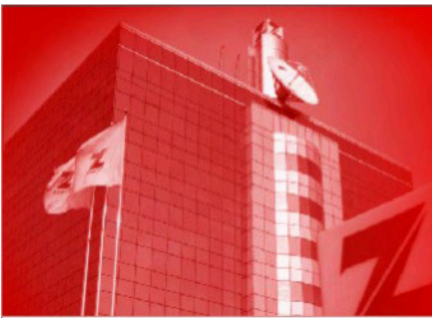

Zenith Economic Quarterly

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Nigerian Economy:

Options for Improving the People's Wellbeing

INSIDE

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Sovereign Debt & Regional Integration:

Lessons From The Greek Crisis

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the economy and "the urgency of now"

When, at the Riverside Church, New York City, on April 4, 1967, the legendary Martin Luther King, Jr. used the expression 'The urgency of now', little did he know that it could apply to the imperative need to jumpstart the economy of a country such as Nigeria. The civil rights icon in his speech title 'Beyond Vietnam—A time to Break Silence' espoused the imperativeness and urgency for his country to take definitive and decisive actions that would chart a new course of peace, harmony and development in Vietnam. In his words: "I would like to suggest five concrete things that our government should

And at the core of the wellbeing of the citizenry is the role of money, for which banks serve as the mobilizers and transmitters.

do [immediately] to begin the long and difficult process of extricating ourselves from this nightmarish conflict."

Like Luther King, Jr., the *Zenith Economic Quarterly,* in the topic "Nigerian Economy: Options for Improving the People's Wellbeing" offers realistic prescriptions of concrete steps for the long journey to a total turnaround of the economy. In doing this, the author is guided by the belief that urgent issues will also not be allowed to becloud the nation's focus on the long-term strategic agenda; yet, if these issues are not adequately addressed with dispatch, the ensuing distractions could obfuscate the presence of mind to plan and drive the economy forward. Specifically, the author refers to the urgent need to 'stabilize the Nigerian situation and bring some order before planning for the medium term since nobody will actually be around in the long run.' He sums up by harping on the complementarity of politics and economics in the journey to pulling out the economy from the woods, stressing that: 'both the economy and politics are only right when they are both about the wellbeing of the people.'

And at the core of the wellbeing of the citizenry is the role of money, for which banks serve as the mobilizers and transmitters. A critical agency in ensuring the safety and proper use of the people's money as banks engage in this intermediary role is the deposit insurance organization. Thus, our topic 'Deposit Insurance Systems: How Effective Are They in Protecting the Depositors?' examines the effectiveness of the deposit insurance systems (DIS) as financial safety nets. Acknowledging the inherent weaknesses of the DIS, the author posits that market discipline, good corporate governance and risk management practices, and transparent financial reporting and disclosures can better protect depositors and ensure financial system stability than the deposit insurance schemes.

A related topic 'Sovereign Debt and Regional Integration: Lessons from the Greek Crisis' examines this classical case of what happens when sovereign debt goes wrong and the critical lessons it serves for regional and national leaders. Specifically, the mishandling of the seemingly domestic financial issues of Greek, a member of the European Union, EU, has snowballed into a threatening challenge not only to the stability of the regional common currency (Euro) but also to the progress and prospect of the European integration. And going forward, the author insists that it is time for Greece and EU leaders to look beyond the debt issue to focus on finding lasting solutions that would bring Greece back on its feet again.

Yet in another related topic, 'There May Trouble Ahead…', the writer did a mid-term review of the year, pointing out that the continuing geopolitical problems in the Middle East and North Africa (MENA) area have reduced slightly but there is still the lingering search for solution in Libya, Syria and the Gulf. But from the investment and wealth management point of view, he says for the rest of the year and those that can keep their powder dry and have cash to move into markets when things look their worst, profits can and will be made. Reassuring!

Our series on 'Quality and Internal Control in Banks', in this issue, delves into inadequacy of institutional support in safeguarding the interest of depositors and other stakeholders. The place of coal in the energy equation of Nigeria as it strives for sufficiency of power supply in the country is also critically examined in another topic. Other sections of the package also contain our usual stimulating and informative pieces. Have a happy reading!

Marcel Okeke

from our mailbox

I am directed to acknowledge with thanks, the receipt of two (2) copies of the April, 2011 edition of your bank's publication titles; "Zenith Economic Quarterly ZEQ", which was forwarded to the Honourable Minister of Ministry Niger Delta Affairs, Elder Godsday Orubebe in a letter dated June 30, 2011.

The Honourable Minister, on behalf of himself, the Honourable Minister of State, Management and entire members of the ministry hereby expresses his appreciation for the gesture and commendation for the work your bank is doing in helping to transform the Nigerian economy.

There is no doubt that the information contained in the journal will be useful to the Nigerian Government.

The Honourable Minister is assuring his very warm regards to your bank.

Iwuchukwu, Festus N.
For: Honourable Minister, Ministry of Nigeria Delta Affairs, Abuja

I have been directed by His Excellency, Babatunde Raji Fashola (SAN), the Executive Governor of Lagos State to formally acknowledge and express his gratitude for your letter and presentation of a copy of the April 2011 edition of the Zenith Economic Quarterly.

Please accept the assurances of His Excellency's most profound appreciation and his usual esteem and regards.

Moji Rhodes
Deputy Chief of Staff
Office of the Lagos State Government

Your letter of June 30, 2011 on the above subject matter refers, please, I have been directed by the Vice-Chancellor to acknowledge with thanks the receipt of your letter on the above subject matter.

Two copies of Vol. & No. 2 April, 2011 edition of the Zenith Economic Quarterly were also received.

Thank you for making the university a recipient of your quarterly publication.

God bless you.

Yours faithfully,

Mrs. E. Aihie
Principal Assistant Registrar
for: Vice-Chancellor, Office of the Vice-Chancellor Benson Idahosa University

I write to acknowledge the receipt of a copy of the April 2011 edition of Zenith Economic Quarterly (ZEQ) and to appreciate the constructive efforts of your Management in putting this educative and informative Journal together. The need to critically look at the way forward for the transformation of the power sector, post-election economy and other key issues, will further enhance the economic strength and drive of the country. This is indeed so crucial.

We commend the giant strides of your bank and again thank you for identifying and connecting with our base.

Our best wishes for the future.

Best Regards.

Professor Aize Obayan
Vice Chancellor, Office of the Vice-Chancellor
Covenant University, Ogun State

I am writing to acknowledge with thanks the receipt of two copies of the April 2011 edition of the Zenith Economic Quarterly which you have kindly donated to the University Library.

The publication is an invaluable addition to our Library collection.

We appreciate your interest and support in the development of our Library.

Thank you.

Yours faithfully,

Blessing C. Funom (Mrs.)
for: University Librarian, University of Abuja

I write on the directives of the Vice-Chancellor, Professor Joseph A. Ajienka to acknowledge receipt of a copy of Zenith Economic Quarterly which you graciously sent to him.

He has therefore directed me to thank you immensely for this kind gesture. This quarterly has always been a source of information for our staff and students in the Faculties of Management and Social Sciences. The publication has been displayed in our library for the benefit of staff, students and other users of the library.

Kindly accept the Vice-Chancellor's warm regards and best wishes.

Jones T. Toby
for: SAVC, Office of the Vice-Chancellor University of Port Harcourt, Rivers State

I wish to acknowledge with thanks the receipt of a copy of April, 2011 edition of the Zenith Economic Quarterly (ZEQ).

The president and the entire members of Nigerian Medical Association (NMA) commend your efforts on this publication, which focuses on the Post-Election Economy of Nigeria. The contents are very interesting and educative.

Accept our due regards.

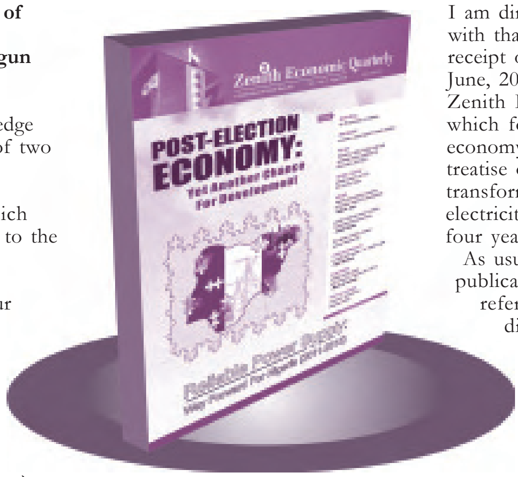
Dr. B.M. Audu
Secretary-General, Nigerian Medical Association, Abuja

I am directed to acknowledge the receipt of your letter dated 30th June, 2011, under cover of which you forwarded to the Mission, a copy of the April 2011 edition of the Zenith Economic Quarterly (ZEQ).

This edition which focused on the post-election economy of Nigeria with a treatise on options for the transformation of the Nigerian electricity sector is commendable. I am to add that your publications are indeed valuable reference materials which the Mission continues to find useful.

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

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



I am directed to acknowledge with thanks and appreciation the receipt of your letter dated 30th June, 2011, forwarding a copy of Zenith Economic Quarterly, which focuses on post election economy of Nigeria and also a treatise on option for the transformation of the Nigeria electricity sector within the next four years.

As usual, the Mission finds the publication essential and useful reference material to our diplomatic service to Nigeria.

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

Basher I. Ma'aji
For: Ambassador, Embassy of the Federal Republic of Nigeria, Saudi Arabia

We received with thanks your letter of June 30, 2011, and the enclosed copy of ZEQ April 2011 Edition.

We thank you very much and wish you and your Editorial Board more success in your efforts to sustain this worthy legacy.

Kindly accept our sincere congratulations and thank you for keeping us on your mailing list.

Yours sincerely,

Stella E. Akele
The Chartered Institute of Bankers of Nigeria, Lagos

The Honourable Minister, on behalf of himself, the Honourable Minister of State, Management and entire members of the ministry hereby expresses his appreciation for the gesture and commendation for the work your bank is doing in helping to transform the Nigerian economy.

Economy: Growth Indicators STILL STRONG

***By Marcel Okeke**

Apprehension about the April 2011 general election, some restiveness and unrests sequel to its successful conduct, the dissolution of the former cabinets and the formation of new ones at the Federal and state levels were key among the developments during the second quarter 2011 that largely impinged on the economy. Alongside these was the signing into law of an amended N4.48 trillion 2011budget after a compromise was reached between the National Assembly and the Federal Executive on specific spending levels. Similarly, the landmark Sovereign Wealth Fund bill was also signed into law—to enable the country utilize better its huge oil revenues. The Senate also approved during the quarter, N150 billion (US$1 billion) for the take-off of the Nigerian Sovereign Investment Authority (NISA) which will manage the SWF.

Other key policy initiatives and programs of Government also continued during the period, all impacting on the economy and determining its course. These include the privatization of major utilities and corporations, financial sector reforms by the Central Bank of Nigeria and other agencies. Particularly in the banking sector, the CBN heightened its efforts at curtailing inflation and stabilizing the exchange rate through its monetary policy that saw the benchmark interest rate (Monetary Policy Rate) raised from 7.5 per cent in March to 8.0 per cent by end-June 2011.

The apex bank also issued new licenses to a number of the deposit money banks in line with its new banking model in the country. It also came up with guidelines on non-interest banking in Nigeria as well as took specific steps to transform the agric sector through the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)—through which it intends to de-risk agricultural lending and unlock the potentials of the sector. Also noticeable during the period under review was the ripple effects of the Minimum Wage Bill (2011) signed into law in March, but which mandated the private sector operators and state governments to pay a minimum wage of eighteen thousand naira. The challenges posed by the new law to the states and the negotiation imbroglio in many cases continued into the second and third quarters 2011.

The upshot of all these and many other policies and programs of the Government during the quarter under review however was the continued movement of key economic indicators in the desired directions. Thus, although it was expected that Government's expansionary fiscal profile, high food import prices and political uncertainty of the period would dampen the economy, available data show mainly positive outcomes. Specifically, there was stability in both inflation rate and the foreign exchange market, while overall Gross Domestic Product (GDP) growth rate remained within the projected level in 2011.

According to the maiden edition of a joint report by the National Bureau of Statistics (NBS) and the Central Bank of Nigeria (CBN) titled "Economic Outlook: 2011 GDP Forecast for Nigeria", the GDP recorded a growth rate of 8.29 per cent in the fourth quarter 2010, and is expected to grow by 7.98 per cent in 2011, higher than the overall growth rate of 7.85 per cent recorded in 2010. However, a first quarter 2011 GDP growth rate estimate of 7.4 per cent is already available, while the second quarter level is put at 7.6 per cent. Both levels were driven essentially by activities in the non-oil sector in the areas of wholesale/retail trade, building and construction, finance and insurance, telecommunications and other services. The 2011 budget projects a GDP growth rate of 7.0 per cent only for the whole year.

Still on the positive note, NBS

figures show that inflation rate (year-on-year) decreased from 12.4 per cent in May to 10.2 per cent in June 2011; it has further dropped, hitting the single digit threshold (of 9.4 per cent) at end-July—the lowest level in three years. This is attributable to a combination of initiatives, especially the tight monetary policy of the CBN that showed in the upward movement of its MPR from 6.5 per cent in January 2011 to 7.5 per cent in March and to 8.0 per cent all through the second quarter.

Another feature of the Nigerian economy during the period under review was the consistent upswing in the price of oil, sufficiently above the 2011 budget benchmark of US$75 per barrel. In fact, save in January, when the monthly average price of crude oil stood at about US$93 per barrel; the figure had remained above US$100 per barrel in the rest of the months up to June. In the same vein, production and export volumes have remained high—with the daily average production standing at about 2.45 million barrels per day for the first half 2011. These translated into stable foreign exchange inflow; buoyant distributable account for all tiers of government, and fairly stable exchange rate of the Naira, among others.

In this regard, available statistics show that the three tiers of Government shared about N3.05 trillion (from the Federation Account) in the first half 2011 as against about

N2.50 trillion shared in the same period last year. Further breakdown show that about N1.8 trillion was shared in the second quarter as against N1.12 trillion in the first quarter. The Federation Account Allocation Committee (FAAC) released the sum of N883.3 billion for sharing by the three tiers of government in June 2011, as against the May figure of N606.50 billion.

In a similar vein, Nigeria's external reserves position as at June 30, 2011 stood at US$31.89billion, representing a decline of 1.42 per cent, compared with US$32.35billion as at December 31, 2010.

For the June level, records show that about N83billion was withdrawn from the Excess Crude Account to augment the distributable amount.

Following from the good revenue inflow, the exchange rate remained generally stable against major world currencies; closing the second quarter with a mild depreciation over the first. While the monthly average exchange rate of the Naira against the dollar in March was N150.49/ US$1, it stood at N152.44 in June—a decline of about two naira during the period. The naira however remained within the CBN's target exchange rate band of +/-3 percentage points around N150/US$1. This was essentially due to a deliberate effort of the apex bank which led to increased supply of foreign exchange, complemented by funding from autonomous sources. In all, the CBN offered a total of US$14.85 billion through the Wholesale Dutch Auction System (WDAS) in the first half 2011. The offer represents an increase of 13.41per cent over the US$13.050 billion offered in the first half of 2010. In the WDAS segment of the forex market, the Naira/Dollar exchange rate opened at N151.02/ US$1 on April 1, 2011 and closed at N151.29/US$1.

In a similar vein, Nigeria's external reserves position as at June 30, 2011 stood at US$31.89billion, representing a decline of 1.42 per cent, compared with US$32.35billion as at December 31, 2010. On the other hand however, the stock of the nation's debt increased during the period under review. Debt Management Office (DMO) figures show that Nigeria's total debt stock (external and domestic debts) as at June 30, 2011 stood at N6.03 trillion representing an increase of 15.19 per cent from the December 31, 2010 figure of N5.20 trillion. A breakdown of the debt stock shows that external debt accounted for 13.59 per cent of the total debt stock at N819.37billion, while domestic component accounted for 86.41per cent at N5.21trillion.

In all, the CBN offered a total of US$14.85 billion through the Wholesale Dutch Auction System (WDAS) in the first half 2011. The offer represents an increase of 13.41per cent over the US$13.050 billion offered in the first half of 2010.

The total public debt stock in the country as at June 2011 represents about 19.23 per cent of the Gross Domestic Product (GDP), as against the applicable critical limit of 40 per cent for countries in Nigeria's economic peer bracket.

Specifically (in Dollar terms), Nigeria's total external debt as at June 30, 2011 stood at US$5.398 billion representing an increase of 3.27 per cent from the March 31, 2011 figure of US$5.23 billion and an increase of 17.89 per cent as at December 31, 2010 figure of US$4.58 billion. The total external debt stock represents 2.61 per cent of the GDP. A breakdown of the external debt in the second quarter 2011 shows that 84.54 per cent was owed to Multilaterals, which include the World Bank Group, International Fund for Agricultural Development (IFAD), African Development Bank Group (ADB), International Development Bank (IDB) and Economic Development Fund (EDF); 6.20 per cent was owed to Non-Paris Group of creditors and 9.26 per cent was owed to others.

Also, DMO puts Nigeria's domestic debt stock at N5.21 trillion as at June 30, 2011 up by 7.01 per cent from N4.87 trillion as at March 31, 2011, while it increased by 14.47 per cent from N4.55 trillion as at December 31, 2010. This works out that ratio of domestic debt stock to GDP is16.62 per cent. The breakdown of the total domestic debt by instrument type as at June 2011 shows that the FGN Bonds accounted for N3.28 trillion or 62.88 per cent; Nigerian Treasury Bills (NTBs) accounted for N1.56 trillion, representing 29.97 per cent and Treasury Bonds (TBs) accounted for N372.90bn, representing 7.16 per cent.

THE CAPITAL MARKET

Change of leadership at the Nigerian Stock Exchange continued to take shape during the second quarter 2011, with the new chief executive officer effectively assuming office in April. Other executive management team members have also since joined. Before the arrival of the new team however, the equities market began the year on a positive stead due to a number of reasons: effective take-off of the Asset Management Corporation of Nigeria (AMCON), good corporate actions of quoted companies and prospects of better performance of quoted companies. However, some level of uncertainty, security issues and a tendency to exhibit caution for fear that the ripple effects of events in the Middle East and North African (MENA) region could affect Nigeria also impacted the market. Also, the tight monetary policy of the CBN created better prospects in the money market in terms of risk and returns, with many investors channeling their investments accordingly. However, a performance indicator of the market, the All-share Index (ASI) which opened the second quarter at 24,752.04 points closed the period at 24,980.20 points, making a 0.92 per cent gain. The market capitalization closed the second quarter 2011 at N7.98 trillion, making a marginal loss from its level of N7.87 trillion at end-March 2011.

In spite of the seemingly unimpressive trend in the capital market during the period under review, there were a number of new listings and de-listings on the Nigerian Stock Exchange (NSE). In April, the Asset Management Corporation of Nigeria (AMCON) listed its N1.676 trillion zero coupon bond series 'One'. Mutual Benefits Assurance Plc listed additional units of its shares, while BGL Sapphire Fund and BGL Nubian Fund were admitted on the NSE memorandum quotations. Oando Plc, Great Nigeria Insurance Plc and Unity Bank Plc all added to the volumes of their shares outstanding during the quarter under review. On the other hand, the 13.50 per cent FGN April 2011 (3rd FGN Bond Series 7) was delisted from the daily official list on maturity. However, a few other quoted companies had also commenced the process of getting de-listed from the NSE (including the Nigerian Bottling Company Plc and Nampak Plc)

In terms of trading activities, total shares of 50.04billion worth N369.22 billion were traded in 722,948 deals during the first and second quarters 2011, compared to a total volume of 54.34billion worth N433.68 billion traded in 1.16 million deals in the first half of 2010. This is a decrease of approximately eight per cent in terms of volume; about 15 per cent depreciation in value; and a 38 per cent decrease in the number of deals compared to the corresponding period of 2010.

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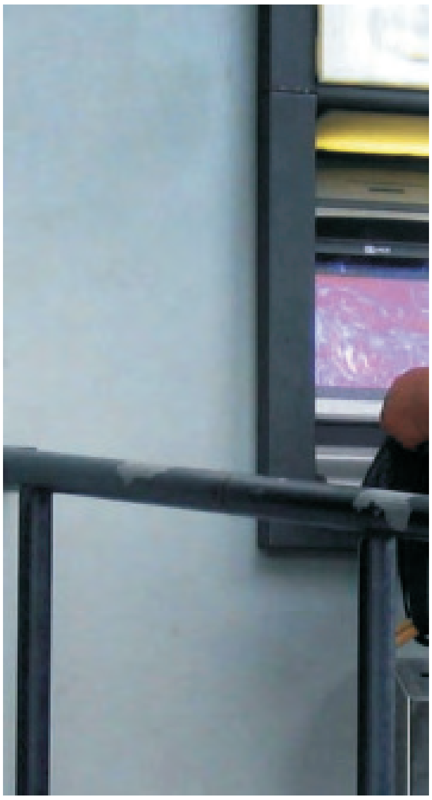
BANKING & FINANCE

Reforms in the banking sector continued with frenzy during the second quarter 2011, with the CBN keeping its tight monetary policy stance; raising the MPR from 7.5 per cent in March to 8.0 per cent in May while also adjusting other market instruments. Also, preparations towards the implementation of cash withdrawal limits earlier muted by the apex bank gathered momentum during the quarter. Under the initiative intended to reduce Nigeria's dependence on cash transactions, cash withdrawals will be limited to one hundred and fifty thousand naira for individuals and one million naira for corporate bodies—and withdrawals exceeding these limits will attract some 'nominal transaction cost'. Although the pilot phase of this initiative is to commence in December 2011(starting with Lagos state), the CBN and the deposit money banks have begun efforts at improving channels of electronic payments. In this regard, the apex bank says it is deploying about 40, 000 Automated Teller Machines (ATMs) and Point of Sales (POS) terminals in Lagos by end-2011. The rule banning the



location of ATMs outside bank premises is also being reconsidered, to enable the deposit money banks further promote electronic payments and reduce cash transactions.

Also, amid the flurry of reforms in the industry, the apex bank took definite steps towards the introduction of non-interest banking (otherwise called 'Islamic Banking') in the country. The CBN announced a capital base requirement of N10 billion for any 'Islamic' bank applying for license to operate nationwide, and N5 billion for an 'Islamic' banking license for regional authorization. It gave approval-in-principle for Jaiz Bank to operate as the first 'Islamic' bank in Nigeria, allowing it six months to run in line with the prescribed guidelines before being issued with the final license. The apex bank also granted preliminary license to Stanbic IBTC Bank Plc to provide 'Islamic' banking services, while yet considering a request for a similar license for Standard Chartered Bank Plc. According to Literature, 'Islamic' banking operates without use of interest; banks only share in the proceeds of profitable use of funds, or charge fees for services rendered. This mode of banking may also proscribe investing bank funds in activities considered 'unethical'—such as breweries, casinos, pornography or other ventures viewed as contrary to the tenets of Islam.

During the quarter under review, the apex bank also pursued with vigour, the setting up of what it calls 'Enterprise Development Centres' (EDCs) across the six geopolitical zones of the country. These EDCs are, according to the CBN, capacity building centres. Also, the CBN continued with its transition to the uniform bank account number (NUBAN) scheme under which all deposit money banks are to have uniform account numbering procedure—each number being ten digits only. Although most banks kept to the June 1, 2011 deadline earlier set by the CBN for the completion of the NUBAN process, the apex bank shifted the conclusion date forward by one year to June 1, 2012.

Under the initiative intended to reduce Nigeria's dependence on cash transactions, cash withdrawals will be limited to one hundred and fifty thousand naira for individuals and one million naira for corporate bodies—and withdrawals exceeding these limits will attract some 'nominal transaction cost'.

The Nigerian Incentive-based Risk-sharing System for Agricultural Lending (NIRSAL) also remained on the front burner of the CBN. Under the system, the apex bank wants to fix the agric value chain, so that banks can lend with confidence to the sector; the initiative encourages banks to lend to the agric value chain by offering them strong incentives and technical assistance. In fact, the CBN has earmarked an estimated US$500 million that will be invested into the whole scheme as follows: Risk-sharing Facility (US$300 million), Insurance Facility (US$30 million), Technical Assistance Facility (US$60 million), Holistic Bank Rating Mechanism (US$10 million) and Bank Incentives Mechanism (US$100 million).

Furthermore, in pursuit of the NIRSAL objective, the apex bank has also identified six pilot value chains based on current crop production levels and potentials. The crops are tomatoes, soya beans, cotton, rice, maize and cassava. The overall target is to generate US$3 billion of bank lending within 10 years, to increase agric lending from the present two per cent to seven per cent of total bank lending. In achieving this, banks will be capturing latent profit in agricultural lending , maintain long term human, institutional and cultural capacity for value chain financing capacity and enjoy lower loan origination and distribution costs.

In addition to the NIRSAL initiative, CBN pursued its other economic development interventions during the quarter under review, including the N200 billion Commercial Agric Credit Scheme (CACS) Fund, the N500 billion Manufacturing/Infrastructure Fund and the N200 billion Small and Medium Scale Enterprises (SMEs) Loan.

During the quarter under review, the deposit money banks (DMBs) continued with business strategies: some involved with mergers and acquisitions, some with local and offshore expansion efforts, and some with market share growth. A number of the banks also took steps to restructure in line with the new banking model introduced by the CBN. Thus, during the quarter, two banks that opted to operate as regional banks namely Wema Bank and Equitorial Trust Bank were issued regional licenses by the apex bank. The licenses will enable the two banks operate in six to twelve of the 36 states in the country. On the other hand, First City Monument Bank Plc is opting for an international license from the CBN and is also setting up a holding company structure that will enable it separate its core banking from its other activities.

Some of the other banks, especially those 'rescued' through the CBN/AMCON intervention were also deeply involved in recapitalization efforts. For example, Afribank Plc entered into an agreement with a private equity consortium—Vine Capital Partners Limited (as core investors)—to achieve its recapitalization. Similarly, FinBank Plc signed a Memorandum of Understanding (MoU) with the First City Monument Bank Plc with a view to entering into a business combination. FirstRand, one of South Africa's biggest banking groups, was also in talks with Sterling Bank Plc, over making a strategic investment in the latter.

OIL, GAS & POWER

Crude oil prices remained consistently high during the quarter under review, just as in the first quarter, but with some volatility. Thus, while the Organization of Petroleum Exporting Countries (OPEC) Average Monthly Basket Price of crude oil opened the year 2011 at US$92.83 per barrel, it rose to US$109.84 per barrel in March. It rose further to US$118.09 per barrel in April before slipping to US$109.04 per barrel in May, but swung up to US$110.60 per barrel in June. This price trend was largely influenced by crises/wars in a number of countries in the Middle East and North Africa (MENA) region and the slow economic recovery/growth in some major oil consuming economies. OPEC members have also shown reluctance to take a decision to replace the oil supplies from this region and an unwillingness to bring oil prices down. This explains why in the face of this oil price trend, OPEC at its 159th Conference in Vienna, June 8, 2011, failed to sanction a proposal by four Persian Gulf nations to boost the group's output. This scenario once again stalled Nigeria's quest for higher OPEC quota, a bid that began early in 2010.

Nigeria has hinged its bargain for improved OPEC

http://www.aeci.org/Resources/Images/ChouteauAlgae/AlgaePoolsPlant2244.jpg

quota on consistently high daily production as well as substantial proven reserves. Nigeria's proven oil reserves now stands at about 37 billion barrels. The country plans to increase daily output to about 4 million barrels per day (mbpd) by next year from the current level of about 2.60 mbpd. The subsisting production trend, largely aided by the successful amnesty programme of the Federal Government, has seen oil output remaining above the 2mbpd-mark all through the second quarter 2011. All these have translated into some marginal accretion to the nation's stock of external reserves as well as inflows into the Excess Crude Account (ECA) or the Sovereign Wealth Fund (SWF).

Beside this 'rosy' scenario however, is the reality of the failure to pass the Petroleum Industry Bill (PIB) by Nigeria's Sixth National Assembly before it wound up its business in May 2011. It was expected that the passage of the PIB would have boosted oil exploration and production in the country; thus, placing Nigeria in the best position to benefit maximally from the subsisting high demand and prices in the international oil market. However the seeming skepticism which the PIB issue has engendered and the apparent reluctance of the International Oil Companies (IOCs) to commit funds to new investments leave the industry somewhat stagnant. This 'hold' on new investments and suspension of work on some old projects has impacted negatively on the volume of business in the industry and allied businesses. Some upshots of this include the continued importation of huge volumes of petrol and other refined products to meet local demand at huge cost to the Government. Also, while a large chunk of crude oil earnings continues to be sunk into this, the state-owned refineries continue to operate in fits and starts.

