarter 2009 at N147/US$1; in the parallel market, the rate rose to as high as N180/US$1 before closing the quarter at about N170/US$1.

Inflation (year-on-year), against the projected level of 8.20 per cent in the 2009 budget, stubbornly remained at double digit all through the first quarter this year. In fact, it was almost sticky at between 14-15 per cent; dropping only marginally from end-December 2008 level of 15.1 per cent to 14.0 per cent in January 2009 despite the cut in the pump price of petrol from N70 to N65 per litre. It inched up to 14.6 per cent in February and closed the quarter at 14.4 per cent. This is unlike the price of oil in the international market which kept moving in the opposite direction. Thus, the OPEC Reference Basket Price (ORB) closed the first quarter 2009 at US$46.65 per barrel as against US$98.63 per barrel in the corresponding period in 2008. And, although the price of oil occasionally hit US$50 per barrel during the quarter, the average price stood at about US$42.90 per barrel as against US$92.50 per barrel in the corresponding period in the first quarter 2008.

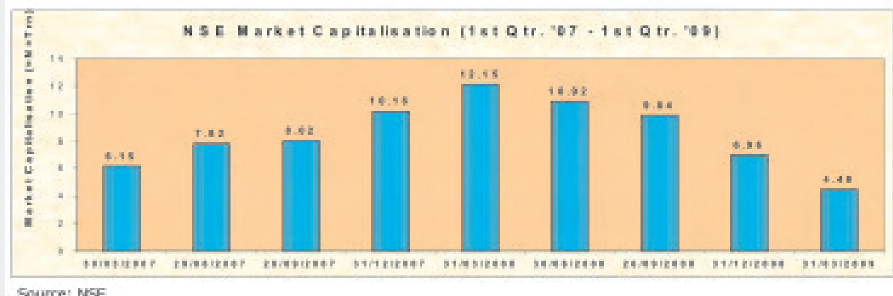
The declining foreign exchange earnings arising from the persisting low oil price scenario translated into dwindling stock of external reserves. From end-December 2008 level of US$52.9 billion, the reserves dropped to US$50.05 billion in January, further down to US$49 billion in February and closed the quarter at about US$47 billion.

THE CAPITAL MARKET

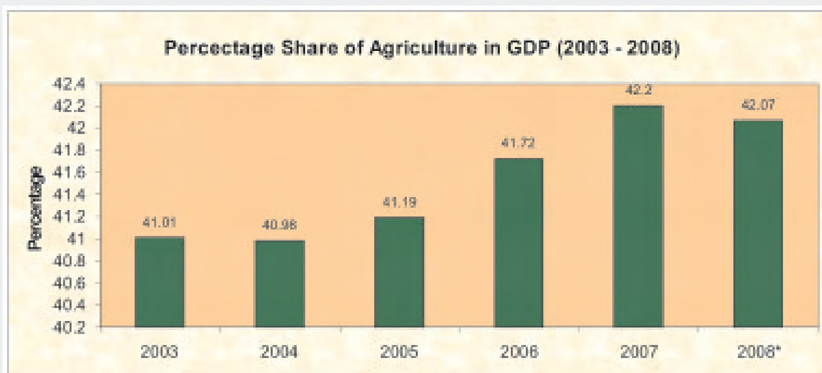
The ill wind of the global financial meltdown, as in the last quarter 2008, continued its depressing effect on virtually all financial markets worldwide during the first quarter 2009. Thus, trends in the Nigerian capital market during the period were typical of the situations in several jurisdictions:



Source: NSE



Source: NSE



Source: CBN & NBS **** Provisional***

dominance of the bear run. Specifically, the Nigerian Stock Exchange (NSE) All Share Index (ASI) lost about 37 per cent of its value at end-December 2008 to close the first quarter 2009 at 19,852 while the market capitalization shed 35.60 per cent to hit N4.48 trillion during the period.

These outcomes are generally attributable to investors' apathy in the market; the relatively high interest rate in the money market for the greater part of the period under review was also a contributory factor. Activities in the secondary segment of the market still showed the dominance of the banking sector in volume and value terms of traded shares. All together, a total of 19.16 billion shares worth N108.20 billion were traded in about 419,540 deals during the quarter. The average value of shares traded during the quarter was N1.75 billion, while average volume was 309.06 million, in an average of 6,763 deals.

Although the market recorded some gains (in terms of price appreciations) at a few points during the quarter, these were always quickly wiped away by profit taking and the persisting 'early exit' sales by short-term investors and speculators. However, a number of companies came to the primary segment of the market for fresh funds, including a South African firm (Pinnacle Point Group Plc). Others that got listed by introduction, rights issue, placement and supplementary issues include Portland Cement and Product Nigeria Plc, e-Tranzact International Plc, Mtech Communication, Capital Oil Plc, Hallmark Paper Product Plc, Oando Plc Staff Equity Participation shares scheme, et cetera.

This, notwithstanding, concern on the way forward for the market both by the regulators and operators persisted during the quarter. Market-participant groups, including issuing houses, stockbrokers, shareholders, among others, issued press statements; held conferences and issued communiqués on the way forward. Some of these groups even made recommendations (in writing) on the way forward for the market and presented/discussed same with top government functionaries and relevant regulatory agencies. On its part, the CBN had sent a Bill to the National Assembly, for the setting up an asset management company that would 'acquire' all 'toxic assets' arising from banks' exposure to the stock market before the meltdown, among other measures.

BANKING AND FINANCE

As in the previous quarters, competition remained tough in the banking sector during the period under review, especially in the face of new policies being churned out by the regulatory authorities to contain the ripple effects of the global financial crises. Thus, the hitherto jettisoned common year-end for the banks was restored (effective December 2009); Savannah Bank Plc whose operating license was revoked about seven years ago had the instrument restored; the stalled merger talks between Ecobank Transnational Incorporated (ETI) and First Bank of Nigeria Plc were resumed. Bank PHB acquired a majority stake in the Orient Bank of Uganda; UBA took up 56.4 per cent shares previously owned by the Government of Benin Republic in Continental Bank of Benin, while ETI commenced operations in Kampala, Uganda.

These developments and expansion also came with improved services, reckoning and recognitions for the banks. Thus, in their Banking Industry Customer Satisfaction Survey (BICSS) 2009, the global professional advisory, tax and audit consultants, KPMG, declared Zenith Bank Plc,

for the third consecutive time, the best among corporate customers. In the same vein, five Nigerian banks were ranked among the top 500 in the world by The Banker magazine, published by the Financial Times of London. The Banker assessed the financial institutions using brand value, market capitalization and brand rating, among others, as parameters. Zenith Bank, First Bank, Intercontinental Bank, Union Bank and United Bank for Africa made the list.

Apparently responding to shrinking income flow from crude oil exports, a number of banks during the period under review, began to show interest in agriculture and agro-allied activities. In collaboration with the CBN and Nigerian Agricultural Insurance Corporation (NAIC), about four banks had set up schemes in support of agricultural development in the country. Under these schemes, soft loans (with single digit interest rate) and advisory services will be made available to operators in various agricultural activities. Further to this new focus on agriculture, the Federal Government, through the Central Bank of Nigeria, set up a N200 billion Commercial Agricultural Credit Scheme (CACS) to "promote agricultural enterprises in Nigeria".

Under the guidelines for the scheme, the fund is being administered by two participating banks (UBA and First Bank), with areas of coverage including cultivation of crops, livestock, fishery and processing, storage and marketing of target commodities. Credit from the participating banks are in form of loans and overdrafts—with interest of nine per cent (inclusive of all charges) and loan tenure of seven years or less. The CACS covers integrated large scale farms or agro-based enterprises and non-integrated commercial farms/agro enterprises, while all state governments can also access up to twenty per cent of the N200 billion through specialized agencies. Aside the CACS, the Federal Government has also approved the sum of Six Billion Naira as a special intervention fund to boost research in agriculture. The special fund which is accessible to all agric researchers is being operated by the Agricultural Research Council of Nigeria.

NNPC List of Firms for the Gas Sector

	FIRM	COUNTRY
1	BG Group	Britain
2	Centrica	Britain
3	Chevron	USA
4	E.ON Ruhrgas	Germany
5	Gail	India
6	Gas Natural	Spain
7	Gazprom	Russia
8	Global Energy/Hanover Energy	Nigeria/USA
9	Kogas	South Korea
10	Oando	Nigeria
11	PTT PTT.BK	Thailand
12	Royal Dutch Shell	Anglo-Dutch
13	Sahara Energy	Nigeria
14	Statoil Hydro	Norway
15	Union Fenosa	Spain

Source: NNPC

In terms of regulatory initiatives, the CBN took a number of measures not only to deal with the volatility of the foreign exchange market but also to mitigate other impacts of the global financial crisis on the economy. Thus, the Monetary Policy Committee (MPC) of the apex bank met twice during the quarter under review: January 14 and February 09. As an outcome of these, the CBN made its daily Standing Lending Facility (SLF) accessible to all deposit money banks and discount houses at the ruling Monetary Policy Rate (MPR), using Federal Government securities as eligible collateral. It also opened its Repurchase (REPO) window at a maximum tenor of 90 days to all money market participants. CBN also introduced the Expanded Discount Window (EDW) which shall be for a tenor not exceeding 360 days and included Non-FGN securities as collaterals for the facility. These include State Government Bonds, NDIC Accommodations Bills, Bankers Acceptances, Guaranteed Commercial Papers and Promissory Notes.

In the area of interest rates (deposit and lending), the apex bank came up with non-market based initiatives, pegging the deposit and lending rates at a maximum of 15 per cent and 22 per cent respectively—effective, April 1, 2009, and lasting all through the year. And for lending rate, all charges shall not exceed two per cent—making the effective maximum rate of 24 per cent. The CBN had earlier replaced the Wholesale Dutch Auction System (WDAS) in the foreign exchange market with the Retail Dutch Auction System (RDAS) in an effort to check the continuing massive depreciation of the Naira. Further to this, the CBN also introduced stringent conditions for the operations of Bureaus de Change (BDCs), categorizing them into two groups that must meet specified conditions to continue to play in the forex market.

OIL, GAS AND POWER

Prices of crude oil in the international market during the first quarter 2009 hovered between US$35 per barrel and US$50 per barrel, but stabilized at the higher end towards the close of the period. Mid-March, the Organization of Petroleum Exporting Countries (OPEC) met, but shelved

In furtherance of Nigeria's gas development efforts, the Nigerian National Petroleum Corporation (NNPC) during the period under review, short listed 15 firms to be considered as core investors in exploration and production in the country's natural gas sector.

the idea of another output cut in the effort to stem the worrisome fall in the prices of crude oil. The group had effected a production/supply reduction of 2.2 million bpd, a record amount, in January, following an earlier cut in October 2008. For Nigeria however, oil production dipped to 1.82 mbpd in February, from 1.88 mbpd in January; this is below the 2009 budget oil production benchmark of 2.29 mbpd—but marginally above the country's OPEC quota of 1.67 mbpd.

OPEC Reference Basket Price (ORB) at the close of the first quarter 2009 stood at US$46.65 per barrel as against US$98.63 per barrel in the corresponding period of last year. However, the global oil market showed signs of recovery by the close of the quarter, as the average price increased to US$46.17 per barrel from US$41.39 per barrel in February, and US$41.57 per barrel in January while the maximum price attained in March was US$50.77 per barrel. This sign of price recovery is attributable to the perceived gradual improvement in the global economy, as various countries and institutions around the world are implementing stimulus packages to encourage economic recovery.

In furtherance of Nigeria's gas development efforts, the Nigerian National Petroleum Corporation (NNPC) during the period under review, short listed 15 firms to be considered as core investors in exploration and production in the country's natural gas sector. The shortlisted firms would be involved in the building of three major gas gathering plants and pipelines that would provide enough supplies to the ailing power sector. Nigeria has an estimated natural gas reserve of 180 trillion cubic feet, but has been unable to fully exploit this due lack funds, poor maintenance and mismanagement, among other challenges. But the 15 shortlisted companies are already submitting proposals to the Government on how best to develop the domestic gas sector, this time around.

In a similar vein, the Presidential Steering Council on National Integrated Power Projects (NIPP) has approved the sum of N117.3 billion for the rehabilitation of the Power Holding Company of Nigeria (PHCN) facilities. This is in pursuit of the Federal Government's commitment to boosting power supply to 6,000 megawatts by December 2009. Of the sum, N43.29 billion is to be devoted to the rehabilitation of existing PHCN infrastructure in the areas of generation, transmission and distribution of power. A separate N70.56 billion was also approved for the expansion of Alaoji Power Plant, and N2.1 billion for the construction of ramp jetty across the Imo River for the transport of heavy equipment at Onne Port to the Alaoji power plant. These sums are part of the US$5.3 billion counterpart funding for power provided by the three tiers of government towards the 6,000-megawatts target for 2009.

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

GUIDELINES FOR COMMERCIAL AGRICULTURE CREDIT SCHEME (CACS)

1.0 Establishment of scheme
As part of its developmental role, the Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria represented by the Federal Ministry of Agriculture and Water Resources has established the Commercial Agriculture Credit Scheme, hereinafter referred to as CACS, for promoting commercial agricultural enterprises in Nigeria. This Fund will complement other special initiatives of the Central Bank of Nigeria in providing concessionary funding for /agriculture such as the Agricultural Credit Guarantee Scheme (ACGS) which is mostly for small scale farmers, Interest Draw-back scheme, Agricultural Credit Support Scheme, etc.

2.0 Funding:
The scheme shall be financed from the proceeds of the N200billion bond to be raised by the Debt Management Office (DMO). The fund shall be made available to the participating bank(s) to finance commercial agricultural enterprises. In addition, State Governments and the FCTA could also borrow up to 20% of the bond proceeds for on-lending to farmers. The ceiling to the States may be reviewed as the need arises by the Project Management Committee (PMC).

3.0 Objectives of the scheme
The objectives of the scheme are;
(i) To fast track development of the agricultural sector of the Nigerian economy by providing credit facilities to commercial agricultural enterprises at a single digit interest rate.
(ii) To enhance national food security by increasing food supply and effecting lower agricultural produce and product prices, thereby promoting low food inflation.
(iii) To reduce the cost of credit in agricultural production to enable farmers to exploit the potentials of the sector.

(iv) To increase output, generate employment, diversify the revenue base, increase foreign exchange earnings and provide input for the industrial sector on a sustainable basis.

4.0 Governance of the Scheme
The Central Bank of Nigeria and the Federal Ministry of Agriculture and Water Resources shall collaborate and coordinate effectively to ensure the success of the programme. The specific roles of the various stakeholders are spelt out in Section 17.0 of this document. However, for the day to day implementation of the project, the Development Finance Department of the Central Bank and the Commercial Agriculture Development Programme (CADP) Secretariat of the Federal Ministry of Agriculture shall coordinate actions, and report to the Project Management Committee.

The PMC, which meets regularly to review progress and propose changes if required in the running of the programme and advise the relevant stakeholders, shall be composed as follows:-
- Deputy Governor, CBN [Financial Sector Surveillance], Chairman
- National Coordinator, Commercial Agriculture Development Programme, Secretary
- Director, Development Finance, CBN, Member

- One Representative each of the Participating Banks [PBs]
- Executive Director, National Food Security Agency Member
- Representative of the Federal Ministry of Finance Member
- Representative of the Large Scale farmers Association Member
- Representative of the Debt Management Office Member

The periodic reports of the PMC shall be sent to the Minister of FMAWR and Governor, CBN – who should also meet from time to time to provide further guidance to the PMC as needs arise.

The Technical Committee of the PMC shall be composed of the Director, Development Finance of the CBN and Consultant CADP, FMWAWR. Both Directors shall liaise on daily basis, and especially issue "no objection" notes to banks upon receipt of loan applications, as well as organize periodic monitoring of projects under the scheme and report to the PMC.

5.0 Target Agricultural Commodities

Key Agricultural commodities to be covered under the scheme are;

(i) Cultivation of target crops (rice, cassava, cotton, oil palm, wheat, rubber, sugar cane, Jatropha carcus, fruits and vegetable);
(ii) Livestock (dairy, poultry, piggery)
(iii) Fisheries;

Credit support to the target commodities shall be administered along the entire value chain of; Production, Storage, Processing, Market and Enterprise development

6.0 Definition of Commercial Agricultural Enterprise;

For the purpose of this scheme, a commercial enterprise is any farm or agrobased enterprise with agricultural asset (excluding land) of not less than N350Million for an integrated farm with prospects of growing the assets to N500Million within the next three years and N200Million for non-integrated farms/agro-enterprise. This however, does not apply to loans obtained by state government for on-lending.

7.0 Eligibility for participation in the scheme

(A) Participating Bank (PB)

The Central Bank of Nigeria shall select, through a competitive process, the banks that will participate in the scheme with adequate considerations for the bank(s)' capacity, assets, branch network, liquidity, experience in agricultural lending, credit risk exposures, etc.

The banks bear the credit risk of the loans. For this phase of the Scheme, the CBN has approved two banks to administer the Fund namely, United Bank for Africa, Plc (UBA) and First Bank of Nigeria, Plc (FBN)

(B) Borrower

(B1) Corporate and Large Scale Commercial Farms/Agro-Enterprises

To participate in the scheme the borrower shall;

i. Be a limited liability company with asset base of not less than N350M and having the prospect to grow the net asset to N500Million in the next three years and complies with the provision of the Company and Allied Matters act (1990).
ii. Have a clear business plan
iii. Provide up-to-date record on the business operation if any.
iv. Have out growers programme, where appropriate
v. Satisfy all the requirement specified by its lending Bank

(B2) Medium Scale Commercial Farms/Agro-Enterprises

To participate in the scheme the borrower shall;

i. Be a limited liability company with asset base of not less than N200M and having the prospect to grow the net asset to N350 Million in the next three years and complies with the provision of the Company and Allied Matters act (1990).
ii. Have a clear business plan its lending bank
iii. Provide up-to-date record on the business operation if any.

As part of its developmental role, the Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria represented by the Federal Ministry of Agriculture and Water Resources has established the Commercial Agriculture Credit Scheme, hereinafter referred to as CACS, for promoting commercial agricultural enterprises in Nigeria.

iv. Have out growers programme, where appropriate
v. Satisfy all the requirement specified by its lending Bank

(B3) State Government/FCT
To participate in the scheme a state Government/FCT shall
I. Submit an expression of interest;
ii. Put in place appropriate institutional arrangements by setting up a Secretariat (Special Unit or Agency) staffed with experienced agricultural experts and credit officers dedicated for the administration of the fund to be borrowed which shall be approved by the PMC; and
iii. Sign an irrevocable standing payment order (ISPO) in favour of the CBN to deduct at source the total amount in default from the states(s) on monthly basis of State revenue allocation on behalf of the PB.

8.0 Modalities of the scheme
i. Agricultural credit from the participating Banks shall be in the form of loans.
ii. Interest on loan shall not exceed 9 per cent, inclusive of all charges.
iii. Enhancement of credit facility, extension or rescheduling of payment shall be approved by the PMC

9.0 Acceptable Collateral
The security which may be offered to a participating bank for the purpose of any loan under the scheme may be one or more of the following:-
• A charge on land in which the borrower holds a legal interest or a right to farm, or a charge on the land including fixed assets, crops or livestock.
• A charge on the movable property of the borrower.
• A life insurance policy, a promissory note or other negotiable security
• Stocks and shares
• Any other collateral acceptable to the participating bank(s)

10.0 Loan Tenor
(i) Loans shall have a maximum tenor of five years and/or working capital facility of one year with provision rolls over
(ii) The scheme allows for the moratorium in the loan repayment schedule.

11.0 Limit of liability under the scheme
(i) The maximum interest rate to the borrower under the scheme shall not exceed 9 per cent, inclusive of all charges.
(ii) The interest subsidy of the scheme shall be borne wholly by the Central Bank of Nigeria

12.0 Procedure for applying for the Loan
All applications for loans under the scheme shall be made to the PBs in duplicates; one copy of which will be stamped by the PB concerned and forwarded to the Development Finance Department of CBN and CADP Secretariat of the FMAWR. Both Departments shall set up a joint taskforce that promptly (within 48 hours) issues a "no objection" letter to the PB on the loan application, after confirming that the products/purposes conform to the focus of the scheme. Thereafter, the PB can quickly process the loan and effect disbursement.

Applications received by the PB shall be processed promptly and not exceeding thirty days. The banks are expected to set up Task-Forces and Fast-Track processes to ensure prompt service delivery. All applications under the scheme shall be treated by PB's with the same degree of diligence, good faith and competence with which they would normally be expected to treat all applications for loans received in the normal course of their banking business.

13.0 Verification and Monitoring on Projects
Both the Development Finance Department of the CBN and the CADP Secretariat of FMAWR shall ensure periodic monitoring of the projects funded under the Scheme, and report to the PMC

14.0 Verification in Other Terms and Condition of Loan
A participating bank shall require a prior approval of the PMC before it can alter any of the terms and conditions governing a loan in respect of which CACS facility is ongoing.

