Zenith Economic Quarterly

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The Stock Market Boom

Challenges & Opportunities

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Zenith Economic Quarterly

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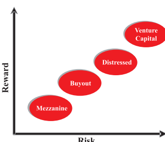

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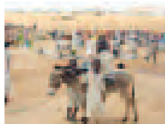

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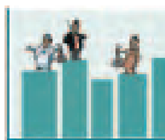

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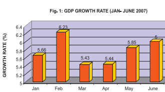

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A Market As A Boon

In a number of developing countries, including Nigeria, various policy initiatives have combined to demystify the capital market as a preserve of the elite. In Nigeria and several African countries, returns on investment in the various capital markets have consistently ranked among the highest in the world for close to half a decade. The Director-General/Chief Executive Officer of the Nigerian Stock Exchange, Professor Ndi Okereke-Onyiuke stated this much recently on the floor of the London Stock Exchange when she took some Nigerian banks on exploratory pre-listing talks with the LSE authorities.

Without doubt, the frenzied and frenetic efforts of banks in Nigeria in raising money from the public through the capital market in the wake of the recapitalization policy in 2004/2005, served as the trigger that set-off the boom in the market. Hardly was there any city, town, village or hamlet that was not reached by the publicity blitz that went with the fund raising efforts. The enlightenment was massive, comprehensive and sustained in a manner that the level of awareness and consciousness of all strata of investors (local and foreign) about the capital market and its potential has remained very high and rising ever since.

The enactment of the Pension Act 2004 and its subsequent implementation thus far—and the multiplier effect on the capital market—constitutes another fillip to the blooming of the market. The creativity of the Debt Management Office (DMO) in managing the domestic debt—via the bond window—is also an additional pep to the capital market. The monetary policy mix in the past couple of years has also had salutary effects on the phenomenal development of the capital market. The 'new strength' of the banks since end-2005 is already a boon to the growth of the capital market.

"as developed markets become increasingly saturated, investors are looking at emerging market private equity as the next frontier".

All these developments, the attendant challenges as well as the emerging opportunities are expertly articulated in our section—*issues*—under the title—'Capital Market Reform: Challenges and Opportunities'. In the section also is a treatise on 'The Impact of Capital Market Regulation on Nigerian Economy'. The private equity market is also explored and strongly recommended in this section under the rubric—'Nigeria: Conditions for Private Equity Market'. According to the author, "as developed markets become increasingly saturated, investors are looking at emerging market private equity as the next frontier".

Our *global watch* section deals with the 'The African Capital Markets: The Direction, The Pace' in which the characteristics, strengths and prospects of a number of them are articulated. The factors currently driving each of the markets are equally investigated, just as various strategies for leapfrogging the development of some of them are examined and recommended. Four of the markets are explored in-depth as case studies, to drive home the phenomenal growth of the capital markets in the African continent. These include the Johannesburg Stock Exchange, the Cairo Stock Exchange as well as the Kenya and Nigerian stock exchanges. The common growth trend among the examined markets is exemplified by the Nigerian case where market capitalization, for instance, grew from a modest US$10 billion in 2003 to a whopping US$63 billion as at end-June 2007. Other market indices also recorded similar growth.

Under *foreign insight*, the Nigeria—UK relations is examined, with focus on trade, investment, history, demographics, economics as well as the future trend. The treatise indicates that despite the trade imbalance in favour of the Unite Kingdom, Nigeria has remained a key beneficiary of huge investment inflow from the UK. The historical link between both countries is also shown to have played a major role in shaping the laws, governance and business practices in Nigeria. And despite the disparity in the levels of economic development in both countries, it is indicated that the prospect for mutual interdependence remains quite high. Also, drawing from Goldman Sachs report, the author reaffirms that the economies of both countries will rank among the twenty largest in the world in less than two decades.

The topic: 'Uses and Abuses of Governance Indicators' is also treated in this section. Under it, the authors point out the critical place of the quality of governance in driving a polity forward, the various governance indices as well as the pros and cons of each of them. They sum up that "while there will never be one perfect governance indicator, the production and use of more transparent governance indicators will better serve the needs of both external users and developing countries seeking to improve the quality of local governance".

In anticipation of the critical role of the planned national identity scheme, we ran, under our *policy* section, the seminal document on the 'National Policy and Institutional Framework for an Identity Management System for Nigeria'. We also have our other regular sections namely *Periscope, Facts & Figures*, each with the usual depth and touch that is already our hallmark. Happy reading, as we get even better with each edition. You are welcome!

Marcel Okeke

After going through two editions, we wish to attest to the deep professional quality of the contents, the articles therein are very empirical, and in every sense, a reference material for students and practitioners in the economic and financial world.

We urge you to please, keep it up and also thank you for your thoughtfulness in sending us those beautiful copies.
Bimbo Alagbe
General Manager
Gateway Hotel
Otta Ogun State.

We hereby acknowledge with thanks the receipt of one copy of your informative and educative publication, Zenith Economic Quarterly (ZEQ) sent to the library. We assure you that the journal will be put to good use, as it is already on display on our board.
Tim Ayanda
Head Librarian
Chartered Institute of Bankers of Nigeria.

Thank you for your letter of May 30, 2007 enclosing the April 2007 edition of Zenith Economic Quarterly (ZEQ). As you mentioned, I am sure we would find it very interesting and educative.
Mike Omaliko
International Finance Corporation
World Bank Group.

I am directed to acknowledge with thanks the receipt of your letter dated May 30, 2007 forwarding a copy of the April 2007 edition of ZEQ and its attachment. The journal is a good source of information on current developments in the Nigerian economy, and provides very useful information to Nigerian living abroad.

While wishing your bank continuous success in the years to come, please, accept the assurances of our highest regards.
F. N. Enya
For: Ambassador
Embassy of the Federal Republic of Nigeria
South Korea

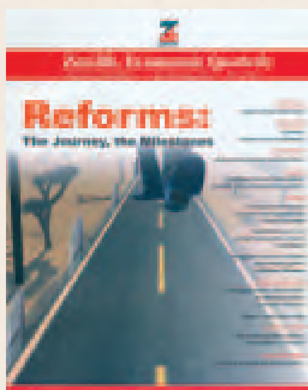
We acknowledge with thanks, the receipt of your April 2007 edition of Zenith Economic Quarterly (ZEQ) being the part two of your last edition to our Chief Executive, Mr. G. S. Nnadi and assure you that the journal is of immense benefit to the Board.

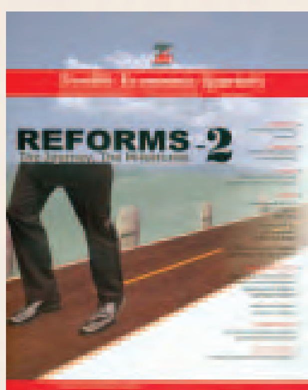
Thanks so much for your usual kind gesture.

J. M. Shibigem (Mrs.)
For: Mr. G. S. Nnadi.
Executive Secretary / Chief Executive
Nigerian Accounting Standards Board.

I write to acknowledge the receipt of your cover letter dated 30th May, 2007 which conveyed Zenith Economic Quarterly (ZEQ). The journal's review of the current Federal Government Economic reform is very apt, and is in line with the demand to critically assess the nature and direction of these new policies. We will surely find the journal useful and I have already recommended it to our research and planning department.
Osamwonyi Osagie.
Director-General
National Population Commission

On behalf of the Vice Chancellor of Redeemer's University, Prof. Oyewole Tomori, it is my great pleasure to acknowledge the receipt of a copy of the Zenith Economic Quarterly (ZEQ) that you recently sent to us. The journal is valuable as a reference source material particularly for the staff and students in the Departments of Economics and Business Studies; and financial Studies, both in the College of Management Sciences of the University.