The Nigerian National Petroleum Corporation (NNPC) on its part has however intensified the search for hydrocarbon deposits in commercial quantity in the nation's inland basins. NNPC's new exploration services division, the National Frontier Exploration Service (NFES) is already focusing on regulating and stimulating exploration activities in unassigned frontiers beyond the production onshore Niger Delta and deep water basins. NFES has in deed

commenced seismic work and data processing on large acreages located in the Anambra, Benue trough, Bida, and Sokoto basins—which had been explored without success in the past by the IOCs.

In the power sector, the Nigeria Electricity Regulatory Commission (NERC) released its updated tariff schedule, effective July 1, 2011, which shows a slight adjustment in the average cost of electricity from N8.50 to N10 per kilowatt. According to NERC, the review is part of the Multi Year Tariff Order (MYTO) that came into effect in 2008, a routine in keeping with the provisions of Section 76 of the Electric Power Sector Reform Act 2005. This provision requires that electricity tariff be auto-adjusted from time to time to reflect current cost of gas and general inflation.

In the power sector, the Nigeria Electricity Regulatory Commission (NERC) released its updated tariff schedule, effective July1, 2011, which shows a slight adjustment in the average cost of electricity from N8.50 to N10 per kilowatt.

Also, steady progress to the privatization of 17 out of the 18 Power Holding Company of Nigeria (PHCN) successor-companies (11 distribution companies and 6 generating companies) continued during the quarter under review. The National Council on Privatization (NCP) approved and shortlisted potential bidders after receiving about 330 Expression of Interest (EoI) from organizations. According to the Bureau of Public Enterprises (BPE) data, 40 firms have been shortlisted to bid for the concessioning of the hydro-stations, 87 for thermal stations and 80 for the electricity distribution companies. While the privatization process proceeds, the CBN and the DMBs held a technical workshop to identify the gaps limiting access to long term funding for power projects. The forum also provided platform for stakeholders to make inputs towards successful privatization in the power sector.

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

1 Preamble

In exercise of the powers conferred on the Bank by Section 47 (3) of the Central Bank of Nigeria Act 2007 (as amended) to issue guidelines for the maintenance of adequate and reasonable financial services for the public and to ensure high standards of conduct and management throughout the banking system; and Pursuant to its inherent powers, the Central Bank of Nigeria (CBN) hereby issues the following guidelines for Point of Sale (POS) Card Acceptance Services in Nigeria:

Objectives

These guidelines have been developed to provide minimum standards and requirements for the operation of POS card acceptance services under the following POS environment:

a) Countertop
b) Wireless/Portable
c) Handover (PIN Entry only/Customer-activated with PIN Entry)
d) Automated Dispenser (e.g. Automated Fuel Dispenser, Token dispenser, etc)
e) Biometric point of sale
f) Contactless

2 Point of Sale Card Acceptance Services Stakeholders

POS Card Acceptance Services Stakeholders include but not limited to:

1. Merchant Acquirers
2. Card Issuers
3. Merchants
4. Cardholders
5. Card Schemes and Card Associations
6. Switches
7. POS Terminal Owners
8. Payments Terminal Service Aggregator (PTSA)
9. Payments Terminal Service Providers (PTSP)
10. Processors

3 Minimum Standards

All industry stakeholders who process and/or store cardholder information shall ensure that their terminals, applications and processing systems comply with the minimum requirements of the following Standards and Best Practices (for PCI, the minimum requirement will be level 2.1). In addition, all terminals, applications and processing systems, should also comply with the standards specified by the various card schemes. Each vendor must provide valid certificates showing compliance with these standards, and must regularly review status of all its terminals to ensure they are still compliant as standards change. There will be a continuous review and recertification on compliance with these and other global industry standards from time to time.

3.1 PA DSS –Payment Application Data Security Standard.

3.2 PCI PED – Payment Card Industry Pin Entry Device.

3.3 PCI DSS – Payment Card Industry Data Security Standard.

3.4 Triple DES – Data Encryption Standards should be the benchmark for all data transmitted and authenticated between each party. The triple DES algorithm is the minimum standard.

3.5 EMV – The deployed infrastructure must comply with the minimum EMV requirements.

3.6 Each vendor must provide valid certificates showing compliance with these standards.

The timelines for compliance with the above minimum standards are as follows:

- New terminals and payment applications Immediate
- Existing payment applications December 1, 2011
- Existing terminals December 31, 2012

4 Roles and Responsibilities of:

4.1 Merchant Acquirers

4.1.1 Only CBN licensed financial and non- financial institutions shall serve as Merchant Acquirers.

4.1.2 Merchant Acquirers can own POS Terminals, but shall only deploy and support POS terminals through a CBN licensed Payment Terminal Services Provider (PTSP).

4.1.3 Merchant Acquirers shall ensure that POS terminals purchased and deployed at merchant/retailer locations through CBN licensed Payment Terminal Services Provider shall accept all cards (card agnostic)

4.1.4 Support for existing POS terminals already deployed shall be handed over to PTSPs by November 1st, 2011

4.1.5 Merchant Acquirers shall enter into agreements/ contracts with merchants for accepting payment by means of electronic payment instrument. All agreements/contracts shall clearly spell out the terms and conditions, including roles, responsibilities and rights of the acquirer and the merchant. The contract should also clearly spell out requirements for the merchant's responsibilities in ensuring proper upkeep of the POS terminal.

4.1.6 Every Merchant Acquirer shall connect all its PoS terminals or other acquiring devices directly to the Payments Terminal Service Aggregator.

4.1.7 Merchant Acquirers shall switch all domestic transactions through the preferred local switch of their choice for purpose of seeking authorisation from the relevant Issuer.

4.1.8 To achieve interoperability, all POS terminals deployed in Nigeria shall accept all transactions arising from any card issued by any Nigerian bank. Accordingly, Acquirers and other service providers shall be card neutral entities that have no reason to promote or favour any card brand over the other.

4.1.9 Every acquirer must be able to accept all cards issued by Nigerian Banks, whether through a direct license or via an arrangement with any other acquirer that is licensed under the relevant card scheme/association.

4.1.10 Merchant Acquirers, in conjunction with their Payment Terminal Service Providers, shall be responsible for ensuring that merchants are trained and made to put in place reasonable processes and systems for confirming cardholder identity and detecting suspicious or unauthorized usage of electronic payment instruments where customer/card is physically present at point of sale.

4.1.11 Merchant Acquirers shall be required to undertake measures to prevent the use of their networks for purposes associated with money laundering and other financial crimes.

4.1.12 Merchant Acquirers shall conduct proper KYC on all their merchants with POS.

4.1.13 Merchant Acquirers shall set merchant limits based on the volume of business/type of commercial activities. In addition, Merchant Acquirers shall provide guidelines to merchants on payment procedures for large ticket transactions (e.g. review of Identification, etc)

4.1.14 All POS Terminals procured should allow for implementation of Biometric Authentication by December 2015.

4.1.15 Merchant Acquirers shall in conjunction with banks, switches and other stakeholders ensure resolution of disputed transactions between the merchant and the cardholder within five (5) working days. All transactions from POS devices shall be routed through the PTSA to the relevant acquirer or its appointed third party processor.

4.1.16 There shall be no exclusivity arrangements that bundle third party processing with switching activities. Each acquirer shall be free to process transactions on its own, or leverage the services of a third party processor; and these services shall be independent of the switch used to facilitate such exchange.

4.1.17 Merchant Deposit Banks shall maintain and reconcile merchant accounts on behalf of Merchant Acquirers.

4.2 Payment Terminal Services Provider (PSTP)

4.2.1 To ensure effectiveness of POS operations and a proper support/maintenance infrastructure, only CBN licensed Payments Terminal Service Providers shall deploy, maintain and provide support for POS terminals in Nigeria. PTSPs shall offer services to acquirers covering all aspects relating to terminal management and support, including but not limited to purchase and replacement of spare parts, provision of connectivity, training, repairs, and development of value-added services, amongst other things.

4.2.2 PTSPS shall agree their fees directly with the acquirers, but subject to the following guidelines:

1) A flat fee per terminal, irrespective of location deployed and/or value/volume of transactions

2) An incentive fee based on volume of transactions per terminal

3) Timely settlement of payments

4.2.3 CBN shall license a limited number of Payments Terminal Service Providers, to enable the PTSPs build scale and maximize efficiency. Criteria for PTSPs shall be defined by CBN, and the performance of licensed PTSPS shall be reviewed annually to confirm they meet defined performance targets. Licenses of PTSPs that fail to meet performance expectations can be withdrawn and fresh licenses issued to qualifying companies.

4.2.4 PTSPs can identify merchant opportunities and market potential merchants on behalf of acquirers.

4.2.5 Only PSTPs shall be allowed to deploy POS terminals. Any party, other than a PTSP that deploys POS terminals, shall be fined 50,000 Naira per day that terminal remains deployed. PTSPs shall clearly agree SLAs on deployment timelines with acquirers to ensure efficient deployment of POS terminals.

4.2.6 PSTPs shall ensure that deployed POS terminals are functional at all times. Appropriate mechanism must be put in place to remotely detect failures which shall be rectified or replaced within 48 hours.

4.2.7 All terminals deployed by PTSPs must have stickers with the PTSP's support service contact information. In addition PTSPs must have a support infrastructure that ensures support coverage for merchants 7 days a week.

4.2.8 PTSPs will be required to enter into contracts/ SLAs with the acquirers that will clearly state the terms and conditions of their support services, including the fee structure and timeline for fee settlement.

4.2.9 PTSPs shall work with the PTSA to ensure all POS terminals deployed by them meet all required certifications and the minimum POS specifications defined in these guidelines.

4.2.10 PTSPs shall work with acquirers and the terminal manufacturers to ensure that terminals are phased out/ replaced/upgraded as appropriate, as their certifications become obsolete.

4.2.11 No Card Scheme shall engage in business as a Payment Terminal Services Provider; neither shall any entity that has a management contract with a Card

Scheme engage in business as a Payment Terminal Services Provider. In addition, no entity in which a Card Scheme, its subsidiary, or the majority shareholder of a card scheme, has 20% shareholding or more shall engage in business as a Payment Terminal Services Provider. In addition, no single Bank shall have a controlling share in any Payment Terminal Services Provider

4.3 PoS Terminal Owner

4.3.1 Banks, Merchants, Acquirers, PTSA, and PTSPs can be PoS Terminal Owners.

4.3.2 PoS Terminal Owners shall ensure all POS terminals procured by them are compliant with the minimum POS specifications.

4.3.3 PoS Terminal Owners shall cover the costs of repairs and replacements of parts for their terminals.

4.4 Payments Terminal Service Aggregator

4.4.1 Nigeria Interbank settlement Systems (NIBSS) - owned by all Nigerian banks and the Central Bank of Nigeria shall act as the Payments Terminal Service Aggregator for the financial system.

4.4.2 As the Payments Terminal Service Aggregator for the industry, NIBSS shall establish communication network for reliable POS data traffic that shall satisfy the service and availability standards and expectations of the industry on a cost effective basis.

4.4.3 As the Payments Terminal Service Aggregator for the industry, NIBSS shall on an annual basis or more frequently as may be required, on behalf of the industry certify POS Terminals that meet the POS Terminal standards approved for the industry.

4.4.4 As the Payments Terminal Service Aggregator, NIBSS shall participate on a joint committee of industry stakeholders, to negotiate a price list with 2 – 3 terminal equipment providers for bulk purchase of POS terminals for the Nigerian market. It is expected that a bulk purchase agreement will enable cost reduction on POS terminals, as well as the ability to define special requirements for the Nigerian market, and ensure a sufficient support infrastructure from the terminal manufacturers. Any Terminal Owner may subscribe to the negotiated global price list for the purchase of POS Terminals to take advantage of these benefits.

4.4.5 As the Payment Terminal Service Aggregator, NIBSS shall be the only entity permitted to operate a Terminal Management System. All POS terminals operating in Nigeria must be connected to the Payment Terminal Service Aggregator. This is to ensure comprehensive oversight, reporting/performance monitoring, and also in line with our objectives of shared industry infrastructure and best practice. NIBSS shall provide Acquirers and Payment Terminal Service Providers and their merchants (where required) the ability to view transactions and monitor performance of their devices.

4.4.6 All PoS Terminals deployed shall be technically enabled to accept all cards issued by Nigerian banks.

4.4.7 The Payments Terminal Service Aggregator shall route all transactions from PoS terminals to the relevant Acquirer or its designated third party processor. This enables Acquirers who are Issuers to handle On-Us transactions appropriately and all Acquirers to manage their risks and accept responsibility for such transactions in line with Charge-back Rules of relevant Card Schemes. This does not preclude any Acquirer from using the services of any Third Party Processor (TPP) or the Acquirer's in-house processing services to process its acquired transactions.

4.4.8 All domestic transactions including but not limited to POS and ATM transactions in Nigeria must be switched using the services of a local switch and shall not under any circumstance be routed outside Nigeria for switching between Nigerian Issuers and Acquirers.

4.4.9 The Payments Terminal Service Aggregator shall monitor the availability and transaction traffic on all POS terminals on a continuous basis and shall provide analysis and reporting on POS terminal performance and transaction trend to the Central Bank and the industry.

4.4.10 The Payments Terminal Service Aggregator shall ensure all merchants and other relevant parties are settled within the T+1 settlement period, upon receipt of settlement reports from all card schemes or the switches they have appointed to provide such reports on their behalf. Failure to execute the T+1 settlement cycle shall result in a sanction to the PTSA, including but not limited to them solely refunding the entire Merchant Service Charge for that day's transactions.

4.4.11 The Payments Terminal Service Aggregator shall have clear Service Level Agreements for certifying terminals quickly and efficiently, as well as for integrating new value-added services on behalf of acquirers, PTSPs, or 3rd party application developers.

4.5 Card Issuers

4.5.1 Only licensed deposit taking banks shall with the approval of CBN serve as the issuers of payment cards.

4.5.2 Only EMV-compliant cards shall be issued by Nigerian banks.

4.5.3 Deposit Taking Banks shall act as the issuer of payment cards and by so doing commit themselves towards the cardholders to settle the operations performed by means of payment cards, and the cardholder commits himself/herself to pay the amount of the operations together with charges due to the issuer from a specified account.

4.5.4 A card issuer shall be held liable (where proven) for card frauds arising from card skimming or other compromises of the issuer's security system, including payment done with hot-listed card.

4.5.5 A card issuer shall put in place adequate controls to prevent, track and minimize fraud.

4.5.6 A card issuer shall provide means whereby its cardholders may at any time of the day or night notify the loss, theft or fraudulent use of the card and the card issuer shall take all necessary steps to stop any further use of the affected card.

4.5.7 A card issuer shall keep sufficient internal records over a minimum period of ten (10) years to enable audit trails on card-related transactions.

4.5.8 A card issuer must have a capacity to reflect customer's preferences on the usage of his card.

4.5.9 A card issuer shall ensure that all hot-listed cards are system driven across all channels.

4.5.10 A card issuer shall be responsible for any loss arising from any use or operation of a card after the card has been reported lost or stolen.

4.5.11 Card issuers shall be responsible for setting overall transaction limits on cards per day, and transaction limits of such cards by channel, according to their card products and risk guidelines.

4.5.12 Card issuers, who provide offline limits for their card products, shall ensure the terms for such offline limits are fully understood and agreed with the customer. Irrespective of the status of the cardholders account as at the time of the transaction, the card issuer shall be liable to settle the amount to the merchant, while it takes the appropriate measures to recover the funds from the cardholder.

4.5.13 No card issuer or its agent shall deliver any card in a fully activated state.

4.5.14 No card issuer or its agent shall bill or charge a customer for an unsolicited card unless and until after the card is fully activated by cardholder.

4.5.15 No card issuer or its agent shall engage in the use of unethical tactics when marketing its card products to members of the public.

4.5.16 No card issuer or its agent shall communicate false or misleading information regarding card terms and conditions, service fees/waivers, and/or associated promotions/gifts/prizes to members of the public.

4.5.17 Card Issuers shall respond to Card related disputes or complaints from cardholders within 24 hours and in conjunction with the Acquirer resolve such disputes or complaints within five (5) working days.

4.5.18 A card issuer must furnish its cardholders with a detailed list of contractual terms and conditions prior to activation. Such terms shall include at a minimum:

- Fees and charges
- Withdrawal limits (including offline transaction limits and terms where applicable)
- Billing cycles
- Termination procedures
- Default/recovery procedures
- Loss/theft/misuse of card procedures 9
- Grievance/Complaints procedures

4.5 Merchants

4.5.1 A merchant shall enter into agreement with Merchant Acquirer specifying in clear terms the obligations of each party.

4.5.2 Merchant shall accept cards as a method of payment for goods and services.

4.5.3 A merchant may refuse to accept payment by means of an electronic payment instrument, including payment with cards, if:

a) The electronic payment instrument is invalid;
b) Notification of loss, missing, stolen or damaged has been made of the electronic payment instrument;
c) The cardholder refuses to present a document confirming his/her identity in the event of suspicious / unauthorized use of electronic payment instruments.

4.5.4 The merchant shall display the payment device conspicuously enough for the cardholder to observe the amount entered into the device before the cardholder enters his/her PIN.

4.5.5 The merchant shall be held liable for frauds with the card arising from its negligence, connivance etc.

4.5.6 A merchant shall under no circumstance charge a different price, surcharge a cardholder or otherwise discriminate against any member of the public who chooses to pay with a card or by other electronic means.

4.6 Cardholders

4.6.1 A cardholder shall:

a) Store the payment card and protect his PIN with due care
b) Not keep his payment card together with the PIN
c) Notify the issuer without delay about missing, stolen, damaged, lost or destroyed card
d) Not make available the payment card to unauthorized persons.

4.6.2 The cardholder may withdraw from the contract for payment card without prior notice to the issuer provided he does not owe for any charges or transactions on the payment card.

4.6.3 The cardholder shall present, when required by a merchant, a document confirming his identity.

4.6.4 The cardholder shall receive value for the operations performed by means of a payment card, and by so doing, the holder commits himself to pay the amount of the operations together with charges due to the issuer from a specified account.

4.6.5 The cardholder shall be held liable for fraud committed with his card arising from the misuse of his PIN or his card.

4.6.6 The cardholder shall be entitled to receive a receipt or any other form of evidence at the time a transaction is performed with his/her card

4.6.7 The cardholder shall be entitled to receive, within a reasonable period, at least monthly, a statement of all transactions performed with his/her card

4.6.8 If a cardholder notifies his bank that an error involving his card has occurred, the institution must investigate and resolve the claim within 3 working days.

4.6.9 The cardholder shall be given reasonable notice before changes are made to fees levied on his/her card and be given the option to discontinue usage of card to avoid such changes in fees without penalty

4.6.10 A cardholder shall be given reasonable notice before changes are made to the terms and conditions of his card contract and shall be given the option to opt-out of the card contract without penalty

4.6.11 The cardholder shall be entitled to privacy and information on his card account cannot be shared with third parties unless:

a) With express customer approval or
b) In cases of customer default, where information can be shared with credit bureaus and collection/recovery agents or
c) In cases where information is requested by valid order of a competent Nigerian court/authority or
d) In cases where it is necessary to prevent fraud

4.7 Card Associations and Card Schemes

4.7.1 All card associations and card schemes doing business in Nigeria are bound by these guidelines and other relevant CBN guidelines/circulars.

4.7.2 To ensure fair play and equal opportunity for all players, each Card Scheme shall make public and transparent, objective rules for membership of the said scheme and estimated time required for certification.

4.7.3 CBN shall reserve the right to assess the rules to confirm objectivity, vis-a-vis international standards/best practice. Any Card Scheme that wrongfully denies membership or unnecessarily delays the process of certification to potential players, would be penalized by CBN – including but not limited to paying a fine equivalent to the expected revenue of the payment services provider for that period, suspension and/or revocation of license, and CBN licensing new schemes.

4.7.4 No Card Scheme shall engage in the business of acquiring; neither shall any entity that has a management contract with a Card scheme engage in the business of acquiring. In addition, no entity in which a Card Scheme, its subsidiary, or the majority shareholder of a card scheme, has 20% shareholding or more shall engage in the business of acquiring.

4.7.5 No Card Association or Card Scheme shall engage in any antitrust activity or any act that will lead to abuse of dominant position, monopoly or unfair competition. Accordingly, there shall not be any form of arrangement or collusion between

two or more Card Associations, Card Schemes, or Payment Schemes in respect of Issuing, Acquiring, Processing or Switching.

No Card Association or Card Scheme shall engage in any antitrust activity or any act that will lead to abuse of dominant position, monopoly or unfair competition. Accordingly, there shall not be any form of arrangement or collusion between

4.8 Switching Companies

4.8.1 All local switches in Nigeria shall ensure that transactions relating to all cards issued by Nigerian banks are successfully switched between Acquirers and Issuers.

4.8.2 To achieve the interconnectivity of all new and existing switching companies, all switching companies shall open their networks for reciprocal exchange of transactions/messages with the Nigeria Central Switch and Payment Terminal Service Aggregator.

5. Settlement Mechanism

5.1 The settlement for all POS transactions must be done to the merchant account on T + 1 basis, where T is the date the transaction is performed.

5. 2 Card schemes or their appointed switches shall provide their settlement reports to NIBSS by 10am for the previous day. The settlement information should contain sufficient detail to enable NIBSS credit merchant accounts directly, and shall be provided in a format as advised by NIBSS. Failure to provide this information in the required format or by the required timeline will result in a sanction, including but not limited to the offending party solely refunding the entire Merchant Service Charge for that day's transactions.

5.3 NIBSS shall also directly credit the accounts of other parties with their share of the merchant service charge (MSC).

5.4 NIBSS will be paid by the banks for the settlement done to the merchant account in line with the NEFT fee transaction charges.

6. Fees and Charges

6.1 Fees and charges for POS Card Acceptance services are to be agreed between service providers and banks / entities to which the services are being provided subject to the following limits:

• The maximum total fee that a merchant shall be charged for any POS transaction shall be 1.25% of the transaction value subject to a maximum of N2, 000.00.Exceptions may apply in respect of travel and entertainment merchants including but not limited to hotels, restaurants, airlines, etc. In which case shall be at such rate as agreed from time to time between the Acquirer and the Merchant. Under NO CIRCUMSTANCE shall a merchant charge a surcharge to customers for using their cards.

• The fees and charges stated above are applicable to only POS transactions performed with naira denominated cards. POS transactions done with cards issued in foreign currencies will still follow the pricing arrangement put in place by the relevant international card association/scheme.

6.2 Fees charged at on POS Terminal transactions shall be shared as follows:

i. Issuer	-	30.0%
ii. Acquirer	-	32.5%
iii. Payment Terminal Owner	-	25.0%
iv. Local Switch	-	5.0%
v. Payment Terminal Service Aggregator	-	7.5%

The Fee schedule will be reviewed annually.

7. Transition to Achieve Interoperability

Prior to December 1, 2011 and the effective date for the new arrangements, all commercial switches, processors or entities driving PoS terminals in Nigeria shall ensure full and secure connection to the Central Switch and all transactions in respect of any card that the switch, processor or other entity is not licensed to process or switch shall be routed through the NCS to a licensed switch or processor for purpose of processing such transaction on behalf of the relevant Acquirer for seeking authorisation from the relevant Issuer.

All terminals must be plugged to into NIBSS Plc, the PTSA on or before November 15, 2011.

8. Exclusivity Agreements

There shall be no form of exclusivity in any area of payment service including but not limited to Issuing, Acquiring, Processing, and Sale and Maintenance of hardware and software. It shall be the responsibility of every Card Association/Payment Scheme and other relevant parties to ensure that all existing exclusivity contracts are amended not later than September 30, 2011 to ensure conformity with these guidelines and other regulations. Any payment scheme, operator, processor, infrastructure provider, switching company, service provider or bank that contravenes this policy may be suspended for a minimum of one (1) month by the CBN as a payment service or payment infrastructure service provider in the first instance, to be followed by stricter sanctions if the practice persists.

9. Minimum POS Terminal Specifications

Parameters	Specifications
Card Readers	EMV Chip/Smart cards, Magnetic stripe. Optional: Contactless reader, 2 SAM Slots
Communications	GPRS, Ethernet, Dial-up Modem. Optional: CDMA, Wi-Fi
Certifications	EMV levels 1 & 2, PCI DSS, PA -DSS, PCI PED online & offline (All PCI certifications should be Level/Version 2.1 minimum)
Biometric	Upgradeable to incorporate fingerprint reader/scanner
SIM capacity	Must operate either a dual SIM or a roaming SIM
CPU	ARM9/11, 32Bits. Optional: Dual processors
Memory	16MB Flash, 32MB SDRAM
Keypad	PCI PED Approved, Backlit
Display	TFT LCD graphics, 128/64 pixel, Backlit. Optional: Colour screen
Power	100-240V, 50 -60Hz; 24hrs battery power (operating) Optional: DC support, Car jack charger, Docking fast charger
Printer	15 -18 lines per sec Thermal printer
Multi-Application	Supports Multiple Applications
Customization / Others	Optional: Coloured or branded housing, Labelling/embossing, RS232 & USB interfaces, Protocol implementation

Existing POS terminals that do not comply with the standards set in these guidelines shall be phased out by December 31, 2012.

10. Compliance

All parties shall comply with the provisions of these guidelines and other relevant guidelines issued by the CBN. This guideline shall prevail in the case of conflict with any guidelines issued prior.

11. Timelines

The deadlines for complying with the guidelines as stated in this document shall be on or before the following dates:

Compliance with minimum standards:

• New terminals and payment applications - Immediate
• Existing payment applications - December 1, 2011
• Existing terminals - December 31, 2012

Provision of scheme rules and certification timelines	September 1, 2011
Compliance with new settlement arrangement	October 1, 2011
Spin-off/Independence of Card Schemes	April 1, 2012
Handover of existing terminals to PTSPs	November 1, 2011
Plug-in of existing terminals to NIBSS	November 15, 2011

Sovereign Debt And Regional INTEGRATION: Lessons from the GREEK CRISIS

* By Eunice Sampson

The current Greek economic crisis is a classical example of what happens when sovereign debt goes wrong; and discerning national and regional leaders should have some useful lessons to take home from this unpleasant experience.

With a GDP of about 360 billion euro, the size of Greece's economy is barely 3% of the Eurozone. But the country's reckless fiscal policies and the ensuing threat of insolvency have become a burden for the entire monetary zone as investors' confidence dampens and panic waves rip through global capital markets. A debt burden nearing 400 billion euro with 70% held by external borrowers; a budget deficit estimated at near 13%; debt to GDP ratio past 140%; and a record high sovereign bond yield now hovering above 25%; are all indications that Greece is in a deep financial predicament. Only an aggressive collaborative effort could possibly help clear up this mess. If Greece fails to pay, it would be the largest

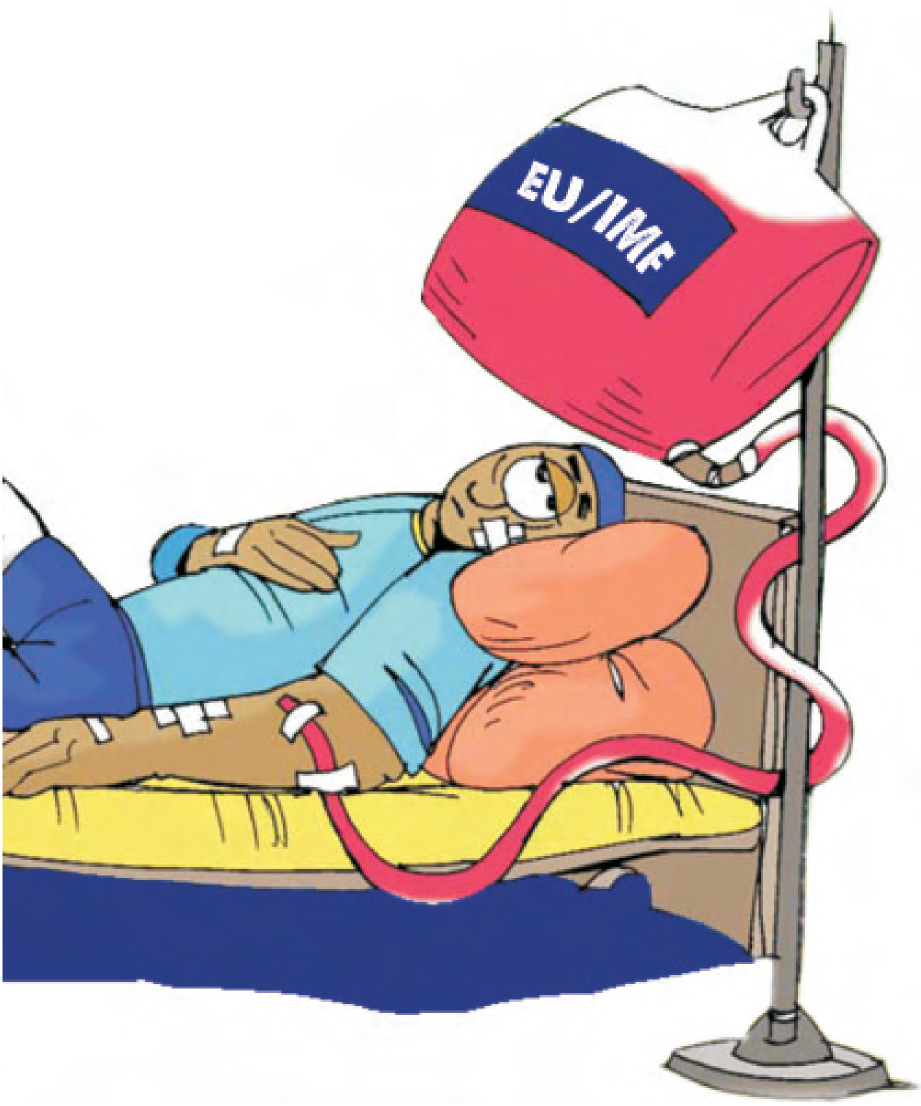
sovereign default in history; and the global economy, not just the Eurozone could pay dearly for it.