15.0 Infractions and Sanctions
PB(s)
(i) Diversion of funds by the PB(s) shall attract a penalty at the bank's average lending rate at the time of infraction. In addition, such PBs shall be barred from further participation under the scheme.

(ii) Non rendition or false returns shall attract the penalty stipulated by BOIFA section 60.
(iii) Charging interest rate higher than prescribed shall attract the penalty stipulated by BOIFA section 60.
(iv) Any PB that fails to follow the agreed disbursement schedule with the borrower after the receipt of the fund will be charged the prevailing interest rate for the period the fund was not disbursed.
(v) Any other breach of the guide lines as may be specified form time to time.

State Governments/FCT
(i) Diversion of funds by the State Government/FCT shall attract a penalty at the PB's average lending rate at the time of the infraction, forfeiture of the ISPO and barred from further participation in the Scheme.
(ii) Any other breach of guidelines as many be specified from time to time.

16.0 The key stakeholders of the scheme are;
• Federal Government of Nigeria (FGN)
• Central Bank of Nigeria (CBN)

- Federal Ministry of Agriculture and Water Resources (FMA&WR)
- Debt management Office (DMO)
- Participating Banks (PBs)
- Borrowers (farmers, Agro-Processors, Marketers and State Governments and FCT.

17.0 Responsibilities of Stake Holders
For effective implementation of the scheme and for it to achieve the desired objectives, the responsibilities of the stake holders shall include:

a) **The FGN**
The Federal Government of Nigeria shall be the issuer of the Bond

b) **The CBN**
The Central Bank of Nigeria shall:
- Specify the rate at which PBs lend to borrowers under the Scheme
- Absorb the subsidy which may arise in the pricing of the loan to borrowers
- Absorb all other incidental expenses
- Select the participating banks under the scheme, with due considerations of the general ability of the banks
- Receive and process the periodic returns made by the PBs in relation to the loans under the Scheme
- Conduct regular supervision of the PBs as well as monitor the borrowers' enterprises in order to ascertain the performance of the Scheme
- Prepare regular reports to the PMC

c) **The Federal Ministry of Agriculture and Water Resources FMA&WR**

The FMA&WR shall:
- Conduct monitoring and evaluation of the Scheme
- Undertake periodic review of the enterprises financed under the Scheme

d) **The Federal Ministry of Finance (FMF)/ Debt Management Office (DMO)**

The FMF/DMO shall:
a. Issue the Bond on behalf of the FGN
b. Raise money from the market

e) **The Participating Banks (PBs)**
The PBs shall:
a. Guarantee safety and purposeful application of funds for onlending
b. Lend funds under the Scheme at the specified rate
c. Render periodic returns under the Scheme as may be specified by the PMC and CBN from time to time.

f) **Borrower**
The borrower shall:

All applications for loans under the scheme shall be made to the PBs in duplicates; one copy of which will be stamped by the PB concerned and forwarded to the Development Finance Department of CBN and CADP Secretariat of the FMAWR.

a. Utilize the funds for the purpose for which it is granted.
b. Insure the project being financed.
c. Adhere strictly to the terms and conditions of the Scheme.
d. Make the project and records available for inspection and verification by the PMC.
e. Render periodic returns to the PBs as may be required.
f. State Governments/FCT shall agree to utilize the funds solely for the on-lending to registered cooperative unions, cooperative societies, commodity associations and self-help groups (SHGs) and qualified individuals.

Returns by the banks should be made to the address below:
Director,
Development Finance Department,
Central bank of Nigeria,
Central Business district
Abuja
Fax no. 09-61638655

19.0 **Repayment or Discontinuation of a credit facility**
Whenever a credit facility is otherwise discontinued, the PB shall advise the PCM immediately, giving particulars of the credit facility.

20.0 **Disbursement of Fund**
PBs and borrowers should strictly adhere to agreed disbursement/repayment schedule. Any deviation from the schedule should be mutually agreed between the parties and the PMC informed accordingly.

21.0 **Amendments**
These guidelines are subject to review from time to time as may be deemed necessary by the Project Management Committee

Project Management Committee,
Federal Ministry of Agriculture and Water Resources
Kapital Street, Area 11, Garki,
or
Development Finance
Department,
Central Bank of Nigeria,
Abuja.

Nigerian Banks:
The Challenges of Adopting International Financial Reporting Standards

*** By Mukhtar Adam**

There has not been any better time than now for us to contribute to the debate on the need and feasibility of adopting the International Financial Reporting Standards (IFRS) as a financial reporting framework in Nigeria. This is due to recent pronouncements by the bankers' committee (a committee of Managing Directors of banks in Nigeria chaired by the Governor of the Central Bank), some individual banks and the Nigerian Stock Exchange (NSE) to the effect that banks or listed companies (as the case may be) would or should prepare financial statements in accordance with the IFRS.

here has not been any better time than now for us to contribute to the debate on the need and feasibility of adopting the International Financial Reporting Standards (IFRS) as a financial reporting framework in Nigeria. This is due to recent pronouncements by the bankers' committee (a committee of Managing Directors of banks in Nigeria chaired by the Governor of the Central Bank), some individual banks and the Nigerian Stock Exchange (NSE) to the effect that banks or listed companies (as the case may be) would or should prepare financial statements in accordance with the IFRS.

Such pronouncements were made on the back drop that complying with IFRS will facilitate transparency and lead to more disclosure in financial statements which will be very useful to stakeholders, especially foreign stakeholders. It is also believed that Nigerian banks that prepare IFRS-based financial statements stand to have added advantage in their business relationships with their correspondent banks, multilateral institutions and international investors. Companies that prepare IFRS-based financial statements are also expected to get some boost in their rating. For example, Standard & Poor's (S & P), a renowned credit rating agency has indicated that IFRS-based financial statements enhance the consistency of data used in comparative analysis of companies being rated.

The move towards developing an acceptable high-quality globally acceptable financial reporting standards started in 1973 when the International Accounting Standards Committee (IASC) was formed by 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States. The IASC was in 2001 reorganized into the International Accounting Standards Boards (IASB). To date, the IASB has developed accounting standards and related interpretations that are collectively known as the International Financial Reporting Standards (IFRS). The United Nations (UN) has also contributed its quota in promoting a uniform accounting framework that will ensure comparability and reliability of corporate reports world-wide. For example, the Economic and Social Council of the United Nations in 1982 established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), with the mandate to work towards an internationally comparable system of standardized accounting and reporting. Through ISAR, the United Nations Conference on Trade and Development (UNCTAD) has worked with and assisted countries (developing countries in particular), in adopting and implementing international best practices in financial reporting. Additionally, the UNCTAD has worked closely with the IASB to increase awareness on the importance of accountancy in economic development and to strengthen the accountancy profession in developing countries.

The question of whether complying with IFRS is needed or feasible at this time is crucial. To answer this question, we would provide an overview of IFRS and the global trend so far, in complying with IFRS. We would then move on to identify the possible technical challenges that could be encountered in complying with IFRS, noting the level of preparedness required to achieve this objective. Some suggestions on how to make the IFRS transition seamless would be made.

OVERVIEW

a. The need for a uniform global financial reporting framework:

The continuous integration of the world economy and capital markets have increased the interdependence of the international financial markets and also increased mobility of capital across boundaries. Loss of investor confidence in the capital market due to some negative incidences bordering on corporate reporting has increased the need for greater transparency in financial reporting. All these have underlined the need for a harmonized reporting framework and standards that will increase transparency in financial reporting and also make financial statements more comparable. The desperate need to improve investor confidence has also put pressure on corporate bodies to strengthen corporate governance, and improve transparency and the quality of information provided to stakeholders.

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strengthen the accountancy profession in developing countries.

b. How IFRS gained dominance

The standards set by the IASB began to gain dominance when the International Organization of Securities Commissions (IOSCO) in 2000, endorsed the then IASC standards. This was further boosted when in 2002; the European Commission approved a regulation requiring that listed companies in EU countries prepare consolidated financial statements in accordance with IFRS.

The dominance of IFRS further improved in September 2002, when the United States' Financial Accounting Standards Board (FASB) and IASB signed the Norwalk Agreement. By this agreement, the bodies undertook to work closely to develop high quality compatible accounting standards that could be used for both domestic and cross-border financial reporting. These bodies have so far met their commitment and are far advanced in the IFRS-US GAAP convergence.

Taking a cue from the world's major economies, more countries (including Kenya, Zambia, Malawi, Ghana and Sierra Leone) have embraced IFRS either by adoption, adaptation or convergence. It is expected that more than 150 countries will have adopted IFRS by 2011, including the U.S, which would converge with IFRS (either by changing US GAAP or by outright adoptions of IFRS). Should this happen, countries that have not yet adopted IFRS will be forced to do so or be left out in the global capital market.

It is therefore clear that, Nigeria has no option but to converge with, adopt or adapt the IFRS, or face isolation in the global capital market and the financial world.

c. The technical foundation of IFRS

Financial statements are prepared based on a number of accounting principles and assumptions usually referred to as Generally Acceptable Accounting Principles (GAAP). In applying these GAAPs, accountants generally make some judgments, which are expected to be logically deducible from the relevant GAAPs. The purpose of preparing financial statements and the main target users of these financial statements provide guidance to standard setters and preparers of financial statements.

Under the IFRS dispensation, the expected primary users of financial statements are investors. IFRS financial statements are therefore considered to be 'investor bias' as against other accounting frameworks that seek to balance the need of all stakeholders. IFRS-based financial statements therefore place more emphasis on fair value than historical cost. It is generally believed that (subject to some exceptions) fair value based financial statements provide more information to investors about the financial position and financial performance about the reporting entity, than historical cost based financial statements.

IFRS-based financial statements are prepared based on two main underlying assumptions; accrual basis and going concern. Under the accrual basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent are received or paid) and they are recorded and reported in the period to which they relate. The going concern basis assumes that a reporting entity will continue operating in the foreseeable future and has neither the intention nor the need to liquidate or curtail materially, the scale of its operations. IFRS-based financial statements are expected to be understandable (to a knowledgeable user), relevant (in terms of nature and materiality of items presented and disclosed), reliable (that is, free from material errors and bias and faithfully presented) and

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comparable (to previous periods and with different entities).

d. **Number of IFRSs and IFRICs in force**
To date, up to 41 IASs have been issued with 29 currently in force. A total of 8 IFRs have been issued and are all in force. The interpretation of IASs and IFRSs is the preserve of the International Financial Reporting Interpretation Committee (IFRIC). To date 17 IFRICs have been issued with 16 currently in force. By their nature, IFRICs are not accounting standards, rather they are interpretations to the standards and guide to implementing those standards. Though the existing IASs continue to bear their names, necessary amendments are made to them without renaming them as IFRS. Standards and interpretations issued are continuously reviewed to ensure that they are relevant to and applicable in the current global accounting world. Certain standards have been revised and others withdrawn based on these reviews.

This therefore makes the IFRS a very flexible standard that is capable of meeting the current industry needs.

Under the IFRS dispensation, the expected primary users of financial statements are investors. IFRS financial statements are therefore considered to be 'investor bias' as against other accounting frameworks that seek to balance the need of all stakeholders. IFRS-based financial statements therefore place more emphasis on fair value than historical cost. It is generally believed that (subject to some exceptions) fair value based financial statements provide more information to investors about the financial position and financial performance about the reporting entity, than historical cost based financial statements.

THE TREND SO FAR

a. **The extent of adoption**
Countries use different approaches in adopting IFRS based on their need and ability to adopt. For example, in the EU, listed companies are required to use IFRS in preparing consolidated financial statements. This means, a listed company that has no subsidiary is not required to use IFRS. Non-listed companies in the EU are required by law or allowed in some cases to file financial statements prepared in accordance with the local standard or Generally Accepted Accounting Principles (GAAP) applicable in their respective jurisdictions. EU member states may however, permit non-listed companies in their jurisdictions to use IFRS. Countries such as Australia, France, Ireland, Slovenia and the United Kingdom have so far done that. In countries like Cyprus, Malta and Slovakia, which are EU member states, non-listed entities are required to prepare IFRS based financial statements. Other EU member states like Latvia, Lithuania and Poland require non listed companies to use local GAAP and prohibit them from using IFRS. This gives a clear indication of the extent to which countries are careful about adopting IFRS in its totality.

In countries like Canada, India, Japan and the United States, IFRS financial statements are not permitted for listing (without reconciliation to local GAAP). Significant gains have, however, been made in these countries to bring domestic standards in line with IFRS.

Other countries that adopted IFRS in its totality have done that in a gradual and coordinated manner, allowing for enough transition periods. In Brazil for example, finical institutions have between 2007 to 2010 to comply with IFRS. The Indians commenced IFRS transition in early 2007 when the Institute of Chartered Accountants of India (ICAI) formed an IFRS convergence task force to look into various convergence issues and prepare a road map for full convergence by 2011. In the case of Korea, the Financial Supervisory Commission and the Accounting Standards Board of the Republic of Korea, after years of consultations and ground work, announced in 2009 to permit all companies other than financial institutions to apply IFRS as adopted by Korea, but set 2011 for IFRS to become mandatory in the country. In neighboring Ghana, the Institute of Chartered Accountants of Ghana has commenced the IFRS transition project in earnest; but it was only in January 2007, that the Minister of Finance and Economic Planning of Ghana formally launched the adoption of IFRS in that country.

It is clear, from the few examples cited, that IFRS transition by any country requires a gradual and careful execution of series of planned activities coordinated at the national level.

b. **Efforts to converge IFRS and UK GAAP**
Since 2002, the United States' Financial Accounting Standards Board (FASB) and the IASB have been working to achieve a better compatibility between the US GAAP and the IFRS in accordance with the Norwalk Agreement signed by the two entities in September 2002. In February 2006, the FASB and the IASB issued a Memorandum of Understanding (MoU) setting forth the relative priorities, within the FASB-IASB joint work program, in the form of specific milestones to be reached by 2008. This MoU was based on three principles;

The review of accountancy curricula in educational institutions must be taken further to ensure that faculties in these institutions are well equipped to handle models on IFRS given the complexity that comes with it.

• Convergence of accounting standards can best be achieved through the development of high quality, common standards over time.
• Trying to eliminate differences between the two standards that are in need of significant improvements is not the best use of FASB's and IASB's resources, instead, new common standards should be developed that improve the financial information reported to investors.
• Serving the needs of investors mean that the board should seek convergence by replacing standards in need of improvement with jointly developed new standards.

Both the FASB and IASB committed to the agreement and based on the progress achieved, the US SEC in 2007 began to allow non-U.S. companies registered in the U.S to use IFRS compliance financial statements without reconciling them to the U.S GAAP.

This key milestone achieved by the FASB-IASB convergence team has put pressure on countries that are not yet IFRS compliant to work towards complying in order not to face isolation in the global capital market and the financial world. Therefore, Nigeria may have to work hard to align to the rest of the world in this direction.

MATTERS ARISING

Should Nigeria decide to converge with, adopt or adapt IFRS, the transition needs to be carefully planned and executed in a logical manner to ensure smooth transition. This can be achieved if the transition is based on a framework of targeted activities to be completed within specified periods of time. The transition process should involve key stakeholders such as educators, professional accountancy bodies, preparers, users, and regulators. Therefore the matters arising are; how informed these stakeholders are about IFRS and what needs to be done to ensure that they contribute effectively to the transition process.

a. **Educators**
In making transition to IFRS, it is important that institutions that provide accountancy education in the country review their curricula to include models on IFRS. This obviously requires some time but it should be one of the first steps towards achieving a smooth and sustainable transition to IFRS. The review of accountancy curricula in educational institutions must be taken further to ensure that faculties in these institutions are well equipped to handle models on IFRS given the complexity that comes with it. Other professional accountancy bodies that provide training for various accountancy qualifications must also review their syllabi to ensure that professional accountants have the requisite knowledge to practice accountancy under the IFRS dispensation. Existing professional accountants in the country equally need training for the IFRS transition to be successful and sustainable.

Currently, professional accountants in the country are either working in regulatory institutions such as the CBN, NDIC, NIACOM, SEC etc. or are working as auditors of either private accounting firms or public institutions. Many others are working in both private and public institutions as accountants or playing other non-accounting roles. Clearly

A study conducted by the United Nations Conference on Trade and Development (UNTAD) indicates that there is serious shortage of accountants in developing countries that have the requisite skill and experience to implement IFRS. This therefore makes it imperative for the issue of skill gap to be tackled at the very outset in our IFRS transition.

all these accountants will need to be up to date with the new accounting world in order to discharge their duties effectively. Given the complex nature of IFRS and the frequency and volume of changes made by the IASB to existing IFRSs, it seems that bringing all accountants up to date with IFRS is an enormous challenge for our domestic accountancy bodies. Painfully but truthfully, accountants that joined the domestic accountancy bodies through foreign accounting qualifications such as Association of Certified Chartered Accountants (ACCA) will have an advantage of relating better to IFRS than their counterparts that qualified through domestic examinations. The reason is simply because ACCA is based on the IAS which is the backbone of IFRS.

Nevertheless, domestic accountancy bodies can aggressively build in IFRS training into their Mandatory Continuous Professional Education (MCPE) in addition to organizing seminars and other fora. Institutions, both private and public that employ the services of accountants will have to invest in training these accountants to learn or better understand IFRS. A study conducted by the United Nations Conference on Trade and Development (UNTAD) indicates that there is serious shortage of accountants in developing countries that have the requisite skill and experience to implement IFRS. This therefore makes it imperative for the issue of skill gap to be tackled at the very outset in our IFRS transition.

b. **Professional accountancy bodies**

Aside their crucial role in providing the necessary training for potential and existing accountants, professional accountancy bodies also have the responsibility of ensuring that accountancy in the country is being practiced at the highest possible quality. Our domestic professional accountancy bodies- The Institute of Chartered Accountant of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN) have the responsibility of giving clear guidance and directions to accountants in the country on professional standards, code of conduct and general rules of practicing accounting in the country. ICAN and ANAN are also expected to represent professional accountants in making submissions on issues like difficulties in applying accounting standards, position on existing or proposed standards and other important concerns that directly affect the accountancy profession either nationally (through the appropriate quarters) or internationally (through International Federation of Accountants – IFAC).

If IFRS is adopted as the country's accounting standards, accountants in the country will have the opportunity of contributing to the IFRS setting process by making inputs on upcoming standards, seeking clarification on existing IFRSs, or challenging their applicability. For example, As a result of concerns raised by accountants in Pakistan on the application of the International Financial Reporting Interpretation Committee 4 (IFRIC 4), the Institute of Chartered Accountants of Pakistan (ICAP) decided to defer the application of IFRIC 4 to 2009 to allow for better consultation and clarifications. The decision of ICAP was based on the premise that, IFRIC 4 effectively converts all independent power producers in Pakistan into leasing companies. Another example is where the South African Institute of Chartered Accountants, after consulting IFRIC and obtaining the necessary clarification, issued a circular to bring the national practice of operating lease at par with IFRS. These and other occurrences (too lengthy to be mentioned here) demonstrate the crucial role of our domestic professional accountancy bodies in the IFRS transition process.

However, the current situation where more than one accountancy body function as the umbrella body of accountants in the country may create a problem in the country's representation to international accountancy bodies or standards setters. At best, the necessary number of slots could be shared to enable them represent the country at the international level at the same time, or at worst the country's slot will be taken on rotational basis by these bodies. Any how the country goes, its effective and consistent representation could be seriously hampered.

Defining the roles of other stakeholders in the country's accounting regulation such as the Nigerian Accounting Standards Board (NASB) and the proposed Financial Reporting Council (FRC) requires some attention. The situation where accounting standards are set, interpreted and enforced by the NASB cannot continue under IFRS dispensation, since the interpretation of IFRS is the preserve of IFRIC. Determining compliance with IFRS, at the domestic level, which cannot be done without the required interpretation and clarification from IFRIC, will therefore pose a challenge. A situation where the NASB or the FRC play an advisory and a coordination role is worth considering.

This however, requires some form of legislative amendments.

Whichever body emerges as the country's mouth piece on IFRS will have to identify and work with other professional bodies (not accountants) to ensure that the necessary inputs required from those professionals are obtained. A typical area where such non accounting professional are required is in applying IAS 19 on employee benefits. This requires actuarial valuation to measure the obligation of a reporting entity as it relates to employee retirement benefits - in this case, working closely with the relevant professional bodies of actuaries to ensure actuarial estimation for financial reporting purposes are conducted as required and the nature of details provided in the actuarial reports meet the requirements of IAS 19.

c. Preparers

Preparation of IFRS based financial statements in any organization may be the responsibility of the accounts or financial control department, however, the nature of IFRS-based financial statements will necessitate the active involvement of certain departments in the financial statements preparation process. Besides, making decision on accounting policies (which tend to be complex under IFRS) requires the active involvement of top management and those charged with governance (board of directors and audit committee).