The copy has therefore, been strategically deposited for easy access to it. Once again, we thank you for the kind gesture.
Prof. Peter F. Omoluabi
For: The Vice Chancellor
Redeemer's University.

The Director-General, Mrs. Modupe Adelaja, is pleased to receive a complimentary copy of this quality publication from the Zenith Bank stable and therefore commends the creativity, innovation and value which the publication epitomizes.

There is no doubt that stakeholders/readers would find the publication a useful resource.
Levi Anyikwa
Chief Press/Public Affairs Officers
For: Director-general
Small & Medium Enterprises Development Agency of Nigeria

We are pleased to inform you that the journal is timely and quite educative. It would therefore be appreciated if the subsequent editions of the document could be forwarded to us whenever it is available.
Bayo Orukotan
College Officer
For: Dean, College of Management Sciences
Bells University of Technology

We are grateful that you have put us on your mailing list and hereby assure you that your journal is academically enriching and very sought after by our numerous users.
Dr. Okee Okoro
University Librarian
Imo State University

We wish to express our appreciation to the Management of Zenith Bank Plc and the Editorial Board of the magazine, Zenith Economic Quarterly, on their effort in sending us a copy of the magazine for some time now. Such kind gesture is commendable and goes a long way in endearing you to the hearts of your admirers and partners-in-progress like ourselves.

While the quality of the magazine is good and standard, including the write-ups, however, we are of the view that the space / page allocated to Capital Market reporting and happening is inadequate. If you consider the scope of the Capital Market and its impact on the economy, it becomes necessary that more space / pages be allocated to this very important sector of the Nigerian economy.
Kasimu G. Kurfi.
Managing Director / CEO
APT Securities and Funds limited.

We wish to acknowledge, with gratitude, receipt of one copy of the current edition of the publication entitled, Zenith Economic Quarterly (ZEQ), which you donated to the University of Nigeria Library System.

The publication, which is both informative and educative, will be an asset to our researchers in the Faculty of Social Sciences.

We appreciate this gesture and look forward to receiving similar publications from Zenith Bank Plc.
Dr (Mrs.) O. N. Amucheazi
Ag. University Librarian
University of Nigeria.

Economy: Activity, activity and more activity

* By Marcel Okeke

> At the close of trading in June, 13 banks numbered among the 20 most capitalized equities in the market, with Zenith Bank Plc leading the pack with a market capitalization of N612.82 billion... Zenith Bank also finished the quarter (incidentally the end of its financial year 2006/2007) as the highest priced bank stock at N66.14 per share

The second quarter 2007 was a very crucial period in Nigeria, not only for political activity but also for economic and other reasons. There was a change in government at all levels sequel to a general election; the period was also a terminal one for a number of economic programmes/policies, as well as an auspicious moment to gauge the state of the economy. During the quarter, government fast-tracked a number of projects and programmes to, so to say, reach the finishing line before the take-off of a new administration. Thus, rather that wind down, the tempo of government activities heightened by the day all through the quarter. The period was largely marked by commissioning of projects, sod-turning and foundation-laying for others as well as fresh policy initiatives and tinkering with a few existing ones.

All these, coupled with developments in the international oil market, reform activities of agencies and institutions such as the Bureau of Public Enterprises (BPE), the Central Bank of Nigeria (CBN) and the Nigerian Stock Exchange (NSE), among others, shaped the economy during the period under review. Specifically, new policies and projects in sectors like financial services, energy and power, oil and gas, solid minerals, aviation, telecommunication and maritime, among others, were carried out with renewed zeal.

As in the previous quarter, the frenzy among banks raising huge sums from the capital market (through public offerings) continued, just as the pace of acquisition of liquidated banks and merger propositions got heightened. The privatization of some strategic state owned enterprises was concluded during the period under review. In the area of policies, Value Added Tax (VAT) was raised from five per cent to 10 per cent while the pump price of

petrol was increased from N65/litre to N75/litre—all these have been reversed sequel to a nationwide strike spear-headed by the Organized Labour. Petrol was however only brought down to N70/litre.

In spite of, or owing to, all these, major economic indices show positive outcomes for the period under review. The inflation rate which has since attained the single-digit level, continued its deceleration during the quarter. On year-on-year basis (headline) inflation dropped steadily from 8.5 per cent at end-December 2006 to 4.2 per cent in April, but rose to 6.4 per cent at the close of the period under review. The slight rise was as a result of the increase in fuel price as well as the shot-lived increase in Value Added Tax during the period. VAT rate was doubled (from 5% to 10%) in May but was reversed in June. The exchange rate of the Naira has continued to appreciate: from closing at N127 to the Dollar at end-2006, it got to N126.10 as at June 2007. Also, as in the previous quarter, the gap between the parallel and official market rates kept narrowing.

Interest rates in various windows and instruments were also on the decline during the second quarter, due mainly to lingering excess liquidity. Thus, treasury bill rate at end-June stood at 6.10 per cent while the longest FGN Bond (7 years) rate also declined to 9.00 per cent from the earlier level of about 10.00 per cent. In fact, from end-December 2006, inter-bank rates have been stable, essentially owing to the impact of the Monetary Policy Rate (MPR) which replaced the Minimum Rediscount Rate (MRR). The MPR has also been reduced from 10 per cent at inception to eight per cent in June 2007.

During the quarter under review, Nigeria's external reserves continued to grow—but at a slow pace. This was due to the fact that although the prices of oil remained high and rising in the international market, Nigeria's earning from the commodity was dropping. The decline in earning is attributable to drops in crude oil production/export owing the youth restiveness in the Niger Delta—the oil producing region of the country. However, external reserves recorded some accretion, rising from US$41.96 billion as at December 2006 to US$43.58 billion at end-June 2007.

All through the quarter, the capital market was literally a beehive of activities—both in the primary and secondary segments. There was an avalanche of public offerings by especially banks and insurance companies seeking to boost their capital base. Trading in the secondary market remained largely bullish, with most stocks (led by banks and insurance firms) recording quantum price gains. Thus, the All Share Index (ASI) which stood at 33,189.30 at end 2006 rose to 51,149.40 at the close of trading in June; it was 33,189.30 at the end of the first quarter, 2007. In the same vein, Market Capitalization rose from N5.12 trillion at end 2006 to N7.13 trillion in March and to N7.80 trillion at end-June 2007.

Expectedly, banking stocks drove activities in the market—in terms of volume and value of shares traded. At the close of trading in June, 13 banks numbered among the 20 most capitalized equities in the market, with Zenith Bank Plc leading the pack with a market capitalization of N612.82 billion. It was trailed by United Bank for Africa (N424.87 billion), First Bank (N422.42 billion) and Union Bank (N399.50 billion). Zenith Bank also finished the quarter (incidentally the end of its financial year 2006/2007) as the highest priced bank stock at N66.14 per share, again followed by UBA (N50.15), Union Bank (N41.40) and First Bank (N40.40).