Aside from Greece, a significant number of European economies are faced with record high national debts in this post recession period. By yearend 2010 figures, national debt as percentage of GDP was 76% in the UK; 63% in Spain; 96% in Ireland; 79% in Germany; over 100% in Belgium; 83.5% in France; 83.2% in Portugal; and 119% of gross domestic product in Italy.

While the Eurozone remains the focal point right now, other major economies outside the monetary union are also threatened with debt burdens that could turn unsustainable. For its massive economic size for example, it is worrisome that Japan has one of the largest sovereign debt in the world in real value terms ($7.4 trillion) and in relation to GDP (225%). Some analysts have also drawn an analogy between the current Greek financial crisis and a possible scenario in the United States if nothing is done to address the ballooning US federal debt which clocked the $14.294 trillion allowable ceiling on May 16, 2011. Debt level is now almost 100% of GDP, close to the record high World War II figure of 109%. President Barack Obama and the US Congress are currently locked in a stalemate over the proposed increase in the US debt limit, failing which the country could default in its debt by August 2, 2011. If this happens, it would have adverse crippling effect on economies and markets worldwide, and turn the currently dreaded possible Greece default into a mere child's play in comparison.

Greece before the Crisis

Greece enjoyed robust growth long before its membership of the European monetary union. According to Trading Economics, the country achieved an average quarterly GDP Growth of 0.56 percent between 2000 and 2010, reaching an historical high of 2.81 percent in March of 2003 and a record low of -1.71 percent in June of 2010. From 2000 to 2007 it grew at an annual rate of 4.2% compared to a Eurozone average of 3.1%. In first quarter 2007, shortly before the onset of the global financial crisis, Greece propelled by a booming service economy was the second fastest growing EU economy after Ireland at 3.2 percent growth rate, far above the Eurozone's average of 0.7 percent for that quarter. In first quarter 2011, Greece grew by a paltry 0.2 percent over the previous quarter as the impact of the recent debt crisis sets in. Greece has been forecast to fall into recession sometime in 2011.



Greece's admittance into the Eurozone in 2001 significantly enhanced its economic status and was a major boost to its credit worthiness. Confronted with growing budget and current account deficits, Greece leveraged on its Eurozone membership and attendant favourable credit ratings and low interest rate to access funds in the then highly liquid global capital market. As a result, Greece maintained a persistently high external debt (115% of GDP in 2009) with 70% of its sovereign bond held by foreign owners. Between 2001 when Greece adopted the euro as its currency and 2008, reported budget deficits averaged 5% per year, compared to a Eurozone average of 2%; and current account deficits averaged 9% per year, compared to a Eurozone average of 1%. In 2009, the budget deficit is estimated to have been more than 13% of GDP. This was the beginning of the onset of what today has become a historic debt crisis.

The government of Greece, mindful of its obligations under the EU monetary union which limits allowable sovereign debt and deficits allegedly resorted to a deliberate misrepresentation of facts on the country's economic data, using major consulting and rating agencies.

These window dressing antics were employed, first to avoid possible EU sanctions for undermining laid down fiscal and monetary restrictions, and also, to give successive governments the leeway to keep spending beyond their means. Statistics were falsified using diverse complex financial instruments and derivatives that hid the actual state of things. While analysts agree that Greece is not alone in this antic, many also agree that the Greek government may have taken it too far.

The lid is blown open

Greece's true level of indebtedness was not known to its creditors until October 2009 when the newly elected Prime Minister George Papandreou revised the estimate of government budget deficit, doubling it from the existing estimate of 6.7% to 12.7% of GDP. In April 2010, Eurostat, the European Union's statistical agency, estimated Greece's deficit to be even higher, at 13.6% of GDP, one of the highest in the world. This sparked investors' disapproval as fears of default on Greece's maturing debt obligations (estimated at about €54 billion for 2010) loomed. Worse still, in November 2010, the EU revised Athens' budget deficit even further upward, to 15.4% of GDP, while total public debt was put at an estimated 126.8% of GDP. Long before the revised estimates, even the window dressed figures were far above the EU's Stability and Growth Pact recommended ceiling of 3% for budget deficit and a maximum of 60% of GDP for external debt.

Greece's figures after the revision show a high level of violation of these guidelines. The revelation strongly eroded investors' confidence and took Greece's bond yields to record high levels, with the10 year yield closing at a frightening16.34% at end June 2011, from an average of around 5% as at end May 2009.

A disclosure of its true state of indebtedness also led to a major downgrade in its credit rating. Standard & Poor's downgrade of Greece's debt rating to BB+ (a junk status) on April 27, 2010 resulted in grave market uncertainties. Yields on Greek government two-year bonds rose to 15.3% following this and subsequent downgrades by Fitch and Moody's, compounded by S&P's estimate that investors could loose up to 30-50 percent of their investments should Greece default.

The Bailout

Faced with a probable default, Greece requested a financial bailout from the EU and IMF on April 23, 2010, to meet its due debt obligations totaling over €300 billion and with about €54 billion ($72 billion) due in 2010 alone.

On May 2, 2010, an epoch making bailout deal for Greece, worth €110 billion (£95bn; $146bn) was unveiled by the IMF and the EU, in an effort to prevent Greece's debt default. Under the three-year deal, Greece's 15 eurozone partners will provide 80 billion euros and the IMF would contribute 30 billion euros. The loan attracted a 'punitive' 5% interest rate, higher than the German bond yield which serves mostly as the benchmark in the region, but also far below current Greek bond yields.

The first tranche worth €30 billion ($40 billion) was released by mid May 2010, while other tranches would be disbursed at a later date. The IMF would complement the loan package with an offer of technical assistance to the Greek authorities in managing the debt crisis.

The bailout plan comes with Greece agreeing to some severe austerity measures including a massive cut in public sector wages, increase in taxes and retirement age, among others, aimed at reducing the government deficit to below 3% of GDP by 2012.

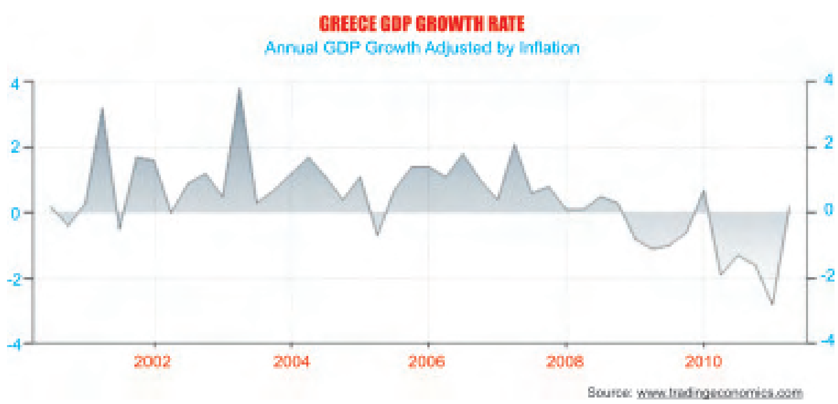
Capital market and commodity prices surged and the euro currency

recorded high gains as news of Greece's bailout came to the fore.

Greece's bailout fund was accessed from a European Financial Stability Facility approved by Finance Ministers of EU member states on May 9, 2010. The fund with a total value of up to 500 billion euros was put together by the EU and IMF as a guarantee-based facility to rescue EU member states that may be faced with threats of financial instability. Greece was the first to access this fund, followed by a €85 billion rescue package for Ireland in November 2010 and a €78 billion bail-out for Portugal in May 2011. This is the first major debt crisis in the eurozone since its inception in 1999.

The bailout has been criticised for solving one immediate problem only to create another, as the loan throws Greece deeper into debt. The 5 percent interest has also been criticised as too high for a bailout fund, a rate far above Germany's

government bond yield which currently averages 3%. Analysts also say that the stringent austerity measures attached to the deal could result in a major slump in the Greek economy and put the Greek population through tough socio-economic conditions that could be tantamount to human rights violations. These fallouts are not surprising since the whole bailout exercise was not for the love of Greece in the first instance, but in an effort to protect the eurozone from a contagion. As Reuters quoted German Finance Minister Wolfgang Schaeuble as saying "We have to go this route. We are not defending Greece; we are defending the stability of our currency".



Greece's Austerity Measures

EU member states led by the zone's two biggest economies, Germany and France, had expressed their willingness to go along with the bailout plan only on the condition that Greece adopts severe austerity measures. Between October 2009 when the government of Prime Minister George Papandreou took office and June 30, 2011, four separate packages of fiscal austerity measures were unveiled by the Greek government. The measures are aimed at cutting budget spending by 30 billion euros in three years and reducing public deficit to less than 3% of GDP by 2012 as against the 13.6% level at the time of the bailout agreement.

Some of the spending cut measures introduced by the Greek government since October 2009 include:

• Increase in VAT from 21 to 23% effective 2010

• 10% increase in taxes on luxury products and fuel, alcohol and tobacco

• Three year freeze on increases in public sector wages and pensions

• Freeze on public sector hiring effective 2010

• An 8% cut on public sector allowances and a 3% pay cut for public sector utilities employees

• Suspension on holiday bonuses for high income earners and a reduction for low income earners

• Increase in average retirement age for public sector workers from 61 to 65 years, while retirement age for women was raised from 60 to 65, to bring it at par with men

• Period of retirement contribution required to qualify for pension was raised from 37 to 40 years, effective 2015

• Special tax on high pensions and illegal construction was introduced

• Publicly owned companies formed by local authorities were reduced from 6,000 to 2,000.

• Levels of local administrative

authorities were reduced from five to three as part of efforts to consolidate local governance structures

• Numbers of Greek municipalities were trimmed down from 1,034 to 370

• Extraordinary taxes were imposed on company profits

• Laws governing lay-offs and overtime payments were reviewed

• Financial stability fund was created

The structural reforms, the latest of which were approved by the Greek Parliament in separate votes on June 29 and 30, 2011, are seen by analysts as some of the most comprehensive fiscal overhaul by a European economy.

As would be expected, public reactions and oppositions have been strong, especially against a government that came into power barely a year before the crisis with promises of massive socio-economic improvements in the lives of the Greek people.

The introduction of every one of the austerity measures have therefore been greeted with public protests, some of which have turned violent and fatal. The frustrated populace is crying out against harsh fiscal measures and their worsening effect on unemployment, welfare benefits, wages and allowances, healthcare, and general living conditions. GDP has experienced negative growth, contracting by 2% in 2009, an estimated 2.5% in 2010 and by a forecast 0.7% in 2011. Greece's cost of borrowing has also risen out of control while export proceeds continue to slide. With the direction of recent economic data, there are concerns that things might get unbearably bad for the people of Greece before gradually getting better.

Greece Crisis and the Eurozone

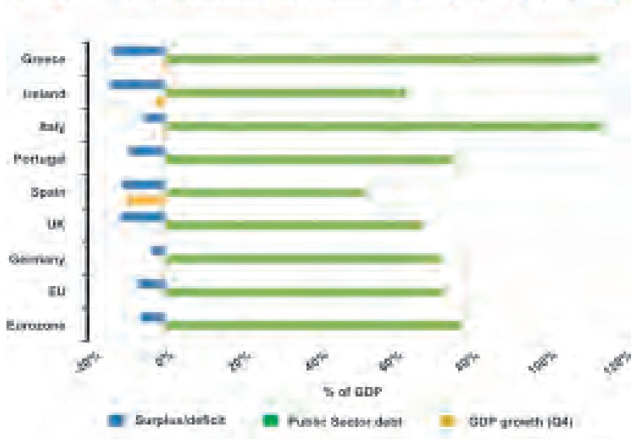
A common purpose that has driven the reluctant resolve by EU member states to address the Greek debt crisis is the need to halt the contagion effect a possible Greek default could have on the entire common currency zone. Greece may represent less than 3% of the euro zone economy, but a debt default by Greece will dampen market confidence in other countries in the zone, with far reaching implications for the EU and the global economy.

Moreover, the growing concern that Greece's crisis could spill over to other highly indebted European countries including Portugal, Ireland, Italy, and Spain are not presumptuous. Though some of these economies may have stronger fundamentals than Greece, the upheavals they have experienced in global financial markets since the onset of the Greece crisis and their widening government deficits (Ireland, 14%; Spain, 11%; Portugal 10%, etc) are indications that this possibility cannot be ruled out. Like Greece, Portugal which has already benefited from a bailout suffers weak national savings at a paltry 10% of GDP as against Greece's 7%, both a far cry from the EU's average of 20%.

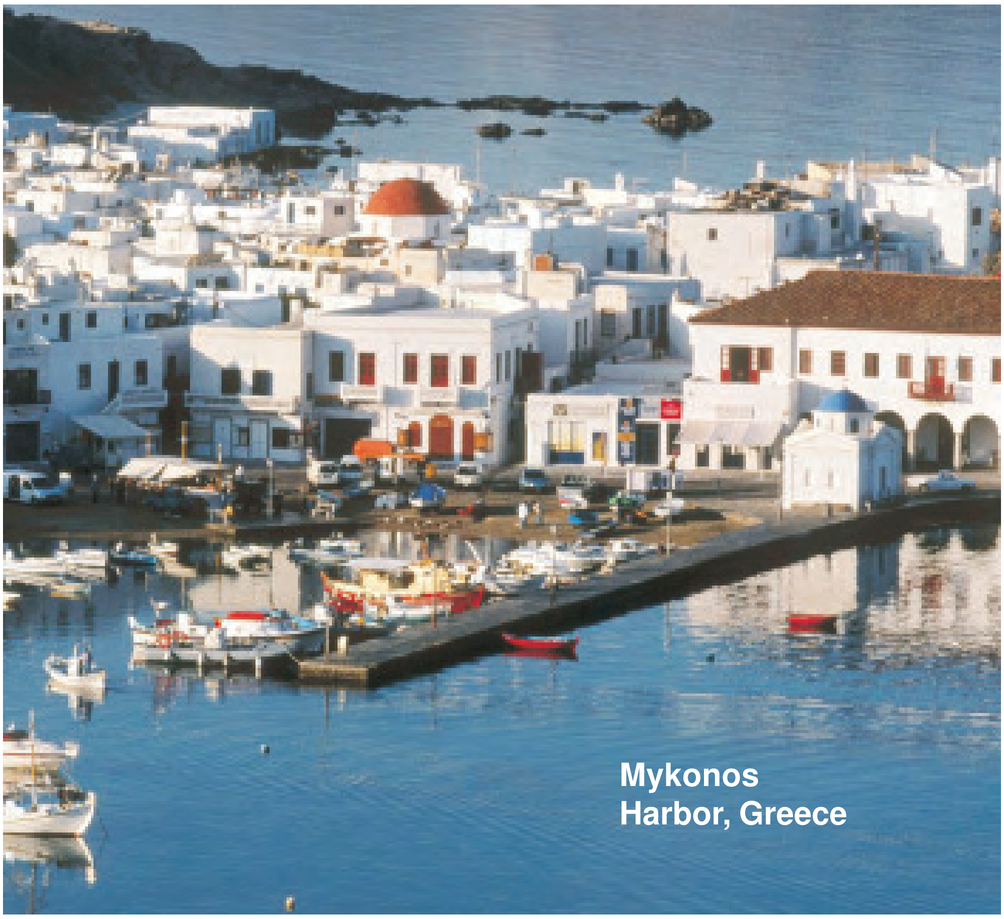
The deepening loss in confidence in EU economies has weakened the value of the euro, a trend that could get worse if more members of the bloc are drawn into the crisis. Some analysts have however argued that the export sector in the eurozone could at least benefit from the currency plunge as the price of exports from the zone gets more competitive. But this could on the other hand, widen the trade deficit in other major global economies, notably the United States, resulting in another circle of account imbalances.

http://www.mytripolog.com/2011/05/for-a-memorable-vacation-in-greece/mykonos-harbor-greece/

Graph on Some Eurozone Economies: debt profile (2009 data)



Source: Wikipedia



Mykonos Harbor, Greece

The Hand writing on the Wall?

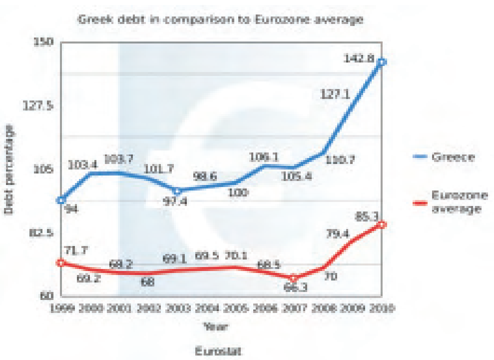
The crisis in Greece was evident long before it was officially declared. In addition to decades of financial craftsmanship, Greece has for long been too comfortable with the practice of high indebtedness and budget deficits. However, while before its EU membership it had the option of currency devaluation to fund its huge deficits, this has in the last decade become a luxury it can no longer afford. Greece's years of lavish government spending in the face of a weak and inefficient tax and internal revenue mobilization system was a mishap waiting to happen. It is estimated that years of tax evasion in Greece costs the economy about 30 billion euro annually,

Reports allege that the economy engaged in massive structural deficits since 1974 when the country returned to democratic rule. Since 1993, Greece's debt to GDP had remained above 100% as successive governments borrowed to fund social benefits. Greece's relatively high labour wages have made the economy highly uncompetitive with reports putting growth in wages at 5% per annum, almost double the average growth rate of about 3% in the EU. Pension benefit in Greece is also rated as about the most generous in the entire bloc, with a requirement of 35 years of contribution as against EU's average of 40.

The global financial crisis and its impact on Greece's two economic mainstay, shipping and tourism significantly reduced its total revenues by about 15% in 2009, dampened its foreign exchange earnings and tax income, and slowed other sources of internal revenues. Greece intensified its borrowing spree to fund piling deficit and service existing debts.

The impact of the global financial crisis also led to growing illiquidity in international capital markets; and its dwindling credit ratings means the country could no longer roll over its maturing debt obligations. As the possibility of default grew, so did Greece's cost of borrowing new funds and servicing old ones and further weakening its ability to repay.

Perhaps the last straw that broke the camel's back was the upward revision in 2009 of the country's debt as percentage of GDP from an earlier estimate of 6.7% to 12.7%. The development exposed cankerworms of hidden fiscal indiscipline and flagrant disregard for laid down rules. While the upward revision caused a major stir in the global credit market, it was not the first time that Greece's manipulation of economic data would come to the fore. Following an investigation by the European Commission in 2004, it was discovered that Greece had maintained a debt to GDP ratio above 100% since it joined the EU. Data revision in 2007 also showed that the country's actual budget deficit in 2004 was about 7.9%, more than double the EU 3% limit.



Secondary source: Wikipedia

Greece's sumptuous spending on public administration did not help matters. According to the OECD, as of 2004, spending on public administration as a percentage of total public expenditure in Greece was higher than in any other OECD member, "with no evidence that the quantity or quality of the services are superior." In 2009, Greece's spending on administration was 50% of GDP.

Some Useful Lessons?

Excessive fiscal deficits: Developed and emerging economies alike have some useful lessons to learn from Greece's extravagant and wasteful spending during decades of economic prosperity. By relying massively on budget deficit, Greece for decades succeeded in living way above its means, spending up to half of its total budget on lavish government structures, a poor fiscal policy taste for which it is now paying the price.

Excessive borrowing: Greece took advantage of the economic privileges bestowed on it by its membership of the Eurozone to borrow beyond what is sustainable. With a debt burden now well over 300 billion euro ($400 billion), Greece's default, if it ever happens would be the biggest sovereign default in history, and a threat to the stability of the European and global financial system.

Poor national savings: Greece, for its economic size has proven to be one of the biggest borrowers in the global capital market; one of the biggest spender on governance and social welfare and yet one of the smallest savers in the European Union, a fact that explains why the economy was always run on deficits.

Economic window-dressing: Greece in complicity with some financial advisory institutions allegedly used complex financial instruments to conceal the true level of its indebtedness. Loans were technically dressed up in the guise of

The economic crisis in Greece holds a lot of lessons for all economies, including the need for transparency in governance and the importance of fighting official corruption and inefficiency in public administration.

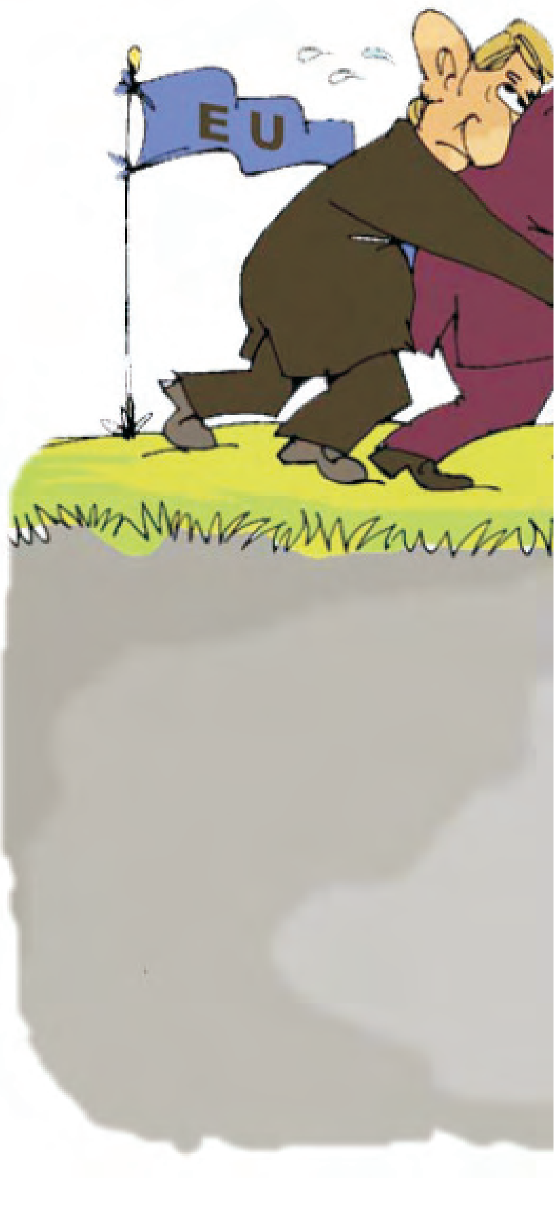
other instruments including currency swaps, to avoid the need for disclosure as required by EU accounting rules. The Greek experience has demonstrated the danger in the manipulation of economic statistics. Other EU economies including the UK, Spain, Italy, and non EU members have been accused at different times of the same offence.

The economic crisis in Greece holds a lot of lessons for all economies, including the need for transparency in governance and the importance of fighting official corruption and inefficiency in public administration.

Rating agencies again!: International credit rating agencies, Moody's, S&P, and Fitch have again been fingered in the Greece crisis. They are alleged to have shielded the true state of Greece's indebtedness by misreporting facts. Their alleged role in this crisis, which some analysts have blamed on conflict of interest, has contributed to the current European bond market crisis, a role not any different from the one they played in the global financial crisis of 2007-2009. It calls again for an urgent need to bring their rating activities under stricter regulations.

The European Union is already spearheading this initiative with the setting up in January 2011 of a European Supervisory Authority and the European Securities and Markets Authority (ESMA) saddled, among others responsibilities, with the task of regulating the EU single credit ratings firm effective July 7, 2011. In the new dispensation, all credit rating agencies operating in the economic bloc will be closely supervised by these new financial regulatory institutions and be subject to new standards and guidelines beyond which they will not be permitted to operate.

Complex Financial Instruments: Derivatives and other complex financial instruments played a major role in the US financial crises which spread all over the world in 2007-2009. The same factor has been blamed for the success with which successive Greek administrations shielded their true economic condition from international investors for so long. As was the case during the global



economic recession, the current crisis in Greece again brings to light the flaws in these instruments.

Some European leaders have called for tighter financial regulation on derivatives and other complex financial instruments, while others have called for their outright ban from the global financial system.

A possible Contagion: Having barely recovered from the lingering effect of the recent global economic meltdown, there are growing fears that the Greek crisis could be replicated in some other EU economies. Portugal, Italy, Spain, Ireland, Belgium have exhibited some of the Greek symptoms – high indebtedness; weak revenues; massive budget deficit; fragile economic expansion; and declining market confidence currently characterize some of these economies. On Monday July 11, 2011, Moody's slashed Ireland's rating to junk status, from Baa3 to Ba1. On Tuesday July 12, 2011 Moody's also cut Portugal's credit rating by four levels to Ba2, which is also a junk status, saying there is a great risk the country will need a second round of fiscal bailout to restore its declining credit worthiness. Italy's high and rapidly climbing public debt has also elicited concerns from the Union and global financial markets. The massive selloff recorded in the country's sovereign bond on Friday July 9, 2011, reechoed the growing urgency to act.

At 119% of GDP, Italy has the second largest debt burden in the euro zone. With a GDP of US$ 2.181 trillion as at 2010, Italy is the third biggest economy in the zone; and a Greek-like crisis here would be a major catastrophe. Italy has so far avoided the fate of Greece owing to relatively low budget deficit and a liquid bond market dominated by local investors. But the growing massive dumping of its sovereign bond, the recent sharp rise in its bond yield and the cost of insuring its debt are reminders of market reactions to the outset of the current Greece crisis. For the size of its economy, the cost of a possible bailout for Italy would be a far bigger burden on the EU than what it is currently costing to bail out Greece. EU leaders are prevailing on Italy to as a matter of urgency undertake budget reforms and demonstrate commitment to fiscal discipline to restore the confidence of financial markets.

Regulating Monetary Integration: The lessons from Greece have sent EU decision makers back to the drawing board. Confronted with its biggest sovereign debt crisis since its inception, the European common monetary zone is now faced with difficult choices, especially now that some major regulatory gaps have been thrown up. The example of Greece illustrates that several member states may be blatantly abusing the fundamental principles upon which the monetary integration was founded.

With the currency bloc anchored on economic heavyweights like Germany and France and a common monetary policy, investors' confidence in member states have been overwhelming, allowing them to borrow at favorable interest rate they would not otherwise enjoy outside the bloc. Observers argue that access to artificially cheap credit allowed Greece to accumulate high levels of debt.

The lack of enforcement of the Stability and Growth Pact adopted by EU member states in 1997 is also seen as contributing to Greece's high level of debt. The Pact was designed to monitor and regulate the public finance policies of national governments that make up the EU. Among other provisions, it limits budget deficits to 3% of GDP and debt to 60% of GDP. Defaulting members could be fined up to 0.5% of GDP and or enjoined to take corrective measures. However, over the years, several cases of violation of these set limits have been uncovered with the EU failing to enforce stipulated financial sanctions. This lapse has emboldened member states like Greece to violate these rules at will. Reports have it that at least 20 of the 27 EU members currently exceed the deficit restrictions placed on member countries.

Developing economic blocs hoping to achieve monetary integration, the likes of African Economic Community (AEC), Economic Community of West African States (ECOWAS), Southern African Development Community, (SADC), North American Free Trade Agreement (NAFTA), Association of Southeast Asian Nations (ASEAN) etc, have useful lessons to take home from the Greece crisis if their set objectives are to be achieved.

Economic Integration & the Greek Dilemma

The Greek crisis has exposed some major setbacks in a monetary integration that could work against member states during times of financial emergencies. In addition to analysts' opinion that the EU leaders have acted too slowly in resolving this crisis, Greece's membership of the EU has paradoxically posed a challenge in the swift resolution of the financial mess. To start with, Greece's adoption of the euro as its national currency has debarred it from taking advantage of currency devaluation, a common option for addressing budget and current account deficits. Also, because Greece cannot print more money to stimulate its economy as adopted by the United States and other countries during the 2007-2009 financial meltdown, the country has remained helpless, relying on the goodwill and regional patriotism of other EU members to shape its economic fate and direction.

The crisis has also revealed the shortfall in an economic union with one monetary policy but 16 different national fiscal policies. It raises the debate for a more politically and economically integrated EU that would harmonize the diverse national fiscal policies into one. Furthermore, the absence of an easily accessible financial pool that member states could fall back on in times of fiscal emergencies has not helped the Greek course.