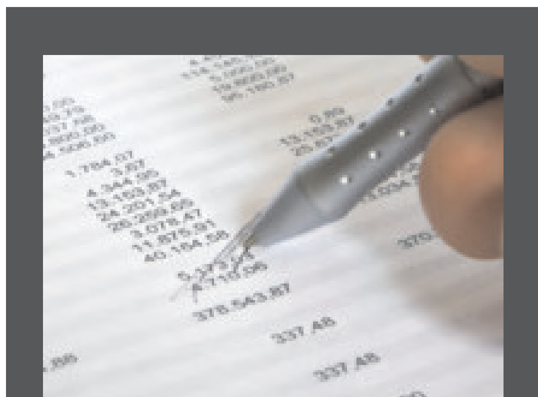
Treasury department for example, has a crucial role to play in providing information and documentation that will form the basis of classifying financial instruments into the various classes. The treasury department must also understand the implication of such classification so as to guide them in their treasury activities. For example, a treasurer must know that selling any part of a portfolio classified as Held-to-Maturity (HTM) before their maturity (subject to some exceptions) 'taints' the whole portfolio. The implication is that the whole portfolio will have to be reclassified as Available-for-sale (AFS) and the entity is prohibited from making HTM designation for two years.

Credit risk management and credit administration also have crucial roles to play in carrying out impairment test on loans and advances in line with IAS 36- Impairment of assets. To comply with IAS 36, an entity must have relevant data and documentation that will form the basis of grouping loans and advances and forecasting expected cash flows.

Information Technology, both software and hardware need to be readily available and have the capacity to provide the required information that will guide management in making certain decisions that relate to classification, recognition and measurement of transactions and balances. Various financial models that will support the determination of fair values of assets and liabilities must be deployed. In some cases, systems acquisition or upgrade will be necessary to facilitate capturing and processing new data to meet various IFRS measurement and disclosure requirements. Several provisions of IFRS1 – First-time Adoption of International Financial Reporting Standards, require retrospective application of certain IFRSs (subject to some exemptions). To be successful in this regard, an entity's information system must have the capacity to generate the necessary information.

The legal department of a reporting entity must also be carried along in the IFRS transition and implementation process. This is due to the fact that designing legal documents such as contracts with customers, lenders and investors must be properly interpreted (though substance transactions should reign over their legal forms) so as to determine appropriate treatment of certain assets and liabilities. Lease transactions for instance, that have some derivative elements, need proper interpretation to determine whether the host contract need to be separated from the derivative.

Financial control, aside coordinating the activities of various departments that have roles in the IFRS reporting process, must contend with taking inventory of all entities that should be consolidated (which is expected to increase if the guidelines on consolidation is properly followed); decide on how to handle intercompany transactions and prepare or update chart of accounts, consolidation packs, reporting timelines and the actual consolidation.



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Executive management and those charged with governance have significant roles to play in the IFRS transition process. Selection of accounting polices under IFRS should be carried out in a well coordinated manner such that, the impact of any accounting policy selected is carefully assessed before being finalized. The restriction posed by IFRS on changes in accounting policies and the extensive disclosure required in the event that a reporting entity changes any of its accounting policies, make it very necessary for the accounting policies selection process of a reporting entity to be rigorous. Corporate executives and those charged with governance should also have a good idea of the impact of IFRS on financial statements of the organization. Income statement volatility and possible accumulation of un-distributable gains and reserves (caused by the fair value approach) must be properly understood by top corporate executives and board members as it affects dividend decisions. The audit committee also has to have a good understanding of IFRS to be able to communicate effectively with the external auditors and discharge their duties properly.

In all these, training is considered very critical for any organization that aims at smooth transition to and implementation of IFRS. Also, smooth transition to and implementation of IFRS goes beyond just the finance function and needs the involvement of the whole organization, from the board level to the operators level.

d. **Regulators and auditors**

The extensive use of judgments and assumptions under the IFRS need to be acknowledged by regulatory agencies. Similarly, the use of fair value would introduce some level of volatility in reported capital of banks with its consequent impact on capital adequacy. Some Central Banks have expressed concerns about the fair value basis because it could be used by banks with deteriorating credit conditions to write down their liabilities, so as to meet statutory capital requirements. In this direction, the Central Bank of Nigeria (CBN), the Nigerian Insurance Commission (NICOM), the Nigerian Stock Exchange (NSE), the Securities and Exchange Commission (SEC) and other regulators must be decisive on what to do with the impact of IFRS on the various regulatory parameters they are interested in. It will however, be very helpful if all these regulators work together (without forgetting to carry the relevant industry players along) in tackling this issue, rather than individually. Regulators should not forget to carry the Small and Medium Size Enterprises (SMEs) along in this endeavor.

Issues relating to reported earnings and recognized income and expenses will surely be of interest to the tax authorities. Tax planning will equally be affected since basis of reporting transactions is expected to change. Relevant tax authorities in the country and the Chartered Institute of Taxation of Nigeria (CITN) have to work with the relevant stakeholders to tackle these issues.

External auditors have major roles to play in the IFRS transition and implementation process. Their roles cut across all the areas mentioned as they are expected to bring their wealth of experience to bear in this process. Before expressing opinions and making categorical statements that a set of financial statements comply with IFRS or otherwise, the external auditors must understand, not just the various IFRSs but also how they are expected to be applied or how those standards have been interpreted by IFRIC. This sets the basis for the auditor to guide and support the reporting entities to properly implement the IFRS. The challenge to audit firms in the country in this regard is enormous, ranging from attracting and retaining the required expertise, training them, getting their clients to be up and going with IFRS, and acquiring and deploying the necessary tools (IT software and hardware). Nigerian audit firms with international affiliations such as Akintola Williams Delloite, KPMG and PricewaterhouseCoopers among others will leverage on the experience, expertise and resources of their international affiliates to survive and shine in the IFRS transition and implementation process. Audit firms without such affiliation would however, find it difficult to cope. This is another issue that needs serious attention by all concerned.

e. **Users**

Users of financial statements such as investors, financial analysts, lenders, and other business partners of any IFRS reporting entity must have a good understanding of the IFRS in order to appreciate the financial statements presented to them. Interestingly, the IASB has identified 'understandability' as one of the qualities of IFRS-based financial statement. The complex nature of IFRS-based financial statements and the comprehensive disclosure requirements, however, make the financial statements very technical and bulky for non-accountant users to read and understand. A reader must therefore engage the services of professionals to interpret the contents of IFRS-based financial statements.

Nevertheless, other users of financial statements are encouraged to at least have a good idea of the foundation and nature of IFRS-based financial statements in order not to be totally lost in the financial world. An average investor, for example, should understand the difference between distributable and un-distributable earning in other to better appreciate basis of declaring dividends.

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

QUALITY AND INTERNAL CONTROL CHALLENGES: BANKERS ARISE!

By Chuks Nwaze

In the last part of this serial; we commence the discussion on fraud prevention through internal surveillance mechanisms. In this edition, we shall dwell on the imperatives for individual bankers if they wish to survive the onslaught and forge ahead.

It can never be over emphasized that these are unusual times for the banking industry and that unusual times require unusual attitude or approach, especially in the area of fraud and fraud prevention which is our focus in this serial. Please note that the principles that will be discussed also apply to all employees, not only bankers.

As the aftermath of the regulatory-induced consolidation, many bankers were thrown into the already saturated employment market. For the unscrupulous elements among them, if they cannot stay inside the banking halls they are willing to stay outside, from where they will launch ferocious attacks at those inside and make life uncomfortable for them.

Hence, the time has come for the lucky ones who are still retaining their jobs to develop practical strategies to protect depositors fund and by so doing continue with their career. I am glad, therefore, to recommend the result of my own research and experience to the effect that bankers should know God, know themselves, know their staff, know their customers and also know their environment. We shall discuss these in their individual details.

> As far as the risk of being caught is concerned, fraud is essentially a gamble. It can be compared to a military coup where failure automatically results in dire consequences not only for the coup plotter but also for his immediate and extended family.

BANKER, KNOW YOUR GOD

At the risk of undue sermonization and intemperate religiosity, the following aspects of the God-fearing phenomenon are highlighted as a useful guide for bankers.

- Thank God for your life and position. It is tempting

to assume that we have a right to be where we are today, forgetting that many are not alive and that even among the living, there is so much suffering, desperation and injustice in the land. That you are working in the artificial and conducive atmosphere within the banking hall should not be taken for granted or as a sign of personal achievement only. After all, you are probably not the most educated or the most intelligent among your age mates or classmates. We should simply thank God for the privilege and magnanimity, even as we are to a large extent undeserving of it. It must be for a purpose that God has done that for us and it behoves us to make the best use of it.

• Believe that God is able to take care of you and your needs at all times, and submit to Him. There is a general misconception that bankers are doing well financially because they are well paid. Nothing can be farther from the truth. In fact most bankers are not doing well in relation to their salaries. Some lack the financial discipline required to ensure adequate savings and sustainable investment and at the end of the day, the salary is not enough. On the other hand, there are several non-bankers who are less paid but doing much better financially because they have submitted themselves to the discipline and scrutinizing influence of the Almighty.

• Submit yourself to regular prayer, devotion and meditation. It is also an error to think that you can survive alone, solely on your own efforts and ability. It is well known that the banking job is very stressful, and that there is little or no time left for any other preoccupation or indulgence. But you must find time for regular prayer, for family devotion (if married) and for quiet meditation even in the comfort of your office. You should always ask God to take control of your activities at all times and repel fraudulent or other forces that are about to attack you, in your office or at home. Worship regularly in whatever church or mosque that you choose, whether you are a Christian or a Moslem; this is good for your soul, spirit and body.

• Commit some amount of money out of your salary for God's work whether in the name of offering, tithe, sowing of seed or showing appreciation; the name you call it does not really matter. You are also encouraged to help the less privileged financially, whenever and wherever you find them. It is tempting to say that your salary will not be enough, but it will still not be enough even if you do not do any of these things.

• Have a settled home front. To enable you focus properly and avoid distractions with the attendant frivolities, it is very essential that you have a settled home where you will return to after the day's work. If you have a spouse, be devoted to him or her. Seek appropriate guidance or advice on some critical aspects of the day's work which might defy your own wisdom or comprehension as an individual. Feel free to share ideas in this manner as this is the only way to ensure that your perception and understanding of unusual or uncommon circumstances is optimal. And in the process, even if you run into stormy waters and lose your job, it is easy for you to carry along your home front and confront whatever obstacles that may arise from the sudden loss of income.

• Listen to the inner voice, otherwise called conscience. Few people will doubt the fact that there is always an inner voice at whatever point in time, especially just before some vital decisions are taken in our daily lives. You are enjoined to always listen to that inner voice as that is the voice of God. Whether you are about to sign-off a credit, authorize a cheque for payment, approve a policy, employ a new staff, sack an existing employee etc., there is always a voice that tends to urge you to go ahead or discontinue; obey that voice in whatever direction it moves you. However, you must recognize that voice, hence the need for concentration.

In the fullness of time, and with hard work, perseverance and transparency, whatever belongs to you will not pass you by.

• Be patient. This principle encourages us to avoid excessive materialism, ostentation or in-ordinate ambition, for these things lead to nowhere. In the fullness of time, and with hard work, perseverance and transparency, whatever belongs to you will not pass you by. If this mindset is internalized, the banking system will be a better place and there will be minimal fraudulent tendencies by staff. It would also not be easy for external fraudsters to get the much-needed cooperation from inside, without which no fraud can succeed. It might also help if people bear in mind the fact that although God has plans for everybody, He does not have the same plan for everybody at the same time. In other words, your own time will surely come if you persevere.

BANKER, KNOW THYSELF

• To thyself be true. This is a favourite saying which translates to the fact that you can deceive others but you cannot deceive yourself. This particular segment is specially devoted to prospective or potential fraudsters as well as those who are either waiting for the opportunity or sitting

on the fence. I have no doubt, whatsoever, that the rule book or guidelines suggested in the following paragraphs will send you not only scampering for safety, but also convert you into an unrepentant apostle of the anti-fraud campaign.

• As far as the risk of being caught is concerned, fraud is essentially a gamble. It can be compared to a military coup where failure automatically results in dire consequences not only for the coup plotter but also for his immediate and extended family. Sometimes, even friends and perceived well-wishers find themselves in situations they did not bargain for.

• The individual should always take time off to reflect on his own nature. We have already established the fact that fraud is a big gamble that actually requires considerable guts to contemplate. By nature are you a gambler? Are you a risk taker or a risk averter? The successes you have recorded in your life so far, were they products of chance, luck or were they results of hard work and perseverance? These self assessment questions will help you determine the kind of person you are and whether you stand any chance of seeing your way through in the dangerous and risky terrain of bank fraud. It would amount to fool-hardiness and patent suicide to jump into it without understanding your own intrinsic nature.

• The next thing to do is to review your academic or professional accomplishments; this gives you an insight into your reputation or standing in the society and whether you can afford to throw all that away. If you happen to be a core professional such as chartered accountant, chartered banker, lawyer, engineer, medical doctor, architect, pharmacist etc., then fraud is a no-go area; in fact, it should not even be contemplated. Members of these and similar professions are permanently remote-controlled and have no where to hide. The certificates issued by these professions are their property and can be withdrawn, in addition to public ridicule and opprobrium.

• It is also inevitable that you consider your family back-ground and status as this would enable you gauge the potential impact of your actions. If you come from a modest family, then you must be carrying a bandwagon of dependants who queue up at your door steps on pay-day. Thus, your earnings are definitely too important for you to toy with as the ripple effects can be far-reaching. Remember that a failed fraud results in immediate loss of job, with the attendant loss of earnings. Sometimes, it also results in being under the custody of security agents, and possible prosecution which is a horrendous prospect. If you go into hiding, remember that life on the run is very expensive and does not last.

• Are you from a famous or prosperous family? This is a good reason why you should not even be seen within the vicinity where fraud is being discussed, talk less of committing one, as you most certainly have a very precious and valuable family name to protect; a good name is better than gold. It is a well known fact that destroying a good name is much easier than building one. Even the mere rumour of fraud in your family will set in motion a chain of negative publicity which is not immediately reversible even if subsequent investigation proves your innocence. Be careful so you do not drag the hard-earned family name into the mud for peanuts.

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BANKER, KNOW YOUR STAFF

• Since it is an established fact that no bank fraud succeeds without the active support, collaboration or connivance of staff, it stands to reason that you should understand the kind of staff that are working for you. A good understanding of the private and official dispositions of the generality of staff in your branch or department, their career history and records as well as their individual nuances and idiosyncrasies will enable you gauge the risk you run by keeping each of them, and by extension, the operational risk you need to mitigate. We are going to discuss such factors in considerable detail in the following paragraphs.

• You need to observe the personal lifestyle of your staff which includes his mode of dressing, the type of car he drives, the house he resides in, the way he runs his salary account etc. These factors need to be matched against his grade and total emoluments. The obvious objective is simply to know whether he is living beyond his means or whether he is already consuming fraudulently acquired income which would call for discrete enquiry. However, any such investigation must take cognizance of his family background and other circumstances before conclusions can be reached.

What he tells you is not as important as what you observed or confirmed from your investigation. If an office assistant drives an expensive car and wears designer suits and shoes and he tells you that his father is a governor or a minister, this should be checked out. Any substantial non-salary lodgment into a staff current account should be brought to your knowledge and duly explained.

• It is also very important to observe the general disposition of your staff while in the office in terms of the frequency of telephone calls and time spent, the kind of visitors he receives in relation to his grade and job function, his level of interaction with customers and the relevance to his duties, whether he tries to make deals with staff of other units without formal directives, whether he is not interested in proceeding for his annual leave even when he is expected to do so. These are possible signals for a secret agenda which should not be ignored. In all such unusual circumstances, satisfactory explanations must be obtained from the staff involved, in addition to other channels of information to confirm, corroborate or contradict what he tells you.

• No less important is the issue of individual staff profile and career history within the bank, as well as in previous employment, if any. How many other organizations has he worked for? Is he a rolling stone? What are the reasons for leaving each of them? As was earlier emphasized, what he tells you is not as useful as what your discrete enquiries reveal.

You would also gain considerable insight about him by going through his staff personal file which will tell you more about his educational qualifications, his referees, his assessment by other supervisors prior to his posting to your branch or department as well as disciplinary records, status enquiry report from previous employers, whether he has been confirmed or otherwise and the reasons for non-confirmation if that is the case.

• As a follow-up to the above, you also need to assess the interface between him and the job. Is he happy? Does he feel fulfilled generally? Is there congruence between his own career objectives and the requirements of the job? Is he sent on courses or training regularly to enable him acquire skills for his short-and medium-term needs? Has he earned promotions commensurate with his ability, together with his peers or has he lagged behind? Has he been discriminated against on account of his religion, tribe, gender or principle? Has he worked in other departments, branches or units or has he been on the same table or unit for several years? These questions must be answered and whatever specific scenario each staff presents should be investigated and satisfactorily resolved. Needless to add that any of these issues not ironed out presents a potential threat to fraud-free banking.

Corporate Risks: Do You Know Them?

This category of staff can assist you to prevent, control or detect fraud in much the same manner as they can also be part of an efficient fraud syndicate if they so desire. They sell sensitive or confidential corporate information to fraudsters or whoever is interested. Hence, you should make efforts to identify and cultivate them to reduce the risk you face. They include:

(i) Hardworking staff whose promotions are delayed,
(ii) Greedy Staff who desire luxuries far beyond their earnings
(iii) Those who are not well paid in a profitable bank.
(iv) Very junior staff who have no hope of rising to the top.

By definition, a bank exists to move resources from surplus customers to deficit ones. The benefits derived from the deficit units (by way of loan interest) is given to the surplus units (i.e. interest on deposits) and everybody should be happy. This is the time-honoured business of financial intermediation.

(v) Ambitious staff who consider their promotion too slow.

They work for good or for bad because of their consistent presence wherever anything is happening. They are "witnesses" because they "see", "hear" or "smell" whatever is going on which helps gossiping to spread. If you move to them, they will help you to uncover fraud and if you distance yourself from them, they can also assist the fraudsters to operate successfully. Hence, you need to know them and treat them with care for positive results.

KNOW YOUR CUSTOMERS

The issue of customer involvement in bank fraud is a thing of great regret as the primary business of a bank is to serve the customer and serve him well.

By definition, a bank exists to move resources from surplus customers to deficit ones. The benefits derived from the deficit units (by way of loan interest) is given to the surplus units (i.e. interest on deposits) and everybody should be happy. This is the time-honoured business of financial intermediation.

Therefore, a bank has no money of its own as the difference between interest received and interest paid is the margin which is used to pay staff salaries and maintain other service imperatives as well as operational infrastructure. Whatever is left, if any, is profit. Perhaps, it is because the generality of customers do not understand this basic arrangement that they attack banks with so much ferocity. Banks too, are not doing enough by way of public enlightenment.

Who Is A Customer?

The word 'customer' is loosely used to refer to any of the following categories of individuals that enter the banking hall at one time or another.

• **Observer:** He is a potential fraudster or armed robber who has come to confirm what he has been told or perfect his plans and this is the only business he came to transact. The banker must be vigilant and ensure that every body in the banking hall at any point in time has a legitimate mission.

• **"Attache":** He accompanied somebody to the bank; he himself has no business to conduct. He is harmless if that is all that he has come to do.

• **Personal Representative:** He has come to transact business on behalf of his principal or boss who is too busy to come in person. Do not relax, you can't be too sure.

• **Holders of Third Party Cheques:** An account holder has given him a cheque which he has come to collect; he himself has no relationship with the bank. You need to be careful with this category.

• **Account Holder:** He is the customer in the true sense of the word. He has certain rights and privileges under the banking laws which are jealously guarded, most of which he is aware of. However, he also has obligations which he often tends to overlook. It is this tendency to enforce his rights without taking his obligations into consideration that causes friction between the customer and his bankers and often create a fertile ground for fraud. These are discussed below under appropriate headings.

Problem Customers: Be Efficient

Some customers by their behaviour and circumstances present formidable challenge to the banker. Although an unintended impression of a hidden agenda is often formed, this may not necessarily be the case. In such situations, all that the banker needs to do is to be efficient at all times. Such circumstances include, but not limited to the following:

• Irregular signature: As a banker, you must satisfy yourself before you part with cash. Remember that it is better to err on the side of caution.

• No satisfactory identification: Most of the time, this has to do with holders of third party cheques being collected over the counter. The operative word here is discretion.

• Incomplete documentation: Especially with respect to current accounts, customers often have difficulty in making available the complete set of documents to operate the account as stipulated by law. The most important of these is references. The rule of the thumb here is to be professional and comply with both internal regulations as well as standard banking practices at all times.

• Customers in a hurry also present its own unique challenge to the banker, especially a third party payee who has come to cash an inter-branch instrument in which case the instrument has to be confirmed by the branch where the customer's account is domiciled. Here, the banker needs to be efficient while also being courteous.

Fraudulent Customers: Be Careful

Some customers articulate, design, and actually attempt to implement a plan of action which is decidedly fraudulent. The hallmark of experience and vigilance as a banker is your ability to smell danger when it is close to your door-steps. The shortest way to do this is to learn from the experience of others and avoid the pitfalls they have suf-

fered. Take the following real life scenarios which customers present from time to time to hoodwink bankers who may not be concentrating.