Apparently owing to the successful consolidation of the insurance industry (re-capitalization closed February 2007), insurance stocks performed excellently, trailing bank equities in capital appreciation during the review period. Although most of the insurance equities rank as 'penny stocks' owing to there relatively low prices, such prices more than

20 MOST CAPITALISED COMPANIES AS AT JUNE 29th 2007

S/N	Company	Market Capitalization (N Bn)	Price (N)
1	Zenith Bank	612.82	66.14
2	United Bank for Africa	424.87	50.15
3	First Bank	422.42	40.40
4	Union Bank	399.50	41.40
5	Dangote Sugar Refinery	380.00	38.00
6	Nigerian Breweries	317.62	42.00
7	Oceanic Bank	307.35	26.40
8	Intercontinental Bank plc	304.55	28.40
9	GT Bank plc	276.80	34.60
10	Diamond Bank	246.20	21.99
11	Ecobank Transnational Incorporated	212.16	173.25
12	Platinum-Habib Bank	201.93	31.38
13	West African Portland Comp.	199.61	66.50
14	Guinness Nig	186.65	126.55
15	Transnational Corporation	180.16	9.71
16	Ecobank Nigeria	173.23	8.00
17	Fidelity Bank	156.73	9.52
18	First City Monument Bank	150.12	15.72
19	Nestle Nigeria	145.32	220
20	Benue Cement Company	136.13	55.00

Source: Research & Economic Intelligence Group

doubled or tripled during the first half of this year. This is even as more insurance equities are getting listed on the floor of the Nigerian Stock Exchange.

BANKING AND FINANCE

The lingering frenzy in boosting shareholders' funds among banks continued even with greater zeal during the second quarter 2007—with operators applying different strategies. However, majority resorted to the capital market; a few sought foreign equity capital from reputable institutional investors; others pursued local acquisition and merger deals. First Bank of Nigeria came to the market with its jumbo hybrid public offer to raise one hundred billion naira (N100.00 billion); UBA consummated its moves to acquire the liquidated Metropolitan Bank and City Express Bank through a 'Purchase and Assumption' deal with the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation. Ecobank Nigeria Plc and Unity Bank Plc signed a Memorandum of Understanding (MOU) to merge. The merger negotiation between IBTC Chartered Bank Plc and Stanbic Bank Nigeria Limited (Stanbic Bank) made progress during the quarter—gaining formal approvals of all relevant regulatory authorities.

The new capacity of Nigeria banks to fund big ticket transactions came into play during the quarter, when ten of them pooled three hundred and fifty million US dollars (US$350 million) towards the 'Local Content Fund' of the oil and gas industry in Nigeria. The Nigerian National Petroleum Corporation (NNPC) and the ten banks have since signed an agreement/particulars setting up the Fund which is meant to beef up local value added to the development of the oil and gas industry. The participating banks include: Zenith Bank, UBA, Diamond Bank, BankPHB, GTBank, Citibank, Stanbic Bank, First Bank, Fidelity Bank and Oceanic Bank.

During the period under review, five banks joined the list of Primary Dealers' Market Makers (PDMMs). They include Zenith Bank, Union Bank, Afribank, Ecobank and BankPHB. Fifteen other financial institutions comprising ten banks and five discount houses had earlier been appointed as part of Government's effort to strengthen the money market. They include Access Bank Plc, Fidelity Bank, First Bank of Nigeria, First City Monument Bank, Guaranty Trust Bank and IBTC Chartered Bank. Others are: Nigeria International Bank (Citigroup) Stanbic Bank Nigeria, Standard Chartered Bank, United Bank for Africa, Associated Discount House, Consolidated Discount, Express Discount House, First Securities Discount House and Kakawa Discount House.

The CBN during the quarter under review, pushed further its microfinance banking initiative by granting 'final licenses' to 14 microfinance institutions; it also granted provisional approvals to about 66 converting banks (community banks). The apex bank also granted approvals-in-principle to about 21 new investors in microfinance banks. The Bank also intensified its sensitization efforts through the "downscaling" message to existing deposit money banks. By this drive, the apex bank is pushing existing operators to reshape in manners that would accommodate microfinance banking tenets.

Developments in the Nigerian capital market as well as the international financial milieu, especially during the quarter under review, have warranted a number of policy initiatives on the part of the Government and market regulators. Specifically, the Federal Government during the quarter approved a new minimum capital base for all capital market operators in the country, with December 31, 2008 as deadline. Concomitantly, a reduction in transaction costs of about 40 per cent was also approved for the market. Under the new capital base regime which was announced in April, the minimum paid up capital for issuing houses was increased from N150 million to N2 billion, while that of broker-dealers moved from N70 million to N1 billion. Clearing and settlement agencies are now to have a capital base of N1 billion, up from N500 million while registrars are now to have N500 million, up from N50 million. Underwriters, who before the new dispensation had a minimum capital requirement of N100 million, are now to have N2 billion, while that of portfolio/fund managers has been increased from N20 million to N500 million. Corporate sub-brokers also have to move up their capital base

from the current minimum of N5 million to N50 million.

Also during the quarter, the apex regulatory body in the capital market, the Securities and Exchange Commission (SEC), inaugurated an 11-member committee charged with the responsibility of harmonizing and upgrading financial reporting and auditing practices by quoted companies in Nigeria. According to the agency, "this is in response to the current financial mis-representation by companies both within and outside the country, as well as to meet the requirement of the International Organization of Securities Commission (IOSCO)".

The Nigerian Stock Exchange on its part, revved up its drive to get some Nigerian companies listed on the London Stock Exchange and expose them to international capital finance market, where their shares can be traded. Towards this end, during the quarter, the NSE took 10 Nigerian banks to the LSE investors' forum on a strategic visit and exploratory talks with the authorities of one of the most respected bourses in the world. The ten banks are: Zenith Bank, First Bank, Union Bank, Oceanic Bank, UBA, Intercontinental Bank, GTBank, Afribank, Ecobank and Access Bank. London is particularly seen as the world's financial capital with a stock market that attracts interest from companies in North America, Europe, Asia and the Middle East.

The NSE has also commenced an arrangement to accommodate Small and Medium-scale Enterprises (SMEs) in the emerging opportunities in the capital market. Towards this end, the NSE is creating a third-tier securities market for the SMEs, and has churned out the requirements for the listing of companies in the sub-sector. Currently, the equities sector of the NSE comprises the first-tier securities and the emerging markets otherwise known as the second-tier securities market. Some of the listing requirements for the SMEs include: that a company must be wholly indigenously promoted and registered as a public limited company under the provisions of the Companies and Allied Matters Act 1990; must submit to the Exchange financial statements/business records of past two years; date of last audited accounts must not be more than nine months. Others include that the amount of money that can be raised may not exceed N100 million; at least 10 per cent of share capital must be offered to the public; number of shareholders must not be less than fifty; and after listing, company must submit half-yearly and annual accounts, etc.

PUBLIC DEBT

The nation's public debt as at the close of the second quarter was made up of N390 billion (US$2.6 billion) external component and N1.86 trillion local bit. Nigeria had by the close of the first quarter this year, exited both the Paris and London Clubs debt—thus bringing her external debt outstanding to the present level. And, although the quantum of the domestic part of the entire indebtedness was getting rather worrisome, the Debt Management Office (DMO) advises that there is no cause for alarm. The DMO says that the external and local debts still remain "below the critical thresholds of 45 per cent and 25 per cent respectively of the country's Gross Domestic Product (GDP)". According the debt management agency, "what we should do is to sustain the debt profile to ensure that we do not borrow in such a way as to slide back into the unsustainable debt condition that we had in the past." President Umaru Yar'Adua has since assumption of office last May, expressed worry over the level of the local debt and called on the CBN and the DMO to take steps to arrest the situation.