If the crisis is not successfully managed, especially since it is the first litmus test in the efficient management of sovereign debt crisis in the bloc, it could give a bad precedence on the efficacy of monetary integration as a regional economic policy, especially since the eurozone itself is the first major global experiment on such multi-economic integration.

And if current bailout and fiscal austerity measures prove insufficient, Greece could be forced to default on, or restructure its debt, or otherwise, exit the European Union to enable it take more independent control of its fiscal and monetary affairs. If this ever happens, it would leave a major dent on the credibility of the eurozone.

Is the Bailout working?

As the world enters the second half of 2011 and the debt crisis in Greece continues to make world news headlines, the issue to ponder is whether or not the 110 billion euro bailout plan for Greece is working. With five disbursements already made, the debt tension remains elevated; markets sentiments remain downbeat and opinion polls continue to favour a most probable Greek default.

Despite the fact that Greece has so far averted a default, the spreading impact of the crisis on other troubled EU economies, reflected in their growing illiquidity and waning credit worthiness are indications that the first bailout effort is yet to achieve its set objectives; the threat of a contagion still looms.

Data released by the Greek statistical agency on June 9, 2011 and reported by The Guardian (UK) shows a meager 0.2% expansion in first quarter 2011, far below earlier forecasts. The report shows that the economy is shrinking at an annual rate of 5.5%, worse than an earlier estimate of 4.8%. The news further dampened the country's ability to borrow as its 2-year bond yield jumped to 25.08% while the cost of insuring its debt also hit new highs. Unemployment figures released on June 8 shows that 16% of the Greek workforce is out of job while among the youth population, unemployment is a staggering 42%. Greece is now expected to plunge back into reces-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sion later in 2011 as austerity measures bite. The EU and IMF predict a 3.8% contraction this year.

Despite the slow and foot-dragging pace at which EU decision makers have responded to a possible second round of bailout, by end June 2011, it was however obvious that the first bailout plan was just not sufficient and a second bailout was unavoidable.

Finally, a light at the end of the tunnel?

After a meeting of euro zone finance ministers in Brussels on Monday July 11 failed to outline specific steps at addressing the Greek crisis, markets recorded another round of panic waves. The outcome of a stress test on EU banks released mid July also did not help market sentiments. Of the 90 banks tested, eight banks failed the test; 16 banks barely passed. The stress test was administered by national banking regulators to ascertain what would happen to

Central Square of Athens - Syntagma Sq

It is time for the IMF and EU leaders to look beyond just a probable debt default to finding lasting solutions that would bring Greece fully back on its economic feet again.

banks' finances if the euro-area economy contracts 0.5% in 2011; equity markets fall 15; and banks are compelled to write off 25% of debt on Greece's 10-year bond.

To the relief of interested observers, EU member states and the IMF met again in Brussels on Thursday July 21 with an agreement to give Greece a second bailout worth another about 110 billions euro ($156 billion). Greece will in addition, get voluntary loans of an estimated $53 billion from the private sector.

In response to Greece's Finance Minister's earlier call for a bailout that would meet "not just the country's fiscal requirements, but the stability of Greece's financial and banking system," eurozone leaders also agreed to provide adequate resources to re-capitalize Greek banks if needed. This additional intervention would however not apply to other EU member countries that might require a bailout, but is a unique package designed to manage Greece's 'exceptional' case.

Perhaps even more reassuring are the terms of the new loan; a maturity of 15 to 30 years as against 7.5 years in the 2010 bailout; and an interest rate of 3.5 to 5.5 per cent as against 5 percent flat for the first bailout. This is a significant rate reduction that the French President Nicolas Sarkozy says could save up to 30 billion euro for the Greek economy over the next 10 years.

The July 21 decision was a stronger demonstration of a commitment by EU decision makers to defend the common currency. Surging market activities and gains following the decision are indications of the approval of investors around the world.

While Greece, EU decision makers and other stakeholders bask in the euphoria of the latest development, it however raises a new concern: 'will Greece perpetually borrow from the EU/IMF to keep servicing older loans?'

Perhaps the next line of action in efforts to break this circle would be putting measures in place to directly stimulate the economy back to productivity. But while the plan by the EU/IMF to support Greece's banking system would be helpful in this regard, the socio-economic impact of austerity measures now in place in the country would make this task a very difficult one to accomplish. It is time for the IMF and EU leaders to look beyond just a probable debt default to finding lasting solutions that would bring Greece fully back on its economic feet again.

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

Nigerian Economy: Options f
THE PEOPLE'S WELL

* By Ike Muo

the elections are over; the congratulatory messages and celebrations have ceased, the formal swearing in and Jonathan-to-Jonathan transition has taken place; the cabinet has been inaugurated [while winners and losers are managing the after-effects of the debilitating horse-trading that preceded it] and for President Goodluck Ebele Azikiwe Jonathan, a significant chunk of his four year tenure, has already expired! In the midst of all this however, one thing is very obvious: Nigerians-and even non Nigerians-expect so much from the Jonathan presidency. This may be partly due to the high wire [and expensive] electioneering which led to mass mobilization, unparalleled arousal of public interest and expectations. It may also be because, Jonathan has now come of age; he has been living under the shadows and has never really 'fought' for a political office. He has had a lot of experience in Government from Deputy Governor up wards; he is well educated, with a real PhD in an

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for Improving
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environment where illiterates like to be addressed as 'Doctors'; and some people expect his name-GOODLUCK- to rub off on Nigerians. Furthermore, Nigeria has just celebrated 50 years of independence and will soon be 100 as a country- and we all agree that we have not actualized our potentials. But the main source of this high expectation was the load of promises which President Jonathan made to Nigerians at every available opportunity-when he took over as acting president[6/5/10] when he visited the US thereafter, when he declared for the presidency [16/9/10], when he won the PDP primaries, during the campaigns, when he won the elections, when he was sworn in [29/5/11], and when he inaugurated his cabinet and at the end of his first executive retreat with his ministers and advisers [15-16/7//11]. In fact, if we were to share the promises, every Nigerian should probably get one because, at a certain stage, it became something for everybody!

He promised good governance, electoral reforms, war against corruption, peace and development in the Niger Delta, security of lives and properties, 'to improve socio-economic situation through improved access to electricity, education, health facilities and other social amenities and welfare of workers and unemployed'; to continue to fight for improved medical care, first class education, regular electricity, an efficient and affordable public transportation system and jobs through productive partnership. He also promised the second Niger bridge; transparency, accountability, rule of law, equity, justice, coal-power plants, erosion management. He further promised 5-year strategic plan for agriculture and industry; 4-year strategic plan to open up the South-South, 5-year strategic plan for roads, 5-year plan for accelerated development of Nigeria, a holistic agenda for education, and even an end to kidnapping [Olumense, 2011:65; Williams, 2011:11]

But beyond all these Jonathan promised transformative leadership and signed a new psychological compact with Nigerians. He pledged a 'leadership that is decidedly transformative, a transformation that will be achieved in all the critical sectors of the economy; to place the common good before all else, meet corruption by overwhelming determination, to tell us the truth, carry us along and listen to us; he offered responsive, responsible and accountable leadership and never to let the people down. And to cap it all, he organized a retreat for all his ministers and advisers where they adopted an all-inclusive transformation charter which affirms to be totally focused on its patriotic duty of transforming Nigeria into a peaceful, harmonized and stable democracy that is globally competitive; a great country with great future that we will all be proud of. The charter also intends that the Government will take practical measures to ensure that the citizens of this country can start to see and feel significant improvements in their quality of life and an assurance of security and strengthening of basic infrastructure that supports full mobilization of the economic sectors. There will also be the building of a power sector that is adequate for modern living, an industrialization strategy, a modern and vibrant educational system that provides the nation with adequate and competent manpower. A health sector that supports and sustains an upper-end life expectancy, a modern, technologically enabled agricultural sector that profitably exploits the vast agricultural resources, a manufacturing sector that is vibrant and competitive and an environment that is conducive to social development and solidarity [Onuora, 2011:2]

These promissory notes have matured-rather too soon; electioneering and the associated sloganeering is over and it is time to deliver. The Jonathan administration has to migrate from the realm of promises to the realm of action; from planning to implementation. The essence of this paper is to attempt to design an economic road map for the president, given the heightened expectations, the promises he made, the realities on the ground and the need to have some order in an apparently disordered environment. Beyond this introduction, this paper is further divided into seven parts. Part two discusses the role and essence of government, part three examines the present state of Nigeria while part four discusses the agenda for President Jonathan. Part five examines how to enhance our national competitiveness, Part six dwells on other matters, part seven delves into transformational leadership while the paper is concluded in part eight.

The Role and Essence of Government

When we speak of the economic agenda for the Government, we are in reality discussing the role and essence of government-the web of institutions, policies, processes and operatives, all of which are personalized by the president. In a democratic system, the government exists because the people have transferred their collective resources and power to their representatives, to represent and serve them. Indeed, Jefferson, one of the founding fathers of modern democracy stated as early as 1776 that governments are instituted among men, deriving their just powers from the consent of the governed, to secure the inalienable rights of the people which he listed as life, liberty, and the pursuit of happiness. But all said and done, the role of government is to ensure economic development which is distinct from economic growth. Seers [1971:56] holds that three questions are critical to development: What has been happening to poverty; what has been happening to unemployment and what has been happening to inequality? Rodney [1972:9] takes it from the individual level as implying increased skills and capacity, greater freedom, creativity, self discipline, responsibility and material well being. Anrold [1985:23] holds that it includes intangible elements like the way the political system is operated, the manner in which the social or ethnic groups work together and fit into the state structure, the general social, scientific and cultural assumption upon which the society as a whole rests while Ojo [2003:73] posits that it also involves more equal opportunities, political freedom and civil liberties

New perspectives and measures of development have thus emerged over the years. Proponents of these new measures include A. Sen [1998 Nobel Laureate] who propounded the *CAPABILITIES* concept and the UNDP which developed the ***Human Development Index*** [based on longevity, knowledge and standard of living]. Concerns for poverty eradication, redistribution of income or elimination of inequality, and the war against unemployment, level of literacy, nutritional intake and cultural freedom are now critical issues in development. [Muo,2006:4].The World Bank articulates this new perspective when it specifies its ends to include better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater individual freedom and a richer cultural life**".** This perspective is of course in tandem with the views of Rodney and Seers et al alluded to earlier**.**

Porter, examines the role of government from a strategic economic prism and sees them as follows:

- Achieve macroeconomic and political stability by establishing stable government institutions, consistent economic framework, sound macroeconomic policies-this is the basic role
- Improve general microeconomic capacity of the economy by improving the efficiency and quality of business inputs and institutions
- Establish the overall microeconomic rules and incentives governing competition that will encourage productivity growth
- Developing and implementing positive, distinctive, long-term, economic action programme to mobilize government, business institutions and the citizens to upgrade the general business environment and the array of local clusters

Thus, in summary, the economic agenda for President Jonathan is how he can bring development to the nation and as we have just discussed, development is an all-inclusive concept that is beyond demand and supply [economics]. Development is aimed at ensuring better life for individuals and groups within the nation. This better life has physical, social, psychological and cultural dimensions and the general objectives of development: ***To increase the availability and widen the distribution of basic life-sustaining goods, raise the levels of living including greater attention to cultural and human values and expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence in relation to other people and nations and the forces of ignorance and human misery[Todaro& Smith,2003:20]***

But we should not have undertaken this extensive intellectual foray into the realms of development because the extant Nigerian constitution is precise and concise in its articulation of the economic agenda of any president in Nigeria [Muo, 2003:3] including President Jonathan. It specifically states that:

- The security and welfare of the citizens shall be the primary purpose of government.[14.2.b]
- The government should control the national economy in such a manner as to secure the maximum welfare, freedom, and happiness of every citizen on the basis of social justice and equality of status and opportunities [16.1.b]
- The government should provide for all

citizens, suitable/adequate shelter; suitable/ adequate food; reasonable national minimum wage; old age care and pensions; unemployment/sick benefits and welfare of the disabled [16.2.d]

Where We Are Today

Even though his work has been made easy for him by the constitution, and even though he has adopted a transformational charter, a serious attempt to set an agenda for any leadership [business, political, religious] is a strategic issue. In adopting a strategic approach, we ordinarily follow the strategic management process which broadly involves strategic analyses, strategic choice and strategic execution. One may also take it from the angle of the critical strategic questions: where are we, where will we be, where should we be, how do we get there and what are the resource implications. Either way, we start with an examination of the situation of Nigeria today.

The only certainties about Nigeria and on which all commentators agree is that Nigeria has great and bright potentials; that these potentials have not been exploited, that we are far behind where we should have been, keeping the undesirable companies of countries in the 'wretched of the earth' league and that the greatest source of the problem is leadership ineptitude and corruption. There is no need reciting our litany of woes but the fact remains that Nigeria is a 'permanent member' in the very poor segment of every available socio-economic indicator: Human Development Index, poverty, global competitiveness, access to water, housing, access and quality of education, use of ICT, index of democracy, life expectancy, unemployment, asylum seekers, property rights index, M.O Ibrahim & Transparency International Rankings etc. We are the only top-ranking OPEC member depending on petroleum products importation and even at that, kerosene availability has become a core job description for the president and National Assembly!

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But there are also some positive developments, especially at the macro-economic levels. The developments in the Telecom industry have been quite unparalleled-though we have not been able to replicate that elsewhere; various roadmaps and reforms have been initiated and are awaiting implementation[power, oil and gas]; peace and stability in Niger Delta has led to improved oil production and an impressive revenue from that source, the economy has been growing at rates that are envy of the rest of the world[more than 7% in 2010]; a huge, energetic, entrepreneurial and vibrant population that can consume and also produce, given the right environment; the coming on stream of AMCON and Sovereign Wealth Fund, successful $500m Sovereign bond offering, favourable public debt/ GDP ratio,[just check out the ratio in Japan]; performance-based budgeting, improved financial governance and the general favourable global investment sentiments following the relatively credible 2011 elections. Of course, Ernst

& Young [2011] has declared that it is Africa's time, and we are a significant part of that Africa, while the Oxford Business Group [2011] has recently acknowledged our 'appetite for reforms'.

We must admit however that all these have not positively impacted on the people especially given that poverty, inequality, unemployment and insecurity are on a merciless rampage. Even the same Oxford Business Group records the pitiable conditions of our roads where only 30% is tarred and only 15% of that 30% [about5%] is in good condition! The lamentations of Sanusi [2011] underscores the unfortunate paradox:

The unemployment situation appears worrisome as it deteriorated from 13.1% in 2000 to 19.7 in 2009. An intriguing paradox is that there is high and rising unemployment despite the exciting recent GDP growth rates. The ugly situation has revealed that Nigeria's growth has neither been sufficiently equitable nor generates adequate employment

An Agenda for Mr. President

So under these circumstances, the various promises and expectations, the role and essence of government in a democracy, the constitutional declarations about what Government should do, what should be the priorities of President Jonathan in the next four years? And since government is a continuum, what are those areas that he should lay the foundation for his successors to continue there from?

The Urgency of Now

Writing on time management, Covey[1989] cautions on the tendency to be carried away by urgent matters-and which may or may not be important- while ignoring those that are important but are not or do not appear, urgent. In the first category he lists crises and pressing problems and in the second category [the quadrant of quality] he lists preparation, planning and values clarification. Truly, urgent issues should not becloud our focus on strategic agenda but if we don't attend to the urgent issues, we may be so distracted and will not have the presence of mind, to plan for and tackle the long term ones. That is why the first basket of issues for the attention of the president is what I term the 'urgency of now'; a term borrowed from decades-old speech of Martin Luther King [1967] and revived recently by Onuma [2011:5].

Two writers recently graphically explained why President Jonathan needs to pay attention to urgent matters. One of them is Onuma, cited above, who likens the country to a victim of a ghastly motor accident. Of course, when an accident victim is taken to the hospital, bleeding all over, what you do is to quickly stop the bleeding and stabilize the patient' Another is Osundare [2011:26] who likens Nigeria to an elephant killed by a benevolent spirit and left in the public square. Everybody, every ethnic group, is wielding a knife; and wants a chunk from that elephant, trying to get as many chunks as possible before the meat is finished. In their desperate scramble for the juiciest piece, the booty-hunters may turn their knives on one another. Either as an accident victim or as an elephant left in the village square by a benevolent spirit, both scenarios create an urgent need to stabilize the Nigerian situation and bring some order before planning for the medium term since nobody will actually be around in the long term

Some of these urgent issues that have to be quickly and clinically tackled include the simmering minimum wage crises and the attendant credibility question since it now appears that the bill was quickly signed, sealed and delivered for political exigencies; the gas and kerosene crises, the threat of industrial action by university and other labour unions due to the failure of government to comply with freely negotiated and signed agreements, communal riots, the Boko-Haram crises, kidnapping and bank robberies. We also have the outstanding Petroleum Industry Bill and other road-maps that have not yet been signed or have been signed but are neither here nor there and the budget structure, process and performance crises: 70% on recurrent expenditure; budgets being still debated in June and recording less than 50% implementation. These are urgent and important matters and some of them even have long-term implications. But if the President spends four years fighting kerosene, minimum wage and book-haram crises, or even the mere signing of

http://www.thegatewaypundit.com/wp-content/uploads/2011/03/rig1.jpg the PIB, then his report card will be very scanty indeed!

Important & Long Term Issues

The reason to start with the urgent is to clear the way and see clearly so as to articulate and tackle the long term and important, which is where concerted efforts are needed to generate real development. On the important and long-term axis, we have the following:

I] 'Soft' Infrastructure: by soft infrastructure, I am referring to health [including water] and educational services so as to have a country of healthy and educated/ skilled people; people who are healthy enough and have basic and advanced knowledge and skills to be able to appreciate and exploit the diverse blessings of the local environment and move on to play meaningful roles at the global levels. For health, it should be preventive before curative while the foundations should start from the basic [primary] level. For education, technical and entrepreneurial skills should be emphasized within a holistic mindset and not this single-minded emphasis on university access. And we are talking about knowledge and skills, not certificates

II] 'Hard' Infrastructure: power [electricity/energy], roads and rail. This unleashes the entrepreneurial potentials of Nigerians, reduces the cost of doing business, increases business competitiveness and facilitates transportation, travelling, trading, manufacturing, commerce and services. Since all the roads have collapsed, a new network of roads that links the whole nation should be designed: 10-lane highways, supported by smaller but well built ones to serve as feeder roads. If the rails are working, the tankers, trailers and containers will be eliminated-or reduced-from the highways and this will reduce the Benin-Shagamu Syndrome [bad roads, accidents, traffic snarls, and high-way armed robbery]

III] Agriculture: we are blessed with a large expanse of fertile land but this is not being cultivated; the farms are left for tired old men and we are still using the tools abandoned by both Adam and Adam Smith. Agriculture is the largest employer of labour in Nigeria; revenue from that sector can readily serve as alternative to oil and it will help us to ensure food security

IV] Good governance: but all this will come to naught without good governance-political, economic and corporate [even though the last is not within the court of Jonathan]. Broadly, ***Governance deals with the way and manner in which a country is governed; the process of selecting the leaders articulating national objectives, formulating policies and the extent to which the government is performing the primary duty of advancing the welfare of its citizens.*** There is political governance [how political power is acquired and exercised] and economic governance [how economic policies and programmes are initiated and executed and evaluated]. The issue of governance arose primarily from the social contract between the political leaders and the followers. The followers **handed over** their sovereignty and resources to the leaders on the implied condition that the leaders would govern in the best interest of the governed. This **best interest** is ascertained through the constitution of the country, the manifesto of the leading party and other democratic means of finding out what the people prefer. Governance then is an examination of how the government is fulfilling this all-important contract with the people. Another aspect of governance is corporate governance [how corporations are managed for the interest of all the stake holders] *Muo, 2006:1]*

In specific terms, Governance has been defined as 'Policy making and policy execution regulated by systems of laws and guidelines which are segregated into specific operations to achieve specific national objectives and it is achieved through good public policies with clear objectives [Shehu,1994,9] and includes concepts of equity, social justice and effective exercise of human rights [Boeninger,1991,267; Ikpeze,1994,71]; the states institutional and structural arrangements, decision making processes and implementation capacities, and the relationship between government officials and the public [Landell-Mills & Serageldin,1991,303].Todaro & Smith,[2003:712] argue that good governance goes beyond the absence of corruption to include the ability of the public sector to design and implement efficient and effective policies to realize development goals, government responsiveness and respect for citizens and institutions of society and mechanisms for peaceful transfer of power in accordance with popular will including widespread participation. The building blocks include public accountability, transparency, predictability of government behaviour, and adherence to the rule of law, equity and social justice Ovia [2005:14]

The practice of good governance involves the following elements: the constitution that derives from the people, transparency, accountability and respect for due process in government activities so that people know *what why, when, where, whom and how* of the government; rule of law including the process of enacting the law, the judicial, police and prison systems; incorruptibility and independence of the judiciary; the enthronement of genuine democracy, laws and institutions that provide transparent means of dispute resolution; freedom of the press, integrity morality and sincerity of purpose in the conduct of public affairs, disciplined, responsible and selfless leadership, the absence of all forms of corruption and responsiveness of the government and public servants.

It also involves the presence of two critical elements: liberty and equality so that, men are released from the suffocating grip of the tyrannical state and allowed to fully flower [Asemota,2004,16b].The issue of legitimacy of government is also relevant and this can be achieved through " popular participation in government, programme of social welfare services designed to make the state meaningful and relevant in the lives of the people, equality of opportunities and equality before the law, a sense of community and common destiny [Nwabueze,2004:8]. And of course *"no matter how powerful a ruler may be, legitimacy depends on how much a leader continues to enjoy the trust of his people"* [Kukah,2004:8]

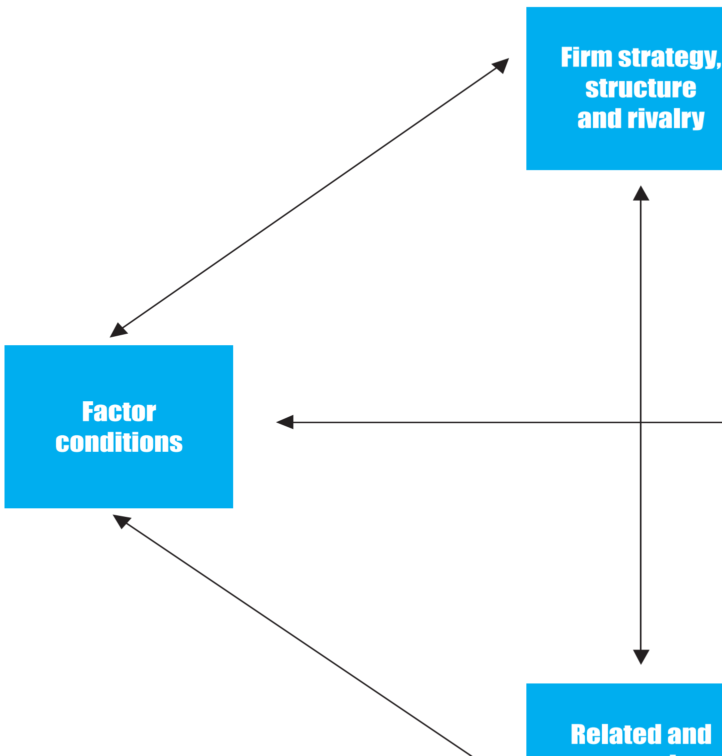
Of course, behaviours and practices that are contrary to the above constitute bad governance or are the antithesis of good governance. These include ad-hoc decision-making, rent-seeking opportunities, preferential treatment for individuals and organizations, crony-capitalism and disregard for rule of law. Specific examples include: *Failure to make a clear distinction between what is public and what is private, hence the tendency to divert public resources for private gain; Failure to establish predictable framework for law and government's behaviour or arbitrariness in the application of rules and laws; Excessive rules, regulations, licensing requirements which impede functioning of markets and encourage rent seeking; Priorities that are inconsistent with development thus resulting in misallocation of resources and excessively narrow base for or non-transparency in decision making [Ovia, 2005:14]*

I have given more attention to governance because, without good governance, all is lost. Governance ensures that national priorities are optimally determined; that budgets are designed for implementation and actually implemented on time and on a value-for-money template; that we build 'capable, reliable, reliable and great' institutions rather than having ego-driven great men[Obama, 2009];institutions that are 'effective, meritocratic and transparent' [Cameron, 2011]; that government policies are meant for Nigerians and are fair and equitable; that the laws are properly enacted and anybody who runs foul of them is duly punished; that projects are spread equitably, that there is continuity, consistency and coordination; that public servants actually SERVE the public, that corruption takes a back seat and that government works.

Enhancing Competitiveness of Businesses Environment

But while moderating the infrastructural challenges and strengthening the governance mechanism can oil the wheel of business operations, deliberate efforts should be made to enhance our national competitiveness. In this regard, we shall be drawing on the arguments of Porter [1990, 1996, 1998] who believes that national prosperity is created; that differences in national values, culture, economic

Figure One: **Determinants of National Compe**

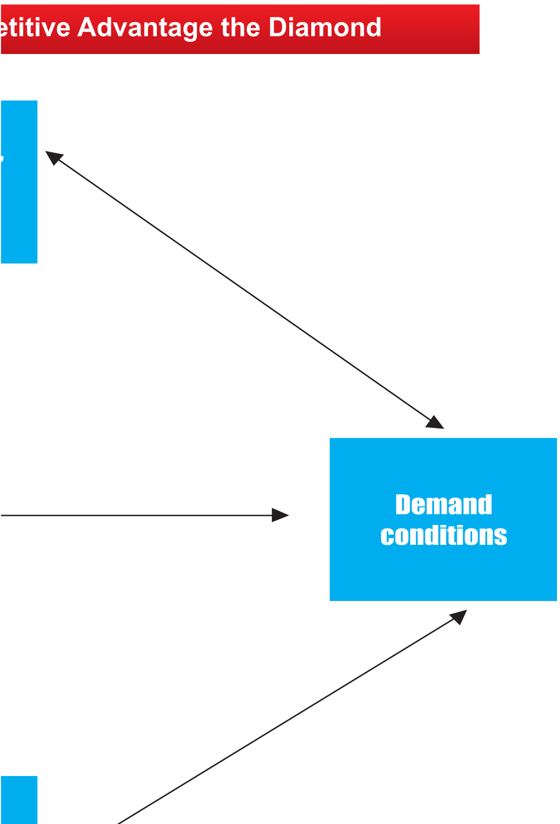


Source: **Porter,M.E[1990] The Competitive Advantage of Nations; Harvard Business Review Book** structures, institutions and history all contribute to competitive success and nations succeed in particular industries because their home environment is the most forward looking, dynamic and challenging. He argues that certain companies in certain countries perform better consistently because of four broad attributes of a nation which jointly and severally constitute the diamond of national advantage- the playing field that each nation establishes and operates for its

and skills, affords better ongoing information and insight into product and process needs, or pressures companies to innovate and invest, companies gain and upgrade competitive advantage.

Drawing from above and given that 'the stock of resources that a nation enjoys at a particular time is less important than the rate and efficiency with which it creates, upgrades & deploys them in particular industries', it is imperative for the government 'to shape the context and institutional structure surrounding companies and creating the environment that stimulates companies to become competitive'; Government can become a catalyst or challenger

geographic concentration of interconnected companies, specialized suppliers, service providers, firms in related industries and associated institutions[universities, regulators, trade associations] in particular fields that compete but also collaborate [Porter, 1998:197]. The government can adopt the right cluster policy and take deliberate steps to upgrade existing and emerging clusters. Favourable cluster policies include sustaining traditional clusters like agriculture, reinforcing emerging clusters [the entertainment industry is a serious emerging cluster], encourage competition and specialization, rather than replication, tie cluster development to FDI especially now that our foreign policy is FDI-



http://www.unikshoesng.com/image/DSCF0016.JPG

Unik Shoe factory, Ilasamaja, Lagos

industries. These are factor conditions [nations positions in factors of production necessary to compete in that industry] demand conditions [nature of domestic demand for the industry's products] related and supporting industries[the presence or absence of competitive supplier or related industries] and firm strategy & structure[see figure one]

When a national environment permits and supports the most rapid accumulation of specialized assets

and encourage or push companies to raise their aspirations and move to higher levels of competitive performance and transmit and amplify the forces of the diamond. Some specific roles include focusing on specialized factor creation, safety and environmental standards and deregulation of competition

One particular strategy through which the government can enhance the national competitive advantage of our businesses is through the practice of clustering. A cluster is a

oriented, upgrade clusters by recognizing their presence [Aba: shoes, bags, suites; Nnewi: auto parts], removing obstacles and constraints and eliminate inefficiencies, highlight externalities, linkages and spillovers in cluster development and upgrade all viable clusters

Government's roles in cluster upgrading within the Diamond framework are as follows:

- **Firm strategy/rivalry:** eliminate barriers to local competition, organise departments around clusters, attract FDIs to clusters and focus export promotion on clusters

• **Demand conditions:** streamline regulatory processes, sponsor independent testing, act as sophisticated buyer of products; buy made in Nigeria

• **Related and supporting industries:** sponsor for a for cluster industries, encourage efforts to attract suppliers/service providers; establish specific trade-free zones/ parks

• **Factor conditions:** create specialized T&D programmes, local university research efforts, cluster-specific information gathering and dissemination; specialized transportation/ communication & other infrastructure.