• **Customer Type I:** He says you should never pay his cheque without telephone confirmation from him. His cheque is presented over the counter, you call his line and he tells you to go ahead and pay. At month end, when he receives his statement of account, he tells you that his signature was forged and that the person you spoke with was not him, hence he cannot absorb the debit. Of course, he will show you the particular leaflet still in his cheque book. Obviously, he presented a cloned cheque which was paid.

• **Customer Type II:** This one gives you the mandate that you must obtain a written confirmation from him before his instrument is paid. One of his cheques arrives and you also receive a written confirmation on his letter headed paper after which you release cash. He later turns around and tells you that both the cheque and the confirmation were forged and also shows you the cheque number which he has not used.

• **Customer Type III:** This particular customer says you should not pay his cheque unless it is signed in red ink. He signs a cheque in blue ink and gives to someone to go and collect the cash from another branch since your bank is on-line. That branch contacts you and you confirm the instrument without seeing the colour of the ink used to sign it. The customer refuses to bear the debit saying it was not signed by him and that the cheque leaf was stolen from his cheque book.

• **Customer Type IV:** This group represents customers of all shades and colours who induce all manner of fraud in the banking system, including those in previous editions of this serial; you would marvel at the ingenuity of many of them.

It beholves on bankers to be one step ahead at all times in order not to fall for the machinations of these types of customers.

KNOW YOUR ENVIRONMENT

There is an unwritten rule that in order to survive in any corporate organization, you must first understand not only the internal dynamics but also the industry outlook. This saying is no less true in the banking environment, especially when the issue at stake is fraud and how to combat it. As a banker therefore, it is imperative that you have a working knowledge of your environment, both internal and external, to enable you take a strategic position and confront the challenges ahead.

Although weapons must be formed against you while missiles must fly in your direction, the objective is the same: To shoot you down or make you vulnerable. The only way to avoid being vulnerable is to be well equipped by understanding the intricacies of your environment.

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• **Observer:** He is a potential fraudster or armed robber who has come to confirm what he has been told or perfect his plans and this is the only business he came to transact. The banker must be vigilant and ensure that every body in the banking hall at any point in time has a legitimate mission.

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• **Account Holder:** He is the customer in the true sense of the word. He has certain rights and privileges under the banking laws which are jealously guarded, most of which he is aware of. However, he also has obligations which he often tends to overlook. It is this tendency to enforce his rights without taking his obligations into consideration that causes friction between the customer and his bankers and often create a fertile ground for fraud. These are discussed below under appropriate headings.

Internal Environment

The following issues are relevant in this regard, and should be meticulously studied and understood by every banker.

• **Management policy:** The management policy of your bank is actually a reflection of the ownership structure and objectives at any point in time. We had earlier examined how the management styles and personal idiosyncrasies of promoters of banks actually provide the enabling environment for fraud to thrive. If you are working in those categories of banks, then you should be aware of those issues. However, irrespective of the bank where you work, you should have no difficulty in understanding management policy as well as ownership structure as these would provide useful guide for safe navigation.

• **Operations policy (manual of procedures):** The banking operations policy of any bank contains the procedures that guide the day-to-day running of various aspects of the banking business.

Usually, there is a manual of procedures in respect of branch operations, credit, foreign operations, inspection, etc. You should be very conversant with the manual relating to your own job function in order to minimize the use of discretion which might put you into trouble if something goes wrong as your motives might be misunderstood. It should be noted that appearance is more important than reality as nobody sees your mind. You are the only one that can vouch for yourself; hence, you must be transparent both in words and in deeds.

• **Disciplinary policy (staff handbook):** You must also be very conversant with the disciplinary procedure in your bank as contained in the staff handbook usually given to every staff but which, sadly, a lot of people never bother to read. You need to be able to determine your fate in advance before you take a dive into the muddy waters of discretion, or violation of operational policy under any guise.

• **Generational status:** It is also vital for you to be able to locate your bank in the generational hierarchy in order to determine the kind of forces you are up against, where to seek advice or redress and what kind of lessons to learn.

External Environment:

The banker should also be able to analyze developments outside his immediate vicinity and the likely impact it will have on his work.

• **Banking industry scenario:** At the moment, we have a few banks competing among themselves (i.e. oligopoly), hence, the issue of size is no longer being a marketing tool, instead emphasis is now on efficient service delivery and quality of controls. Fraud-prone banks will suffer considerable adverse publicity and loss of confidence and patronage.

It should be noted that appearance is more important than reality as nobody sees your mind. You are the only one that can vouch for yourself; hence, you must be transparent both in words and in deeds.

• **Political Climate:** We are gradually entering the season of political party congresses, conventions, primaries, campaigns and eventual elections in 2011. As politics and cash are inseparable, the excessive use of cash in view of these activities is predictable, just as banks are bound to go through a rash of service-related pressures. This would in turn demand additional surveillance as the cash that initially leaves the banking system would still find its way back.

• **Social Climate:** The growing army of bankers being pushed into the unemployment market as well as the thousands being churned out from the higher institutions provide a veritable source of worry which should not be taken lightly. A good number of them will surely become fraudsters or willing tools in the hand of fraudsters, constituting themselves into a ready-made army for wrecking havoc in the banking system. The name of the game is vigilance!

• **Technological Climate:** The advancement in technology which is a blessing to banking is also a big challenge as things that were impossible yesterday can now be accomplished with ease. Even the cheque clearing days are becoming shorter, courtesy of technology, while colour photocopying is currently for the asking. With the mobile banking technology, you can now effect banking transactions without going to the bank. All these technological advancements are prone to fraudulent abuse and manipulations and the only antidote is to be very knowledgeable not only about how technology is used, but also how it can be misused or abused.

Next Edition:

In the next edition, we shall focus on remedial measures and specific strategies to be adopted where fraud has taken place.

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

Economic Meltdown: The Realities for the Manufacturing Sector

*** By Sunday Enebeli-Uzor**

The raging global economic and financial meltdown which started as deterioration in portions of the U.S. subprime market in 2007 has metamorphosed into severe macroeconomic dislocations, and now poses systemic risk to the manufacturing sector of many economies across the globe. In the United States, for instance, industrial production declined by 3.6 percent between November 2008 and January 2009. US industrial production fell in March for the fifth consecutive month, by 1.5 percent, to the lowest level in a decade. Output in March dropped to its lowest level since December 1998 and was nearly 13 percent below its level a year earlier. On a 12-month basis, output in the U.S. is down by 12.8 percent. In Britain, industrial production fell by 4.4 percent between November 2008 and January 2009. In the last three months, output has fallen by about 6.4 percent, marking the 11th straight month of decline. Britain's manufacturing industries have suffered serious collapse as output has dropped by about 13 percent within a one year period.

The fall is even more pronounced in countries that are highly dependent on manufacturing exports. For instance, Germany's industrial production in fourth quarter 2008 declined by 6.8 percent while Taiwan's plummeted by a whopping 21.7 percent as the ef-

fects of the global economic meltdown deepen. Japanese industrial production fell by 9.4 percent for the fifth straight month in February, tumbling by 9.4 percent from January's position, and a staggering 38.4 percent year-on-year. The hardest-hit industries are transport equipment, general machinery, and electrical machinery. From Europe to Asia, and America, factories are closing shop, underscoring the fact that the global whirlwind has caught up with virtually every economy, and in the process, has exposed the vulnerability of the manufacturing sector. In the case of Nigeria, industrial capacity utilization dropped by about 15 percent between end 2008 and end first quarter 2009. A collaborative study by the Central Bank of Nigeria, the National Bureau of Statistics and the Nigerian Communications Commission put the capacity utilization at 53.29 per cent as at end-December 2008, while the Manufacturers Association of Nigeria (MAN) gave the figure as 38 per cent by end-March 2009.

The Manufacturing Sector in Nigeria

In Nigeria, the sector has been operating in a generally suboptimal environment over the years, confronted by a myriad of challenges. These challenges are now worsened by the global economic and financial meltdown which is beginning to threaten its very existence as the industrial sector appears to be one of the biggest victims. In a recent paid advertorial, the Manufacturers Association of Nigeria identified persisting high inflation rate in the economy as most unfavourable to the sector. This, they say, does not encourage savings and investment, and ultimately economic growth. Indeed, this scenario eventually culminates in short-term investments as long term investment activities cannot be embarked upon in a situation of uncertainties. MAN also identified the incidence of multiple taxation and unfavorable ECOWAS Common External Tariff (CET) policy which they believe, has culminated in loss of market share for local manufacturers.

In the report, the body posited that the dearth of infrastructural facilities has become a serious bane of the sector. Epileptic electricity supply, poor or non-existent water supply, high cost of telecommunication services, and poor transportation systems and networks are major infrastructural challenges facing the sector. These factors, according to MAN, have combined to cripple a lot of firms and the few surviving ones operate under severe constraints. For instance, manufacturers virtually depend on generators as a source of power supply, with private power generation currently accounting for about 30 percent of manufacturers' cost of production. "Firms are therefore forced to invest huge capital in alternative infrastructural facilities to run their businesses thereby reducing their profitability, and competitiveness". Other militating factors identified by the manufacturers' body include: smuggling, excise duty, port congestion, high interest rates, high exchange rate, inconsistency in investment policies, and recently, the depreciation of the Naira. These factors have combined to make Nigerian firms uncompetitive in the global market.

In the area of capacity utilization, a recent collaborative survey by the National Bureau of Statistics (NBS), the Central Bank of Nigeria (CBN) and the Nigerian Communications Commission (NCC), put the figure for 2008 at 53.29 percent. However, this has plunged to less than 38 percent in recent times owing to the pervading impact of the global financial crisis. Furthermore, statistics from the Manufacturers Association of Nigeria show that capacity utilisation for basic metal is currently 37.71 percent,

In Nigeria, the manufacturing sector has been operating in a generally suboptimal environment over the years, confronted by a myriad of challenges. These challenges are being worsened by the global economic and financial meltdown which is beginning to threaten its very existence as the industrial sector appears to be one of the hardest hit. In a recent paid advertorial, the Manufacturers Association of Nigeria (MAN) identified persisting high inflation rate in the economy as most unfavourable to the manufacturing sector. This, they say, does not encourage savings and investment, and ultimately economic growth. In deed, this scenario eventually culminates in short-term investments as long term investment activities cannot be embarked upon in a situation of uncertainties.

while electrical/electronics stands at 46.75 percent. Capacity utilisation for pharmaceuticals is 44.52 percent, metal products 41.37 percent, papers/paper products 57.7 percent, automobile 19 percent, food & drinks 54.5 percent, textile 32 percent, non-metallic 31.25 percent, and wood products 43.06 percent.

One logical concomitant of all these, according to MAN, is stiff competition from international or foreign competitors. Arguably, because of this, MAN has over the years insisted on tariff and non-tariff protections for its members—especially those regarded as operating as 'infant industries'. But there are usually two sides to the domestic infant industry protection argument (protectionism). While its proponents posit that the comparative advantage argument for free trade has lost its legitimacy in a globally integrated world—in which capital is free to move internationally - they believe that by imposing high tariffs on imported commodities (or even out right ban), domestic industries will grow and become self-sufficient within the international economy once they reach a reasonable size. Proponents of free trade, on the other hand, criticize protectionism, as they believe it harms the people it is meant to help. They equally contend that the gains from free trade outweigh any losses; as free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage. They also argue that protecting domestic industry amounts to "anti-globalization". In the final analysis however, it is only expedient that countries, especially industrially weak ones adopt some measures to shield the productive base of their economies from stiff international competition to protect their national interest. But it could also be said that when domestic infant industries are protected for too long, they could become perpetually inept 'aged-infants'—all to the detriment of the nation the policy is intended to develop.

Source: *National Bureau of Statistics*
** Provisional*

The high risk nature of manufacturing is also another factor that could discourage lending to the sector as most lenders prefer low risk lending to guarantee repayment and safety of shareholders' funds. Even in some running firms, lack of funds could also hamper investments in modern machines, information technology, and human capital development which are critical in cost minimisation, enhanced productivity, and competitiveness.

Level of Investments: Apparently owing to the generally not-so-favourable investment climate over the years, investment in the manufacturing sector of the Nigerian economy has not grown to match the pace of growing demand and population. This demand-supply gap has skewed investment in favour of merchandise/commerce because of the nature of investible funds in the economy—most funds being short-term in nature. Such short-term funds are not suitable for investment in manufacturing as it takes a longer gestation time for manufacturing ventures to yield returns to investors.

The high risk nature of manufacturing is also another factor that could discourage lending to the sector as most lenders prefer low risk lending to guarantee repayment and safety of shareholders' funds. Even in some running firms, lack of funds could also hamper investments in modern machines, information technology, and human capital development which are critical in cost minimisation, enhanced productivity, and competitiveness. All these notwithstanding, banks' credit to the manufacturing sector has been on the increase, as it rose by N66.65 billion to reach N999.45 billion as at end-February 2009, representing a 7.15 percent increase from its level of N932.80 billion in December 2008. On annual basis, this increase has been steady: from N352.04 billion in 2005, it rose to N445.79 billion in

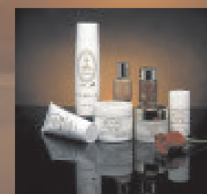
2006; and further to N487.58 billion in 2007.

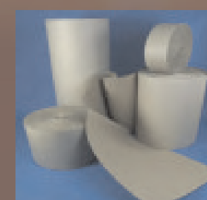
How did it all start?

The economic history of Nigeria shows that the manufacturing sector has been performing sub-optimally for a long time, especially since the discovery of crude oil in commercial quantity in the late 1950s. The sector got hit by the infamous Dutch disease—an economic concept that explains the apparent relationship between the exploitation of natural resources and a decline in the manufacturing sector in an economy. The principle has it that an increase in revenues from natural resources tends to reduce the industrial capacity of a nation's economy by raising the exchange rate, which makes the manufacturing sector less competitive and public services entangled with business interests. Since the term (Dutch disease) was coined in 1977 by *The Economist* to describe the decline of the manufacturing sector in the Netherlands after the discovery of a large natural gas field in 1959, Nigeria has become a classic example of the phenomenon in economic literatures.

The sector's contribution to the macroeconomic development of the country has remained small, as the ever-promising sector has often contended with myriads of challenges leading to persistent low capacity utilization. These hydra-headed challenges have in recent times led to the flight/relocation of the processing lines of some top-tier companies to neighbouring countries, while a number of others closed shop. Two of such companies are Dunlop and Mitchellin—both tyre manufacturers. The resultant effect of this is loss of jobs and revenue accruing to the government, thereby worsening the unemployment situation in the country. This is further worsened by the unfortunate mass importation of goods and commodities (officially or otherwise) from West African neighbours that hitherto depended on Nigeria for their supplies.

Hope on the horizon
In recent times, the federal government of Nigeria has embarked on a number of reforms in a renewed bid to encourage manufacturing and broaden the productive base of the economy. To this end, excise duty on some commodities has been removed. The affected items include perfumes and other toilet waters, cosmetics, non-alcoholic beverages, fruit juices, soaps and detergents and spaghetti/noodles. Others are telephone recharge cards/vouchers, corrugated paper or paper board, and cartons, boxes and cases made from corrugated paper and paper board as well as toilet papers, cleansing or facial tissue.





GDP Growth Rate (Percentage) of Some Non-Oil Sectors at 1990 Current Basic Prices

Activity Sector	Year				
	2003	2004	2005	2006	2007
Agriculture	13.50	20.81	22.27	24.45	27.51
Services	21.26	41.81	29.95	32.30	52.11
Finance & Insurance	2.09	26.98	27.00	1226.93	29.75
Manufacturing	-8.28	-25.01	18.15	15.95	29.39
Mining & Quarrying	15.85	30.75	32.57	57.70	36.34
Communication	32.08	26.57	79.23	306.44	123.42

Source: Central Bank of Nigeria

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and spaghetti/noodles. Others are telephone recharge cards/ vouchers, corrugated paper or paper board, and cartons, boxes and cases made from corrugated paper and paper board as well as toilet papers, cleansing or facial tissue. This measure, holding other factors constant, is expected to culminate in the reduction of cost incurred by manufacturers and to encourage them to produce more, especially for export.

The government has also removed bank guarantee for Negotiable Duty Credit Certificates (NDCCs) which hitherto entitled exporters to offset part or whole of subsequent Customs and Excise duties payable to the government as part of efforts to encourage manufacturers of export commodities. The removal of the bank guarantee requirement will reduce costs to the manufacturers as well as remove impediments to doing business in the country. Besides, the measure would encourage exporters to venture into the non-oil sectors, thereby enhancing foreign exchange earnings for the country. This effort is geared towards encouraging value addition and encouraging export of finished products to augment foreign exchange earnings as the volatility of the oil sector continues in the light of dwindling crude oil production and plummeting oil prices.

Also, in a bid to mitigate the effects of the global financial and economic crisis on the textile industry in Nigeria, the federal government decided to inject N70 billion into the industry as a stimulus package. The government hopes to immediately release the fund to the industry to avert further deterioration. The textile industry has the capacity to employ more than 500,000 persons directly at a time and over a million people indirectly as cotton growers and labourers. It is a highly strategic non-oil industry with installed capacity investment of about US$2 billion. The Nigerian textile industry is the second largest in Africa (after Egypt). It is an all important non-oil industry that extensively utilizes local raw materials especially cotton. The industry is critical to the process of industrialization in any economy as the Industrial Revolution of the late 18th and early 19th centuries started with the mechanisation of the textile industry. Unfortunately however, according to MAN statistics, only 10 textile firms are currently operating in the country.

The sector's contribution to the macroeconomic development of the country has remained small, as the ever-promising sector has often contended with myriads of challenges leading to persistent low capacity utilization. These hydra-headed challenges have in recent times led to the flight/relocation of the processing lines of some top-tier companies to neighbouring countries, while a number of others closed shop.

Another remarkable effort to boost the nation's industrial capacity is the establishment of free trade zones by the government. These free trade zones (FTZ) or export processing zones (EPZ) as they are also called are specially designated areas where some normal trade barriers such as tariffs and quotas are eliminated and bureaucratic requirements are lowered to attract new businesses and foreign investments. The government embraced this approach to achieve a number of objectives, principal amongst which are diversification of the revenue base of the nation, employment generation, and the need to encourage export through local production.

The major incentives of free trade zones in Nigeria include the following: complete tax holiday from all Federal, State and Local Government taxes, rates, customs duties and levies; one-stop approvals for all permits, operating licenses and incorporation papers; duty-free, tax-free import of raw materials and components for goods destined for re-export; duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture. Others include permission to sell 100 percent of manufactured, assembled or imported goods into the domestic Nigerian market; goods manufactured in the Free Zone and sold into the domestic market attract import duty calculated only on the basis of the value of the raw materials or components used in assembly, not on the finished products; 100 percent foreign ownership of investments; 100 percent repatriation of capital, profits and dividends; waiver of all import and export licenses; waiver on all expatriate quotas for companies operating in the zones; prohibition of strikes and lockouts; and rent free land at construction stage within the zone.

Since Nigeria commenced the free trade zones initiative, a number of successes have been recorded. The numerous free trade zones provide good investment window for firms willing to take advantage of government's drive

to encourage production for export. The Free Trade Zones circumvent tough regulations, eliminate administrative delays and provide easy access to export channels for investors.

The Bank of Industry Limited (BOI) which was established in October, 2001 is undergoing fundamental restructuring to more effectively deliver on its mandate as a development bank. As the name implies, the bank was set up principally to meet the finance needs of industries. The new vision for the bank seeks to collapse structures of the former Nigeria Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) as well as National Economic Reconstruction Fund (NERFUND), into one entity. This has not been fully consummated due to the legislative hurdle of repealing the laws that set up the legacy institutions and enacting appropriate legislation to back up the policy. Specifically, NERFUND could not collapse its structures into the BOI by fiat because it was established by an Act of parliament which must be abrogated or amended to pave way for its dissolution. It is hoped that as soon as this is achieved, the reinvigorated bank will be a one-stop financial institution for the industrial sector. By December 2008, the value of loans advanced by the bank to Micro, Small and Medium Enterprises (MSMEs) rose to N47.3 billion from N9.8 billion in 2005.

Non-oil Export on the rise

Non-oil export has witnessed impressive growth in recent times. It rose from US$957 million in 2006 to US$1.4 billion in 2007, and in 2008, it stood at US$1.8 billion. The

Experience has shown that industrial development in any country provides the brightest hope for sustained growth, employment generation, improved savings and investments and indeed, economic development.

Nigerian exports have been skewed towards raw material exports – mainly oil (oil revenue accounts for about 95 percent of foreign exchange earnings, 80 percent of total government revenue, 17.54 percent of GDP, and four percent of total employment). Trade in raw materials still accounts for over 75 percent of the Nigerian export trade.

Nigeria Export Promotion Council however believes that these figures only capture formal export trade. A large volume of trade is transacted in the informal sector, which is not recorded officially.