OIL, GAS & PETROLEUM PRODUCTS

The tail-end of the second quarter 2007 was marked by petroleum products price increases: pump price of fuel from N65/litre to N75/litre. This, among other issues, however, triggered public discontent which culminated in a nationwide strike—in the end, the price settled at N70/litre. In part, the high and consistently rising price of crude oil in the international market coupled with equally high cost of importing refined products accounted for the tinkering with fuel prices. Nigeria as at the time of this report, was depending on

OPEC Reference Basket and selected Crudes, US$/b

	Apr 07	May 07	Change May/Apr	Year - to-Date 2006	Year - to-Date 2007
OPEC Reference Basket	**63.39**	**64.36**	**0.97**	**60.50**	**58.31**
Arab Light	62.83	64.15	1.32	60.24	58.08
Basrah Light	59.74	61.79	2.05	57.09	55.32
BCF-17	54.93	56.06	1.13	51.22	50.41
Bonny Light	70.01	70.03	0.02	66.69	64.10
Es Sider	66.06	66.03	-0.03	63.06	60.14
Iran Heavy	61.42	62.72	1.30	59.08	56.10
Kuwait Export	61.07	62.06	0.99	58.46	56.05
Marine	64.79	65.34	0.55	62.03	59.62
Minas	68.75	68.12	-0.63	65.33	62.72
Murban	68.39	69.21	0.82	65.03	63.39
Saharan Blend	69.71	70.13	0.42	65.82	63.93

Source: OPEC Monthly Market Report, June 2007

Yearly Total and Distribution of Nigeria's Local Debts

S/N	IPP	Capacity	Fuel Type	Status	Location
1.	Ethiope Energy Limited	2800MW	Gas	Project Planning	Delta State
2.	ICS Power Ltd	624MW	Gas	Project Planning	Alaoji, Abia State
3.	Supertek Nigeria Limited	1000MW	Gas	Project Planning	Abia State
4.	Geometric Power Limited	105MW	Gas	Project Planning	Abia State
5.	Westcom Technologies and Energy Services Limited	1000MW	Gas	Project Planning	AjeguneSagamu, Ogun State
6.	Westcom Technologies and Energy Services Limited	50MW	Gas	Project Planning	Lekki, Lagos
7.	Mabon Limited	39MW	Hydro	Under construction	Gombe State
8.	Bresson Nigeria Limited	60MW	Gas	Project Planning	Rivers State
9.	Ibafo Power Station Ltd	200MW	Gas	Project Planning	Ibafo, Ogun State
10.	Hudson Power Limited	50MW	Gas	Project Planning	Waswa, Ogun State
11.	Shell Petroleum Development Company	642MW	Gas	In operation	Afam, Rivers State
12.	Farm Electricity Supply Ltd	150MW	Gas	Project planning	Ogun State
13.	Ikorodu Industrial Power Ltd	39MW	Gas	Completed	Lagos State
14.	Ewekoro PowerdLt	12.5MW	Gas	In operation	Ogun State
15.	Dangote (Obajana)	350MW	Gas	In operation	Kogi State
16.	AES	300MW	Gas	In operation	Lagos State
17.	Anita Energy Ltd	90MW	Gas	Project planning	Agbara, Ogun State
18.	TransAmadi Power Plant	136MW	Gas	In operation	Rivers State
19.	Omoku Power	150MW	Gas	In operation	Omoku, Rivers State
20.	Eleme Power Plant	95MW	Gas	In operation	Eleme, Rivers State
	TOTAL CAPACITY = [illegible]				

Source: Debt Management Office / Research & Economic Intelligence Group.

imported fuel for over 70 per cent of its needs. The Organization of Petroleum Exporting Countries (OPEC) average crude price which stood at US$54/barrel early in the year, moved up to US$60/barrel in March, US$64.40 in May and yet up to US$65 by June. A number of factors were responsible for the consistent crude price increases during the quarter; they include disruptions in the geopolitical regions, inadequate refinery capacity, and increased speculations in futures markets, among others.

Production statistics indicate that ten OPEC members produced an average of 26.64 million bpd in May—about 70,000 bpd higher than the April level of 26.57 million bpd. These however excluded Iraq which does not participate in OPEC output pacts and Angola which joined the group early this year. In Nigeria, crude production level dropped from 2.14 million bpd in April to 1.99 million bpd in May, and further to about 1.85 million bpd in June. Before the youth restiveness in the Niger Delta, Nigeria was producing about 2.5 million bpd.

Nigeria during the quarter under review awarded the first gas pipeline contract under its National Integrated Power Project (NIPP). The US$148.4 million project awarded to Messr IDT Consortium is for a pipeline that will run from Adanga Oilfield operated by Adax Petroleum to Calabar. The project marked the first step in the second phase of efforts to improve power generation, transmission and distribution under the NIPP. The 107 kilometer pipeline will supply gas from the Addax platform offshore to the gas power plant at Ikot Nyong, near Calabar, Cross River State. The Calabar—Adanga pipeline is one of the projects under NIPP, which is aimed at building new power plants with associated gas pipeline of over one thousand kilometers of transmission line network and several distribution projects all over the country.

On its part, the Nigerian Electricity Regulatory Commission (NERC) licensed 18 Independent Power Producers (IPPs) in addition to the interim licenses it granted to the 18 successor-companies of Power Holding Company of Nigeria (PHCN)—all for the generation of a total of about 6,864MW of power. The Commission also granted three generation licenses with a total installed generation capacity of 381MW in addition to the new hydro projects in Mambila, Dadin Kowa, and Zungeru that are expected to add a total of 5,389MW to the national grid.

Telecommunications

The key issue in the public domain all through the quarter under review regarding the telecoms sector was the dis-

The 20 Licensed IPPs in Nigeria

S/N	IPP	Capacity	Fuel Type	Status	Location
1.	Ethiope Energy Limited	2800MW	Gas	Project Planning	Delta State
2.	ICS Power Ltd	624MW	Gas	Project Planning	Alaoji, Abia State
3.	Supertek Nigeria Limited	1000MW	Gas	Project Planning	Abia State
4.	Geometric Power Limited	105MW	Gas	Project Planning	Abia State
5.	Westcom Technologies and Energy Services Limited	1000MW	Gas	Project Planning	AjeguneSagamu, Ogun State
6.	Westcom Technologies and Energy Services Limited	50MW	Gas	Project Planning	Lekki, Lagos
7.	Mabon Limited	39MW	Hydro	Under construction	Gombe State
8.	Bresson Nigeria Limited	60MW	Gas	Project Planning	Rivers State
9.	Ibafo Power Station Ltd	200MW	Gas	Project Planning	Ibafo, Ogun State
10.	Hudson Power Limited	50MW	Gas	Project Planning	Waswa, Ogun State
11.	Shell Petroleum Development Company	642MW	Gas	In operation	Afam, Rivers State
12.	Farm Electricity Supply Ltd	150MW	Gas	Project planning	Ogun State
13.	Ikorodu Industrial Power Ltd	39MW	Gas	Completed	Lagos State
14.	Ewekoro PowerdLt	12.5MW	Gas	In operation	Ogun State
15.	Dangote (Obajana)	350MW	Gas	In operation	Kogi State
16.	AES	300MW	Gas	In operation	Lagos State
17.	Anita Energy Ltd	90MW	Gas	Project planning	Agbara, Ogun State
18.	TransAmadi Power Plant	136MW	Gas	In operation	Rivers State
19.	Omoku Power	150MW	Gas	In operation	Omoku, Rivers State
20.	Eleme Power Plant	95MW	Gas	In operation	Eleme, Rivers State
	TOTAL CAPACITY = [illegible]				

Source: National Electricity Regulation Commission, NERC

content and concern over the depreciating quality of services by the GSM operators. The poor quality of services manifest in the form of high rate of call attempts, high rate of drop calls, call interference and loss of audio. There were also the issues of recurrent down time, long delay and non-delivery of SMS and multiple delivery of same SMS, among others.