In effect, government should design strategies to strengthen the industries where we have natural and or acquired advantages and enhance these advantages by working on the relevant aspects of the diamond. The various intervention funds should be better coordinated and channeled so that there should be an evidence of focus. Areas where we have such advantages that need to be enhanced include oil and gas [Niger-Delta axis]; Auto parts-Nnewi]; Nollywood/ Naija-Sounds [Lagos or a new entertainment city]; Agriculture & Agro-allied [North, Middle Belt & S/West-depending on products]. This should be in the agenda and even if it does not come to complete fruition in the next four years, the ground-work should have been laid for future governments.

Other Matters

Leveraging on Lessons from Global Economic Crises

The global economic crises are far from being over. Several European banks are still shaky; the debt crises is still a present threat not just in the PIIGS economies[Portugal, Italy, Ireland, Greece and Spain] but in the entire Europe where the markets have been crazy especially in the week ending 6/8/11, and the US which escaped default but was downgraded by S&P. The recent crises should not have come as a surprise because we were warned by several authorities and one of them was Greider [1997]. He bemoaned growing importance and powers of financial markets and global organizations as well as the deification of market forces to which have been abandoned great political issues of the day, arguing that while smaller and more effective public sector, managed according to sound business principles whenever possible was advisable, it was outrageous to say that the global capital market should be the sole arbiter of social and political issues. He warns that capitalism will swing to the extreme until it produces a backlash' and that a world economy on an auto-pilot eventually would drive itself off a cliff. Writing in the same vein, Jeffery [1997:144] declared that the idea of self-regulating markets was a dangerous delusion and warned that capitalism must be reformed or the world was doomed to keep renewing inhumanities in the name of economic progress

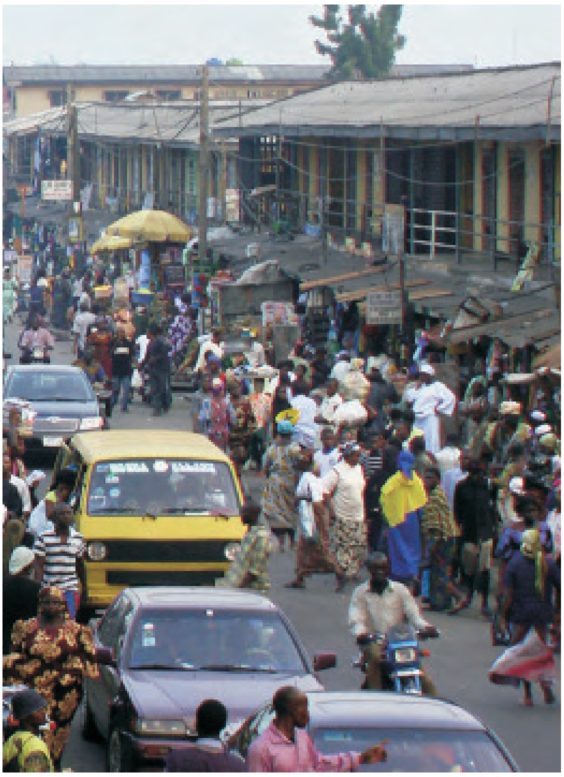
Ten years after those warnings, the bubble burst and the world experienced its greatest economic crises since the great depression. Beyond exposing the underbelly of Washington Consensus-driven do-or-die capitalism, beyond turning everybody into a Keynesian and even Marxist, beyond exposing the lies with which financial necromancers have been feeding the investing public and beyond setting the momentum for the restructuring of the governance of global financial structures, the economic crises also taught the world a basket of lessons and upturned some universal myths. Some of these lessons are as follows: Globalization is a double-edged sword [that was why the failure of one bank crippled the world while countries that were more globalised suffered more than the others]; Subsidies and government support for businesses will never go away [the extent to which bail-outs were dished out after the crises was hitherto unimaginable, starting with the 'extravagant bail out of Citibank' and others in the US-Rogoff, 2008]; The need to grow the domestic economy [China fared relatively well but still faced hard times because as exports fell, its growth stagnated, and social unrests became common place and the city of Wenzou, the center of Chinese capitalism, was at risk at the height of the crises[Rodrick, 2008 30; Dyer, 2008:20; & Rachman, 2008:42]; Protectionism is 'bad' but it is serially practiced by champions of free trade. While the G-20 rejected protectionism in November 2008, by September 2009 reports by WTO and Global Trade Alert affirm that they have all broken the pledge, with a member breaking that pledge every three days! [Beattie, 2009:41]

Our economic management mindset must thus build upon the lessons from the recent economic crises which have proved that leaving the markets to themselves is suicidal, that the invisible hands can indeed, be visible, that the state cannot just abandon its people and businesses to

http://theamericanshow.com/wp-content/uploads/2011/05/LagosStreet.jpg external predators and that there will always be subsidies [as there have always been]. In this regard, I expect President Jonathan to think and act along the following lines:

• **Subsidies:** a lot has been said about the issue of petroleum product subsidies and how about N1trn has been committed to it in the last one year. Many 'informed' economists and 'reform-minded' Nigerians are of the opinion that the subsidy is the only hindrance between Nigeria and all her development aspirations. In the first instance, the hindrance to our developmental aspirations is corruption. Secondly, there are subsidies everywhere in the world including the US. The problems with our petroleum products subsidy is that these products are imported, that the subsidy is diverted and indeed, cornered by a cabal, which the late President Yar'Adua promised to deal with; because the subsidy is for everybody, even those who don't need it; and because it is extended to neighbouring countries. All these are evidences of government's incompetence; not reasons to jettison the subsidies. The government should retain the subsidy but should fine tune and make it more efficient and beneficial. If petroleum products are refined in Nigeria, probably, 80% of the so-called subsidy will disappear.

But Nigerians are tired of hearing about these mind-bugling figures which do not translate to meaningful developments because of poor and shoddy implementation.



• **Some protection for our industries:** the rate at which imported substandard goods chase our products off the market is alarming. We have already discussed how to enhance the national competitive advantage. The government must give some form of protection to our industries, proudly patronize their products so as to give them the encouragement to go on. They must also be encouraged to produce to standards and those who deliberately shortchange consumers should be made to pay the price.

• **Size and cost of governance:** one of the outcomes of the last crises was the frantic efforts by governments across the globe to streamline the cost of governance so that the government does not become a burden on the economy. British PM, David Cameron, used a train during his visit to the US so as to save costs but also to make an important statement. A situation in which 70% of our budget goes to recurrent expenditures is far from ideal. Personnel cost increased from N850bn to N1.3bn between 2009 and 2010 and we have not yet accommodated the new minimum wage. The President's horde of 40+ ministers and 20 advisers is on the high side. Do we really need the more than 400 parastatals that are currently in existence in the country? What are their functions? Are there duplications? Can we afford the much-discussed jumbo-pay in the National Assembly [whether they term it salaries or running costs]? The president must DO SOMETHING about the size and cost of governance in Nigeria

Sundry Issues

There are other sundry issues that President Jonathan should pay attention to while attending to the aforementioned priorities. The economy should be diversified because our total dependence on oil is harmful to our economy, to our development, to our governance practices and to other sectors of the economy. Of course if agriculture is encouraged, if we enhance our national competitive advantage, if we pursue cluster developments strategically and if we get our economic governance right, diversification will be the ultimate result.

Nigerian budgets have moved from millions to trillions and may soon go beyond zillions. But Nigerians are tired of hearing about these mind-bugling figures which do not translate to meaningful developments because of poor and shoddy implementation. Budgets should be implemented; project completion should have greater priority over fresh projects; there should be consistency, continuity, coordination, stability and priority-based management of programmes and projects. The experience of the cement industry and the executive turnover in the ministry of education where average tenure is 15 months are examples of what inconsistency and instability can do to government and governance. Already, the appointment of a Special Adviser on Project implementation, evaluation and monitoring may well be a beginning in this direction though this is far from the Presidential Project Coordination Center which Eyam-Ozung[2011:13] is rooting for. Efforts should also be made to institutionalize the various reforms that are being proposed whether in the civil service, Oil/Gas, power, and any other sector. Djebah [2011] recalls that Norway has since found a way to institutionalize their ongoing reforms in several sectors with the establishment of a ministry dealing in government reforms… it is obvious that there is a sustainability crises, aggravated by lack of a sustained institutional framework.

Vision 2020 or 202020

What is the role of vision 2020 in all this? It is good for individuals, organizations and countries to have visions but the visions must be based on solid reality. And if the essence of vision 202020 is for the country to move forward developmentally, for her peoples to enjoy the global objectives of development, then, as long as we are engaged in coordinated people-oriented programmes and policies, we are in the right direction. But if it is for the sake of the number, 20 or if it is for the sake of global tea-drinking and photo sessions, then, we are wasting our time and resources. Even then, the countries in G20 will not fold their hands waiting for Nigeria while those between us and that group are also racing as if their lives depend on it; not to beat or block Nigeria but simply to improve the lots of their people. Making all the noise about Vision 2020 or 202020 when we can't generate transmit or distribute electricity, when we can't manage refineries and spend more money on TAM than is required to construct new ones and we can't even run ordinary government businesses appears to be a far-fetched dream. It appears that our political leaders do not even believe in the vision for while Yas'Adua was an apostle of 7 point agenda, Jonathan believes in 'pointless' , all-inclusive transformation charter

Indeed, Ejo-Orusa[2011] holds that Vision 202020 is a blurred vision based on wrong diagnoses and flawed prescription. He argues that we need to be industrialized like other G20 countries, overtake 17 other economies that stand between us and G20 and avoid being overtaken by smaller ones. He holds that Nigeria is not even on the verge of joining the BRIC group because Mexico and Indonesia which are 3-4 times bigger than Nigeria are more like it. For us to start, he argues that we must have capital goods and microelectronics sectors in addition to a robust industrialization strategy to promote these two sectors as a launching pad to industrialization. Omotosho opines that without power, roads and rails, no power on earth can propel us to the group of any figure, even if it is G80!

A word on Transformational Leadership

President Jonathan has spoken so much about transformational leadership and has indeed launched a transformational charter. The MDAs have also joined the bandwagon, organizing talk-shows[and we are good at that] on how to actualize or mainstream the transformational agenda. So it is appropriate to comment briefly on transformational leadership [TL] so that those on the TL bandwagon will actually know what they are offering.

President Obasanjo never bothered about a formal political or leadership philosophy but his actions portrayed his strategic/operational paradigm. Narcissism and allied tendencies formed the intellectual, philosophical and psychological background to governance in his days.We had an imperial presidency with totalitarian tendencies pulling all the strings from Aso-Rock. Every tier and arm of government was under control; every meaningful decision must be taken from the 'source'; every public officer must kowtow regularly or be cut to size and every contentious issue was seen as a battle to be won. The Nation became a huge bazaar where favours were dished out to the worshippers of the god on the rock. Of course, efforts were made to innovate and shape the future but these efforts were undermined and overwhelmed by the unproductive aspects of narcissism[Muo, 2007]

On 29/5/07, Yar'Adua, offered himself as, 'a servant leader, a listener and a doer'. He called for a restoration of the time honoured values of honesty, decency, generosity, modesty, selflessness and accountability, pledged to 'set a worthy personal example' and urged all leaders at all levels to 'change their styles and attitudes and act at all times with humility, courage and forthrightness'. And so began the era of servant leadership. Servant

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leadership is a concept developed, perfected and practiced by our Lord Jesus Christ who served his numerous followers and also gave it as an injunction: the leader must be the servant [Luke,22:26][Muo, 2008] Yar'Adua himself, saw servant leadership as a long-term transformational approach to life and work characterised by listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the will to get things done for the common good and building community with strong institutions. It's style is patriotic, purposeful, focused on the common good, ethics, strict adherence to the rule of law and sound judgment. Servant leadership requires sincerity and credibility both of which would earn the trust of followers, fairness, and objectivity. It is devoid of suppression, repression, oppression, abuse of power, plundering the commonwealth, narrow and selfish interests and enclave mentality. Ultimately, leaders as servants do not have interests of their own and should thus concentrate on the interest of Nigerians. [Yar'Adua, 2007:10]

So, what is transformational leadership? First coined by Downton in 1973 and popularized by Burns [1978], a transformational leader is an individual who engages with others and creates a connection that raises the level of motivation and morality in both the leader and the followers. TL itself is a process that transforms and changes individuals; it is concerned with values, ethics, standards and long term goals; it involves assessing followers' motives, satisfying their needs and treating them as full human beings. It is a process that subsumes charismatic & visionary leadership [Northouse, 2001:131]. TL motivate followers to do more than expected by raising their consciousness about the importance and value of specified and idealized goals, getting them to transcend their own self interest for the sake of the team or organization and moving them to address higher-level needs [Bass, 1985:20]. His model of transformational leadership lists these leadership factors: charisma or idealized influence [strong role models]; inspirational motivation [communicating high expectations and inspiring hem to through motivation to be part of shared vision], intellectual simulation [stimulating followers to be creative, innovative and to challenge own beliefs and values, those of the leader and those of the organization and individualised consideration [leaders who provide supportive climate in which they listen carefully to followers]

Hughes et al [2009:632] identify the duties of TL as changing the status quo by appealing to the followers values and their sense of higher value, articulating the problems in the current system and have a compelling vision of what a new society could be. This new vision is intimately linked to the values of both the leaders and the followers; it is congruent with their value systems and teaches the followers to become leaders in their own right and play active roles in the change movement. They argue that TL is a ultimately a moral exercise that raises human conduct and is judged on the bases of whether the changes develop or hinder society and that such leaders are good at reframing; explaining how the followers problems can be solved by the leaders vision. While all transformational leaders are charismatic, not all charismatic leaders are transformational. The preferred leadership characteristics include vision, rhetorical skills[and are thus able to share their vision],image and trust building-they 'build trust in their leadership and the attainability of their goals through an image of seemingly unshakable self-confidence, strength of moral conviction, personal example and self sacrifice and unconventional tactics/behavior'; personalized leadership-share strong personal bonds with followers even when occupying formal organizational position; sensitive to emotional state of followers, and are emotionally expressive, empower followers by building their self sufficiency.

Miles [1997:13] states the core characteristics of a transformational leader as a firm belief that transformation is required to gain competitive advantage; an ability to clearly articulate this belief in the form of a compelling vision and commitment to make the vision a reality through involvement, teamwork and courage and identifies the major tasks that leader must perform to achieve successful transformation as:

- Generate energy to launch and sustain the transformation [confronting reality, creating and allocating resources, raising the bar & modeling desired behavior]
- Developing a vision of the future [visioning, modeling business success, analyzing the total system and focusing on transformation initiatives]
- Aligning the organization [restructuring, implementation infrastructure, reshaping culture, building core competences]
- Creating a transformation architecture[education and involvement mechanisms, feedback/ communication mechanisms,

consulting support [Miles,1997:7]

It is thus obvious that transformational leadership is far beyond chanting the transformation mantra; that transformation is not just about the outcome [positive change] but also about the process; how that change is attained [especially the extent to which the people are mobilized and motivated by visionary declarations and exemplary leaders]. President Jonathan must thus be ready to articulate an animating dream, partner with the people, model required behavior, take the necessary steps to achieve transformation, and do that not just in Abuja but also all levels and layers of government all over the land!

Conclusion

The question of what should be the economic priorities for President Jonathan can be taken from various perspectives. Taking a strategic management perspective and based on public expectations, the present situation in Nigeria and the fundamental developmental roles of the government, I propose that he concentrates on the urgency of the moment before moving to soft and hard infrastructure, agriculture and enthroning good governance. I also recommend that he takes some cogent steps to enhance our national competitiveness and harness the lessons learnt from the 2008/2009 economic crises which we cannot say for certain that they are over. These areas I mentioned can stand independently but they, most importantly, reinforce each other especially if we see development from Seer's perspective as the significant reduction of poverty, unemployment & inequality.

- The soft infrastructure will create a crop of healthy, educated, knowledgeable and skilled Nigerians
- The hard infrastructure will provide the enabling physical environment, remove the millstone retarding our businesses and at the same time facilitate entrepreneurial growth.
- The agricultural sector is our traditional chief employer; to also serve as a more sustainable alternative to oil and facilitate food security
- Good governance ensures that policies are properly articulated and implemented, consistent and stable. This provides proper policy, legal and institutional environment for business and entrepreneurial activities
- The healthy and skilled/knowledgeable Nigerians will be employed in the businesses which are operating in a conducive environment. Some will go into self employment or agriculture. Good governance will minimize corruption which is the major reason for the non-implementation of government budgets, policies and programmes.
- Under these circumstances, the war against, poverty, employment and inequality will become meaningful and self reinforcing!

I have not mentioned political agenda but politics and economics are inseparable. The economic agenda can only be attained through political processes-consensus building, negotiation, strategic realignment, collaboration among the three ties, levels and layers even when they are under different political parties and different political persuasions. And so, even when I have not stipulated political agenda, we can only get our economy and economics right when we get our politics right. And both the economy and the politics are only right when they are both about the welfare of the people.

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Quality & Internal Control in Banks: INADEQUATE Institutional Support

* By Chuks Nwaze

In the previous edition of this serial, we took a dispassionate look at corporate governance issues in relation to bank ownership which was clearly a sore point in the previous dispensation. It was pretty obvious that both the habits and lifestyles of bank owners and top management which made it rather difficult for corporate governance principles to take root, provided a fertile ground for the subsequent intervention of the regulatory authorities which was inevitable in the circumstances. In the process, unfortunately, many of the bank chief executives and directors lost their exalted positions; in fact, even their investments by way of shareholding in those banks are threatened, whether some of the banks are eventually liquidated, recapitalized or sold to new investors.

Who Are The Accessories?

In this edition, we are going to look at the frequent failure of corporate governance from the point of view of the various institutions established by government not only to safeguard the interests of depositors and other stakeholders but also to act as rear-guard for the banks in times of need. These external institutions, organizations and agencies are mandated to exercise one form of oversight function or another, in a complementary manner, to prevent bizarre behavious by bank executives and ensure compliance with statutory, regulatory and fiscal guidelines. To what extent did these institutions discharge their oversight responsibilities to the banks, especially in the area

These external institutions, organizations and agencies are mandated to exercise one form of oversight function or another, in a complementary manner, to prevent bizarre behavious by bank executives and ensure compliance with statutory, regulatory and fiscal guidelines.

of risk mitigation? Did they perform optimally or should they also share part of the blame heaped at the door-steps of the erstwhile management of the rescued banks?

Business Or Profession?

Before we continue with this analysis, I want to use this opportunity to clear a lingering issue with which I am frequently confronted in the course of my various assignments in the financial industry. The issue at stake is whether banking is a business or a profession. Although the avalanche of regulations, guidelines and controls imposed by the government through these institutions give a clear signal that the business of banking is not intended to be conducted in a reckless manner, a more definite answer to the question must take cognizance of the platform on which one stands.

In as much as the law does not insist that only professional bankers can float a bank, it stands to reason that banking also constitutes a window of opportunity for businessmen. However, from the point of view of staff and management, there is no doubt, whatsoever, that banking is a profession and that all the rules of engagement, etiquette and integrity must be brought to bear on it. Now, the big question is: what happens where the dominant shareholder also heads the management team? In other words, he has invested in a business and he is running that business. Does this scenario change anything? The answer is 'no'. Whoever wants to play a game must do so by the rules and this is the culture which the Central Bank of Nigeria has been trying to entrench since the advent of consolidation. What this boils down to is the fact that the law is not targeting individuals but systems and procedures as well as the institution of good corporate governance in the business of banking.

Mandate Institutions

Perhaps, due to the very nature of the business, coupled with the peculiarity of our own environment, the banking sector is probably the most regulated industry in Nigeria today. For those who may be under the impression that this is a new development, it should be noted that although the banking ordinance was enacted in 1952, serious regulation of the industry started around 1969 when the first Banking Act was introduced. We shall now look at the roles played by external bodies with one form of oversight responsibility or the other in the affairs of banks in Nigeria with specific reference to quality and internal controls.

The following statutory bodies and organizations are in focus with respect to the banking industry.

1. CBN- Central Bank Of Nigeria
2. NDIC- Nigeria Deposit Insurance Corporation
3. NDLEA- National Drug Law Enforcement Agency
4. EFCC- Economic And Financial Crimes Commission
5. The Nigeria Police
6. External Auditors
7. SEC -Securities and Exchange Commission

Although we are going to discuss them individually, only the first two institutions are mandated to exercise direct oversight functions on the daily operation of banks in Nigeria as the statutory functions of the remaining organizations are either ad-hoc, incidental or indirect, though of no less importance.

1. Central Bank Of Nigeria (CBN)

Apart from the issuance and withdrawal of banking licenses, the CBN is also actively involved in the supervision of the banking system to ensure satisfactory implementation of the monetary and economic policies of government in its efforts to ensure better life for the general populace.

Other functions of the CBN include the following

- Banker to federal government as well as other banks
- Issuance, distribution and control of currency
- Management of liquidity through the use of liquidity ratio, cash reserve requirement, open market operations (OMO) and minimum rediscount rate (MRR).
- Supervision of the clearing house on a daily basis
- Intervention in rates management and control of the foreign exchange trade.

It is against the background of the above duties that the CBN exercises surveillance to ensure that the various monetary policies of the government are moving in the right direction and achieving the intended results without being sabotaged or neutralized by the gamut of banks involved in the downstream administration of the policies. Hence, there is a strong determination on the part of the CBN to police the banks and ensure compliance with government's economic policies as well as protect investors and innocent members of the general public, who either invested their financial resources or deposited their hard- earned money in the banks.

Although there are other departments in the CBN that are involved in the surveillance process but the more visible one is the banking supervision department which sends out examiners to visit the banks and look into their books to ensure that the banks comply with their own internal operational procedures as well as the regulatory and prudential guidelines issued from time to time. From the CBN point of view, the whole objective is to prevent fraud which can manifest in any of the following ways:

- Fraud against the economy
- Fraud against depositors
- Fraud against other stakeholders

Although the actual frequency of visitation remains the prerogative of the director of banking supervision department, depending on the kind of information at his disposal concerning a particular bank, from experience most of their visitations are either routine (i.e. on annual basis) or target (i.e. to investigate a specific issue) and at the end of each visit, a report is written accordingly and discussed with the management of the bank. This forms the basis for improved operational performance or better compliance with statutory guidelines in the case of minor infractions.

Serious contraventions are viewed accordingly and could attract any or some of the following sanctions from the CBN, in ascending order of severity.

- Verbal admonition
- Recommendation for correction of observed lapses
- Documented directive for specific performance within a given period
- Penalty of a particular amount for contravention
- Suspension from a specific market (e.g. clearing house or Fx dealing) for a stated period
- Removal from office of principal officers (e.g. Chairman, MD, Directors, etc)
- Revocation of banking license

There is a strong determination on the part of the CBN to police the banks and ensure compliance with government's economic policies as well as protect investors and innocent members of the general public, who either invested their financial resources or deposited their hard-earned money in the banks.

http://www.thebusinessbriefs.com/wp-content/uploads/2010/09/Vacancies.jpg

Where things have actually gone wrong and liquidation becomes inevitable, the NDIC takes on the position of undertaker as well as prosecutor of the bank staff, management or directors who are adjudged to have been involved in running down the organization, for whatever roles they may have played.

http://image.made-in-china.com/2f0j00CBvEMvdGMbce/Executive-Desk-Glass-GD006-.jpg

Hence, for the generality of bank staff, management and board, the fear of the Central Bank is the beginning of wisdom.

But how successful is the CBN in whipping to line the smart Nigerians in the banking industry? From the above list of sanctions, it is easy to see that even during the last CBN intervention, it did not wield the ultimate stick which is revocation of banking license. The principal officers in the affected banks were simply removed.

However, the CBN as a corporate body came under heavy criticism for undue delay, especially as the corporate governance lapses responsible for the intervention did not germinate overnight.

2. Nigeria Deposit Insurance Corporation (NDIC)

The statutory functions of the NDIC include the following:

- Insurance coverage of depositors fund for which it collects annual premium from all eligible banks.
- Monitoring of compliance with prudential guidelines in respect of risk asset creation and management by ensuring that banks make the following provisions for reasons of prudence and good order:

Rate	Criteria	Duration (days)
1%	Performing Risk Assets	Nil
10%	Sub-standard Risk Assets	90-180
50%	Doubtful Risk Assets	181-360
100%	Lost Credit	Above 360

- Implementation of "Failed Banks (Recovery Of Debts) And Financial Malpractices In Banks Decree 1994" and resolution of distress problems in Nigerian banks, including payment of depositors in respect of failed or liquidated banks.

The NDIC has put several structures and strategies in place for the prudential management of banks to ensure that distress is kept at bay and that if one is imminent, it is detected and appropriately dealt with to avoid crises, and possible systemic conflagration. Hence, their field examination department also visits banks both on routine and target basis as the case may be. Remember that it has already been established in earlier serials that banking distress has a lot to do with all manner of frauds committed by the ownership and management of banks.

Where things have actually gone wrong and liquidation becomes inevitable, the NDIC takes on the position of undertaker as well as prosecutor of the bank staff, management or directors who are adjudged to have been involved in running down the organization, for whatever roles they may have played.

There is no confusion or duplication of functions, whatsoever, between the CBN and the NDIC as some critics have insinuated. This impression might have been given by the similarity in the procedure often adopted by the field examiners of the two regulators even though the information obtained is used for different purposes. However, the major difference lies in the fact that most of the time, the NDIC steps in after the revocation of banking license by the CBN.

By way of performance assessment, the NDIC was also accused of lethargy, even when crisis was clearly imminent in the financial system.

3. National Drug Law Enforcement Agency (NDLEA)

The NDLEA is empowered to prosecute the global war against money laundering in the Nigerian environment. Although a bank is essentially an intermediary between the depositors (i.e. surplus units) and the borrowers (i.e. deficit units), it is important to emphasize the fact that only genuinely acquired or decently made money is acceptable. In other words, it is fraudulent to push illicitly acquired fund or drug money into the banking system.

Besides, there is a global searchlight on Nigeria as one of the courier centers of drug barons and traffickers. Hence, banks are required to appoint compliance officers to ensure accurate and timely rendition of appropriate returns in line with the enabling provisions of the NDLEA Decree.

The National Drug Law Enforcement Agency also has its own programme of regular or ad hoc investigation or examination of the operational modalities of banks in its determined effort to successfully prosecute the war on money laundering on that front. In addition to site inspection, it is also mandatory for banks to send returns on specific transactions to NDLEA and this is a major plank of financial institutions surveillance. Cash transactions, especially lodgments, of N5million (previously N1million) or above for **individuals** and N10million (previouslyN5million) for **corporate bodies** are to be mandatorily reported to NDLEA through the Nigerian Financial Intelligence Unit, NFIU for appropriate action.

Although banks are quick to give the impression that the mandatory disclosure requirements in respect of this category of transactions are fully complied with, courtesy of conspicuous notices placed in banking halls to this effect, the actual situation on the ground may be different. It is alleged that the generality of banks are not diligent in the rendition of the Suspicious Transactions Report (STR).

Even when the reports are dully rendered, to what extent does the NDLEA go the whole hog in investigating or even prosecuting the alleged offenders for assaulting the financial system with illicitly acquired wealth in line with the Anti-Money Laundering Act?

4. Economic And Financial Crimes Commission (EFCC)

The Economic And Financial Crimes Commission was established to prosecute the war on economic and financial crimes in all shapes and colours, whether in the public or private sector, especially in high places. The powers of the EFCC are not only awesome but practically unlimited; they include arrest, indefinite detention and even prosecution of suspects without being under any obligation to explain to anybody the reasons or the rationale for its actions.

Unlike the Police which everybody has become accustomed to over the ages, the EFCC should be commended for instilling a fresh sense of discipline and fear in the minds of bankers and their customers respectively. In fact, it is enough to say that for bankers with fraudulent intent, seeing is believing and for customers who think that bank loans are part of the national cake, a trial will convince them that it is not.

Has the EFCC lived up to expectation in their duties to the banks in their times of need? Opinion is divided. However, there is no doubt that although chronic and fraudulent debtors were frequently arrested and hauled into detention, the volume of debts actually recovered pales into insignificance in relation to the quantum of toxic assets which combined to put the banks in a liquidity tight rope. The reason for this situation has to do with our penchant for growing strong personalities at the expense of strong institutions as diagnosed by the United States President, Barack Obama. Obviously, many of the mega debtors of banks are stronger than the regulatory or security agencies. Hence, instead of moving against the big debtors who are well-known in the society, the government found it more convenient to establish the Asset Management Company of Nigeria (AMCON) to mop-up the toxic assets and put the banks back in funds.