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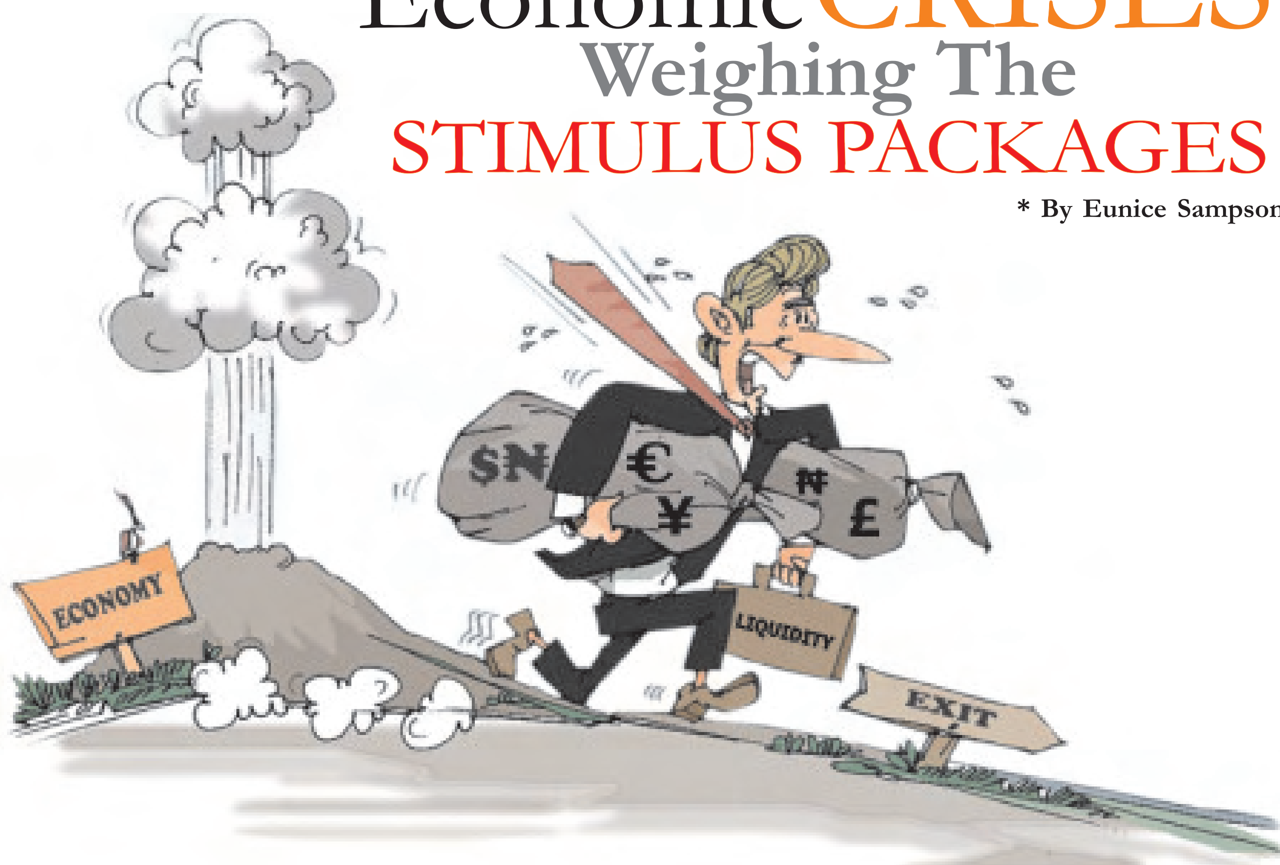
The impact of manufacturing activities on the economy of a nation is enormous. In developed economies for instance, they account for a substantial proportion of total economic activities. Experience has shown that industrial development in any country provides the brightest hope for sustained growth, employment generation, improved savings and investments and indeed, economic development. There is no gainsaying that the extent of industrialization or otherwise determines the dividing line between economically developed and the under-developed nations. In Nigeria however, the sub-sector has been contributing less than 5 percent to the nation's GDP for sometime now. In terms of employment generation, it accounts for about 12 percent of the labour force in the formal sector of the economy.

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

Economic CRISES: Weighing The STIMULUS PACKAGES

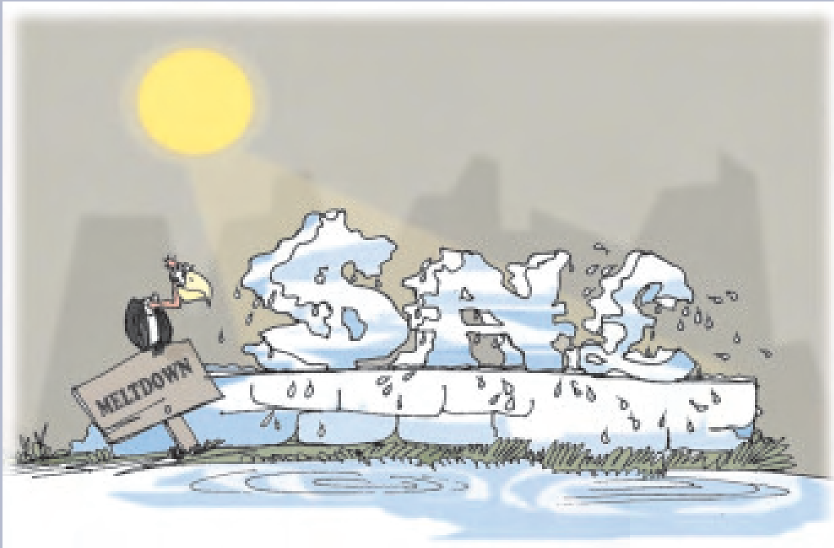
* By Eunice Sampson



About the most commonly used cliché at this period of global economic meltdown is the phrase 'stimulus package'.

While the current crisis has made the term unusually 'fashionable', the idea of stimulus packages is not new. As far back as the 1930s, Republican President Hebert Hoover of the United States adopted it as one of his key economic rescue measures during the Great Depression.

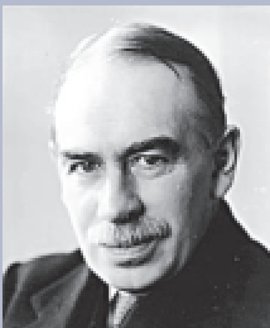
His immediate successor, Franklin D. Roosevelt (Democrat) gave more impetus to the policy as he spent much of his 12 years in office (1932-1944) wrestling the American and global economies, first from the Great Depression which he inherited from his predecessor, and later, the aftermath of World War II.



THE ROOTS OF ECONOMIC STIMULUS

Economic stimulus is usually a fiscal policy in the form of enhanced government spending and/or significant tax measures taken to revive an ailing economy. It includes measures such as tax cuts, tax rebates and wage increases. It also includes direct fund injections into strategic sectors in the forms of bail outs – credits, recapitalization, reinvestment, nationalization of sick private corporations – measures intended to boost economic activities, increase consumer spending, enhance liquidity in the system and create jobs.

The idea of stimulus packages is derived from Keynesian economics, a theory propounded in 1936 by British born John Keynes. Keynesian theory is based on the premise that activities in the private sector could sometimes have wide macroeconomic implications, which could result in economic meltdown. At such times, government should respond with fiscal measures that would stimulate economic activities and correct the imbalances.


• John Keynes

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Keynesians believe strongly that the way out for a receding economy is government intervention in the form of a 'stimulus', targeted at massive investment in infrastructure and a reduction in interest rates and taxes. These, they believe, trigger a cyclic chain of improved liquidity, increased spending, enlarged productivity, enhanced investments - a multiplier effect that reinvigorates the economic engine and keeps it running again.

When, on the other hand, the economy is getting too overheated as a result of a boom, Keynesians advocate measures that would raise interest rates, increase taxes, and other policy actions that could dampen demand and spending.

As earlier noted, US Presidents Hoover and Roosevelt were the first to adopt measures similar to stimulus packages as we now know them. Franklin D. Roosevelt's famous 'New Deal', is rated as about the most effective economic stimulus effort so far, a Keynesian-like policy which triggered economic recovery and the rebuilding of infrastructure (in the US and Europe) destroyed during World War II.

Since these early experiments – thanks to the diverging views of prominent economists – the practice of stimulus packages has received knocks and accolades; obscurity and popularity, at different times, with different socioeconomic and political eras.

The Knocks:

The major antagonists of economic stimulus have been the 'monetarists' and free market advocates who believe that government intervention in the economy should be at best, minimal. Government reaching all out to sweep up the mess generated by the private sector is described by adherents of free market capitalism as a sheer rip-off on, and outright unfairness to hardworking

taxpayers – a case of 'robbing Peter to pay Paul.'

They argue that government fiscal interventions could be counter-productive, as it could drive up inflation and generate inequality in earnings.

This school of thought insists that government has no business interfering in economic activities under any guise. When things go wrong, the market should be allowed to heal itself. At best, monetary measures (not fiscal), including interest rates management, could be employed to guide the market back on track.

But not all experts today agree with this laissez-faire view to addressing economic crisis of the magnitude the world currently faces. In the current global financial situation for example, where banks are not willing to lend, even at near 0% official interest rate, monetary policy (especially the lowering of interest rate to spur demand) could prove unworkable, explaining why governments decided to adopt fiscal policies by directly injecting funds into the system instead of waiting for market forces, possibly endlessly, to help do so.

The Accolades:

Despite strong criticisms from some quarters, economic recovery measures so far adopted by major economies show a growing preference for Keynesian solutions.

World leaders seem highly convinced that it is the most effective recovery option at their disposal.

Last November, UK Prime Minister Gordon Brown said, "everybody generally agrees that the fiscal stimulus - and what we mean by fiscal stimulus is real help for businesses and families, now - has got to be substantial to have an impact. … I don't see this as a gamble. I see this as necessary, responsible action that any sensible government would want to take."

Defending the decision of France to adopt a stimulus package in December 2008, French President Nicolas Sarkozy said, "Our answer to this crisis is investment, because it is the best way to support growth and save the jobs of today, and the only way to prepare for the jobs of tomorrow."

This January, Chinese Premier Wen Jiabao lamented the depressing impacts of the global financial crisis on China, describing 2009 as the country's worst year this century. But he was quick to add that his government's economic stimulus "measures have been proved prompt, correct and effective," in gradually bringing the economy back on track.

On signing the $168 billion Economic Stimulus Bill into law last February, President George W. Bush called the measure "a booster shot for our economy".

And despite all their political and ideological differences, his successor Barack Obama within his first one month in office signed into law a stimulus package that was four times bigger than that of George W. Bush, describing it as "the beginnings of the first steps" to economic recovery.

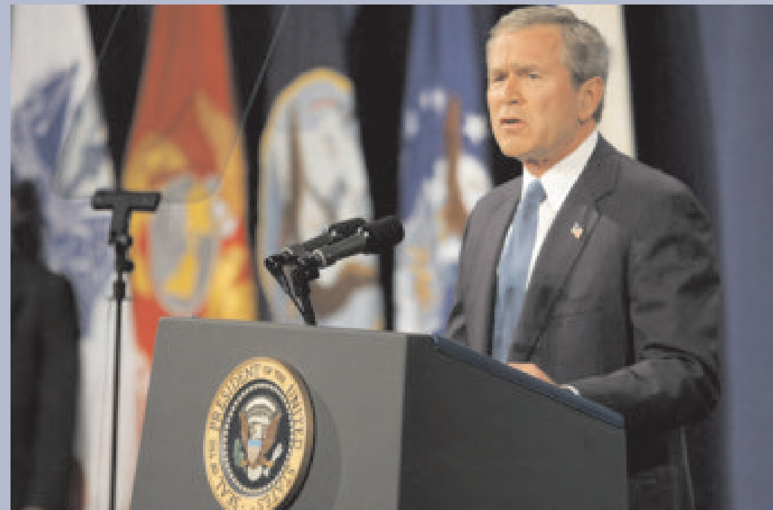
"History has shown repeatedly that when nations do not take early and aggressive action to get credit flowing again, they have crises that last years and years instead of months and months …. A dollar of capital in a bank can actually result in eight or 10 dollars of loans to families and businesses, a multiplier effect that can ultimately lead to a faster pace of economic growth." … President Barack Obama.

Can all these global leaders and their expert economic advisers be wrong?

TODAY'S STIMULUS PACKAGES

United States: The first direct government intervention in the current global financial crisis was the 'Economic Stimulus Act of 2008' initiated by US President George W. Bush and enacted on February 13, 2008.

The $168 billion Stimulus Act offered relief packages such as tax rebates totaling $120 billion to low and middle income tax payers and tax incentives for businesses, among



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When in September, statistical reports showed a deterioration in the US economic nerve centre, the Wall Street, President Bush responded by presenting another stimulus bill – the Emergency Economic Stabilization Bill of 2008 – requesting Congress approval to inject about $700 billion into the economy by way of buying over toxic mortgage assets from financial institutions. The bill was passed on October 3.

Also that month, fears gripped the global financial sector after Lehman Brothers filed the largest bankruptcy in US history and government nationalized drowning Fannie Mae and Freddie Mac. Rescue measures were taken to save American International

"History has shown repeatedly that when nations do not take early and aggressive action to get credit flowing again, they have crises that last years and years instead of months and months .... A dollar of capital in a bank can actually result in eight or 10 dollars of loans to families and businesses, a multiplier effect that can ultimately lead to a faster pace of economic growth." ... *President Barack Obama.*

Group; Morgan Stanley; Goldman Sachs, etc.

In mid October, President George Bush announced a cash injection package for US financial institutions similar to an earlier UK bailout measure. About $250 billion from an approved $700 billion would be injected into sick banks in exchange for government stake.

The historical swearing in of Barack Obama as the 44th United States' President on January 20 raised public confidence at the beginning of this year. To sustain the temple, President Obama on February 17, 2009 signed a $789 billion stimulus package (the American Recovery and Reinvestment Plan) into law, in what has been described by New York Times analysts as "the most expansive unleashing of the government's fiscal firepower in the face of a recession since World War II".

A White House release outlined the major goals of the $789 billion stimulus plan to include:

- Doubling renewable energy generating capacity over three years. It took 30 years to

reach current levels of renewable energy production. This plan will double that level over the next three years – enough to power 6 million American homes.

• Undertaking the largest weatherization program in history, modernizing 75% of federal buildings and two million homes.

• Computerizing every American's health record in five years, reducing medical errors and saving billions of dollars in health care costs.

• Launching the most ambitious school modernization program on record, sufficient to upgrade 10,000 schools and improve learning environments for approximately 5 million children.

• Enacting the largest investment increase in US roads, bridges and mass transit systems since the creation of the national highway system in the 1950s.

Unlike other economic blocs, Africa is yet to announce any consensus stimulus package to tackle its growing fiscal and macroeconomic challenges resulting from the recession. Individually, African countries are under pressure to act to reverse the mounting side effects of the meltdown.

The final bill includes $507 billion in infrastructure development and $282 billion in tax relief, including a rebate plan that would give credits of up to $400 for individuals and $800 directly to families within certain income limits. It will also provide a one-off payment of $250 to recipients of Social Security and those under government disability support scheme.

Hopefully, the plans when executed would jumpstart the economy and create about three to four million jobs "while making a down payment on the nation's economic future".

But a yet bigger package was in the offing. On March 23, US Treasury secretary, Timothy F. Geithner unveiled details about a $2.5 trillion "Public-Private Investment Program," a rescue plan designed to clean the balance sheet of banks, flush out troubled assets such as sub-prime mortgages, and address the liquidity squeeze that has been a hallmark of the economic crisis.

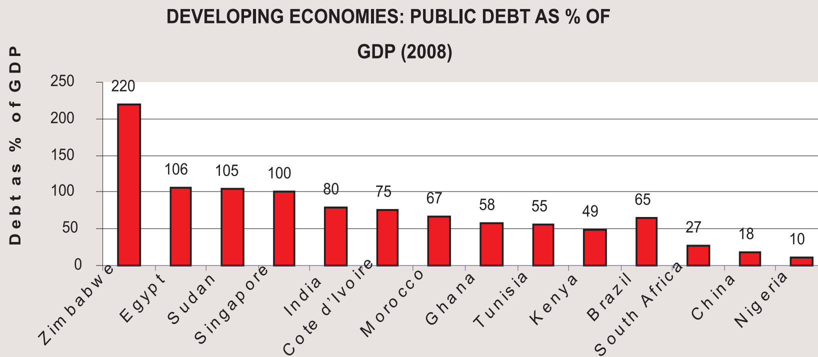
Only about $350 billion of this fund would come from the already enacted bailout package; the rest would come from private investors and the Federal Reserve. Government will play the role of an intermediary between the banks selling the bad assets and the private investors buying them, with the FDIC – the country's leading financial regulator – providing guarantee to buyers.

United Kingdom: Like the United States, the UK has adopted fiscal stimulus in efforts to rescue its economy from the grip of the global crisis. Last November, government responded to the country's dwindling economic fortunes with the launch of a $47 billion economic stimulus package to boost productivity and consumer spending.

Among other measures, the package provides for a tax cut on goods and services, reducing the Value-Added Tax (VAT) from 17.5 per cent to 15 per cent (the lowest level allowed under EU regulations) and effective December 1, 2008. The cut in VAT rate is estimated to reduce government revenue by £12.5 billion or about $19 billion.

As part of the fiscal intervention measures, the UK has bailed out ailing private financial institutions. On February 22, 2008, the British bank, Northern Rock, became the first victim of the nationalization that has become a global trait. Bradford & Bingley's was also nationalized in September, while bailout packages totaling £25 billion were offered to Barclays; Royal Bank of Scotland; HSBC Holdings; Lloyds TSB; HBOS; Standard Chartered; Abbey National; Nationwide Building Society, etc, giving the British government major stakes in these institutions.

European Union: In November 2008, the European Commission proposed a €200 billion stimulus to create employment, boost spending and fast track growth in the region. The stimulus package represents 1.5 percent of its



Source: Research & EIG; National Economic reports

GDP.

About €170 billion of the fund will be provided for in national budgets of member states while the balance will come from the EU and the European Investment Bank.

Several member countries have announced their own stimulus packages, including the region's biggest economy, Germany which in November unveiled a $65 billion fiscal plan.

France also launched a €26 billion (about $33 billion) package with about €11 billion of it to be spent on businesses and €4 billion on infrastructure and public service. France is injecting an additional €11.5 billion into the economy in the form of credits and tax breaks in efforts to trigger industrial production and consumption and ease growing unemployment which at 8% is one of the highest in the region.

Japan: The world's second leading economy has announced series of bailout measures since the inception of the current crisis. In the latest of such plans, Japan on April 5, 2009 pledged a fiscal stimulus of about 10 trillion yen ($100 billion) to boost the economy and avert a repeat of its "lost decade" experience of the 1990s. Japan has so far packaged economic stimulus equal to 4% of its GDP.

The fiscal interventions are designed to raise national output which dropped by a staggering 12% year-on-year in fourth quarter 2008; rekindle consumer and manufacturers' confidence; support the jobless and small businesses; revive key sectors like health and energy and create employment.

China: Like Japan, the Chinese economy is driven by industrial output and export, sectors that have been severely hurt by the crisis. Beijing like the Western economies, has demonstrated faith in fiscal stimulus as a way out of the quagmire. Last November, Chinese authorities announced a stimulus plan that would boost the economy back to double digit growth.

The Four trillion Yuan ($586 billion) two-year package will be spent on upgrading infrastructure, particularly roads, railways, airport, power, and sectors such as auto and steel, oil and petrochemicals, electronics and information technology, textile, among others. Rehabilitation and reconstruction works following the earthquake in the Sichuan province of the country last May will also be targeted.

With external reserve of almost $2 trillion, China, more than any other country has the wherewithal to finance its way out of the recession, if that is what it takes. Despite its dwindling earnings, China's budget deficit in 2009 is still a mere 3% of GDP as against the United States' 12%.

Afro-Asian Economies: Major Asian emerging markets have also taken 'stimulus' steps. India for example in addition to interest rate cuts and an enhanced 2009 budget unveiled a $4 billion stimulus package last December. In November, South Korea uncovered an $11 billion fiscal stimulus plan. Others in this region include Bangladesh which this April disclosed a $500 million fiscal package to help stimulate declining economic activities.

As the crisis bites harder, countries – from Australia to Zimbabwe – seem to be mapping out stimulus plans in line with their economic size and fiscal capability.

In Africa, the highly commodity dependent region is

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witnessing a relapse after seven consecutive years of strong growth. In the face of pilling budget deficits, external debt and record liquidity squeeze, the African Development Bank has projected a growth rate of 3 percent for the region in 2009, the lowest expansion since 2002.

Unlike other economic blocs, Africa is yet to announce any consensus stimulus package to tackle its growing fiscal and macroeconomic challenges resulting from the recession.

Individually, African countries are under pressure to act to reverse the mounting side effects of the meltdown.

Efforts to close the widening financial gaps created by the crisis is compelling oil-dependent economies like Nigeria to use up their external reserves and other special accounts. The story is the same for other commodity dependent African economies, raising fears that, at this rate, Africa's external reserve position could be depleted by as much as half by the time this crisis is over.