Acknowledging the deteriorating service quality, the regulatory agency, Nigerian Communication Commission (NCC) said it "sympathizes with telecom consumers for these problems" and was taking measures to ensure that GSM operators improved service quality "in the shortest possible time". On their part, the GSM operators blamed the situation on the poor state of infrastructure, especially the down turn in the power supply situation. But further expressing its discontent with the whole situation, the NCC had, as an interim measure, restrained the mobile telephone operators from continuing with their sales promotions activities.

In the face of all these however, most of the GSM operators commenced fresh investments in infrastructure and equipment to not only stabilize their services but also expand service penetration and market share. Thus, MTN, for instance, is embarking on its network expansion with a budget of N85 billion (US$667million). It currently has about 2,661 base stations spread across the country and plans to add about 900 more before year-end 2007. The operator is also expanding its fibre link by about 144 kilometres through the PortHarcourt-Warri route to support transmission capacity. Celtel, another operator, is rebuilding its network with a budget of about N191 billion (US$1.5 billion) and plans to add about 3,300 cell sites. Another major operator—Globacom—is equally investing hugely to expand its network and fast-track penetration into the hinterland.

A major development in the communications sector in the second quarter was the launch of Nigeria's communication satellite (NIGCOMSAT-1) into space—in China. It is projected that the Satellite would enable job outsourcing through the provision of a robust high bandwidth for two-way broadband links between Nigeria and other parts of the world. The Satellite is also projected to play key role in bridging the digital divide by providing platform for small/medium scale ICT service providers to partake in the global US$1.2 trillion business opportunities. All these will translate to cheaper and qualitative internet access in Nigeria even to the rural areas; and this will help drive e-commerce, improve government efficiency and promote the development of the digital economy in Nigeria.

PRIVATIZATION

The Bureau of Public Enterprises (BPE) formally handed over both the PortHarcourt Refinery and Kaduna Refinery and Petrochemicals Company (KRPC) to Bluestar Oil Services—a consortium comprising the Dangote Group, Zenon Oil and Transnational Corporation and Rivers State Government. The PortHarcourt Refinery was sold for US$561 million (N71.8 billion) while the Kaduna Refinery went for US$160 million (N20.5 billion). Also handed over by the BPE to their buyers were Izom Brick and Clay Products (to Continental Project and Supplies Company Limited), Onigbolo Cement (to Dangote Industries), and Steyr Nigeria Limited, Bauchi (to Scintilla Prime Investments Limited). Ihechiowa Oil Palm in Abia Stae was handed over to Omen International Limited, and Anammco Enugu to G.U. Okeke and Sons. [*By the time of going to the press, the sale of PortHarcourt and Kaduna refineries had been cancelled*]

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NATIONAL POLICY AND INSTITUTIONAL FRAMEWORK FOR AN IDENTITY MANAGEMENT SYSTEM FOR NIGERIA

1.0 Introduction

The Federal Government, in its effort at revitalising the Nigerian economy, has embarked on a package of economic reforms as encapsulated in the NEEDS document. Its unwavering commitment to the implementation of these economic and social reforms in order to reposition Nigeria has been consistently demonstrated in the continuous review and enunciation of complementary policies to further unlock hidden economic potential in specific sectors of the Nigerian economy as well as enhance governance processes. Government will continue to deliberately promote private sector development through instituting appropriate policies; procedures and structures that would further stimulate private sector led economic growth and development with long term social and economic benefits to all Nigerians.

One of such efforts by Government is the enunciation of the national policy and regulatory framework on consumer credit which is aimed at enhancing access to consumer credit by Nigerians. Credit providers have often expressed the view that the inadequate identity management system and in particular, absence of a reliable identity verification process have contributed significantly to the distorted growth and development of the consumer credit market in Nigeria.

It is Government's firm belief that a sustainable consumer credit system will thrive in an environment of enhanced identity management system with secure and reliable verification and authentication parameters. Accordingly, Government's primary interest is to establish a reliable identity management system that would, amongst other things, facilitate the orderly development of the consumer credit system in Nigeria. It would involve the development of a national identity database which would further enhance governance processes. For these and various other reasons, Government decided recently to review existing identification schemes in the country so as to determine ways of improving on the unique identification of individuals, (citizens and foreigners) and corporations in Nigeria and develop a national system of identity management.

Following Government's acceptance of the Report of the Committee on the Harmonisation of National Identification Schemes, a national policy and institutional framework for an identity management system for Nigeria has been approved for expeditious implementation by the Presidential Implementation Committee under the Chairmanship of the Secretary to the Government of the Federation.

Government recognises that there are currently existing identification schemes in the private sector and in various agencies and departments in government, including the ongoing National ID Card scheme at the Department for National Civic Registration (DNCR). In particular Government recognises that there are impediments to the development of a system of national identity management and has enunciated this policy to address the issues, procedures, processes and set the basic parameters for the

introduction of a unique system of national identification, establishment of a national identity database and thereby create an identity management system for Nigeria that would be secure, widely accepted, functional and cost effective.

2.0 The Need for a National Identity Management System for Nigeria

2.1 Introduction

The issue of identity management of individuals, organisations and other public institutions remains a core function of government. Issues involved in creating, using, changing and ending an identity cuts across technical, legal, procedural and policy dimensions. This has even been made more complex and demanding with the advent of the information age and the capabilities for manipulation and stealing of information, thus raising issues of security, privacy and fair information practices as governments seek better means of service delivery, interoperability across government and private sector systems and enforcement of law and order.

2.2 Unfortunate Misconceptions

Often when people think or talk of **identity**, which is a reference or designation used to distinguish a unique and particular individual, business or device, the impression is created that it is just as easy as having another ID card or piece of paper on which a person's names are written. And truly there exists in the country today various kinds of representation of an individual's identity. Unfortunately most of them can be duplicated/replicated and therefore prone to all kinds of identity fraud. Presently there is no unique national identification scheme in Nigeria that is linked to a national identity database with appropriate access and in the case of government agencies, interoperability.

Yet there is need for an **identity management system,** that is, the set of principles, practices, policies, processes and procedures that are used to realise the desired outcomes related to identity. Furthermore this identity management system should provide a unique, reliable, verifiable and secure way of authenticating an individual's identity. It should provide for not just a unique individual identifier, but also a national database, secure access, widely accepted and can support a smartcard fitted with a chip on which e-government services as well as other private sector applications can be installed.

For most countries today, the debate is no longer on the need to have a system of uniquely identifying individuals and businesses but on the selection of appropriate technology to authenticate citizens and businesses. In particular such a system would provide for active participation of various stakeholders in the process of **establishing an identity**, **communicating an identity** and **assuring an identity**. It is true that the competing policy interests range from protecting citizens' freedoms, privacy and other prerogatives. There is also the need to ensure institutional efficiencies, law, order and security.