The Securities and Exchange Commission has an indirect oversight function over banks in the area of capital market activities whether for new issues or in the secondary market of stock exchange.

5. The Nigeria Police

There is nothing new to be said about the Nigerian Police as a statutory organ of law enforcement and fraud prevention, its poor public image notwithstanding. Even the image problem of the police is collectively induced because if there is no seller there will be no buyer. It is because the general public is hawking lawlessness, crime and fraud that the police which maintains a direct interface with the public has been caught in the web.

In relation to bank fraud, however, the focus of the police is in the area of investigation and possible prosecution in respect of fraud which has already occurred and this is the best that they are in a position to do, given the technical know-how and resources at their disposal. The police can only mount preventive surveillance against robbery, not fraud. However, the deterrent effects of harassment, incarceration and prosecution are also preventive. It is usually hoped that the outcome of their successful investigation and prosecution of the staff or customers of banks will send the right signals to potential fraudsters in such a manner that future frauds would be unattractive.

The extent to which this objective was achieved by the Nigeria Police in respect of both the rescued and thriving banks is obviously a subject of much debate in much the same manner as the image of the police in the eyes of the general public is not glittering. In other words, if the banks are complaining about police inefficiency, they are not alone. The police itself will easily argue that it has more serious issues to contend with than financial institutions.

6. External Auditors

There is obviously a yawning gap between the provisions of the law in respect of statutory audit and the expectations of the general public. This is not only in Nigeria but world-wide.

From the professional angle, the objective of statutory audit is to ensure that the books of account as well as the financial statements derived there from, give a "true and fair view" of the operations of the business. In other words, external auditors are not in the business of detecting or investigating fraud unless, of course, they are "put on enquiry" in the normal course of their review and certification work, in which case they are obliged to get to the bottom of the matter.

Unfortunately, however, bank frauds just like in other businesses, are often carefully planned both in small and high places in such a way that nobody can be put on inquiry in an elementary manner. Besides, the general belief that if there has been fraud, the external auditors should have discovered it, is not in accord with the statutory provisions. Even internal auditors and inspectors who are full-time staff of the banks cannot be relied upon to detect fraud, talk less of those who are outside and who only visit for a short period at the end of the financial year.

However, if there is sincerity of purpose in the direction of good corporate governance on the part of management, external auditors can go a long way to prevent fraud by pointing out weaknesses in internal controls as well as objective and effective actions to be taken to correct them.

This is not to say that external auditors are completely blameless in the large scale fraud that was said to have been committed by the management of the rescued banks in the recent past. These banks retained the same external auditors for several years and these auditors continued to issue the same "true and fair view" report on annual basis even when the banks were obviously 'on the brink'.

7. Securities and Exchange Commission (SEC)

The Securities and Exchange Commission has an indirect oversight function over banks in the area of capital market activities whether for new issues or in the secondary market of stock exchange. Either way, the impact of their regulatory responsibilities should not be underestimated.

So, as the Apex institution in the capital market, did SEC sufficiently identify with the banks as occasion demanded? For instance, when the stockbroking firms were not forthcoming with the repayment of margin loans which adversely affected the liquidity of banks, what did SEC do? When banks were floating and funding capital market subsidiaries and were massively mopping-up shares in the secondary market, including their own shares, hence creating artificial scarcity, did SEC see anything wrong with that?

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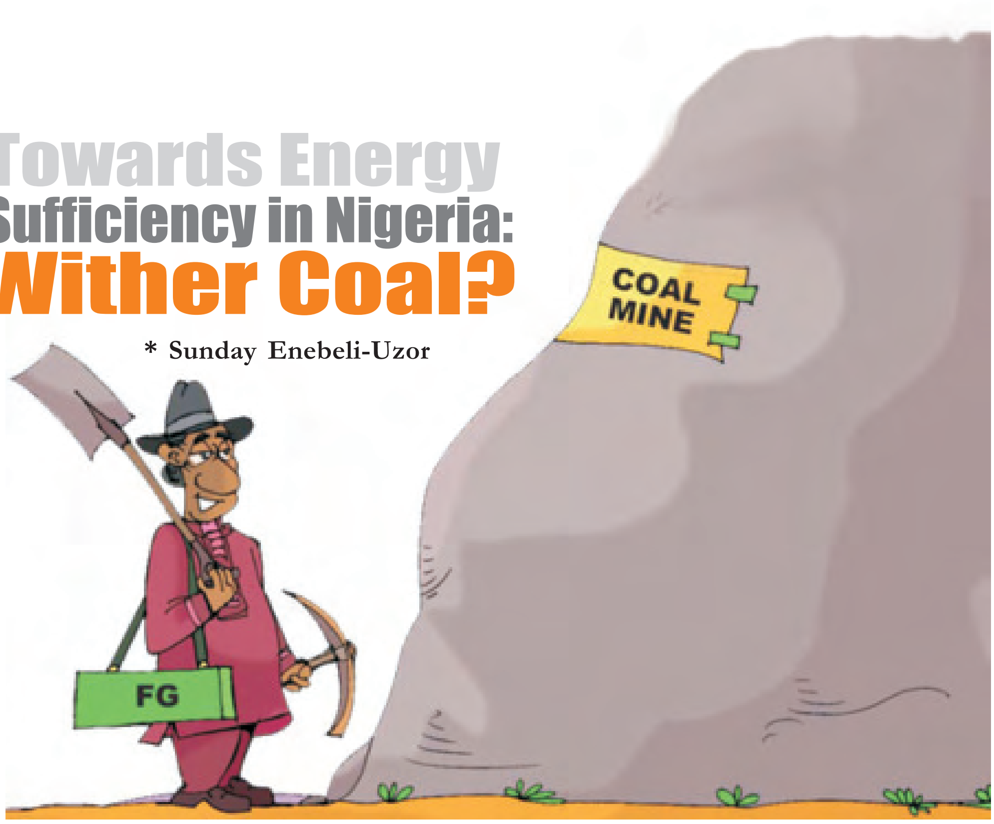
Towards Energy Sufficiency in Nigeria: Wither Coal?

* Sunday Enebeli-Uzor



Whereas Nigeria has estimated recoverable coal reserves in excess of 2.5 billion tonnes suitable for power generation, no functional coal-fired power station exists in the country. Coal is and will remain the world's most abundant and widely distributed fossil fuel. At current production levels, proven coal reserves are estimated to last 118 years, with recoverable reserves in around 70 countries. In contrast, proven oil and gas reserves are equivalent to around 46 and 59 years respectively at current production levels. Coal plays an essential role in the global energy mix, particularly power generation and will continue to be a major source of world energy supply for many decades to come. According to the International Energy Agency (IEA), coal-fired power plants provide about 41% of global electricity supply currently and this is projected to rise to 44% in 2030. In the United States, coal accounts for 49% of electricity needs, and in China, it represents 79% of electricity generation. In South Africa, coal-fired power plants accounts for 93% of total electricity generation.

Nigeria's electricity generating and grid distribution capacity currently range between 3,500mw to 4,500mw – way too short of the ample level for domestic consumption for a population of over 150 million, and grossly insufficient to support the industrial sector. It is estimated that current demand for power in the country is in the range of 20,000mw to 25,000mw, thus leaving a deficit of over 20,000mw with a huge proportion of the population without electricity. The pathetic state of industries in the country and the prevailing low industrial capacity utilisation has been attributed mainly to poor electricity availability. Manufacturers virtually depend on diesel-powered generators for electricity and thus private power generation currently account for about 30% of manufacturers' cost of production.

This amongst other infrastructural challenges has reduced the profitability and competitiveness of firms and has forced some to relocate to neighbouring countries with more reliable electricity supply while a good number has either remodeled their businesses to become importers or closed shop completely. Nigerian per capita electricity consumption is currently 119.98 kilowatt hours (KWh), compared to 4,358KWh in South Africa.

Current Energy Mix

Electricity is currently generated from several small gas-fired and hydropower generating facilities across the country. There is presently no functional coal-fired power plant in the country despite having the potential to generate over 15,000mw of electricity. The dismal level of electricity generation and incessant supply disruptions are attributable to persistent challenges with availability of gas, periodic hydrological shocks, outmoded transmission and distribution assets, and rapid demand growth. Energy consumption mix is currently dominated by oil (53%), followed by natural gas (39%), and hydroelectricity (8%). The huge deficit of electricity demand from the national power grid is met with numerous generators with attendant emission of hazardous gases into the atmosphere, and noise pollution which destroys the serenity of the environment. Besides environmental concerns, relying on generators for power supply has become a serious drain on the finances of households and corporate bodies. Cost of electricity has become the most vital recurrent expenditure for corporate entities and the most demanding non-food expenditure for households.

Electricity supply in Nigeria is characterised by frequent power failures and load shedding, resulting in economic losses through lost production, damaged equipment and the need for expensive alternative source of power. There is currently an excessive reliance on non-coal power generation while the nation's vast coal reserves remain unutilised. Nigeria has major coal resources that have not been well explored and exploited. The government has however expressed its determination to revitalise the coal mining industry and expand power generation by attracting foreign companies to develop these large coal resources and construct coal-fired generating facilities that will connect to the national electricity distribution grid.

The Roadmap for Power Sector Reform

In its bid to address the challenge of inadequate electricity supply in the country, the federal government in August 2010 unveiled the roadmap for power sector reform. The roadmap is essentially a customer-driven sector-wide plan to achieve stable power supply with indicative timelines for planned actions and a renewed drive to improve on short term service delivery. It is a broad and highly ambitious plan to revive the energy sector and improve the nation's miserable power infrastructure, targeting 40,000mw of electricity generating capacity by 2020. The roadmap represents a coordinated framework to increase private sector investment in the power sector to improve power supply to residential, commercial, and industrial consumers.

The roadmap outlines government's plan to accelerate the pace of activity in the power sector with respect to reforms and seeks to achieve the following amongst others:

Divestiture of successor companies: The roadmap details government's plans to divest of its interests in the successor companies to the Power Holding Company of Nigeria (PHCN). This will involve the corporatisation, commercialisation, and eventual privatisation of the successor companies. It is expected that this will herald the inflow of a large volume of private sector investment through the creation of new power generation and distribution entities and the subsequent development of a competitive electricity market. Government will divest its interest in the downstream end of the electricity chain through the sale of a minimum of

http://www.e2my.com/images/coal1.jpg

51% in each of the separate companies to a core investor. However, for the six generation companies, government will adopt a mixed strategy to be developed by the Bureau of Public Enterprises (BPE) in privatising the successor companies.

Establishment of an appropriate pricing regime: The roadmap stipulates a major review of the existing tariff structure which investors perceive to be a disincentive. The prevailing tariff structure – the Multi Year Tariff Order (MYTO) has been identified as one of the impediments to private sector participation in the electricity chain as it does not reflect the true market costs of electricity, hence making the rates unattractive to prospective investors in the power value chain.

Establishment of a bulk purchaser: The government has established the Nigerian Bulk Electricity Trading Company Plc as a new transitory entity, to negotiate appropriate power purchase agreements not just with successor gen-

erating companies and existing independent power producers (IPPs) but also with potential new entrants into the power generating market. The Nigerian Bulk Electricity Trading Company Plc will also purchase power in bulk and then resell to the distribution companies. The Company is expected to perform this function until, the respective distribution companies can enter into direct Power Purchase Agreements (PPA) having been adjudged credit worthy by the counter party or generating company.

Provision of financial guarantee by the federal government: Recognising that Independent Power Producers (IPPs) will require creditworthiness from counterparties before entering into a Power Purchase Agreement (PPA), the roadmap stipulates that the federal government may provide credit enhancement to the bulk purchaser that will enter into PPAs with the successor generation companies and IPPs. The federal government guarantee would ensure that the Nigerian Bulk Electricity Trading Company Plc receives support from the government to enable it execute Power Purchase Agreements (PPAs) entered into with the generating companies. This is expected to accelerate private sector investments in power generation.

Nigeria's Coal Deposit

Recoverable coal reserves in Nigeria are estimated to be in excess of 2.5 billion tonnes. The NTWG on Energy Sector of the Vision 20:2020 however put the estimate of coal & lignite at over 4 billion tonnes. Sub-bituminous coal is the major type of coal available in Nigeria and is considered to be an excellent thermal coal for fueling coal-fired electricity generating plants and for other industrial uses. Coal deposits are found in the following states: Adamawa, Anambra, Bauchi, Benue, Cross-River, Edo, Enugu, Gombe, Imo, Kogi, Kwara, Nassarawa, Ondo and Plateau. Coal exploration has however been carried out in the following areas: the Anambra Coal Basin, the Kogi Coal District, the Benue Coal District, and the Enugu Coal District.

According to the Nigerian Geological Survey Agency (Nigeria's ultimate referral point for Geosciences Information and knowledge), the Anambra Coal Basin in southeastern Nigeria is adjudged to hold the largest and most economically viable coal resources in the country. The coal basin spans an area of approximately 1.5 million hectares and is constrained by the Niger River on the west, the Benue River on the north and the Enugu Escarpment on the east. The Kogi Coal District covers 225,000 hectares of the Anambra Coal Basin and lies on the northeastern side of the basin. The district is estimated to have a demonstrated coal resource of 223 million tones averaging 3.6 metres thick, which underlies 8,900 hectares, or 4 percent of the district. The total non-reportable resources by JORC Code (the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves) are 600 million tonnes. The Benue Coal District, covering 175,000 hectares of the coal basin, is immediately south of the Kogi District along the eastern outcrop of the Anambra Basin. It is estimated to have a demonstrated coal resource of 124 million tonnes, which underlies 4,700 hectares, or 3 percent of the district. The total non-reportable resources, as defined in accordance with the JORC Code, are 380 million tonnes which underlies 4,700 hectares, or 3 percent of the district. The total non-reportable resources, as defined in accordance with the JORC Code, are 380 million tonnes.

The Enugu Coal District, covering 270,000 hectares of the coal basin, is centered around Enugu City. It has supported the largest amount of commercial mining in the past. In addition to two underground mines, there are a total of 36 drill holes drilled in the area and geological studies have estimated the demonstrated coal resource to be 49 million tones

Coal in Electricity Generation

South Africa 93%	Poland 92%	PR China 79%
Australia 77%	Kazakhstan 70%	India 69%
Israel 63%	Czech Rep 60%	Morocco 55%
Greece 52%	USA 49%	Germany 46%

Source: IEA

averaging 2.2 metres thick. An additional 111 million non-reportable tonnes of in-place coal are inferred to exist west of the old mine workings. According to the Nigerian Geological Survey Agency, within the areas of these three districts where sufficient drilling exists to make reasonable estimates of in-place coal resources, a total of 396 million metric tonnes can be demonstrated using JORC classification criteria. An additional 1,091 million tonnes of inferred and hypothetical coal resources have been delineated in these three districts. The entire currently defined coal resource for the studied areas is 1,487 million tonnes. The remaining districts are essentially still unexplored.

Coal as it once was in Nigeria

Coal was first discovered in Nigeria in 1909 around Udi in present Enugu State, thus making it one of the first mineral resources to be found in the country. The discovery necessitated the construction of a railway between Enugu and Port Harcourt in 1914. Coal mining became a major source of employment as migrant workers in search of employment opportunities migrated in droves to Enugu and its environ. The influx of workers opened business opportunities and Enugu grew to become a city of repute. The coal miners of Enugu are perhaps one of the building blocks of organised labour movement in the country. They formed the crux of labour movement and resistance to colonial imperialism. The event of the massacre of Nigerian coal miners in 1949 by the colonial police in Enugu for peacefully demanding an increase in their wages and other conditions of service lends credence to their role in labour movement of the colonial era.

In 1950, the Nigerian Coal Corporation (NCC) was established and entrusted with the responsibility for exploration, development and mining the nation's coal resources. Between 1950 and 1959, coal production rose annually from 583,487 tonnes to a peak of

Crude Oil	36.5billion barrels
Natural Gas	187.44TCF
Tar Sands	30 billion barrels of oil equivalent
Coal & Lignite	Over 4 billion tonnes
Large Hydropower	11,235 MW
Small Hydropower	3,500MW
Fuel wood	13,071,464 Hectares
Animal Waste	61 million tones/yr
Crop Residue	83 million tones/yr
Solar Radiation	3.5 – 7.0 KWh/m2 – day
Wind	2-4m/s at 10m height

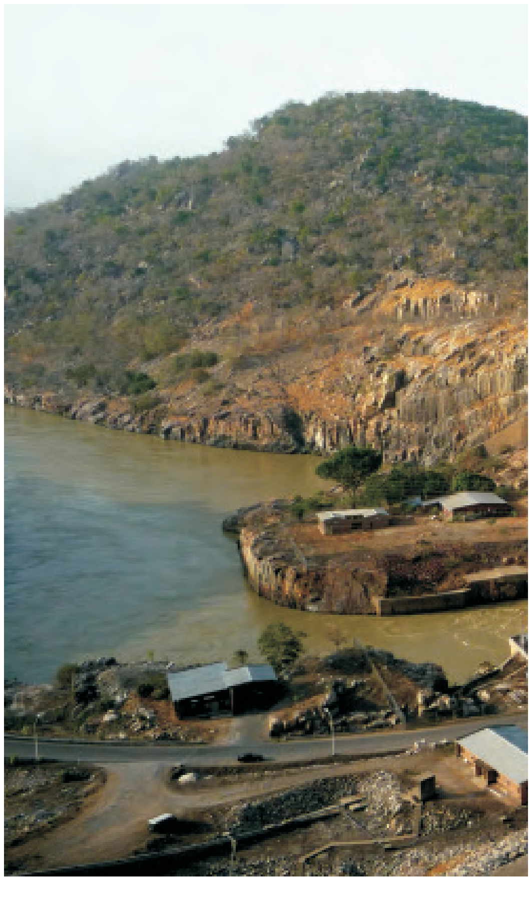
Source: Energy Commission of Nigeria

905,397 tonnes. However, after the 1959 peak, production consistently waned each year and by the 1980s, production was less than 100,000 tonnes annually and decreased further in the 1990s. The Nigerian Coal Corporation (NCC) which has now begun its winding down process in preparation for privatisation has not operated any coal mine for several years and as such, there is no reported coal production presently.

The collapse of the Nigerian coal industry is attributable to three major events. Firstly, the discovery of crude oil in Nigeria in commercial quantity led to a shift in attention from coal to crude oil as a source of energy and revenue. Railway en-gines were also converted from coal to diesel resulting in declined coal demand and production. Coal was perceived as 'dirty and difficult' to mine compared with crude oil that is 'clean and easy' to drill. Secondly, the unfortunate incident of the civil war between 1966 and 1970 contributed to the woes of the coal industry. There was no coal production within the period as all material and human resources where deployed to prosecute the war. Thirdly, the policy shift of government to indigenisation adversely affected the coal mining industry as it became the exclusive preserve of government to mine coal.

Challenges of Coal Mining in Nigeria

The coal industry has several challenges which deserve urgent attention in order optimise the use of coal for electricity generation. The National Technical Working Group (NTWG) on Energy Sector of the Vision 20:2020 identified some of these challenges and proffered measures government would undertake to address them. A major impediment to the development of coal and by extension its non-availability for electricity generation, is the uncertainty of the actual coal reserve in country. For any meaningful and sustainable long-term investment in coal mining, it is imperative to have a reliable estimate of the quantity of available coal on which basis investment decisions can be made. Also, there has to be ready domestic market for coal. Although coal is an export commodity, miners would prefer a domestic market and avoid the cumbersome process of export. Lack of an effective transportation system for the evacua-



http://v5.cache8.c.bigcache.googleapis.com/static.panoramio.com/photos/original/45897995.jpg?redirect_counter=1 tion of coal from mines is also a deterrent to potential investors.

To jumpstart investment in coal mining, the NTWG on Energy Sector of the Vision 20:2020 urged the government to provide an up-to-date geological data on the coal deposits in the country. This will lay to rest all perceived doubts about the nation's actual coal reserves. There is also the need to provide appropriate fiscal incentives for coal to power investors. To address the challenge of inadequate transport infrastructure, government is expected to develop dedicated rail lines to evacuate coals from mines for power generation.

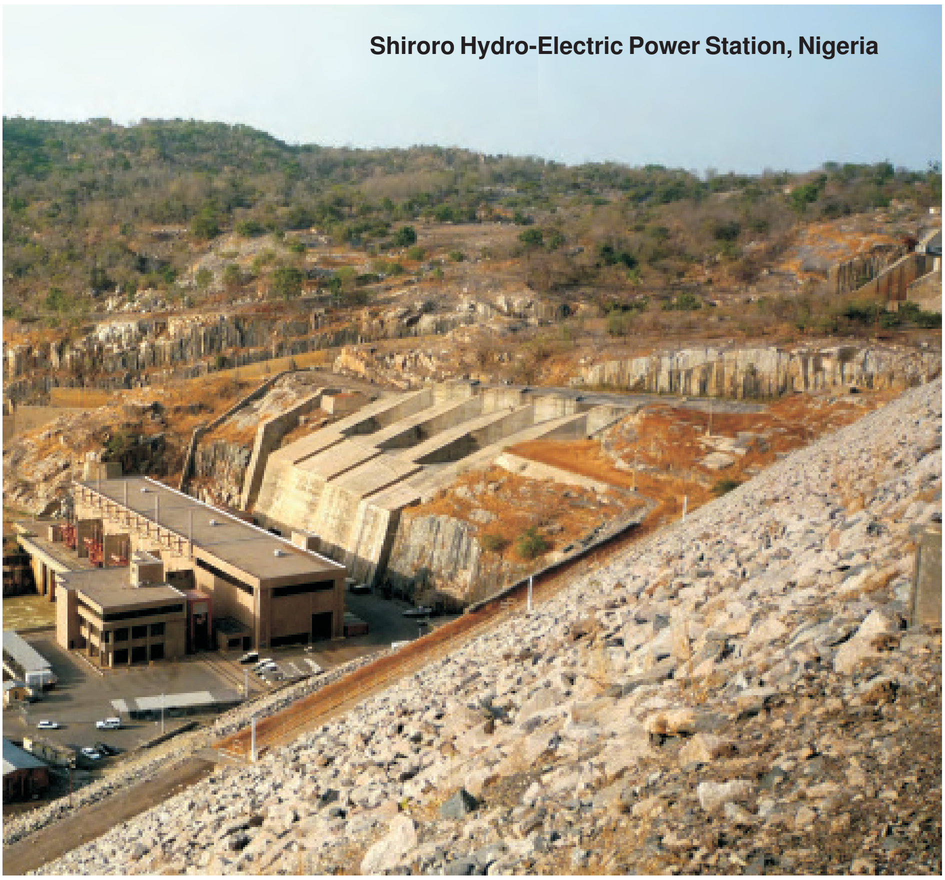
Several reforms have been initiated to encourage investment in the nation's energy sector. Government has also commenced implementation of the components of the power sector reform roadmap to attract more investment. For instance, the pioneer board of the Nigerian Bulk Electricity Trading Company Plc has been appointed. The NEBT, also known as the bulk purchaser, is an integral part of the power sector reform and its duty is to obliterate the single biggest risk in the growth of the power sector. Backed by a government guarantee, the NEBT is to negotiate appropriate power purchase agreements power generating companies and existing independent power producers (IPPs) but also with potential new entrants into the power generating market. It will also purchase power in bulk and then resell to the distribution companies.

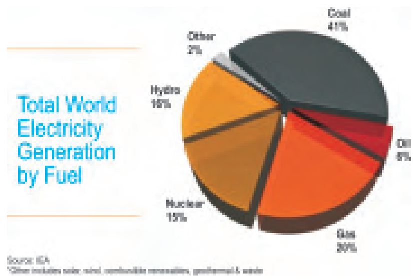
Coal and the Environment

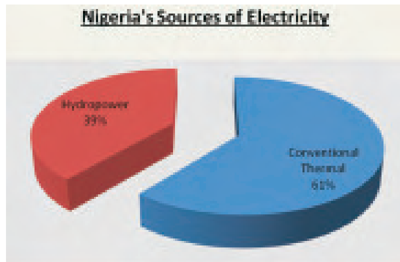
Like all other sources of energy, coal has a number of environmental impacts, from both coal mining and coal use. These impacts notwithstanding, coal still provides 29.6% of global primary energy needs and generates 42% of the world's electricity. It is the most abundant source of energy – more than crude oil and natural gas. It is also relatively inexpensive vis-à-vis other fossil fuels and alternative energy sources. Electricity produced from a coal-fired power station is more reliable than hydropower and gas-fired facilities as the later are susceptible to seasonal fluctuations and supply constraints. Coal-fired power plants are not vulnerable to inclement weather conditions. Coal can also be safely stored and easily retrievable to generate electricity in emergency situations. Transportation of coal from mines to power stations does not entail the construction and maintenance of high-pressure pipelines that require vigilance for its safety.

There are several arguments against the use of coal as a source of energy and these mainly dwell on health and environmental considerations. Coal is perceived to be the dirtiest fossil fuel as it produces more pollutants during the energy generation process than other fossil fuels. Burning of coal is believed to emit toxic wastes into the atmosphere and these increases the preponderance of harmful greenhouse gases in the atmosphere leading to global warming. Large-scale burning of coal (the level required to generate electricity) produces acid rain which is also harmful to the environment. It is argued that the process of coal mining defaces the landscape and coal mining equipments produce enormous noise which affects local wildlife. Transporting of coal is also believed to cause further pollution as emissions from transportation vehicles aggravate pollution concerns.

Despite the barrage of arguments by clean environment advocates against coal, it has been used for energy generation and heating for hundreds of years and it will still be in use for many foreseeable years. Efforts are however being made to burn coal in a more efficient manner that will not emit as many pollutants into the atmosphere.


Shiroro Hydro-Electric Power Station, Nigeria





Sources: RMI

The clean coal technology as it is known is a collection of technologies that reduces the environmental impact of coal energy generation. It implies that it is possible to make coal a fuel source that is free of (or very low in) carbon dioxide emissions and other pollutant emissions. According to the World Coal Association, continuous improvements in technology have dramatically reduced or eliminated many of the environmental impacts traditionally associated with the use of coal.

Energy for the future?

With proven coal reserves estimated to last 118 years against proven oil and gas reserves estimated to last around 46 and 59 years respectively at current production levels, coal is arguably the source of energy for the future. Also, with recoverable reserves of coal in around

http://www.isgs.illinois.edu/research/coal/fossil-forest/images/56_scott_elrick_at_wabash.JPG

70 countries in contrast with over 62% of oil and 64% of gas reserves concentrated in the Middle East and Russia respectively, coal resources are more diversified and secured. Despite its being in use for several decades now, growth in the demand for coal is still on the increase and outpaces the demand growth for oil and gas. According to the International Energy Agency, in 2010 coal demand was again the fastest growing of all fuels globally. The IEA says that in 2010, global coal consumption went up by 10.8%. In comparison to this, global demand for gas and oil rose by 7.4% and 3.1%.

The World Coal Association says most of the new coal demand comes from the developing world and is used for electricity generation. China now accounts for over half of the world's coal production and consumption. Coal consumption is also on the rise in the developed economies. In the European Union, coal consumption went up by 4.8% in 2010 and provides around 29% of EU's electricity. Globally, the demand for coal continues to grow as the world's energy needs rise and demand for steel and cement surge. In the past decade, when environmentalists intensified their campaign for the phasing out of coal, global coal demand rose by 61%. The reality therefore is that for a very long time to come, coal will still be the backbone of electricity generation in the world and a key resource for the steel, cement and aluminium industries. The recent Fukushima nuclear disaster in Japan will dissuade the use of nuclear energy for power generation and further encourage the use of coal for electricity generation.

Going Forward: Ray of Hope?

Inadequate power supply ranks amongst Nigeria's most pressing problems and is arguably the single most critical infrastructural need that features prominently in both political and economic discourse in the country presently. It is estimated that the country require a regular capital investment of N520 billion to increase electricity generating capacity from the current 4,200mw to 13,000mw by 2013. Although the roadmap for power sector reform and the National Technical Working Group on Energy Sector of the Vision 20:2020 placed high priority on the need to harness alternative energy sources to reduce the country's excessive reliance on gas-fired power plants and hydropower stations, there was no deliberate policy to stimulate the use of coal despite its abundance in the country. In contrast, efforts are skewed towards the continuous use of gas for power generation inspite of the associated encumbrances.

There is however a ray of hope for the utilisation of coal for power generation in the country as effort has been intensified to explore all feasible options to leapfrog power generation towards self sufficiency. In this regard, a memorandum of understanding (MOU) has been signed between the government of Enugu State and Essar Group (India's second largest power generation company in the private sector) for the construction of a 600mw coal-fired power plant. Essar's interest in Nigeria's power sector is among the biggest and the Indian conglomerate is likely to invest an estimated $2billion to generate up to 2,000mw of electricity in the country. Also, South Korea's Daewoo Engineering & Construction Co Ltd emerged as the preferred bidder for the $733.8 million order to build a coal-fired power plant in the country. These developments are indications that coal is beginning to feature again in the emerging energy mix, and there is no better time than now to embrace coal if the persisting power shortage which has crippled the industrial sector is to be surmounted.