Even if the global economy is to recover by the second half of 2010 as some have projected, the local and international efforts made over the years to arrest endemic poverty in the world's most fragile continent has already suffered a critical setback.

Meanwhile, there is yet no unanimous response to a recent plea by World Bank President, Robert Zoellick for developed economies to pledge 0.7 percent of their stimulus package to support the poorest countries.

The recent decision of the G-20 to inject $1.1 trillion into the global economy through the World Bank and IMF is believed to be the stimulus package designed for developing economies, including Africa. The fund is planned to be channeled into trade, investment, Millennium Development Goals, liquidity in the financial services sector, among others.

A breakdown of the proposed stimulus shows that $100 billion of it would be used as credits for poor countries through development banks; $250bn would be spent to boost global trade finance; $750bn would go to the IMF for onward lending to developing countries.

But the plan is still on the drawing board and time is of the essence. Since the stimulus plan is yet to be executed, it is uncertain whether the plan would directly touch Africa, or succeed in reversing the economic losses the continent has suffered owing to the crisis.

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HOW ARE ECONOMIES RESPONDING TO STIMULI?

After all the frenzied efforts to package the different economic stimulus plans, the trillion dollar question now is, "are the measures working?"

There are already cautious signs of recovery in some of the countries where stimulus policies have been adopted.

In the US, major financial institutions including Wells Fargo, Goldman Sachs, HSBC, Citigroup, etc have returned to profit. Goldman Sachs recently announced a $1.81 billion profit for first quarter 2009. In mid-April, Citigroup announced a $1.6 billion first quarter 2009 profit, after an $8.2 billion net loss in fourth quarter 2008.

Also, some of the financial institutions that accessed the mandatory US government's $700 billion troubled assets relief program (TARP) are either already paying back or planning to do so soon. Reports show that some of the smaller banks have so far returned about $442

G-20 Economies: National Debt and Stimulus Packages as % of GDP

Rank	Country	GDP (2008)	Expected % change this year	Stimulus 2009 % of GDP	Stimulus 2010 % of GDP	Debt 2008 % of GDP	Debt 2009 % of GDP	Debt 2010 % of GDP
1	USA	$14.33 trillion	-1.6	2	1.8	68.7	81.2	90.2
2	Japan	$4.84 trillion	-2.6	1.4	0.4	202.5	217	225.1
3	China	$4.22 trillion	6.7	3.2	2.7	17.9	22.2	23.4
4	Germany	$3.82 trillion	-2.5	1.5	2	68.7	76.1	80.1
5	France	$2.98 trillion	-1.9	0.7	0.7	66.1	72.3	77
6	UK	$2.79 trillion	-2.8	1.4	-0.1	50.4	61	68.7
7	Italy	$2.4 trillion	-2.5	0.2	0.1	105.6	109.4	112.4
8	Russia	$1.78 trillion	-0.7	2.3	1.6	5.8	6.5	6.5
9	Brazil	$1.66 trillion	1.8	0.4	0.2	65.4	64.7	62.9
10	Canada	$1.56 trillion	-1.2	1.5	1.3	60.8	63	62.6
11	India	$1.24 trillion	5.1	0.6	NA	80.6	82.7	82.9
12	Mexico	$1.14 trillion	-0.3	1.5	NA	39.3	42.1	42.5
13	Australia	$1.07 trillion	-0.2	2.1	1.7	8.1	7.9	7.2
14	South Korea	$0.95 trillion	-4	2.3	1.3	32.8	32.9	33
15	Turkey	$0.80 trillion	3.5	NA	NA	38.7	40.4	40.4
16	Saudi Arabia	$0.53 trillion	0.8	3.3	3.5	12.9	11.6	9.7
17	Indonesia	$0.5 trillion	3.5	1.3	0.6	32.5	31.8	31.3
18	Argentina	$0.34 trillion	No change	1.3	NA	49.2	38.6	33.7
19	South Africa	$0.30	1.3	1.8	-0.6	27.2	27	26.7

Source: Wall Street Journal; April 1, 2009

million TARP funds, including the 5 percent interest.

Goldman Sachs recently announced plans to raise $5 billion from shareholders to repay its bailout funds. JP Morgan Chase, Wells Fargo and Bank of America, also plan to return their bailout funds.

In addition, global capital markets are showing signs of recovery. Though the turbulence is far from over, the series of aggressive economic stimulus plans are renewing investors' confidence as the double-digit daily drops in market indices witnessed in much of the last two quarters of 2008 have eased.

On March 23 2009, global markets responded positively to the unveiling in the United States of a $2.5 trillion toxic assets mop up plan. Stocks of major banks (including Citigroup and Bank of America) soared by as much as 15% that day.

Similar experiences greeted the unfolding of stimulus packages in other economies, including the UK where the FTSE 100 Index jumped 10 percent - its biggest one day gain ever – on the day the country's stimulus was announced.

Also in Japan, news of the $100 billion stimulus in April 2009 pushed stock markets in Asia to their highest level since October 2008.

In mid April, Ben Bernanke, chairman of the US Federal Reserve pointed to "tentative signs" suggesting that the rapid decline witnessed in the US economy in the preceding quarters may be moderating.

In the UK, agreed mortgage sales rose in March 2009 for the first time in almost two years. Instruction to sell is falling while instructions to buy and purchase enquiries are on the rise. The housing market remains fragile, but demand is on its way up again. For an economy which recession was triggered by the sharp drop in housing demand and prices, this could be a first tentative signal of recovery.

But in the entire global scene, other signs of an economy in trouble still persist – high unemployment rate, lower wages, record trade and budget deficits, huge public debt, low consumer demand, etc, indicating that, as Kenyans would say, 'it is not yet Uhuru'.

The surest assurance of the workability of stimulus packages so far has come from China, where the Chinese Premier Wen Jiabao on April 18, 2009, during the Boao Forum for Asia announced a major pickup in China's economy. The Premier said the economy has responded to the $586 billion stimulus "better than expected", with liquidity, investment, lending, consumption, industrial output, commodity price, employment and stock market indices picking up; and raising optimism that the economy could fair better in the second quarter than its abysmal 6.1% growth in first quarter 2009. For the Chinese authorities, the worst just might be over.

But are these sure signs of deep rooted, sustainable global economic recovery?

Limitations of Economic Stimulus

A major shortcoming of economic stimulus efforts is the huge national debt and budget deficit that results.

In the euro zone, budget deficits of major economies have surpassed the EU's benchmark of 3%. France' budget deficit could reach 3.9% of GDP, with the stimulus package swelling public debt by an additional €26 billion.

The UK stimulus package will be funded by state borrowing, increasing public debt to £78 billion this year and a further rise to £118 billion or 48 percent of GDP by 2010.

The $100 billion stimulus package undertaken by Japan would fuel the country's public debt which, even before the fiscal measure was over 175% of GDP.

Global (US) Economic Recessions, 1967 to 2009		
Start of Recession	End of Recession	Months/Duration
December 1969	November 1970	11
November 1973	March 1975	16
January 1980	July 1980	6
July 1981	November 1982	16
July 1990	March 1991	8
March 2001	November 2001	8
August 2007	?	?

Source: US National Bureau of Economic Research

In the case of the United States, the multi-trillion dollar stimulus package will heighten public debt status which now stands at close to $11 trillion. Budget deficit is currently at a staggering 12% of GDP.

Current massive tax cuts in developed economies, which are part of stimulus efforts, could lead to higher tax rates as soon as the recession is over.

Significantly, despite the stimulus, virtually all the major economies will most likely experience negative growth in 2009, because, as President Barack Obama has warned repeatedly, 'it will get worse before it starts getting better.'

Another challenge is the possibility of misapplication of stimulus funds on areas that might not have any direct impact on economic recovery. Where it works, stimulus packages are known to work better where government spending is targeted at the real sector and capital projects, especially infrastructure development.

The stimulus package passed in early 2008 by President George W. Bush has been faulted as an example of a misapplied fiscal measure. About $120 billion of the $168 billion was spent on tax rebates.

There is no guarantee that the cheques issued out to individuals, for example, would be spent right away as intended, or be saved for months or, worst still, be used to settle credit cards or other outstanding debts. Even when it is spent, some beneficiaries could decide to use them to buy imported products, which will not have much positive impact on the local US economy.

Yet another criticism of stimulus packages is the belief that wealth is being taken from lowly tax payers and used to further enrich corporate elites whose action or inactions (including lavish remunerations and years of shady financial practices) have been blamed for the current crisis.

The recent bonus scandal involving AIG chief executives has further rekindled public outcry and resentment. Many argue that the desperate efforts being made by financial institutions to quickly pay back the bailout funds is to enable them circumvent the tightened restrictions on bonuses and dividend payouts placed on executives of banks that have benefited from bailouts.

If there is one lesson the world must go home with from the recent experiences, it is that, government cannot completely hands off the business of running the economy. Countries that have faired better than others in these difficult times are those that have managed to exert some level of strict oversight function of private sector activities.

The practice of leaving the economy totally at the mercy of private sector players has repeatedly failed and must be reassessed meticulously.

Finally, though economic stimulus efforts seem to be paying off slowly, the early signs of recovery so far are, understanding, noticed only in the advanced economies.

For the developing and third world countries to begin to feel the impact of the still tentative recovery, demand for, and prices of their commodities must begin to experience a rebound; growing budget deficits and rising unemployment must begin to improve; and liquidity in their financial services sector, including banks and capital markets must begin to surge.

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

Building Successful Business Associations: Why Good Association Governance Matters

* By Aleksandr Shkolnikov

Corporate governance became an issue of utmost importance for all emerging and transitioning economies just over a decade ago. Until several financial crises and high-profile scandals put it on top of the agenda for companies small and large in countries around the world, corporate governance was assumed to be something which concerned only large companies in major industrialized economies. Today, good governance in the private sector is discussed publicly and privately in a variety of contexts and its contribution to the economic and political development is increasingly noticeable. There is growing evidence that corporate governance helps to create dynamic, sustainable, and successful companies, industries, economies, and countries.

Business associations around the world are facing the same set of issues companies began to face two decades ago. How relevant is the concept of governance for them? Who should be engaged in business association governance reform? Should all business associations be concerned with governance issues equally? What are the key principles? Why should you reform? What are the benefits and costs? Where does the impetus for reform come from and where do you begin?

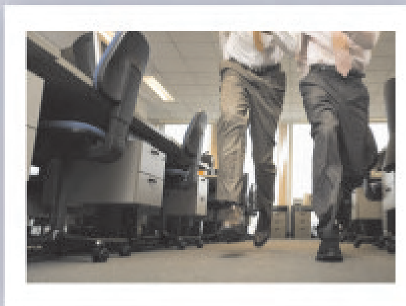
Governance – A Necessary Component

Business associations, as representative organizations, play a special role in the development of countries. They are often perfectly positioned to fill the gap that often exists between the private and public sectors. In a broader public policy view of development, business associations provide key information to policymakers on matters of reform and provide a channel for information from the government back to the private sector. Business associations also strengthen the private sector by providing services that allow companies to remain competitive and access new markets. By becoming a vehicle of the private sector's transparent participation in the public policymaking process, business associations in and of themselves are democracy-strengthening and market-reforming institutions. They gather the views and opinions of many members and synthesize them into concrete policy recommendations and advocacy campaigns.

However, business associations do not fulfill this role simply through their existence. Many business

associations do not live up to these expectations. In order to do so, business associations have to take the necessary steps and put into place sound mechanisms of their day-to-day operations. Of those, good governance is the most important one, as it serves as a foundation upon which everything else is built – from membership programs and outreach efforts to public policy advocacy and strategic planning.Although strengthening association governance is necessary, it may be a more difficult task than it sounds. From the governance perspective, business associations are unique – unlike companies or public sector entities, their board members are also direct customers of association services as well as owners (i.e., dues-paying members). Three distinct roles have to be filled by each individual – board member, customer, and owner. The fact that all members are also owners of a business association is often ignored in many emerging markets. Most governance dilemmas arise from the lack of recognition of this equal share in association ownership. Instead, the founding members, the largest members, the president, or several board members frequently deem ownership to be exclusively their prerogative. This means that several individuals strive to run the organization to respond to their own, narrow needs rather than to the broader concerns of the businesses they are supposed to represent. Therefore, one of the primary goals of governance reform should be ensuring that ownership of a business association lies in the hands of its members – all of its members – and is not hijacked by a select few.The central concern of corporate and public governance remains relevant when applied to business associations: how do you set up effective mechanisms to deal with issues arising from the separation of ownership and control? How do you ensure that associations act in the best interest of all their owners, and in the case of business associations, their dues-paying members?

A model governance framework achieves this by introducing procedures that allow members to elect a board that focuses on policy-level issues and supervises staff, ensuring that the organization operates in the best interest of its members. Proper governance procedures allow business associations to discern member expectations of what the organization ought to do from management and board perceptions of what members are expecting from the organization. In a similar way, they help separate member needs from board and management wants. In countries where transparency mechanisms are lacking and decision-making is often conducted behind closed doors, governance reform becomes a much more difficult objective. Yet, it is in these precicise conditions of poor transparency where governance reform is needed to develop business associations as effective, private sector, representative institutions. Challenges to Business Association GovernanceThe issue of good governance in associations, especially in developing and transitioning economies, is often an afterthought. Just as corporate governance was initially regarded as something applicable only to a few large enterprises in major economies, business association governance today tends to be seen as something of interest to larger organizations in developed markets rather than associations in emerging economies. Yet, it is the latter associations – beset by low membership numbers, an inadequate financial base, or weak advocacy capacity – that are most in need of better governance. It may seem that there are many other more pressing needs that associations face than governance – from the larger issues of competing against stronger associations, launching advocacy efforts, or recruiting members to the basic ones of paying utility bills or getting computers. And when governance does gain importance, oftentimes the roadblocks to improving it may lie within organizations themselves. For example, it is not uncommon to see some association board members arguing against term limits, as they gain visible social status in their communities by being in a position of leadership in an association. Some remain in the same leadership positions for decades, becoming a permanent fixture within organizations. Giving up this status is understandably difficult, especially in a country where the number of high-



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profile associations may be quite limited. For many associations in developing countries there is a general unwillingness on the part of the leadership to provide enough responsibility and clout to the chief executive and staff, whether due to the fear of losing control over the organization or one's own status. In the extreme, micro-managing chairmen may get involved in the minute tasks of running an association's daily operations, taking away from time that can be better spent on pressing strategic objectives. In such organizations, the chief executive does not fulfill his or her fundamental role, instead serving as a personal assistant for the association president.Other examples of poor governance practices include boards of directors conducting meetings in order to open up mail or decide what to have for lunch during a workshop. It is crucial to understand the failure of basic governance mechanisms if such a situation occurs. These may be extreme examples, but the point is that boards may easily get overly involved in the day-to-day management of associations (even if driven by a good purpose) without giving enough attention to their core governance responsibilities. At times, a blurred understanding of good governance and leadership thwarts genuine efforts to improve governance. The notions of leadership versus management or strategic planning versus implementation may not be clear-cut in different cultures. Language plays a part – in Russian, for example, the words for "governance" and "management" are identical. Thus, on a cognitive level the two concepts may not come across as distinctly as they should. Similarly, for a long time there was no agreed-upon Arabic phrase for "corporate governance," which prevented the non-English speaking business community in the Middle East from capturing and recognizing its true meaning. In Romania, the word for governance – *guvernanta* – had to be introduced to distinguish the concept from management – *conducere*. The Romanian experience also proved that introducing the word is only a first step. Associations that made strides in improving their own governance practices have undergone rigorous training and capacity-building in order to effectively apply the concept of governance in practice. Changing perceptions and understanding of complex concepts such as governance is a difficult task that is not accomplished overnight.

There is also a tendency for founding members to attempt to secure special rights in the association's bylaws. From the founding members' perspective their special rights come with good reason. They may be trying to preserve their legacy or they may feel concerned about other members steering the organization in a direction different from their originally envisioned purpose. The fallacy of this approach is that it automatically regards everyone else as second-tier members, reducing incentives to join and be part of the association. The bottom line, as stated above, is that associations should strive to represent the interests of all their members.

Whatever the reasons justifying the lack of genuine efforts to improve governance structures may be – and there can be many – it is becoming increasingly clear that association governance cannot be ignored. The experience of successful associations shows that it is valuable for and applicable to organizations of all sizes, industries, and geographic locations, as they face the dilemma similar to the one we faced with corporate governance when it began spreading around the world. Good association governance is the necessary foundation upon which associations can begin to build effective membership campaigns, improve their communications, strengthen credibility, or launch advocacy efforts.

Essentially, there are two options on the table before business associations today. They can either implement good governance mechanisms, proactively seeking the benefits of improved governance, or, if they choose to ignore it, those associations will be forced to deal with the issue when crises and scandals hit. The difference between crisis prevention strategies and post-crisis management is significant, however. In being pro-active, senior association leaders who choose to initiate reform are asking themselves, "What is in it for my organization and why should I do it?" Ultimately, answering that question drives associations to seek internal governance reform in order to be positioned to advocate for improved governance in their respective countries.

Benefits of Good Association Governance

- Transparency in operations and decision-making
- Financial integrity before members
- Ability to attract and retain talent
- Proper focus on strategic issues facing the organization
- Clear separation of governance and management
- Clear separation of individual member needs and organizational purpose
- Ability to meet competitiveness pressures
- Ability to better identify member needs and address them
- Credibility in pushing for democratic and economic reform issues

Business Associations as Non-Profit and Private Sector Actors

Although business associations share many governance issues with other non-governmental organizations and the private sector companies they represent, they do have several unique features which make association governance a distinct issue. This means that associations can both build on the experiences of other types of organizations in im-

proving their governance procedures as well as develop their own methods and approaches.One distinctive feature of voluntary business associations is the fact that they depend on dues-paying members for survival. This can be both a liability and an opportunity in relation to good governance. By the nature of their existence, associations are accountable to their dues-paying members. There are a number of stakeholders that may have a direct interest in associations' survival and performance, but at the end of the day there is only one group of "shareholders" – the members. At the same time, it is the members who form the governing bodies of business associations. This raises a number of questions related to the strategic direction of organizations, especially in countries with poor governance and high levels of corruption. For example, how do you improve governance in an association if its own members are not transparent and have few incentives to implement change? Where would the pressure come from? Who has the credibility? How do you put in place a transparent advocacy process without making your members rid their own ranks of corruption in the first place?Another issue in this regard is that many associations in emerging economies are still working to become truly representative organizations. Rather than focusing on advancing the interests of the broad-based business community they may be trapped in responding to the needs and interests of just the bigger, more powerful members – especially those who provide visibility for the organization. If such members "capture" the board, it can create a host of governance problems, both from the strategic and managerial perspective.There are several other trends in business associations around the world that intensify the need for governance reform. One such trend is tolerance for poor performance. While the private sector is focused on concrete outcomes and rewards for well-performing individuals and organizations, the non-profit sector – of which business associations are a part – tends to exhibit much higher tolerance for weak performance.

Such attitudes, however, are increasingly losing their ground, especially as competitive pressures of the private sector are increasingly mirrored in the non-profit community. With continued globalization and the opening of economic borders, companies are not only gaining access to new markets, they are gaining access to new service providers, including new possibilities for association. Local business associations, therefore, might want to begin to ask themselves a question: "What do I provide for my current and potential members that associations in others parts of my country or other countries cannot provide?" In other words, as business associations have to compete with other associations in their field, within the borders of their country and beyond, they have to figure out how to remain competitive and

The Business Case: Benefits of Good Association Governance

Transparency

- Good association governance provides the necessary mechanisms for instituting transparency within organizations on several levels. Above all, it is transparency in decision-making, both in terms of electing the leadership as well as in making and communicating strategic and business decisions pertaining to operations of an association. The importance of transparency should also be stressed as it relates to the management of resources - financial and human - well-governed associations are better positioned to fulfill their fiduciary duties transparently before their members.

Creating mission-driven organizations

- Good governance is essential in getting association leadership to outline the overall purpose of the organization and ensure that it remains focused on its core mission in its operations.

Ability to attract and retain high quality staff

- Non-governmental organizations in emerging markets, and business associations are not an exception, often find it difficult to retain high quality staff who can find better paying jobs in the private sector. Putting in place better governance standards ensures that staff receives more opportunities to develop and grow on the job in an association.

Proper focus on strategic issues

- An association's survival depends on its ability to identify emerging issues and to position itself as a leader in addressing those issues. In other words, successful associations remain relevant for membership in any economic climate and provide the necessary solutions to members' problems. The ability to identify emergent issues is directly tied to the governance structures of organizations. If much of the governance capacity is wasted on managing organizations, it comes at the expense of devoting enough time and attention to the identification of issues and crafting a proper response strategy.