The broader question of concern remains, how desirable is it to have a single national system of identifying all citizens in order to accomplish the legitimate business of government – law enforcement, intelligence, social and economic development, etc. In any case, both Government and the Private Sector have their respective roles to play in the development of a national identity management system.

At present we do not have a central national database and the accompanying systems to support secure, reliable identity verification and authentication. It is therefore easy for an individual to acquire identity cards with different names, leading to the high incidence of identity fraud.

Development in ICT and especially identity management where it has been deployed has enhanced governance process everywhere in the world.
A secure national identity management system that enables a secure, reliable and authentic verification of an individual's identity anywhere across the country would facilitate service delivery both in government and private sector, like access to consumer credit which requires proper identification of the consumer.

Therefore Government believes that a well set up national identity management which addresses the lapses and constraints in the current identification environment would help bring identity management in Nigeria to global standards using modern technology and global best practice. Government proposes to create a system that would direct attention to identity management, away from card issuance.

This new system would ensure that there is a unique way of identifying an individual anywhere in Nigeria and the

system would have high integrity, confidentiality, accessible, non-repudiating. It would be such that when you walk into a place and your identity is obtained from you, it should be possible to ascertain that you are who you say you are and this can be repeated everywhere around the country with same result.

2.3 **Concern of Government**

Government has identified the need to integrate the various identity Schemes (IDS) into one effective and functional National Identity Management System (NIMS) to complement its programme of social and economic reforms. Amongst other things, this would provide a reliable system of uniquely authenticating and verifying the identity of every individual (Nigerian and expatriate), boost national security through efficient and reliable Identity authentication, promote consumer credit and minimises identity fraud. Governance, especially in terms of e-government services, (which is the way to go for Nigeria), has continued to depend on improved national identity systems which enhances security, planning and social development, it is therefore crucial to develop an identity management system for Nigeria.

Government's role goes beyond the provision of an enabling environment for private sector initiative, since there are specific applications that enhance governance processes, issues of privacy and therefore, accessibility, security and rights. Indeed innovations in national identification systems have moved so fast that it is imperative that Government's intervention should foster the adoption of the most modern applications so as to achieve online and offline capture of demographic and biometric data, well organised access to verification and registration, multi-tier architecture, secure management of the document lifecycle, biometric personalisation, off-line and on-line identity verification as well as enhanced disaster tolerance and recovery levels.

Therefore Government is interested in the establishment of an effective, functional and efficient system of identity management that employs the benefits of modern technological developments in:

(i) seamlessly integrating existing and future identification schemes;
(ii) instituting a unique national identification scheme;
(iii) providing government with an opportunity for enhanced deployment of existing and other possible government applications;
(iv) develop a national identity database as well as provide a common platform for related applications;
(v) institutionalise a reliable system for verifying and uniquely authenticating the identity of every Nigerian including those with the legal rights to reside in Nigeria.

It is therefore paramount that Government should lead the way by setting the rules of engagement that would encourage the private sector to invest in the development and roll out of a unique national identification scheme as part of the development of a national system of identity management for Nigeria. Government is mindful of the historical effort at developing this system and proposes in this policy document to achieve the goal through a clear and strong partnership with the private sector for the funding and operation of the system subject to national security interests.

2.4 **Current Environment for National Identity Management**

There is currently no centralised national identity database and no system of national identity management which efficiently links private sector ID schemes with the public sector schemes.

While the financial services sector has been most proactive in the deployment of identification schemes in the delivery of their services, these have differed from institution to institution within the sector. The result has been several identification schemes and databases with the result that an individual's identity data is replicated by the various institutions offering service to that person.

Government agencies, notably National Pensions Commission (PENCOM), National Health Insurance Scheme (NHIS), Federal Road Safety Commission (FRSC), National Population Commission (NPC) Nigerian Immigration Services (NIS), the Department for Civic Registration (DNCR), Independent National Electoral Commission (INEC) also hold considerable databases with no viable integrated access and interoperability in place to enhance service delivery in government even when some of these institutions have introduced smart card technology into their schemes. Thus a reliable system for verification and secure authentication of an individual's identity has not been established.

The current environment for identity management is therefore less than desirable. Government therefore proposes to organise identity management in such a manner as to bring all government database into an interoperability loop and also provide an institutional framework for managing the system so as to be able to introduce a unique identification scheme that would facilitate the establishment of a national identity database for Nigeria.

2.5 **National Identification Schemes and National Identity Management**

Government recognises that the issue of a national identity management system has very often been misunderstood. Often the proposal to develop a national identity database and introduce a unique national identifier and the consequent issuance of a multi-purpose (chip technology) smart card, is confused with the additional effort of ensuring that interoperability and secure access to the database is achieved through connectivity and seamless integration with existing identification schemes. Ensuring that this is properly managed under a unified structure that is guided by set principles, practices, procedures and policies are even further misconstrued.

The focus this of policy is therefore not just the introduction of a unique identification scheme with a resultant 'card' having certain hitherto unavailable features and characteristics, but the development of an integrated interoperability framework, a national identity database and an agency charged with the responsibility for managing the system which would be funded, built and operated under a PPP scheme.

Government proposes, in this policy initiative, to embark on massive education of the citizenry on the benefits of instituting a national identity management system, comprising a national identity database, a unique national identification scheme, a national identity database and multi purpose smart card.

Government's view is that an identity management system should support common identity needs of government and private sector transactions, reduce costs, enhance service delivery, further safe guard the public order as well as preserve and improve on individual privacy.

A smart card designed to accommodate any combination of government services and payment applications which will be loaded on any chip and on any acceptance device that conforms to the Multiple Purpose Card (MPC) standard is therefore desirable.

Accordingly Government proposes to, aside from the harmonisation of existing schemes, introduce a smart card with a payments application which would be integrated with existing identification schemes.

2.6 **Introduction of a Unique National Identification Scheme**

It is proposed that a General Multi-purpose Card (GMPC) would be adopted for Nigeria. It would be based on the creation of a national identity database using a system of unique identification that has a national application and which conforms with global best practice.

The GMPC technology allows for the use of a chip (smart card) in which different public and private sector applications can be loaded into one card, with secure linkage to a secure database with the associated biometrics and strong authentication characteristics.

> A secure national identity management system that enables a secure, reliable and authentic verification of an individual's identity anywhere across the country would facilitate service delivery both in government and private sector

As earlier noted, the scheme would have the following distinguishing elements:

(i) A Database;
(ii) A Unique Signifier for every Individual, including at least:
i. A 'Unique Identifier';
ii. A Biometric Entifier ;
(iii) An (Id)entification Token (that is the GMP ID Card);
(iv) Mechanisms for Identification and identity Authentication;
(v) Widespread Use of Data (Flows, identifier and Database);
(vi) Obligations on stakeholders.

3.0 The National Policy and Institutional Framework

3.1 Direction of Policy

Government's proposal is for the integration (upon harmonisation) of existing identification schemes, the introduction of a unique identifier (based on individual biometrics, and creation of a national identity database) and the issuance of a GMPC that would facilitate the introduction of a combination of government applications and other payment solutions. It is expected that this scheme would be driven by the private sector and incorporates the most modern and tested technological applications in identity management.

Government therefore proposes a public private partnership for delivery on the various components of the revitalised identity management system including where necessary renovation and upgrading of existing institutions and processes. It proposes to incorporate existing schemes such that interoperability can be achieved and, over the long term a unique national identification scheme would become institutionalised as a means to enhancing e-governance in Nigeria.