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

There may be trouble ahead...

* By **Neil Hitchens**

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The halfway point of any year is always one where the intelligent investor should both study the mistakes of the first 6 months and anticipate the positives yet to come. 2011 has already proved to be a year dominated by volatility in many forms which has consequently thrown up both expected and unexpected surprises. As we had expected for the second quarter of the year just ended, market sentiment continues to be driven by existing problems, or "known known's", rather than anything too new and exciting being added to the equation.

The continuing geopolitical problems in the MENA (Middle East and North Africa) area have reduced slightly but there is still the ongoing search for solutions in Libya, Syria and the Gulf. In Europe we find ourselves, yet again, transfixed by the debt problems of the PIIGS (Portugal, Italy, Ireland, Greece and Spain) nations where a definitive resolution of the problems for Greece seem to hinge on the willingness, or not, of the German public to continually add further money to the bail-out fund. Despite, at the time of writing, further solutions being proposed and accepted and, yet again, the investor universe is being reassured that this time, definitively and for certain, everything will be sweetness and light and Greece will never *actually* default, the continuing cutting of the credit quality of Greek debt by the external ratings agencies tells a different story. Quite how a CCC rating (worse than Bolivia or even Libya), to which Greek paper was cut on June 13th, is meant to reassure existing investors is a moot point.

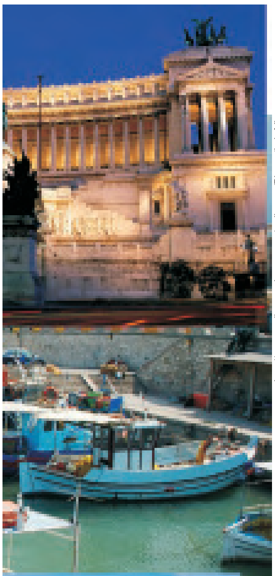
Even in the United States there is a battle looming between the Democratic President Obama and the Republican controlled House of Representatives about how best to raise the previously rigidly fixed debt ceiling before the US has the unenviable problem of defaulting on its debt repayments for only the second time in 40 years. Such a [temporarily] default would bring an automatic cut to the previously pristine AAA rating of US Government bonds which, with just over 18 months before the next Presidential Election, could prove problematic for both parties.

Commodities continue to frustrate, disappoint and provide encouragement almost simultaneously. The not entirely unexpected release of reserves by the IEA (International Energy Agency) in mid June stopped the recent oil rally in its tracks and achieved exactly what the IEA wanted, an almost immediate reduction of oil prices to below $100 a barrel, making clear their intention of stabilising the markets at this level for an extended period of time. Exactly what has now happened?

In precious metals silver imploded spectacularly midway through the quarter as the market, ramped up on the back of synthetic and undeliverable positions, was caught napping by the commodities exchanges when they raised their margin requirements with little notice to precipitate a short, sharp shock to investors, many of whom had been lulled into a false sense of security about the silver going only one way, up.

Global Equity Markets - Marking Time...

The US economy continues to worry global equity markets. Growth is there but the pace of this continues to lag market expectations and we will no doubt see forecasts for the 3rd quarter cut back as business inventories swell and consumer confidence declines. That said I would predict an economic expansion of around 2.5% for the whole of 2011 to be a safe number, even though this is lower than the 3%- 3.25% that many had hoped



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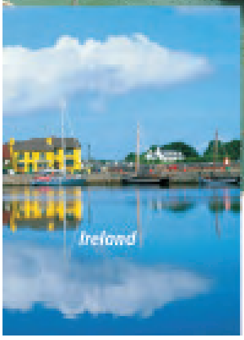

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for earlier in the year.

The US, though, is in little danger of slipping back into recession unlike the economies of Southern Europe or, indeed, the UK who remain at best fragile, or at worst unable to pull them out of a growth slump. However this also raises the question about possible Federal Reserve policy. Certainly there is little scope to raise rates from their current low levels of 0.25% which leaves the Fed wondering if a third round of quantitative easing is the only possible stimulus measure remaining. We are entering the 3rd quarter with slowing profit growth in certain sectors, an element of inventory overhang and a struggling labour market where the unemployment rate for 2011 will be essentially flat.

This pessimism must be tempered against the realities of the situation. The gigantic supply-chain disruptions from the Japanese earthquake are starting to ease as production is either restarted in Japan or has been moved elsewhere. Business and consumer confidence has been dented over nervousness about the outcome of negotiation on the US debt ceiling and the debt crisis in Europe. If US policy makers can quieten those fears the US economy will benefit. It is, after all, not in any politicians' interests to be the one that torpedoed the US economy. While certain sectors are always the last to recover the corporate earnings season is most likely to throw up, as it usually does, considerably more upside than downside surprises.

The picture in Europe, though, remains one of 'more of the same' with the problems of Greece threatening to overspill on an almost hour by hour basis into the other weaker economies of Ireland, Portugal and Spain. Right at the end of June the confidence that only these four economies were in trouble was shattered with the realisation that Italy, with a debt to GDP ratio of 118.1% (according to Eurostat) was running a parallel course to Greece whose ratio stands at 142.8%. Compared to these two countries the debt ratios of Ireland, 64.8%, Portugal, 83.2% and Spain 43.1% compare very favourably to the UK, 53.5%, France 83.5% or Germany 78.8%. However it is always a question of the ability of these countries to service their debts and ultimately reduce these ratios. Certainly the UK, France and Germany have experienced problems along with the rest of the developed world but it is their inherent ability to pay that differentiates them. Italy's' problems though are hardly new. The country needs to grow GDP by 2 - 3% a year in the long run to be able to remain in the Eurozone, or it needs lower rates. The markets understand that Italian politics make the first difficult and German politics make the second tough.

Greece has, realistically, reached the end of the road. Plan A would have been Austerity. Plan 'B' acknowledges the need for debt relief through some combination of a fiscal transfer and a contribution by bond holders. Plan C would widen the EFSF (European Financial Stability Facility) to include Spain and Italy.

None of these plans will work - there is only a plan 'D'.

D for default.

D for devaluation.

D for disaster.

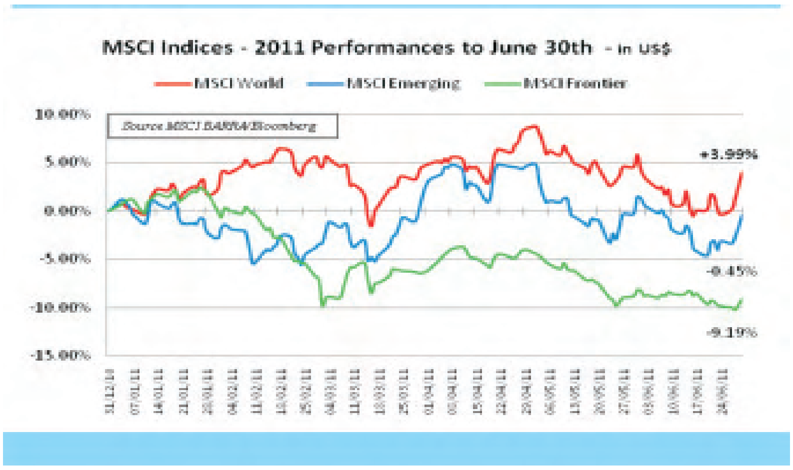
It is more than likely that the charade about Greece will continue for a few more months yet. Greece will not, of course, default. Nor will bondholders actually have to accept on a 'compulsory voluntary' basis both an extension of their bond maturities and a cut in the coupon. In the weird speak of Eurozone finance ministers none of this will ever actually happen. Bond holders will "see the logic" of being able to move further down the yield curve and coupon repayments will be reduced with the 'possibility' of the clipped portion being repaid 'at some time in the future, if markets can accept this additional burden'.

The main problem is that Greece, having effectively cheated to get into the Euro cannot get out without the Euro itself collapsing or for a large proportion of its existing members being ejected simultaneously leaving a Northern European rump with France and Germany as the major components.

The seismic shift in the yield curve, especially at the shorter end where 1 year rates have doubled in 3 months from 15% to over 30% and 6 month rates have gone from 6% to 12.1% tells the real tale of how markets perceive the chances of Greece being able to rescue itself.

Precisely and exactly ZERO

This is confirmed by the continual chipping away of Greece's Sovereign Debt Rating - the health scorecard used by investors to gauge the riskiness of investing in



a particular country.

Where Greece was once a reasonably healthy A- rated country in 1997, the 7th highest possible rating, it has steadily been downgraded to an ignominious CCC rating, 5 levels from being worthless. In fact Greece has the dubious distinction of having the world's worst Sovereign Debt Rating. No other country comes close. Peru for instance, a country with its own major problems is rated BBB+ - the same as South Africa. I have searched the entire global sovereign debt markets and the closest I could come were either Libya or Iran, both of whom, before their ratings were suspended (for various non-financial reasons) were a slightly weak B+, four grades ***higher*** than Greece.

If we turn our attention away from what some commentators have described as 'the lunatic fringe' of Europe the picture for the more Northern part of Europe is looking increasingly healthy. Germany is in the midst of an export led recovery which has positively impacted its near neighbours. After a slump in annualised GDP at the end of 2008 Germany is recovering fast. The latest reading for the 1st quarter of 2011 shows an increase to +4.9% year on year from an already strong +3.8% at the end of 2010.

The main German stock index, the DAX, a total return index of 30 selected German Blue Chip stocks, ended June at +6.68% in local terms and +15.68% when measured in US Dollars due to the continuing strength of the Euro. For the seasoned investor who is not wedded entirely to the concept of index tracking the returns could have been even higher is you had sensibly ignored German banking stocks, especially Commerzbank, which has fallen -33.29% so far in 2011. Such a poor perfor;mance is in sharp contrast to the best performing German stocks this year; Merck, the global chemical and pharmaceutical company, has risen +25.21%, Fresenius, the global healthcare company has risen +19.25% and Volkswagen, the car company, is up +17.26%.

We would not advocate opening new equity positions in Europe - continuing to advise investors to keep existing positions in the German and French markets for their underlying economic strengths and the Swiss market more for the defensive properties of the Swiss Franc.

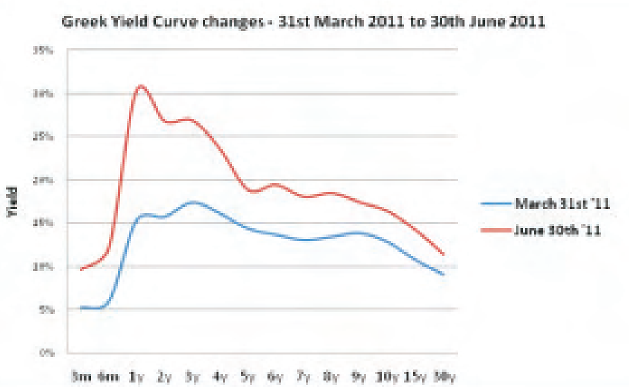
However we reiterate our **'totally avoid'** position on the Greek market, now revisiting 14 year lows, along with the similarly fated markets in Ireland and Portugal - they will remain an avoid until and unless the Greek debt problem is properly and completely resolved. Until then it is likely that the continuing economic news will be such as to just chip away at investor confidence more and more.

It is possible that the Athens Index, which stood at 1,279.06 on June 30th, will continue its recent zigzag moves downwards. Having already lost -10% this year it is possible this could be repeated in the second half of 2011 to leave us back where we were in January 1997, at a level of about 1,050, a drop of -83.5% from its all time high on 17th September 1999. It is worth remembering the sobering parallels to be found between the Greek and Japanese Stock markets. The Nikkei 225 closed at an all time high of 38,915.87 on 29th December 1989. On June 30th 2011 it was still only at 9,816.09 a mere -74.78% off its peak having hit a low of 7,054.98 on 10th March 2009, -81.87% off its peak.

It has taken Japan 22 years to go nowhere - it is entirely possible the Greek equity market could be similarly doomed. Even at a currently impossible sounding 10% per annum growth rate Greece could never hope to recover its old highs for about 20 years. Reduce this to a more reasonable 5% index growth and it could take 40 years!

Commodities - clouds do not just have Silver linings, sometimes they have Gold

Gold and silver have had a volatile first 6 months of 2011. Since the trough in just about all commodity prices at the end of 2008, as the global economy was at its weakest, there has been a steady and almost uninterrupted price rise across the board. This move came to a resounding halt at the beginning of May with some very sharp and exaggerated falls in the Spot Silver market which at best was then mirrored in a measured loss of momentum in others.



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Why did Silver collapse so sharply and so quickly?

Silver has been subject to many historic price bubbles and has always been viewed as a more speculative by-product of gold. As overall demand for precious metals increased there was the inevitable short-squeeze on a market that is notoriously prone to becoming both detached from its fundamentals and has an occasional shortage when physical delivery is required.

From the end of 2005 until the beginning of October 2010, silver rose almost exactly in line with gold - Gold, +158.13% and Silver, +157.10%. Over the next 7 months, until April 29th 2011, silver outperformed gold by almost 7:1 (Silver rising +119.71%, Gold was only +17.76%) rising from $22 to peak on April 29th at $48.48, only to then collapse in under two weeks to $34.32, a fall of -29.2%.

This was almost a repeat run of the now infamous cornering of the Silver market by the Bunker Hunt brothers, who decided in 1970 that Silver was an ideal store of wealth for inflationary times - very similar to the sentiments of many investors in 2011. They also feared a highly volatile Middle East which, when combined with the death throes of the Vietnam War and a total lack of confidence in the US Government, who could have defaulted on debt payments - again eerily similar to the situation we now find ourselves in - led them to believe the US was ruined.

As at the time speculative hoarding of Gold was banned by the US Government they picked what they thought was a good proxy in Silver. From initial small purchases at $1.50 an ounce in 1970 their buying pushed the price to $3. Further purchases pushed the price higher to $6 by 1974 and by 1979 it was $9. So much silver had been bought by them there was then a genuine global shortage pushing the price at the end of 1979 to $34.45 and it finally topped out at $50 on January 17th 1980. The Hunts should have, as we have said in the past - 'Taken the money and run!' but they didn't and thanks to both an abrupt rising of US interest rates to curb inflation and effective closure of the silver markets as a result of the self-induced shortage the price collapsed to $21 by March 21st 1980. They were bankrupted.

This illustrates perfectly that when long term price trends diverge a market correction is just waiting to happen. When the Chicago Commodities Exchange raised margin rates for speculative positions 4 times in short succession in May 2011, the excess long overhang had only one way to go - Down! Strangely though, now the metal has calmed down to stay at around $38 an ounce, some 12% above the recent lows, fundamentally nothing has changed too much - the Fed remains dovish, US interest rates are staying low and oil prices after a Libyan panic induced rally and retreat are unlikely to fall much from current levels. Silver remains certainly 'one to watch' and will be pulled along in tandem with what expect to be a continuing rise in Gold prices. Certainly the next resistance point of $40 an ounce for Silver will prove easy to break up to. It is actually highly likely, were global inflationary pressures to mount, combined with a worsening outlook for US and European bonds, that we could finally see $50 and above.

Gold though, just keeps moving re-

lentlessly higher. It ended June at $1,504.32 an ounce, very close to its current 3 month average of $1,507.10, but was down -2.08% for June as global geo-political risk overall is perceived to have subsided - temporarily at least.

The story remains a positive one for investors and 2011 overall has net/net continued to be one of lowering volatility with continued underlying upward pressure on prices as investors continue to embrace gold as a way of protecting themselves from currency weakness, the wilder excesses of the government currency printing presses and lingering inflation. While July tends to be notable for some seasonal gold weakness where prices could well remain around the low $1,500's / High $1,400's, consensus is growing that such weakness is likely to be both temporary and the precursor to an assault on new all times highs of $1,600 and above.

Gold remains a **BUY** on weakness, especially around $1,500 - $1,525. It is highly likely that at the latter end of the summer regional problems could reignite with a vengeance, especially if there is a worsening of the situation in Libya and Syria.

For those with a longer time horizon than the day traders it is looking more and more possible for Gold to rally to $1,750 an ounce with the temptation to predict a breach of the $2,000 an ounce barrier gaining almost daily.

Gold is still battling its inner demons as a result of the continuing weakening of the US Dollar which is adding to the numerical rise in the spot Gold Price.

The US Dollar

Despite being the world's reserve currency of choice has weakened against **all** of its major free-floating trading counterparties, in some cases dramatically.

The British Pound, despite the somewhat problematic underlying economic story, was the weakest of the major currencies against the Dollar over the past year strengthening 'only' +7.38% against the US Dollar. The Yen, after the literally seismic shock of its earthquake, has still managed a +9.96% appreciation against the Greenback.

The problems really emerge when you look to the Euro, +18.41% and the Swiss Franc, +28.01%. Yet again no sane investor should ever write off the fundamental allure of the Swiss Franc (CHF); it is the ultimate safe haven currency, it is also most definitely NOT linked to the Euro and has over the past year performed even better than Gold - the Swiss Franc price of gold has actually fallen from CHF 1,338 to CHF 1,266, a decline of -5.4%.

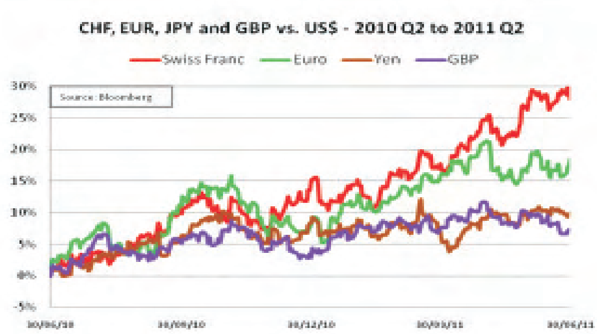
As such the 1 year rise of gold in US Dollars of +21.15% looks somewhat less exciting in Euros, +2.34% or Yen, +10.19%, South African Rand, +7.00% or Sterling +12.83%.

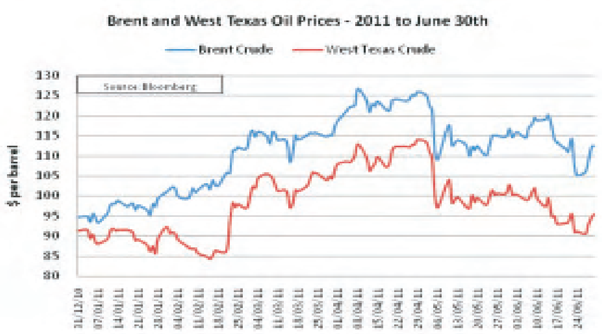
Continuing Dollar weakness is probable and unless or until the Fed authorises a further round of quantitative easing the Dollar must be seen as a **Sell.** Even at such historically weak levels against the Swiss Franc it is highly likely that from and end of June level of 0.8419 CHF to the US$ that we will soon see a breach of the psychologically intriguing level of 0.8000 with the markets more than able to try to breach to 0.7500 level. Was it really only 10 years ago that we had a CHF/US$ rate of 1.8208 - the Dollar from that peak has declined by over 50%.

http://upload.wikimedia.org/wikipedia/commons/f/fa/Oil_platform_in_the_North_Sea.jpg

Oil - was OPEC asleep at the wheel?

After the general commodities market correction in May, triggered by the extreme volatility and price moves in Silver which in turn triggered margin calls which had to be met by selling





positions in other commodities, oil initially adopted a 'holding pattern' with WTI (West Texas Intermediate) hovering around the $100 a barrel mark for most of May and the beginning of June, very much as expected going into the European Summer.

However on June 16th the IEA (International Energy Agency), an autonomous organisation that helps countries co-ordinate a collective response to oil supply disruptions, expressed concerns about the continuing strength of energy prices. What was missed, especially by OPEC, was their understated concerns that energy markets were facing one of their most uncertain periods in decades and higher oil prices were a factor in the sluggish state of the global economy.

As the IEA has only reacted twice before to release strategic reserves, perhaps OPEC thought this statement was merely a rather unsubtle hint for OPEC to raise its own production levels to compensate for the loss of Libyan oil production. The total shock to markets on June 23rd when it was announced that an extra 60 million barrels were to be released from the IEA's strategic reserve saw an immediate 6% fall in the price of oil as the balance of supply and demand changed from an expected flood of heavy, sour oil from Saudi Arabia to a release of light, sweet oil from the emergency reserves. OPEC was indeed caught napping on this one but is more than capable of turning off the pumps to push up prices again. But to end June with WTI at $95.96 and Brent at $112.41 is not a total disaster for the Oil Bulls.

Certainly in the near term the price will most likely creep up by a few Dollars a barrel. However, now the interventionist dust has settled, what are the likely prospects for oil for the next quarter and for the remainder of 2011?

It has to be acknowledged that the US economy has hit a temporary soft patch and demand from the average US consumer is declining especially when you add into the mix the fact that gasoline is now breaching the US$4 a gallon level - something which in Europe would definitely not be a problem. This matches the old highs seen in 2008- just as the US economy was entering a tailspin. Further elements to be factored in are high unemployment levels (by recent standards), anaemic wage growth and sluggish overall consumption of transport fuels.

But demand elsewhere, particularly in China, India and Saudi Arabia, continues to grow strongly, supporting prices. But the contraction in US consumption is so big that it signals that oil prices have little short term upside unless a geo-political event triggers a supply disruption.

Even some of the oil price bulls now talk openly about the US weakness as the US Department of Energy has recently lowered its estimate for the country's oil consumption to 18.36million barrels a day, down 460,000 barrels per day, or 2.5 per cent, from a year ago. That is the second month in a row than demand drops year-on-year, something that has caught the attention of the market. The US had not endured two consecutive months of year-on-year crude oil demand decline since October-November 2009. To make matters worse preliminary consumption figures so far for June points to further drops, which if confirmed, would lead oil analysts to mark down their forecast for US oil consumption for the year. As the world's largest oil consumer, the gloomy demand picture will cloud the oil market.

To make matters worse, US gasoline demand, which averaged nearly 8.8m barrels per day in May, was down almost 5 per cent year-on-year, setting the lowest level for the month in a decade. The drop speaks loudly about the psychological – and real – impact of $4 per gallon gasoline prices. Although gasoline prices have fallen over the last few weeks in most of the US, demand had yet to recover.

In the middle of the much discussed US summer driving season, when gasoline consumption spikes, demand has been quite lacklustre. The four-week average consumptions stands at 9.01million barrels per day, down from 9.4million barrels per day last year, according to the latest data from the US DoE. Worse, last week consumption dropped to 8.99million barrels per day, an unusually low level for the driving season and a full 600,000 barrels per day below last year's level.

The drops in overall oil demand and in gasoline consumption are beginning to look awfully similar to those witnessed in early 2008. For a while then market decided to ignore them, but when attention focused and the financial crisis struck, prices plunged. This time, however, demand growth elsewhere looks fairly robust, so prices could still hold well.

However, is there any hope on the horizon?

Yes there is. The US will, eventually, sort out their debt refinancing programme - given most politicians deep-set desire not to be the one that voted themself into oblivion, sanity will prevail.

How long this will take, though is another matter.

While this problem rumbles on markets will fluctuate wildly on a minute by minute basis until this situation is resolved.

For those that can keep their powder dry and have cash to move into the market when it looks at its worst, profits can and will be made.

As Winston Churchill once famously said:

The Americans will always do the right thing... after they've exhausted all the alternatives.

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Deposit Insurance Systems: How Effective Are They In Protecting Depositors

* By **Mukhtar Adam**

Policy makers and financial regulators use Deposit Insurance Schemes (DIS) as a means of protecting bank depositors. As a financial system safety net, DIS aims at maintaining confidence in and ensuring stability of the financial sector by providing protection to small and unsophisticated depositors in the event of a bank failure. The basic working idea of DIS is that, banks take insurance cover on the customer deposits they hold and therefore pass on the default risk to the insurer (in this case, the deposit insurance agency or corporation). This means, in the event of a bank failure, depositors, will turn to the insurer to recover their deposits. Prior to the introduction of explicit and formal DIS, several countries, have operated one form of implicit deposit protection system or the other, whereby governments, through regulation and supervision of banks, provide some sort of guarantee to depositors. But because some of these earlier practices were implicit, governments had been inconsistent and used discretion in paying depositors whenever there is a bank failure. In what follows, we give a brief account of the development of DIS and discuss the key factors that affect their design and implementation. We also discuss the extent to which countries have used DIS as an effective mechanism of protecting depositors noting the major short falls associated with such schemes.

Development of Deposit Insurance Systems

The history of establishing a formal explicit deposit insurance system is traced to the US when it established a deposit insurance scheme in 1934 which was followed by a long lag until the 1960s when other countries followed suit. The trend however, accelerated especially among emerging economies from the 1980s, as a result of major banking failures, such as the 1995 Mexican banking crises and the 1997 Asian financial crises that characterized that period. For instance, in 1980s and 1990s, up to about 19 and 31 countries, respectively, established deposit insurance schemes to protect commercial bank depositors. As a result of increasing interest in using deposit insurance systems as financial system safety nets among countries, the Financial Stability Forum (now Financial Stability Board – FSB), in 2001, established a working group to articulate and recommend best practices in the establishment and effective management of deposit insurance schemes. This was followed by the establishment of the International Association of Deposit Insurance (IADI), in 2002, that focused on expanding contacts among deposit insurance agencies, promoting and sharing information, and expanding inter-agency collaboration among others. After some years of existence, the IADI in 2008 published the 'Core Principles of Effective Deposit Insurance Systems', which is currently used by its members to improve the structure and implementation of their DIS.

With these developments deposit insurance has gained global recognition as part of the general financial sector management, which partly explains why most countries in the world have one form of deposit insurance system or the other. In the US for example, aside from the Federal Deposit Insurance Corporation (FDIC), there are several privately and publicly managed deposit insurance schemes. Canada has ten additional DISs aside the Canada Deposit Insurance Corporation (CDIC) and Quebec Deposit Insurance Board (QDIB). Eight deposit insurance schemes exist in Germany while Australia has five and Columbia two. In Japan, the Deposit Insurance Corporation of Japan is responsible for insuring deposit-taking institutions only while the Agricultural and Fishery Co-operative Savings Insurance Corporation (AFCSIC) provides deposit insurance to the agricultural and fishery co-operatives. The Spanish system comprises three deposit guarantee funds, each separately insuring commercial, savings and cooperative credit banks. In Nigeria, the sole deposit insurance agency, the Nigeria Deposit Insurance Corporation (NDIC) was established in 1988 as an independent agency of the Federal Government, through the promulgation of Decree No. 22 of 15 June 1988. The establishment of NDIC was part of the economic reform measures taken by the then government, to strengthen the safety net for the banking sector following its liberalization policy and the introduction of the 1986 Structural Adjustment Programme (SAP) in Nigeria.

Key Objectives of Deposit Insurance Schemes

Two key objectives usually inform the establishment of deposit insurance schemes in almost all countries that have such scheme. The first objective is to protect small and unsophisticated depositors and the second is to contribute to ensuring financial system stability.

Protecting Small and Unsophisticated Depositors

Small and unsophisticated depositors are mostly the first victims of most bank failures. These depositors usually comprise of households and small en-

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terprises that keep most of their liquid asset in the form of bank savings. Therefore, any bank failure that affect this group of depositors has wider socio-economic effects, which makes government very interested in protecting such depositors. It is also true that bank failures result in losses to large or institutional depositors, but this group, is usually expected to have the knowledge, expertise and relevance to closely monitor the activities of bank managers and discipline them when the need arises by withdrawing their funds from the bank. If this group of depositors perform their monitoring function effectively, their behaviour (withdrawing funds from a bank) will have significant signalling effect, such that, small and unsophisticated depositors will follow their actions believing that their actions are always well informed. Therefore, most DISs are primarily designed to protect small and unsophisticated depositors.

Contributing to Ensuring Financial System Stability

Generally, failures are associated with loss of depositors' confidence in the banking and financial system, which can negatively affect economic activities to a large extent. Therefore, the failure of one bank could result in depositors withdrawing their funds from even healthier banks due to loss of confidence in the banking system. To reduce such incidence, countries establish DISs to provide depositors with a safety net, or the assurance that they will receive prompt repayment of their deposits should a bank fail. The presence of a DIS can also give comfort to depositors who are considering withdrawing their deposits when a bank's financial condition deteriorates, thereby reducing instances where mild liquidity challenges of a bank is worsened by depositors' panic. In the event of a bank failure, prompt refund of depositors' fund can facilitate the quick resumption of deposit-taking activity across the banking system, because depositors would normally be paid through existing banks, which create incentive for such depositors to continue saving with those banks. Even if depositors are paid by some means other than through regular deposit taking banks, they are encouraged to re-deposit their funds with other sound banks. Therefore, deposit insurance schemes, aside from helping to bolster confidence and preventing depositor panics, also assist in ensuring the continuation of normal deposit-taking activities when a bank fails, which keeps economic activities on-going despite the failure of bank(s).