Credibility in pushing for democratic and economic reform issues

- Associations fulfill their primary role through public policy advocacy, but being a credible advocate on private sector issues requires that associations themselves are well-governed. In addition to helping ensure that associations represent the views of all their constituents (and not just a select few), good governance is a public statement by associations to turn word into action when talking about democratic reform, anti-corruption, corporate governance, and other issues.

adaptable in order to survive. For instance, how prepared is a business association in Manila or Lima to compete against much larger competitors from other countries that may be willing to attract major companies in the Philippines or Peru as members? Successful associations never stop thinking about their potential competition and proper response strategies. Being able to actively respond to such pressures means associations have to be fast-paced and dynamic, more so than ever before, and good governance is a crucial first step in getting there. This also means that associations should strive to put in place at least the same, if not higher, level of governance standards found in the private sector.Good Governance as the Essence of Democratic Principles Beyond the business case, another reason for instituting good governance mechanisms is rooted in the underlying idea of associations and their fundamental role in society. Business associations – as representative organizations – must embody democratic values and ideals to fulfill their representative role. Business associations have to be able to discern the interests of their members, define their own agenda, and cater to the needs of the entire membership, not individual members. Good governance and transparent decision-making are absolutes for this to occur. In describing the representative role of associations in general, Alexis de Tocqueville once wrote: "When an opinion is represented by a society, it necessarily assumes a more exact and explicit form. It numbers its partisans and engages them in its cause; they, on the other hand, become acquainted with one another, and their zeal is increased by their number. An association unites into one channel the efforts of divergent minds and urges them vigorously towards the one end which it clearly points out."Business associations are no exception in this regard. If an association does not have the proper governance procedures to ensure that it represents the opinion of all of its constituents – rather than the opinion of just some of its most prominent constituents – it does not subscribe to the principles that underlay associations as representative organizations (as envisioned by de Tocqueville). This is an issue apparent in many business associations today – trying to achieve the proper balance between representing the views of the business community, rather than one or two dominant members who may "capture" the board and use the organization to their own benefit. Achieving broad-based representation as well as transparency in decision-making through good governance is essentially what gives associations the credibility with political and regulatory bodies as well as the public in the democratic policymaking process.The trend of having government officials on the boards of business associations is also a troubling one that undermines the fundamental role associations play in a society. In many countries the argument is that having government officials within business associations is beneficial – it provides access as well as key resources crucial to the survival of organizations. These may be valid points, but, ultimately, how can an association approach legal and regulatory reform issues and push for change if its ability to disagree with the government is limited by its direct dependency on it?Where Do You Begin?Certainly, various organizations have different needs in regards to association governance reform. One key issue is that different countries present business associations with a variety of legal and institutional challenges that make each governance problem unique. What works in one country may not work in another simply due to differences in legal requirements affecting business associations. Yet, there are general steps and model guidelines, which any association may follow in order to improve how it is governed and, more importantly, redefine how successful and sustainable it is:

- Create mission-driven organizations.
- Update bylaws as needed.
- Develop clear yearly strategic plans and a
- forward looking 5-year strategic plan.
- Outline job responsibility of board members, chair man, and staff to avoid duplication of efforts.
- Capture key policies and values in an association governance code.
- Establish relevant board committees, limit the number of committees board members can serve on, and provide staff support to committees.
- Create incentives for board members to be engaged in activities of the board.
- Engage in a systematic renewal of board composition.
- Evaluate the performance of board members.
- Develop an ethics and conflict of interest code for the board and for staff.
- Establish clear procedures for nominating board members and introduce board tenure limits.
- Enforce rules and standards.
- Focus the board's attention on policy and impact issues rather than operations.

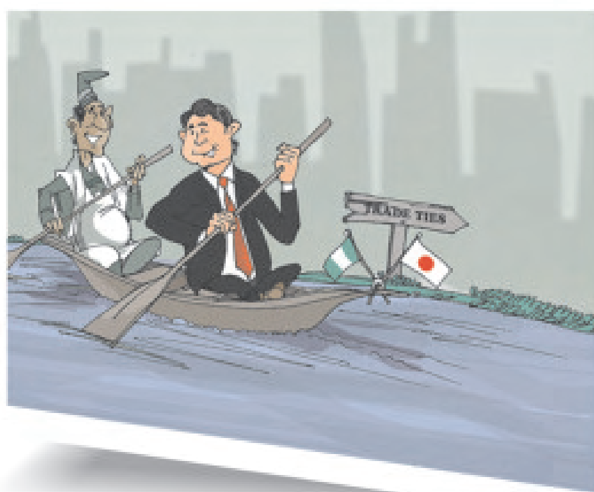
Improving association governance plays an important part in resolving the issues facing business associations every day around the world.

Good governance provides the necessary mechanisms for organizations to remain more dynamic, more able to deal with emergent issues by being strategically prepared, develop and deliver valuable services to members, and fulfill their advocacy role.

Conversely, without good governance, associations cannot effectively fulfill their key representative role as a voice of the private sector in a democratic policymaking process.

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

*(*Aleksandr Shkolnikov is the Senior Program Officer for the Global Programs at CIPE)*



Nigeria – Japan Relations: A Yawning Trade Gap

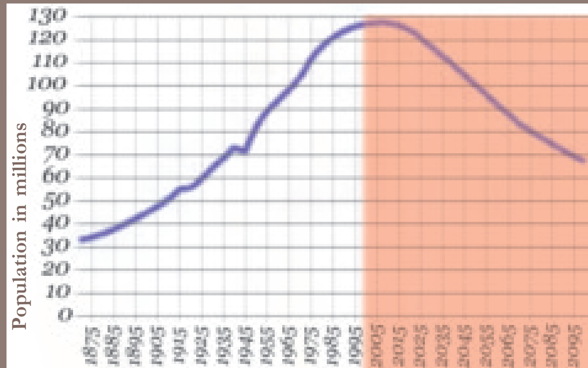
*** By Charles Ujomu**

The Japanese economy is one of the strongest in the world. It ranks second after the United States of America in terms of Gross National Products (GNP). Japan's economy is highly diversified and very competitive, ranking 19th among 111 countries on productivity. It also boasts of a highly educated labour force and has good savings and investments' culture. Today, measured on a purchasing power parity (PPP) basis, Japan is the third-largest economy in the world after the US and China. Japan uses planned development of science and technology, and has a strong work culture which benefits the country as a whole. It also stresses good relationships between the industrial sector and national government. The country's industrial sector is heavily dependent on imported raw materials and crude oil while its tiny agricultural sector is highly subsidized and protected, with crop yields among the highest in the world.

Nigeria, a petroleum based economy, is located in the Sub-Saharan Africa region. The oil-rich country is Africa's most populous nation and is composed of more than 250 ethnic groups. In the past years, economic development had been

Japanese Population from A.D. 1870 - A.D. 2100

Figures in red are projected



Source: CIA World Fact Book

Japan, with an annual population growth rate of -0.191 percent, has a population of about 127.08 million making it the world's tenth most populous nation. Japan's population size is attributed to fast growth rates experienced during the late 19th and early 20th centuries.

hindered by years of military rule. However, the various reforms embarked upon to tackle corruption, mismanagement, and restoration of democracy have somehow put Nigeria back on the path towards attaining its full economic potential, and as one of the key economies to reckon with in Africa. The country is classified as an emerging market and is rapidly approaching middle income status. Nigeria, with its abundant natural and human resources, was ranked 37th in the world in terms of GDP-PPP in 2007.

Japan Vs Nigeria: Some Demographic and Physical Features

Japan, with an annual population growth rate of -0.191 percent, has a population of about 127.08 million making it the world's tenth most populous nation. Japan's population size is attributed to fast growth rates experienced during the late 19th and early 20th centuries. In recent times however, this trend has changed as Japan now experiences net population loss; 7.87 births/1,000 population against 9.26 deaths/1,000 population (2008 est.). Obviously, this is due to falling birth rates, almost no net migration, high population densities and its life expectancy at 82.12 years of age as of 2008, one of the highest in the world. Nigeria, on its part, is the eighth most populous country in the world with an annual population growth rate of 1.99 percent. The country is the most populous in Africa and even conservative estimates have it that more than 20 percent of the world's black population lives in Nigeria. According to the United Nations, Nigeria has been undergoing explosive population growth and now has one of the highest growth and fertility rates in the whole world. Unlike the Japanese case, birth rate in Nigeria is significantly higher than death rate at 37.23 and 16.88 per 1000 people respectively. Nigeria's relatively low life expectancy rate at 46.94 years is not unconnected to the country's generally poor healthcare system and living conditions.

Japan, like other post-industrial nations, faces the benefits as well as the potential shortcomings associated with aging population. It is on record that while young populations such as those in Sub-Saharan Africa, (Nigeria as a point of reference) unavoidably face problems of poverty, crime and underdevelopment, older populations such as Japan enjoy a much higher quality of life as evident in Japan's life expectancy of 82.12 years. Only 11.6 percent of the population in Japan was 65 years or older about 20 years ago, but projections then were that 25.6 percent would be in that age category by 2030. Those estimates however now seem low given that 21.2 percent (2009 est.) are already 65 and above, now the world's highest. For Nigeria, 3.1 percent of the population is 65 years and over and this is far below what obtains in Japan. A number of factors are actually responsible for small/large families in the two countries. High/low education, devotion to raising healthy children, early/late marriage, increased participation of

women in the labour force, education about the problems of overpopulation and high costs of child education amongst others are evidently responsible for the trends and population patterns seen in both Nigeria and Japan.

Nigeria, a West African country, bordering the Gulf of Guinea, and lying between Benin and Cameroon has a total area of 923,768 square kilometer. Japan, an Eastern Asia nation, located on the island chain between the North Pacific Ocean and the Sea of Japan, east of the Korean Peninsula boasts of a total area of 377,835 square kilometer. Nigerian area is slightly more than twice the size of California and almost two and half the size of Japan. In terms of land use, Nigeria's arable land of 33.02 percent is higher than that of Japan, 11.64 percent. While about 1.41 percent of the landscape in Nigeria is water, Japan has less than one percent of its total landscape as water area. This explains the fact that Nigeria has more in terms of coastal areas than Japan. Ironically, Japan produces more in the area of fishing and some other aquatic activities than Nigeria. On the other hand, land use in Nigeria is threatened by soil degradation, rapid deforestation, urban air and water pollution. Water, air, and soil have suffered serious damage from oil spills. Japan too has some serious environmental issues contributing to the depletion of its resources. Acid rain resulting from air pollution from power plant emissions, acidification of lakes and reservoirs (degrading water quality), all threaten aquatic life, even as Japan is known to be one of the largest consumers of fish and tropical timber in the world.

Key Demographic and Physical Features: Nigeria and Japan

Index	Nigeria	Japan
Population (millions)	149,229,090	127,078,679 (July 2009 est.)
Total Fertility Rate	4.91 Children Born/Woman (2009 est.)	1.21 Children Born/Woman (2009 est.)
Population Growth Rate (%)	1.999% (2009 est.)	-0.191% (2009 est.)
Life Expectancy at Birth:		
Total Population (years):	46.94	82.12
Male (years):	46.16	78.80
Female (years):	47.76	85.62
Land Area:		
Total (sq. km)	923,768	377,835
Land (sq. km)	910,768	374,744
Water (sq. km)	13,000	3,091
Land Boundaries (km)	4,047	-
Irrigated Land	2,820	25,920

Source: World Fact Book - 2008

While about 1.41 percent of the landscape in Nigeria is water, Japan has less than one percent of its total landscape as water area. This explains the fact that Nigeria has more in terms of coastal areas than Japan. Ironically, Japan produces more in the area of fishing and some other aquatic activities than Nigeria.

Comparing Economies: Japan Vs Nigeria

Japanese economy witnessed a phenomenal growth after the Second World War and up till the '80s, to become the second largest economy in the world. The country's massive diversified manufacturing sector which has produced high-quality products such as electronics and cars, much in demand in many international markets, is principally linked to the economic growth witnessed in Japan over the past decades. Also, the post-war Japanese economy which was largely closed to foreign competition through restrictive regulations and high tariffs aimed at protecting domestic industries came under heavy pressures by its trading partners and competitors such as the United States. Hence, Japan began to open its economy to foreign competition in the late 1980s. This resulted in a higher rate of imports, which lowered trade surpluses until early in the 1990s. On the other hand, Nigerian economy is overly dependent on the capital-intensive oil sector, which provides 20 percent of GDP, 95 percent of foreign exchange earnings, and about 65 percent of government revenue.

The country's largely subsistence agricultural sector has not kept up with rapid population growth, and Nigeria once a large net exporter of food, now imports some of its foods. According to the Central Intelligence Agency's World Fact Book, the estimated GDP-Purchasing Power Parity of Japan (2008 est.) is US$4.4 trillion and the GDP per capita is US$34,200 while Nigeria on the other hand has US$338.1 billion GDP-PPP and US$2,300 GDP Per Capita respectively. This clearly shows that

Japanese economy is worth 12 times more than Nigeria's in terms of GDP-Purchasing Power Parity and 13 times bigger than Nigeria in the area of GDP Per Capita as of 2008 estimates.

Japanese economy is highly advanced and dominated by the services sector, which accounts for 66.4 percent. The industrial sector, once the key driver of Japan's growth, now contributes 27.9 percent of the gross domestic product while the agricultural sector accounts for only 4.4 percent of the economy. Distinctively, Japan has some structures that have marked its rapid rise from the ashes of the Second World War to preeminence especially in the 1980s. Its manufacturers, suppliers and distributors work closely together in informal but tight settings called 'keiretsu', with intimate support from financial institutions and government. This undoubtedly could be responsible for the much progress and growth experienced in the Japanese industrial sector.

The Nigerian economy sectoral contribution pattern is largely different from that of Japan. In Nigeria, the industrial sector contributes the least to the economy, accounting for about 10 percent. This somehow is not surprising as the country's manufacturing sector keeps struggling with capacity underutilization, low funding from both the government and the various private financial institutions in the country, amongst others. The services sector in Nigeria accounts for about 20 percent of the nations' GDP, about one-third the size of that of Japan, while agricultural sector in Nigeria accounts for about 70 percent to the economy. Ironically, Nigeria's agriculture has a higher percentage contribution to its economy than the Japanese, yet this sector cannot support the nation's teeming population in the area of food production. It still relies heavily on importation of food to augment the local produce. This essentially is as a result of the subsistence system of agriculture being practiced in Nigeria as mechanization is still at infancy. However, Japan's tiny agricultural sector is highly subsidized and protected, with crop yields among the highest in the world. Japan maintains one of the world's largest fleets and accounts for nearly 15 percent of the global catch.

For quite some years, Japan experienced deflation (an annual drop in prices) as the country's customers had grown accustomed to dropping prices. In 2008 however, the trend was reversed as the whole world was hit by rising oil, food and commodity prices.

Top 10 Economies in the World by GDP-PPP

Ranking	Country	Approximate GDP- Purchasing Power Parity (US$ Trillion)
1	United States of America	13.860
2	China	7.043
3	Japan	4.305
4	India	2.965
5	Germany	2.833
6	United Kingdom	2.147
7	Russia	2.076
8	France	2.067
9	Brazil	1.838
10	Italy	1.800

Source: CIA World Fact Book

Percentage of GDP contributed by each sector in the top ten economies of the world

Country	Contribution of Services Sector in GDP (estimated for 2007)	Contribution of Industrial Sector in GDP	Contribution of Agricultural Sector in GDP
United States of America	78.5%	20.6%	0.9%
China	39.5%	49.5%	11%
Japan	73.3%	25.2%	1.5%
India	55%	28.4%	16.6%
Germany	69.5%	26.9%	0.9%
United Kingdom	75.5%	23.6%	0.9%
Russia	56.3%	39.1%	4.6%
France	77.3%	20.7%	2.0%
Brazil	64.0%	30.8%	5.1%
Italy	69.3%	32.0%	5.0%

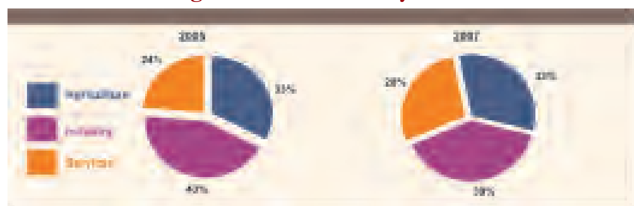
Source: CIA World Fact Book

Key Economic Indicators: Nigeria and Japan

Indicators	Nigeria	Japan
GDP (PPP, US$)	338.1 billion (2008 est.)	4.348 trillion (2008 est.)
GDP Real Growth Rate (%)	6.1 (2008 est.)	-0.4 (2008 est.)
GDP Per Capita (US$)	2,300 (2008 est.)	34,200 (2008 est.)
Labour Force (million)	51.04 (2008 est.)	66.15 (2008 est.)
Labour Force By Occupation:		
Agriculture (%)	70	4.4
Industry (%)	10	27.9
Services (%)	20	66.4
Investment (% of GDP)	21.40	22.5
Inflation Rate (%)	10.60 (est. 2008)	1.8 (2008 est.)
Oil Proved Reserves (bbl)	36.22 billion	44.12 million
Natural Gas Production (billion cu m)	34.10	3.729
Natural Gas Proved Reserves (trillion cu m)	5.21 trillion	20.9 billion (2008 est.)
Current Account Balance (US$ billion)	7.722 (est. 2008)	187.8 (2008 est.)
Exports (billion f.o.b.)	83.09 (est. 2008)	776.8 (2008 est.)
Exports Commodities	Petroleum and Petroleum Products 95%, Cocoa, Rubber	Transport Equipment, Motor Vehicles, Electrical Machinery, Chemicals
Exports Partners	US 51.6%, Brazil 8.9%, Spain 7.7% (2007)	US 20.4%, China 15.3%, South Korea 7.6%, Taiwan 6.3%, Hong Kong 5.4% (2007)
Imports (billion f.o.b.)	46.36 (est. 2008)	696.2 (2008 est.)
Imports Commodities	Machinery, Chemicals, Transport Equipment, Manufactured Goods, Food and Live Animals	Machinery and Equipment, Fuels, Foodstuffs, Chemicals, Textiles, Raw Materials
Imports Partners	China 10.6%, Netherlands 7.9%, US 7.8%, South Korea 6.6%, UK 5.7%, France 4.3%, Brazil 4.2%, Germany 4.1% (2007)	China 20.5%, US 11.6%, Saudi Arabia 5.7%, UAE 5.2%, Australia 5%, South Korea 4.4%, Indonesia 4.2% (2007)

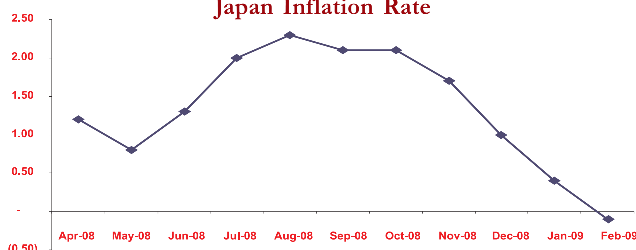
Source: World Fact Book - 2008

Nigeria Trade: GDP by Sector



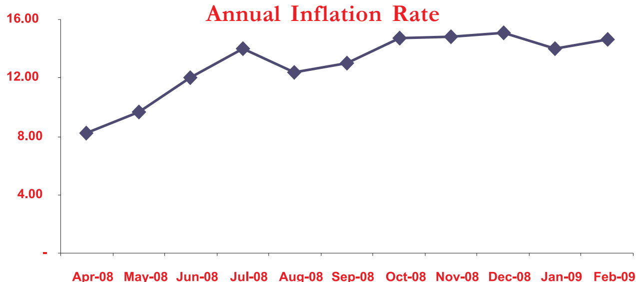
Source: World Bank

Japan Inflation Rate



Source: Ministry of Internal Affairs & www.tradingeconomics.com

Annual Inflation Rate



Source: NBS

Nigeria, Trade with the World (mio euro)

Year	Imports	Yearly % change	Exports	Yearly % change	Balance	Imports + Exports
2003	12.893		21.054		8.161	33.947
2004	16.314	26,5	26.564	26,2	10.250	42.878
2005	19.537	19,8	34.990	31,7	15.453	54.526
2006	23.173	18,6	42.768	22,2	19.595	65.941
2007	27.505	18,7	42.903	0,3	15.398	70.408
Average annual growth		20,9		19,5		20,0

Source: IMF

Nigeria, Trade with the European Union (mio euro)

Year	Imports	Yearly % change	EU Share of total imports	Exports	Yearly % change	EU Share of exports	Balance	Imports + Exports
2003	4.367		33,87	4.647		22,07	280	9.015
2004	5.806	33,0	35,59	4.787	3,0	18,02	-1,019	10.593
2005	6.560	13,0	33,58	7.596	58,7	21,71	1,035	14.156
2006	7.722	17,7	33,33	9.841	29,6	23,01	2,118	17.563
2007	9.230	19,5	33,56	8.672	-11,9	20,21	-558	17.902
Average annual growth		20,6			16,9			18,7

Source: IMF

With prices suddenly going up, Japanese inflation rate rose 1.5 percent in May 2008, its highest rate in ten years. According to the CIA, Japanese estimated inflation figure for 2008 is 1.8 percent. Nigeria on the hand has an average

Nigeria-Japan: Exports & Imports

Year	Exports (US$ million)	Imports (US$ million)
2004	384.56	1,426.20
2005	522.26	999.31
2006	564.58	811.19
2007	731.80	674.18
2008	923.48	1,749.00

Source: Japan External Trade Organization

inflation figure of 10.60 percent as at 2008. Interestingly, while the Japanese government tries to manage its inflation rate for sustained growth and stability of the economy, Nigerian government is seriously engaged with some economic measures that would keep the nation's inflation rate just below 2-digit mark. As at the end of February 2009, Nigerian's inflation rate stood at 14.6 percent while that of Japan was -0.10 percent.