This national policy and institutional framework provides a basis for the orderly introduction of the unique national identification scheme and creation of a national database to provide a reliable system for verifying and uniquely authenticating the identity of every individual in Nigeria. It also provides the framework for harmonisation of existing identification schemes of government, integration of existing databases and establishment of a management agency to oversee the sustainable development of the system.

3.2 Policy Thrust

Government's primary intention is to first harmonise existing identification schemes and subsequently introduce a unique national identification scheme.

Government's second policy thrust is the institutionalisation of a system of identity management for the country with a national database that would be reliable and secure, enhance e-governance as well as provide payment applications beyond the public sector activity.

Finally Government proposes to establish an environment of identity management that is safe, secure, provides an effective database and offers a reliable platform for the further development of the consumer credit system in Nigeria.

3.3 The Policy Objectives

The overall policy objective is the promotion of an enabling institutional, legal, supervisory, technological, and infrastructural environment for the sustainable development of a national identity management system with a unique national identification scheme.

Accordingly Government's policy objective would remain focused on the need for identified system of technologies, business practices, law and policies that would ensure the attainment of the following specific goals:

(i) Reduction in the cost of governance through integration and interoperability of government database silos in various agencies and departments;

(ii) Enhancement of the quality of government service delivery through providing a unique national identification system and a multi-purpose smart card with chip technology that incorporates government applications and payment systems;

(iii) Safe guard public order and facilitate the enforcement of law and order;

(iv) Preserve and improve upon individual privacy;

(v) Enhance security of identity information;

(vi) Support common identity needs of government and the private sector;

(vii) Ensure global best practice in the process of selection and adoption of appropriate technology and solutions provider and general management of the identity management system in Nigeria.

3.4 Policy Targets

It is Government's intention to:

(i) Achieve the harmonisation and complete integration of the various ID related databases of government within 12 months of implementation of this policy;

(ii) Establish a National Identity Management Commission within 6 months of the enactment of the appro-

priate legislation to manage and oversee the operation of the national identity database, national identification scheme and the integrated network of databases;

(iii) Commence the establishment of a National Identity Database using automated fingerprint biometric (AFIS) to uniquely and unambiguously identify citizens and other legitimate residents in Nigeria, within 12 months of implementation of the policy;

(iv) Implement the Public Private Partnership (PPP) scheme for creating the database, achieving the harmonisation and introducing the GMPC within 12 months of implementation of the policy;

(v) Set up a standard and secure process for issuance of the GMP Smart Card to at least 12million Nigerians by the first year of implementation of the policy;

(vi) Provide a platform for other e-governance services within 18 months of implementation of the policy;

(vii) Provide a secure and operationally efficient system for registration and enrollement of individuals and businesses all year round and spread across the country, beginning with 18 registration centres in the first 12 months of implementation of the policy.

3.5 **Policy Strategies**

To accomplish the above stated objectives and targets the following strategies would be pursued:

(i) Government would secure a partnership scheme with the private sector in the deployment of an appropriate technology and National Identity Management Solution (NIMS);

(ii) The Department for National Civic Registration (DNCR) would be reorganized as part of the new National Identity Management Commission;

(iii) Government would continue to appropriately fund the development of the national ICT infrastructure backbone to support the creation of a national data centre and the establishment of the national identity database;

(iv) Immediate review and introduction of required and or necessary legislation;

(v) Review, renovation, replacement and or upgrade of ICT infrastructure facilities at various government agencies with database as part of the first phase of the proposed integration scheme;

(vi) Undertake a Privacy Impact Assessment to determine the scope and extent of issues in the realm of privacy to be addressed in the actual implementation of the National Identity Management;

(vii) Develop a detailed timeline for the integration of the databases, creation of the national identity database and introduction of the Identity Management Scheme.

4.0 **Components of the National Identity Management System**

It is proposed in this policy that the national identity management system for Nigeria would include the following institutional and infrastructural arrangements:

4.1 **Existing Identification Schemes**

Government's view is that existing identification systems are very useful and should be available and optimally utilised in the process of governance. Unfortunately the absence of an integrated system of access and especially interoperability, off line and on line has limited the use into which databases in different organs of government have been put.

Current systems of identification especially at the Department for National Civic Registration (DNCR), National Health Insurance Scheme (NHIS), National Population Commission (NPC), Federal Road Safety Commission (FRSC), Federal Inland Revenue Services (FIRS), Independent National Electoral Commission (INEC), and Nigerian Immigration Services and other such schemes and identity databases in both the public and private sector constitute an integral part of the proposed national identity management system.

4.2 **A National Identity Database**

Government proposes the development of a national identity database. It would be a hub system which would provide a linkage among multiple databases currently in existence, including the new national identification scheme, thus achieving a 'virtually centralised' database. In addition there shall be a National Data Centre (with adequate

disaster tolerance). It would be networked to all existing and the new identification schemes and under the management of the proposed National Identity Management Commission (NIMC).

The process of integration of the databases and centralising management through the NIMC would also involve the launch of a new unique national identification scheme. This scheme, which would lead to the creation of a new database, would deploy a unique identifier, (requiring every person in the country to present themselves for registration, and to provide copies of documents that attest to their use of a name). Through this means and the harmonisation that would be achieved, integration of data would be facilitated to institute a secure national identity database. The scheme would include the ICT infrastructure upgrade and harmonisation of the existing databases in government agencies, based on national minimum identification criteria in order to achieve uniformity on the virtual identity platform.

> Identity authentication, a process whereby checking is performed, in order to be confident that the person presenting the identity is entitled to use that identity, facilitates the early detection and prevention of fraud.

Any national identification scheme has a database at its core, and is crucially dependent upon its existence, on the quality of the data in the records, and on the reality of the inference that each record has a one-to-one correspondence with a particular individual. It is Government's intention to achieve this objective through the introduction of the unique identification scheme and a supporting multipurpose card.

4.3 **Institutional Mechanism for Managing the System**

Government proposes the establishment of a National Identity Management Commission (NIMC) whose functions would include the monitoring, regulation, supervision and management of the national identity database and the new unique national identification scheme under a partnership arrangement that would involve the private sector in a concession agreement for the setting up, production and operation of the infrastructure.

Existing databases would continue to remain with the various agencies under a harmonised database structure (virtual platform) and an upgraded infrastructure and connectivity to facilitate interoperability. It is also expected that the various payments platforms in the country would become part of the application solutions on the multipurpose smart card that would be introduced to embody the unique national identification scheme and utilise the national identity database.

Government has taken steps to ensure the speedy development of the appropriate ICT infrastructure backbone including the construction of a National Data Centre to enhance availability of the database and its management processes including access, interface and data update processes.

To facilitate the effective transition to the new system, it is proposed in this policy to submit a legislation which would provide for the repeal of the Act establishing the Department for National Civic Registration (DNCR), establishment of the NIMC and the transfer of the assets, liabilities and functions of the DNCR to the NIMC. The current functions of the DNCR would continue to be done under the NIMC.

4.4 **Financial Arrangement for Managing the System**

Government recognises the need to ensure that the new system does not remain a perpetual cost burden on national treasury. To ensure efficiency and expeditious implementation of the transition programme including the introduction of the unique identifications scheme, Government proposes the introduction of a Public Private Partnership Scheme.