Aside from these two major objectives, deposit insurance scheme can help safeguard the payments system, particularly in the presence of a generalized run on several banks, where the effective functioning of a blanket deposit insurance system can preserve a core source of bank liquidity and enable the continued functioning of the payments system. Additionally, deposit insurance can provide banks themselves with the assurance that a core part of their funding base will be protected in the event of a general banking crises. Furthermore, the presence of DIS encourages

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Deutse Bank, Germany

greater levels of financial intermediation by promoting savings and increasing financial depth.

Elements of an Effective DIS

There are several factors that influence the design of DIS and some of these factors are products of country's experience in banking crises, level of development of the financial system as well as the structure of the country's financial system. Despite these expected differences, countries pay attention to certain key aspects of DIS, which are discussed below.

Authority and Mandate of Deposit Insurance Agencies

Mandates of deposit insurance agencies are usually backed by acts, statutes or other legal instruments. Such mandates, however, differ depending on the specific approach a country adopts. One approach is to restrict the mandate of deposit insurance agencies to meeting depositors claim once a bank has been closed. With this approach, deposit insurance agencies have no regulatory or supervisory powers over banks, and they do not play any role in banking supervision and resolution of banking crises. This approach is otherwise known as 'pay box' because the mandate of the agency is restricted to paying cash to depositors without playing any role in preventing bank failure. A typical example of this approach is the Brazilian deposit insurance system.

The second approach to defining mandates of deposit insurance agencies gives the agencies extensive regulatory and supervisory powers over banks as well as control over the process of resolving banking crises. The level of this supervisory control, however, differs across countries. In the US for example, the FDIC serves as the primary banking supervisor for all the banks it insures and a secondary supervisor for other banks. The FDIC of US also controls the process of bank resolution once a bank has failed. NDIC of Nigeria, also has similar powers to that of the US FDIC in that, it co-regulates all deposit money taking banks in Nigeria with the Central Bank of Nigeria. In the Germany system also, the country's banking federation administers the deposit insurance scheme with audit and other supervisory powers. In the Belgium and Sweden systems, deposit insurance agencies collaborate actively with the main supervisory authorities to prevent bank failures.

However, the deposit insurance schemes in France and Switzerland are administered by the member banks' professional associations while Luxembourg's deposit scheme is administered by a non-profit organisation, with a board elected by participating credit institutions. Deposit insurers that use this approach are otherwise known as 'risk-minimiser' agencies, in that, by being at the forefront of supervising the banks whose deposit they insure, such agencies are able to prevent bank failures or minimize losses when banks fail. In some jurisdictions, deposit insurance agencies are given additional power to determine the banks that must participate in the deposit insurance scheme and the banks that can choose to participate or not.

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Determining the Participants

It is very essential that every DIS clearly defines membership criteria because, it affects the class of depositors that are eligible to claim deposit insurance in the event of a bank failure. As the products and services offering of financial institutions evolve, bank and non-bank financial institutions tend to converge. Policy makers are, therefore, required to make a critical decision on whether to make participation in deposit insurance mandatory to all deposit taking institutions or make it voluntary. One major challenge of adopting a voluntary participation is that, it leads to adverse selection, whereby only weak banks would opt to join a voluntary scheme, to obtain added protection for their depositors while continuing to adopt risky lending practices. On the flip side, strong banks would choose not to participate, because they are well managed and are unlikely to require any added protection for their depositors. This makes a deposit insurance scheme less effective, because majority of participating banks would be small and therefore pay small amount of premium, but have higher probability of failure, which makes it difficult for the agency to have enough resources to settle depositors' claims. To address this challenge, therefore, most countries opt for mandatory participation by all deposit taking institutions.

Some factors that trigger the consideration of voluntary participation are the extent of involvement of banks that are subsidiaries of foreign banks, and non-bank financial institutions. For banks that are subsidiaries of foreign banks, must they participate in a deposit insurance scheme even if their parents provide full guarantee for their liabilities? Some countries make it mandatory for all banks to participate in deposit insurance scheme so as to provide a level playing field to all banks and clarity to all depositors.

Regarding the inclusion of non-bank financial institutions in deposit insurance schemes, while a number of countries restrict mandatory participation to commercial banks, other countries include all types of deposit taking institutions. It has been argued that, unlike banks, non-bank financial institutions do not pose serious risk to financial system stability and can therefore, be exempted from deposit insurance scheme. In Nigeria, for example, before 2008, Microfinance Banks and Primary Mortgage Institutions were not participating in the deposit insurance scheme. With the influx of universal banking, the line between pure commercial banking and other non-banking financial services has become thinner, hence, adopting the voluntary participation approach will leave a lot of deposits uninsured. Furthermore, expanding the membership to include non-bank financial institutions tend to widen the safety net and, if well-designed and managed, can pro-

In the US for example, the FDIC serves as the primary banking supervisor for all the banks it insures and a secondary supervisor for other banks.

mote the objective of financial system stability as well as protecting almost all categories of depositors.

Determining the Coverage

Individual or Institutional Depositors

Another key factor that determines the design of a DIS is the type of deposit that is covered by the scheme. Bearing in mind the primary objective of a deposit insurance scheme (protection of small and unsophisticated depositors), it is argued that, DISs should not cover large institutional depositors, rather, they should be restricted to individual depositors. By their size and nature, large institutional depositors are able to obtain enough information to monitor the financial and operational performance of banks and if need be, exert market pressure on such banks to maintain sound practices. Providing deposit insurance to such large institutional investors will therefore, reduce their incentive to closely monitor the activities of financial institutions, which is considered complementary to the work of regulators and supervisors. This partly explains why a number of modern deposit insurance systems provide cover only to individual depositors who have very little access to information on their banks and suffer the most profound consequences of bank failure. In this type of arrangements, DISs are designed to cover relatively low pre specified amount of deposits. In some cases, long term deposits are excluded, for example, the deposit insurance system in Canada, does not provide cover for deposits that existed in a bank for more than five years.

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Full or Part Cover

Another dimension to deposit insurance coverage is whether, the insurance should cover the whole amount or only part of the deposit. While some countries have designed their system to cover the entire deposit, others apply the 'co-insurance' system, whereby the agency provides cover up to certain amount and the depositor bears the remaining risk. For example, in Nigerian Deposit Insurance Corporation (NDIC) Act 2006 guarantees payment of deposits up to the maximum insured sum (N200, 000 to a depositor in universal banks and N100, 000 to a depositor in Microfinance Bank and Primary Mortgage Institutions) in the event of the failure of a participating financial institution. It is argued that the co-insurance approach encourages even the small and unsophisticated depositors to impose discipline and exert some level of market pressure on their banks. The challenge with the co-insurance approach is that, it is not realistic as small and unsophisticated depositors do not have any practical means of exerting market pressure on bank managers. Also, using the co-insurance approach tends to create confusion as to the exact amount depositors can claim in the event of a bank failure. For these and other reasons, most low-income countries do not use the co-insurance approach.

Per Deposit or Per Depositor

A third but interesting dimension to deposit insurance coverage is whether the insurance should cover each deposit or each depositor. Covering each deposit implies paying a specific amount on each deposit irrespective of the depositor whiles covering the depositor implies paying each depositor a certain amount irrespective of the number of different types of deposits held. To adopt the 'per-depositor' approach, the

With the influx of universal banking, the line between pure commercial banking and other non-banking financial services has become thinner, hence, adopting the voluntary participation approach will leave a lot of deposits uninsured.

agency must have a system in place to aggregate and monitor bank deposits by customers rather than by accounts, which could be costly in terms of systems and infrastructural requirements. Adopting the 'per-deposit' approach on the other hand, results in higher out flows to the agency in that, a depositor is paid certain amount for each account held, which makes the aggregate payout higher than, if each depositor is paid a given amount based on the aggregate deposit. The trend in practice is that, most deposit insurance agencies are fast moving from the 'per-deposit' to the 'per-depositor approach because the latter is less expensive to the agency and more sustainable.

Cover for Foreign Currency Deposits

Providing coverage on foreign currency deposit is another important factor considered in designing a deposit insurance system. If cover is given to foreign currency deposit, then the agency has taken up additional risk known as, foreign currency risk. The agency must therefore put in place the necessary strategies to hedge against this risk such that it would have the required foreign currency to settle such claims. One way that most deposit insurance agencies have worked around this challenge is to impose an upper limit on coverage for foreign currency deposits and also insist that actual payment would be made in local currency.

Periodic Adjustment of Coverage Amount

In designing deposit insurance systems, it is normal for countries that have history of high inflation, to put in place mechanisms that allow periodic adjustments in the amount of coverage to take inflation into account. This is very important as it helps preserve the real value of the insured deposit, but could in some cases, result in uncertainty on the amount.

Financing DISs

Implementing an effective deposit insurance scheme require adequate funding, which raises a basic issue of the source of funding. The normal practice is that DISs are funded by participating banks by paying deposit insurance premium periodically and regularly. In rare cases, such as the case of Chile, the government provides funding for the DIS.

Deposit insurance funding by participating banks can either be ex-ante or ex-post. The ex-ante approach is where participating banks are required to make regular payment of premium which is used by the deposit insurance agency to build up an ex-ante fund that is used to settle depositors' claim in the event of a bank failure. Belgium, Canada, Germany, Japan, Nigeria, Sweden, and the US, are example of countries that use the ex-ante approach. The key strength of this funding approach is that, it gives depositors a greater sense of certainty that the funding for deposit insurance exists. It is however, argued that, such approach creates a situation where the deposit insurance agency builds up huge ex-ante fund which could have been better managed if left in the hands of the participating banks.

With the ex-post approach, banks are called upon to provide funding only when a bank fails. Countries such as France, Italy, Luxembourg, Netherlands and Switzerland have typically used this approach. The major strength of the ex-post deposit insurance funding approach is that, it provides a strong incentive for peer monitoring among banks to reduce and if possible prevent bank failures, since the financial burden of bank failure rest on the surviving banks. It could however, result in delays in settling depositors claims possibly due to delays in receiving funds from surviving banks. Surviving banks are also bound to experience unexpected shocks in profitability whenever they are called upon to make unplanned contribution to settle depositors of a failed bank.

A hybrid approach has emerged from the two main approaches to deposit insurance funding. This hybrid approach combines the elements of both ex-ante and ex-post systems by requiring an ex-ante start-up fund and an ex-post top-up arrangement by the remaining sound banks, should a bank fail.

It is important to point out that,

Santander Bank, Santiago De Chile

government commitment to any deposit insurance scheme is very crucial, in that, when a large bank fails, the contributions provided by member banks may be inadequate to cover the insured deposits. In such situations, the supervisors, instead of closing the failed bank, give the existing management an opportunity to establish a restructuring programme to return the bank to financial soundness and strengthen the bank's operational performance, technically known as forbearance. But where this forbearance fails, due to the inability of bank's management to restore the bank's financial condition, the costs of intervention and resolution can be substantially higher than might have been had the bank been promptly closed. To avoid this, many deposit insurance schemes, allow for government to provide loans to an inadequately funded scheme which is paid by participating banks once the crisis is over.

Public Awareness

A deposit insurance scheme that is not known to the public is as good as not existing. Keeping the public continually informed of the status of DISs has been a major challenge even for matured schemes. An effective deposit insurance system requires that, the public is fully aware of the dynamics of the scheme so as to minimise confusion and uncertainty in crises periods. The collapse of UK's Northern Rock in September 2007 and how the claims of depositors were handled is a good example of how poor public awareness of the dynamics of DIS could exacerbate a panic situation. Until the Northern Rock depositors run on 16 September 2007, the UK deposit insurance system was designed to pay depositors 100% of their first two thousand pounds, on a per-depositor basis. The next 33,000 pounds was co-insured, with depositors bearing 10% of the loss on this portion and the Financial Services Compensation Scheme bearing 90% of the loss. Because the public was not fully aware of this arrangement and its implication on the amount each depositor could claim, there was a serious confusion which forced the UK regulatory authorities, to announce, on 17 September, that all Northern Rock depositors will be fully paid.

Is Deposit Insurance Effective in Protecting Depositors?

It is generally believed that the existence of deposit insurance scheme promotes financial stability by re-assuring depositors of the safety of their deposits as well as preventing unnecessary panics during banking crises. It is however, argued that, the existence of DIS could and in fact, does provide bank managers with an incentive to take unnecessary risk, knowing that, depositors will be protected if the bank fails. This issue of moral hazard associated with DISs is considered to be a threat to the survival of banks as well as the financial stability of countries. For instance, a study conducted by Demirgüç-Kunt and Detragiache (2002), concluded that explicit deposit insurance systems were generally detrimental to bank stability, particularly where countries had a weak institutional environment. The study also concluded that, the adverse effects of deposit insurance tend to be stronger for deposit insurance schemes that are run by the government with extensive coverage and funded ex-ante. In addressing such a challenge, countries have tightened their banking sector regulations and at the global level, we have seen more cooperation among countries in the area of financial sector regulation.

With the ex-post approach, banks are called upon to provide funding only when a bank fails.

The market discipline and market pressure that depositors can exert on bank managers is considered more effective in preventing bank runs than the presence of DISs. The fact is that, once there is a bank failure, depositors incur losses, and most DISs do not refund 100% of deposits held by customers in failed banks. Usually, the amount that deposit insurance agencies accept to pay qualified depositors of failed banks are too small to be meaningful to most depositors that lose their money and in some cases, their entire life savings and wealth to failed banks. Also, actual payment of this claim takes a long time, especially in countries where the deposit insurance agency is not very organised, which means additional loss of value by affected depositors. Effectively, therefore, DISs aim to reduce the losses suffered by depositors in the event of bank failures rather than protecting depositors. If this hypothesis holds, one would argue that, rather than channelling energies and resources into DISs, policy makers should focus on preventing bank failures. This can arguably be achieved through sound banking regulations that encourage best corporate governance and risk management practices as well as transparent financial reporting and disclosure. Healthy competition among banks can also contribute to strengthening the banking sector because healthy competition makes market discipline more effective.

From the way DISs are designed and implemented, it is very difficult to prove how effective such schemes are. For instance DISs that are funded by mandatory periodic contribution by participating banks usually result in significant cash out flows from these banks to the deposit insurance agency. This can be argued as misallocation of economic resources because, the total amount of deposit insurance premium that is moved from banks to the deposit insurance agency can be better managed if left in the hands of the banks. Also, paying such premium tend to reduce the funds available to banks for the purposes of giving loans to businesses as well as for the expansion of their operations. Additionally, deposit insurance premium paid by banks increases the cost of funds of banks which increases the cost of borrowing and the overall cost of doing business in an economy. In countries where deposit insurance premium are paid by participating periodically and regularly, participating banks have had cause to complain about the financial burden of such premium payment and in some cases, deposit insurance agencies have responded by taking steps to reduce the premium payable by individual banks. For example, the Nigerian Deposit Insurance Corporation in 2008 commenced the implementation of the Differential Premium Assessment System (DPAS), which according to the Corporation has resulted in fair pricing and reduction in the overall premium burden on banks. Reducing the financial burden of deposit insurance premium on banks does not resolve the issue of misallocation of economic resources associated with such practices, though it reduces it to some extent.

http://upload.wikimedia.org/wikipedia/commons/5/52/Northern_Rock_Customers,_September_14,_2007.JPG

Until the Northern Rock depositors run on 16 September 2007, the UK deposit insurance system was designed to pay depositors 100% of their first two thousand pounds, on a per-depositor basis.

Conclusion

From the above discussions, we have given an overview of the concept of deposit insurance alongside a brief account of the development and adoption of DISs as financial safety nets by countries. The key factors that come into play in designing and implementing an effective DIS were discussed noting the different approaches adopted by different countries. The effectiveness of DIS in protecting depositors and ensuring financial stability was explored noting moral hazards, misallocation of economic resources and mismanagement of resources by deposit insurance agencies as the major reasons why DISs are not able to achieve their set objectives. We therefore note that, effective market discipline, good corporate governance and risk management practices, and transparent financial reporting and disclosures can better protect depositors and ensure financial system stability than the existence of deposit insurance schemes.

(Mukhtar Adam is a staff of Zenith Bank Plc)

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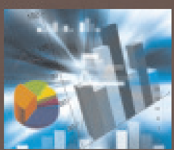
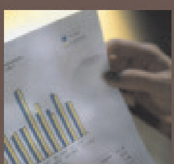
Facts & Figures

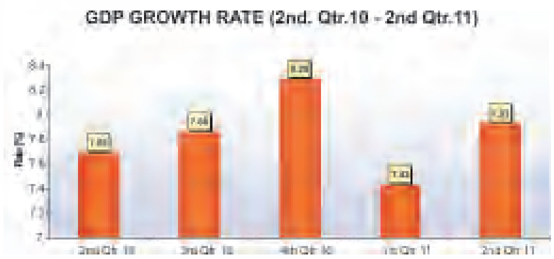




Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

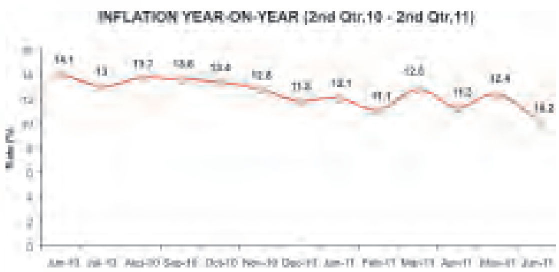
The Nigerian Economy recorded somewhat mixed performance in the second quarter 2011, with some parameters struggling to gain momentum while others consolidated earlier gains. Inflation figures for instance, ended the quarter, inches away from the single digit target. Gross Domestic Product (GDP), grew with no trace of a slowdown. The nation's currency, the naira, lost some stability against other major currencies. Foreign exchange reserves shrunk during the quarter. The Monetary Policy Rate (MPR) was raised to hold back inflation. The stock market was unable to hold on to its gains with the bears tightening their grips. In the international crude oil market, prices wobbled but recovered to reach initial highs.



Source: National Bureau of Statistics

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) grew in the second quarter 2011, expanding to 7.93 percent compared to the 7.43 percent recorded in the preceding quarter. Real GDP growth continued to be driven by the non-oil sector of the economy. Despite being the period of intensified land preparation in most regions and a minor delay in the start of rains in the far North, agriculture continued its dominance as major contributor to GDP. For the oil sector, the benefits of the Amnesty Deal for Niger Delta militants continued to push crude oil production upward, with production jumping by 54 percent between April and May. Real GDP growth in 2011 is projected at 7.98 percent, slightly higher than the 7.4 percent recorded in 2010.



Source: National Bureau of Statistics

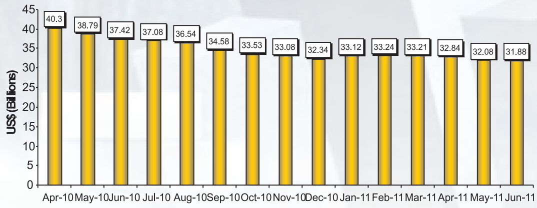
INFLATION

Inflationary pressures unexpectedly eased in April in response to CBN's tightening policy in March. Despite the positive signs however, inflation ballooned in May due to a jump in prices of diesel, kerosene, building materials and some household items. The headline inflation rate eased considerably to 10.2 percent in June, in spite of the rough patches. In fact, the reported inflation dropped to 37 month low in June, just slightly below the single digit target. The downward movement was due to a moderation in core inflation. Inflationary threats however remain due to higher prices of some staples like yam, fruits and cereals as well as imported food items. In the months ahead inflation is projected to moderate. However, core inflation is expected to increase driven mainly by cost of energy, power and imports.

EXTERNAL RESERVES

The nation's external reverse fell in the second quarter 2011, owing to rocky patches in crude oil prices in the international markets and slowing global economy. External reserve has tumbled by about 12 percent since hitting $36billion in March. It lost its footing in the second quarter and collapsed to a six month low of $31.8billion in June, capable of financing up to 14 months of import. The reserves, which had earlier risen to an all time high of $64billion in August 2008, plummeted amid continuous withdrawals. Faced with shrinking reserves, the authorities intervened to plug some leakages by limiting sales of foreign exchange to Bureaux de Change. The move temporarily resulted in modest accretion to the external reserves. However, huge drainages from first line charges such as Joint Venture Cash calls (JVC) and petroleum product subsidies remained; as well as enormous import finance deductions. In the near to medium term authorities project improvements in the stock of external reserves as a result of projected higher crude oil prices and improvement in output.

FOREIGN EXCHNAGE RESERVES (Apr.10 - Jun.11)



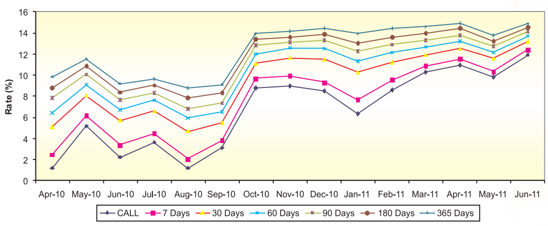
Source: Central Bank of Nigeria

INTEREST RATE

In line with market expectations the CBN raised its benchmark rate once during the second quarter. The Monetary Policy Rate (MPR) was raised by 50 basis points to 8 percent in May.

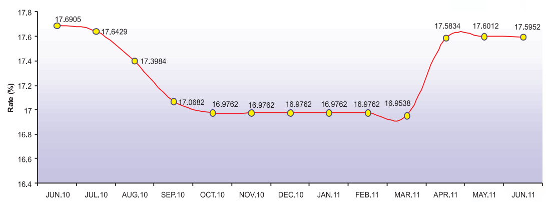
The average interbank rate was volatile with significant rate swings. For instance, rates on the call and 7 Days tenors climbed as high as 13.9 and 14.4 percent, respectively. Rates shot up in April in tandem with the upward revision of the MPR at the end of March. However, rates crashed in May due to the N515.8billion Asset Management Company of Nigeria's (AMCON) investment in deposit money banks in exchange for their non performing loans, as well as about N455billion Statutory Revenue Allocations to the three tiers of government. The cool down was however short-lived as rates rose again in June due to a further tightening of the MPR and upward adjustment of the Cash Reserve Ratio by 200 basis points to 4 percent.

MONTHLY AVERAGE NIBOR (2nd Qtr.2010 Qtr. - 2nd Qtr.2011)



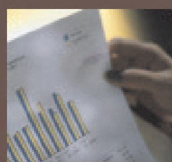
Source: Financial Markets Dealers Association of Nigeria

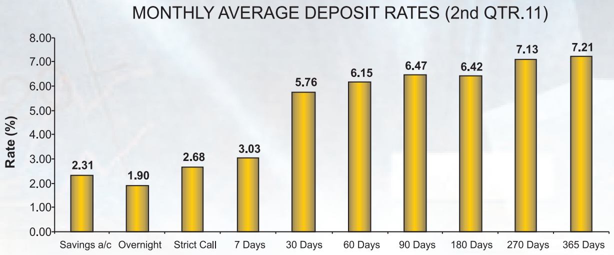
AVERAGE PRIME LENDING RATE (2nd Qtr .10 - 2nd Qtr.11)



Source: Financial Markets Dealers Association of Nigeria

Facts & Figures

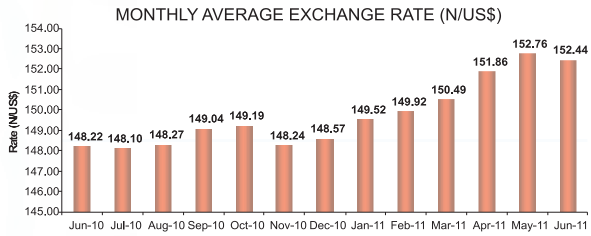




Source: Financial Markets Dealers Association of Nigeria

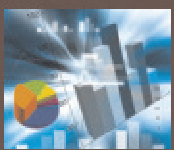
In terms of cost of borrowing, the average Prime Lending Rate (PLR) inched up slightly due to uncertainties over September 30, 2011 recapitalization deadline for rescued banks. Cumulatively however, rates remained at elevated levels, hovering around 18 percent.

Returns on the average deposit rate climbed across most investment horizons. Yields on the overnight, strict call and 7 Days tenor went up 19, 23 and 24 basis points, respectively, during the quarter.



EXCHANGE RATE

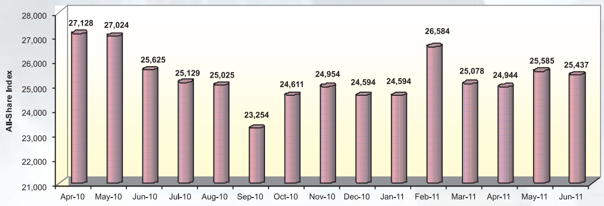
The nation's currency, the naira, remained range bound around CBN's target in the second quarter 2011, despite wild rate swings against other major currencies. It ended the quarter with a mild depreciation at about N151/US$. The naira got off to a shaky start reaching new highs in May. Demand pressures resurfaced earlier in April with the nation's currency on the back foot due to higher cost of imported refined petroleum products and food items, heightened by political risk coming from the postponed national elections, and later followed by the delay in Federal cabinet appointments. The naira, however, regained stability to record its best performance since 2005 in the final week of the period. The rebound was as result of the revocation of the rule requiring foreign investors to hold naira-denominated bond for a year. In its twice weekly auctions, the CBN offered about $7.5billion and sold $7.3billion against $8.2billion demanded during the period. The gap was nevertheless filled by inflows from oil majors and telecom companies. The premium between the WDAS and the interbank rates narrowed slightly to 1.1 percent as at end June 2011, compared to 2.4 percent in March. While that between the WDAS and the parallel market widened. Pressure on the naira is expected to moderate in the near term.



CAPITAL MARKET

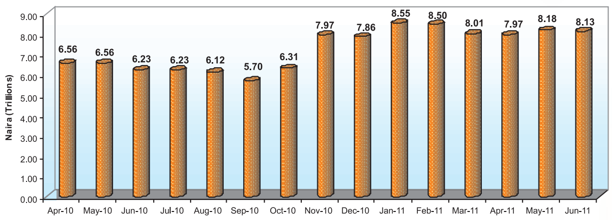
The capital market wrapped up the second quarter more or less flat despite recording some minimal gains during the period. The All-Share Index (ASI) and market capitalization started on a bullish note but erased earlier gains to finish lower at 24,980.20 and N7.98trillion, respectively, from 24,621.21 and N7.86trillion in the preceding quarter. It was a rollercoaster ride for investors as the market offered no definite direction. Bargain hunters scrambled for undervalued stocks, while speculators cashed in profits. The rocky ride did little to calm investors' nerves as the annual market return retreated back to negative territory for the second time this year in the month of June. The unfavorable trend was triggered by a CBN/NDIC directive for the rescued banks to recapitalize or face liquidation. Funds were channeled to the money market for a mix of safety and higher returns. On the positive side, uncertainties were cleared when a number of the rescued banks executed Memorandum of Understanding (MoU) with prospective investors. Confidence was boosted as a number of quoted companies such as Dangote Cement, Mobil, Total, Conoil, and MRS declared impressive dividends of N2.00; N9.60; N6.00; N2.00; and N1.25, respectively.

ALL SHARE INDEX (ASI) (2nd Qtr.11 - 2nd Qtr.11)



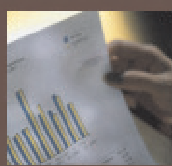
Source: Nigeria Stock Exchange

NSE MARKET CAPITALISATION (2nd Qtr.10 - 2nd Qtr.11)

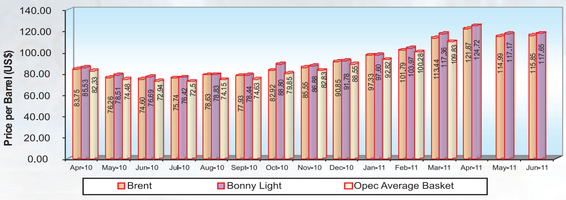


Source: Nigeria Stock Exchange

Facts & Figures



Oil Prices: Monthly Average Price Movements (2nd Qtr.10 - 2nd Qtr.11)



Source: Energy Information Administration

OIL & GAS

Crude oil prices hit minor headwinds in the second quarter 2011. After surging in April, crude oil prices stalled on several occasions during the quarter owing to some market corrections. It was unable to hold onto its gains, ending the second quarter around $95 a barrel, but up from $75 a barrel from the same period last year. After hitting a 2½-year high of around $127 per barrel in May, crude oil prices came down strongly by about 20 percent in June. Nigeria's brand of crude oil, bonny light, wiped out more than $13, trading in a band of $95-$108 per barrel. Industry analysts attributed the pullback in oil prices to curtailment in Libya's production which was virtually nonexistent and a slow down in global economic growth. However soaring demand from emerging markets as well as post-quake reconstruction in Japan kept oil prices afloat. In its 159th Meeting in Vienna, Austria, OPEC members were unable to come to a consensus ending with the official quota unchanged. In short, the cartel described the first six months of 2011 as a nervous period for the oil market.