In the area of investment as a percentage of gross domestic products, Japan's investment clearly outweighs that of Nigeria even though in percentage terms they maintain some closeness at 22.5 percent and 21.4 percent of GDP for both Japan and Nigeria respectively. Japanese investment as a proportion of its gross domestic products (US$978.3 billion) alone is far higher than the whole of Nigeria GDP-Purchasing Power Parity (US$338.1 billion est. 2008). This again reflects the size of the Japanese economy compared to that of Nigeria.

Nigeria – Japan Trade Relations

Japan's trade relation with Africa is a somewhat slow trend established due to some socio-economic issues relating to apartheid in South Africa. Japan's dependence on raw materials from South Africa made it almost impossible for Tokyo (in the two decades of 70s and 80s) to support other African states in their fight against the minority government and its policy of apartheid. Apparently, Japan's political, economic and diplomatic relations with Sub-Saharan Africa from the mid-70s to early 90s reflect a rather sluggish and lukewarm trend as Tokyo was not in any way willing to join in the struggle against apartheid. But all this has changed with the end of apartheid. Nigeria ranked 5th behind South Africa, Liberia, Egypt and Algeria in terms of exports transactions carried out with Japan between 2004 and 2008.

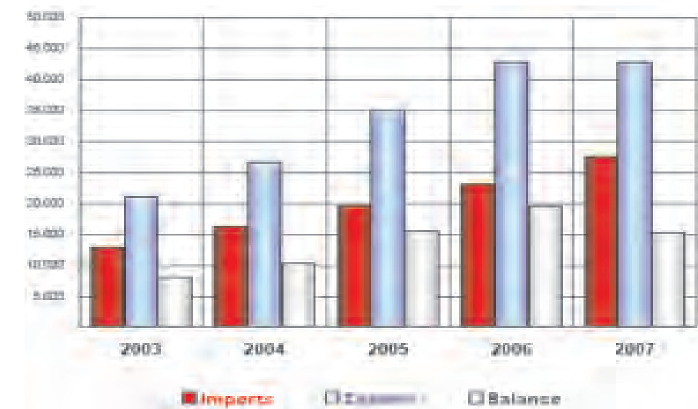
In terms of imports, South Africa also maintained number one position while Nigeria ranked second. In 2008, Nigeria was Japan's fifth major trade partner in Africa (after South Africa, Egypt, Liberia and Algeria). Japan is the second largest import partner of Nigeria in Sub Sahara Africa region and the fifth largest export partner within the region. Primarily, Nigeria exports crude oil, cocoa and

rubber amongst others to Japan while it imports machineries, transportation equipment, manufactured goods, chemicals and food and live animals from Japan. Yet, Nigeria's position in the international trade space with Japan in Africa is still significantly low compared to her trade relations with countries like the US (51.6% exports), Brazil (8.9% exports) and Spain (7.7% exports) in 2007 alone. Also, in terms of imports, China, Netherlands, US, South Korea, UK, France, Brazil and Germany were top on the list of Nigerian imports partners.

Nigeria – Japan Trade Relations: Exports Figures

Nigeria has consistently ranked among the top five countries in terms of exports to Japan over the past years. Its exports grew by over 140 percent between 2004 and 2008, accounting for 5.02, 6.33, 5.97, 6.31and 6.92 percent of total exports from Africa to Japan in 2004, 2005, 2006, 2007 and 2008 respectively. In 2007 and 2008 alone, Nigeria recorded 26.19 percent and 7.5 percent year-on-year growth in its exports to Japan, ranking fifth after four other Africa countries; South Africa, Liberia, Egypt and Algeria. The total value of exports from Nigeria to Japan rose from US$731.80 million in 2007 to US$923.48 million, representing a 26.19 percent growth in exports within the period. According to the CIA World Fact Book, Nigerian exports stood at US$83.09 billion (est. 2008), far lower than that of Japan's (US$776.8 billion). Japan's major export partners in the world are US, China, South Korea, Taiwan, and Hong Kong. In 2007, 20.4 percent of Japanese exports went to US, 15.3 percent to China, and 7.6 percent to Taiwan while Hong Kong got 5.4 percent.

Nigeria, Trade with the World (mio euro)



Source: IMF

Nigeria – Japan Trade Relations: Imports Figures

In terms of imports from Japan, Nigeria ranks second in Africa after South Africa. South Africa's dominance of both the exports and imports trade relations with Japan over the years dates back to the apartheid era. The trade tie continues even till today as evidenced by the available statistics. South Africa alone was responsible for about 43 percent of imports from Japan in 2008, buttressing the long-term established trade pattern. Nigeria's imports from Japan rose by 23.24 percent from 2004 to 2008. A detailed analysis of Nigeria's imports from Japan shows 16.4, 10.06, 6.11, 4.56 and 8.42 percent in 2004, 2005, 2006, 2007 and 2008 respectively. Nigeria's imports from Japan went up by 60.9 percent and 159.4 percent in 2004 and 2008, showing a remarkable improvement.

In absolute terms, Nigeria's imports only moved from US$674.18 million in 2007 to US$1.75 billion in 2008. In 2007 alone, Japan's import from China was 20.5 percent of its total imports in that year. This shows a very strong trade tie that exists between the two countries. During the same period, 11.6 percent, 5.7 percent, 5.2 percent, 5 percent, 4.4 percent and 4.2 percent of Japan's imports were from US, Saudi Arabia, UAE, Australia, South Korea and Indonesia. It can be deduced from this that the rather low Japanese imports from Nigeria in the area of petroleum and petroleum products is not unconnected with its strong ties with both Saudi Arabia and UAE (also major exporters of petrol and petroleum products). However, Nigeria still ranks among the major African trading partners of Japan. According to the CIA, Japanese total imports stood at US$696.2 billion (est. 2008) while that of Nigeria was US$46.36, less than one-tenth the size of Japan. A critical look at the trade relationship between Nigeria and Japan shows that there are huge opportunities for both countries to tap into, especially considering manufactured products and other machineries from Japan and also Nigeria's petroleum and petroleum products needed by Japan. Expectedly, it is believed that the vantage positions occupied by these two nations in Asia and Africa clearly define and provide good platform for much bigger trade relations.

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

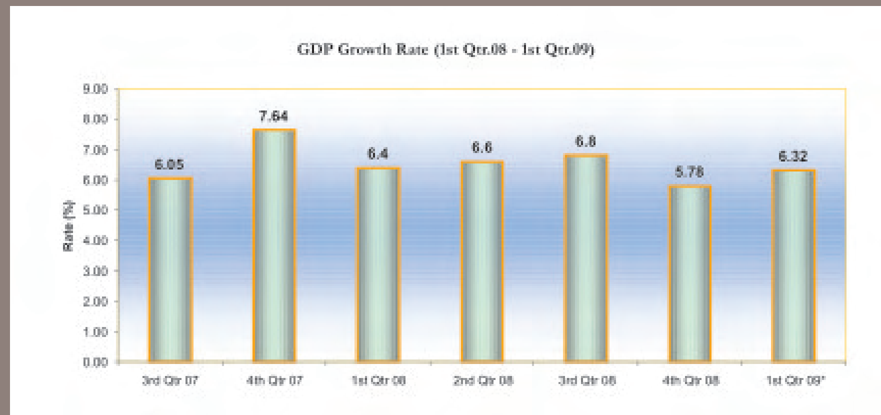
By Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian economy in first quarter 2009, recorded mixed performance in several parameters. Some of the indicators began on a downbeat note but rebounded at the tail end of the quarter. Gross Domestic Product (GDP) in the first quarter started with a seasonal slump when compared with the corresponding period of 2008. Inflation ended the quarter lower than last year's end position. Foreign exchange reserve plunged as export revenues dwindled. The nation's currency, the naira, lost value significantly against other major world currencies but stabilised towards the end of the quarter. The Monetary Policy Rate remained unchanged during the quarter. Bearish sentiments continued their dominance in the capital market as share prices hovered around a low 'steady zone'. In the international oil market, crude oil prices plummeted but recovered and hovered around US$50 per barrel.

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) growth rate was estimated at 6.32 percent in the first quarter, up from 5.78 percent in the preceding quarter. Real GDP growth continued to be driven by the non-oil sector. Agriculture continued its dominance as the major contributor to GDP. Compared to the same quarter last year, GDP growth rate dipped marginally from 6.4 percent. For the oil sector, the lingering crisis in the Niger Delta continued to hamper production, as output declined by 5.7 percent from the preceding quarter. Real GDP growth has been projected to suffer a slump from about 6.4 percent in 2008 to 5.75 percent in 2009.



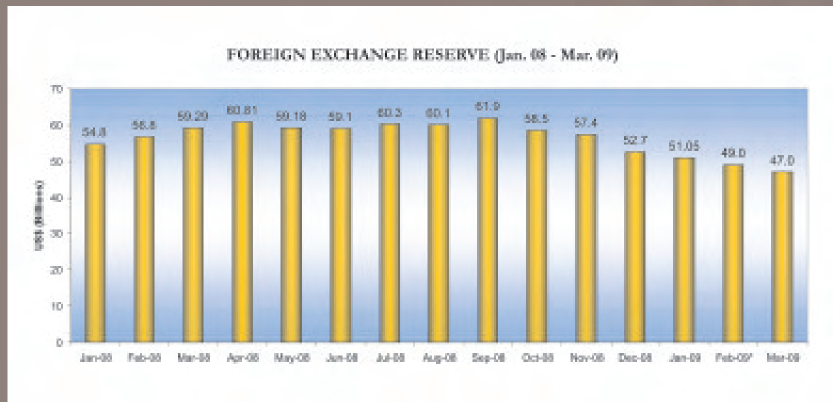
Source: CBN, NBS

INFLATION

Source: CBN

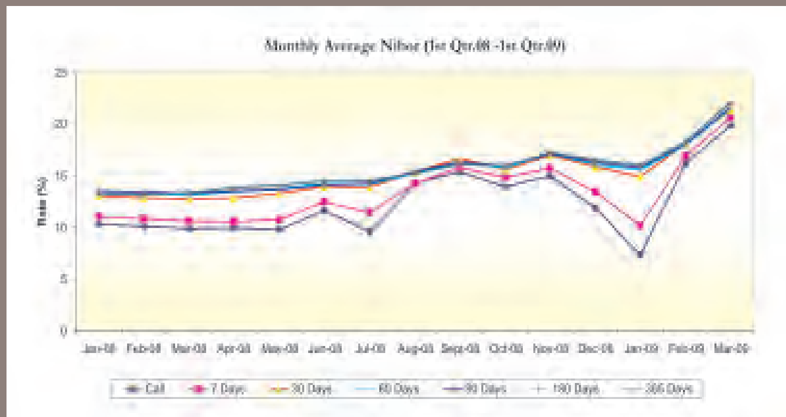
The year-on-year inflation experienced haphazard trend with marginal movements during first quarter 2009. The headline inflation rate has remained in the 'double digit zone' for three consecutive quarters, closing at 14.4 percent. Inflationary pressures which began since the second quarter of last year, surged to a 3-year high of 15.1 percent in December 2008. It dipped in January 2009 mainly due to the drop in pump price of petrol from N70 to N65 per litre. However, the fall was short-lived as inflation returned sharply in February with an upward swing to 14.6 percent. The inflationary pressures were attributed to rising food prices (maize, yam, guinea corn, millet, meat, fruit/vegetables among others) and higher prices of imported manufactured goods. It closed the first quarter at 14.4 percent

EXTERNAL RESERVE



*Source: CBN, *Based on CBN's announcement*

The nation's external reserves continued its downward slide during the quarter under review, amidst CBN's effort to check a sharp run down. Foreign exchange reserve shrunk by about 27 percent (about US$17 billion) in just seven months, from a record high of US$64 billion in August 2008. The stock of external reserves stood at 18 months low of US$47 billion as at March 2009, capable of financing up to 15 months of imports. Foreign exchange reserves hit an all-time high of US$64 billion in August 2008 as a result of record high crude oil prices. The dwindling external reserves can be attributed to the plummeting prices of crude oil; lower inflows of direct and portfolio investments; lower Diaspora remittances and the country's unfavourable trade balance with major economies such as the United States.



Source: Money Market Association of Nigeria (MMAN)

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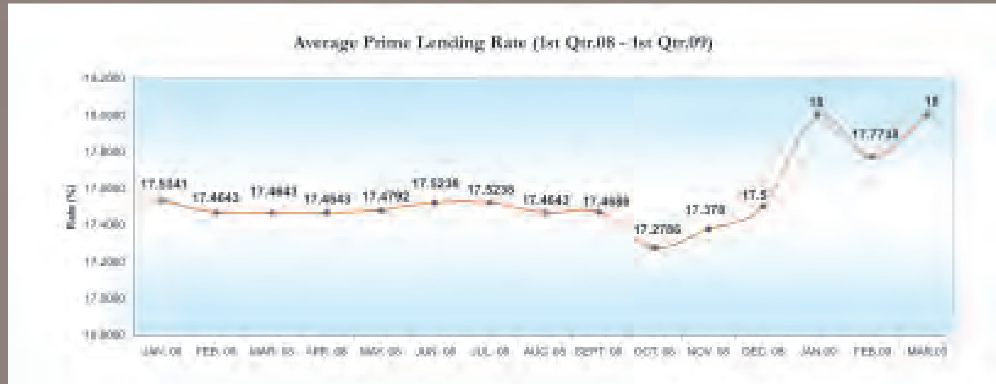
INTEREST RATE

Amidst spiralling cost of funds that caused fears among manufacturers, the Central Bank of Nigeria (CBN) left interest rate unchanged in the first quarter of 2009. The Monetary Policy Rate (MPR) has remained at 9.75 percent for two consecutive quarters.

The average monthly interbank rate (NIBOR) went up across most tenors after signs of moderations in January. Volatility was higher on the call and 7 Days tenors. The rates on these tenors both peaked as high as 26.08 percent. Liquidity pressure eased in January due to a total of N120 billion worth of matured bills repaid into the system, among others. Although this was not enough to rein in rates as the interbank rate inched up again in February. In March however, rates eased due to the disbursement to the three tiers of government of about US$1.5 billion and N254 billion (about US$1.7 billion) from the excess crude account and Federation Account, respectively.

In terms of the cost of borrowing, the average Prime Lending Rate (PLR) had spiral movements with periods of ups and downs. The average PLR hit 18 percent twice dur-

ing the quarter, reflecting the risk premium that banks demanded in order to lend. However, the rocketing rates made the Bankers' Committee to cap lending at no more than 24 percent in March. Also the lending rates were to be at most 7 percent above the deposit rate, which is pegged at a maximum of 15 percent.



Source: Money Market Association of Nigeria (MMAN)

The average deposit rate went up marginally across most investment horizons during the quarter. Rates declined marginally in January due to increased liquidity. However, they climbed back up in February with higher returns on the Overnight and 270 Days, which went up by 36 and 47 basis points respectively. In March, rates increased further across most tenors with the highest returns on the 270 Days, and 90 Days tenors which went up by 164 and 136 basis points respectively. However, rates are expected to ease as banks will not source for deposits at above 15 percent.

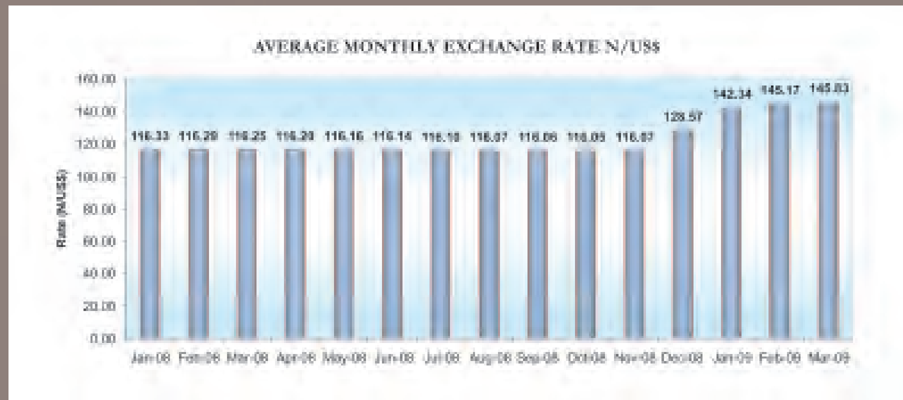
CAPITAL MARKET

The capital market continued its losing run in the first quarter of 2009 with share prices unable to hold on to any meaningful recovery. The All-Share Index (ASI) and market capitalisation closed the quarter lower at 19,851.89 and N4.48 trillion, respectively, from 31,450.78 and N6.957 trillion in the preceding quarter. Investors have remained on the sideline as the market took a plunge by 29.7 percent in just a month in January. A major concern among investors was whether stock prices 'bottomed out' as the market drifted sideways in the months of February and March, with market capitalisation hitting a fresh 26 months low of N4.4 trillion. On the upside, the market witnessed some gains in confidence which culminated in foreign listings as South Africa's Pinnacle Point Group listed 4.57 billion units at N6.00 per share. The oversubscription of the Lagos State Bond by N8.9billion was also another show of confidence as market capitalisation rose marginally in February. Concerned about dull sentiments in the market, the NSE introduced five new indices (NSE 30 Index, NSE Food/Beverage 10 index, NSE Banking 10 index, NSE Insurance 10 index, and NSE Oil/Gas 5 index) to deepen trading activities on the floor of the Exchange. However, the bears dominated activities and all the indices slumbered.

Source: NSE

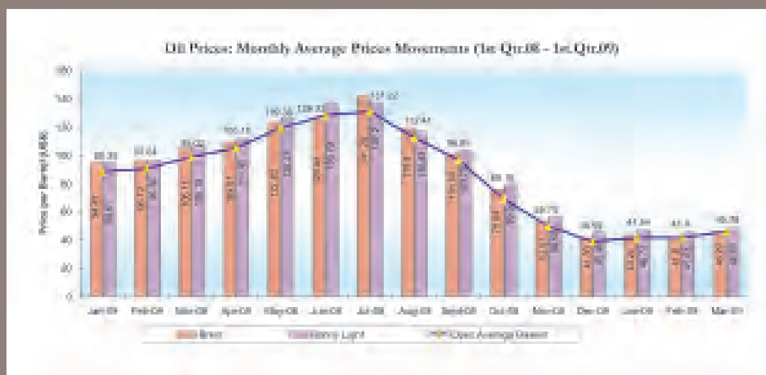
Source: NSE

EXCHANGE RATE



Source: CBN

The nation's currency, the naira, continued its freefall in the first quarter of 2009, it however stabilised at the tail end of the quarter. The naira has lost about 25 percent of its values since November 26, 2008, tumbling to a record low of N145.2/US$ as at end March 2009. In a precautionary move, the CBN suspended its Whole Sale Dutch Auction System (WDAS) and reverted to the Retail Dutch Auction System (RDAS) where banks' purchases of foreign exchange were cash backed. The intervention shored up the naira temporarily, as the exchange rate stabilised at about N145/US$, offering some relief to the authorities. However, the scarcity of the dollar widened the gap between the official and parallel markets, generating uncertainty as the naira remained vulnerable to speculations. The apex bank stepped in by offering to fund the market with about US$100 million and US$200 million on a weekly basis. The CBN further moved to firm up the market through a mixture of polices such as pegging the personal and business travel allowances at US$4,000 and US$5,000, respectively; requesting oil companies to sell dollars to the apex bank instead of commercial banks; banning interbank forex trading; and reforming the bureaux de change operations into two groups: catergory A (with minimum paid up capital of N500million and mandatory deposit of US$200,000) and category B which are to operate under their existing licensing requirements.



Source: Energy Information Administration

OIL PRICE MOVEMENT

The international crude oil market witnessed a steady but cautious climb in prices in first quarter 2009 after plummeting to as low as US$33.89 per barrel at the beginning of the quarter. However, after sliding by about three percent in the first two months, oil prices rebounded strongly ending the quarter at around US$50 per barrel. Crude oil prices rebounded after a more than expected cut from OPEC and glimpses of recovery in the US in the latter part of the quarter. The price of Nigeria's brand of crude oil, Bonny Light, gained about US$3 in the first quarter, from US$49 per barrel in December 2008 to about US$52 per barrel as at end March 2009. Industry analysts attributed the rebound in crude oil prices to falling supply and better than expected demand towards the end of the quarter. Although there was no clear direction for crude oil prices, OPEC members implemented only 2.3 million barrels per day of their announced 4.2 million barrels per day production cutbacks. In the months ahead, crude oil output is expected to drop as budget planners in Venezuela, Iran, Saudia Arabia and Oman among others are stranded with the possibility of running production deficits.