Under this arrangement, Government, represented by the NIMC, would grant a concession to a firm/consortium in a Build Transfer and Operate (BTO) agreement, for the introduction of the unique identification scheme, development of the appropriate infrastructure and institutional arrangement for the creation of the database and interconnectivity management of the system, production and issuance of the multipurpose card and the related administrative issues. Government's contribution to the scheme would involve the employment of existing infrastructure

which would be subsequently renovated and or upgraded under the scheme as appropriate. The cost of upgrade of existing schemes so that they can conform to the new platform would also be borne by the PPP scheme.

The PPP partners who shall include Identity Solution Providers (IDSP), Financiers and Operators, would fund the project implementation and roll-out (including the upgrading and retrofitting of assets of the DNCR, construction of the National Data Centre, NIMC Head Office and equipment supplies consistent with Government's specifications as detailed in the Build Transfer and Operate Agreement (BTO).

Detailed financing arrangement and cost structure would be agreed with the PPP partners based on the work of the Presidential Implementation Committee set up by Government to over see the successful implementation of the project. There shall also be financial advisers to the project to ensure optimal cost and benefits to the citizenry.

4.5 The General Multi-purpose Smart Card (GMPC)

Government proposes in this policy to introduce a General Multi-purpose Card (GMPC) which allows for the use of a (smart card) technology in which different public and private applications would be installed. The essential key to a GMPC is the linkage to a secure database with biometric verifications for an individual's identity.

The benefits of the GMPC include the fact that it facilitates identification, authentication, non-repudiation and portability in identity management. The GMPC Technology has a framework that allows integration of many applications into one multipurpose card which would enhance governance and payments in Nigeria.

4.6 A Unique Identification scheme (Signifier) for Every Individual

Government proposes in this policy the establishment of a unique national identification scheme which would result in the institutionalisation of a unique signifier for every individual. This unique means of relating an entry in the national database (a digital persona) to a physical human being is required to ensure the quality and reliability of the database. Its major features would include the following:

a. **An 'Identifier':** (usually a series of digits and may include alphabetic characters) which is commonly assigned to each digital persona, in such a way that no two digital personas have the same identifier. Also once allotted an 'identifier' it would be impossible to have another 'identifier' allotted to the same person in the same database with the same biometrics.

b. **A Biometric Entifier:** which would involve the use of a measure of aspects of the physical person. Government proposes that this would require each enrolment to provide a set of 10 prints of the fingers and thumbs and the face. The biometrics are captured, encoded, and stored in the database (and also the smart card).

c. A token of the identification: It is proposed in this policy that an individual's signifier would be accessible from the database by a secure means which could be a device which can read on-line and off-line using an identification token, that is 'identity card' which would have a chip on it. It is further proposed that this identity card would be a multi-purpose card with provision for installing government and private sector applications.

d. Mechanisms for Identification and Identity Authentication -the new system envisioned would have a means of identification which requires that an individual's data (or biometrics) is collected and a trawl of the entire database would be conducted for possible matches. It would also provide for the authentication of an individual's identity (card user) through a system of 'entity identification' whereby the data (or biometrics) collected is used to test the proposition that the person presenting it is the same human being that the entry in the national database is meant to relate to.

Identity authentication, a process whereby checking is performed, in order to be confident that the person presenting the identity is entitled to use that identity, facilitates the early detection and prevention of fraud.

The aim is to ensure that each identification card would only be used by 'the right person' through entity authentication of the pre-recorded biometric of that person.

This entity authentication would be performed when the person submits to the collection of a new biometric, which is then compared with the one recorded on the card. The association of the person with the card can thereby be established; the unique national identity code is then ex-

tracted from the card and applied for the purpose of the transaction.

e. Widespread Use

Government proposes to facilitate the widespread use of the new identification scheme as part of its efforts to encourage the generation of sufficient data-points to track and provide a means for control of illegal conduct and activity, amongst other things. This is one way in which a national database, with unique signifier and a multipurpose smart card can be useful to governance. Accordingly, it is proposed in this policy that there would be various levels of data flows:

i. ***Widespread Data Flows Containing the Identifier***

> To provide a superstructure for the new system requires the establishment of a central location where the National Identity database would be situated and the network connections would terminate with sufficient security and ICT architecture conducive for the interoperability of the system.

This would involve the flow of data between organisations that perform registration (especially under the harmonised system) and the operator of the national identity database (at NIMC), the issuer of the signifier, and the issuer of the card (the operator or solution provider under the PPP scheme being deployed for this purpose). There would also be access to the data flow between law enforcement agencies where necessary.

Due to the fact that the multi-purpose chip based smart card would provide for uploading of private sector payment applications, access would also be defined for this category of users (such as financial transactions). They too must interact with the hub database.

ii. ***Widespread Use of the Identifier***

To facilitate information sharing amongst Government agencies, it is proposed in this policy to harmonise the various identification schemes including ensuring that the use of the identifier under the new scheme is enhanced.

iii. ***Widespread Use of the Database***

Any national identification scheme involves widespread use of the hub-database, or information from the hub-database. Although in its early stages this would be restricted to government agencies under the harmonisation programme, the introduction of the unique national identification scheme would ensure that access to the national database is further expanded and enhanced.

Therefore, it is proposed that alongside the harmonisation there would be the upgrading of the various schemes to achieve uniformity of data gathering, seamless integration and access.

(f) Obligations of Stakeholders

Government proposes in this policy to encourage the use of the new national identification scheme to further enhance the system of individual identity verification and authentication and thus foster the growth of consumer credit in Nigeria, amongst other benefits. Furthermore specifications for business processes which are included in the applications on the multipurpose card would require encouragement if those cards are to be used. Therefore there is need to provide a mechanism for encouragement and motivation.

Accordingly Government proposes to introduce a legislation that would enhance the acceptance and use of the smart card by specific categories of Nigerians and legal residents. Imposition of this responsibility is simplified by reference to the type of cards and transactions that are specifically covered in the system.

Government proposes in this policy that every individual who is sixteen (16) years and above would have:

(i) An entry in the national identification scheme with

his own unique identifier;

(ii) A token that evidences that identifier (that is the GMP card;

(iii) To produce the GMP card when undertaking certain transactions or dealings with organisations, both in the public and private sector;

(iv) To submit to biometric measurement whenever an organisation with power demands it. The power may derive from legal sources or based on market conditions (transaction precondition).

In view of the harmonisation process, the deaths and births registration would become integrated into the national identity database. This would thus ensure that registration is captured at birth while enrolment of biometrics is subsequently captured and deaths are recorded accordingly to provide an 'end' to the use of an identification signifier in the database.

Government proposes to impose other obligations on other stakeholders to complete the circle of fostering the active use of the new scheme. It is recognised that unless this is done, the scheme would not achieve its purpose. These obligations would include the requirement to: demand for the Card and perform identity authentication, record the identifier and where needed, report information using the identifier and apply sanctions to people who fail to produce their card (provided sufficient time is given before this comes into effect).

4.7 Harmonisation of Existing Identification Schemes (EIDS)

Government recognises the need to establish an interoperable system with sufficient interactive window to facilitate the use of available database by government agencies without hindrance. Furthermore, the establishment of a system of national identity requires the harmonisation of existing systems to facilitate standardisation and subsequently achieving uniformity with a view to upgrading the entire individual's identity verification and authentication that is reliable and secure.

The harmonisation scheme underscores Government's resolve to implant a system of identity management for Nigeria and clearly differentiates current efforts from previous arrangements. The emphasis being 'identity management' rather than 'card issuance'. Therefore, whereas the harmonisation programme would facilitate the development of a national identity database, the introduction of the unique identifier would further enhance the use of the database especially when the multi purpose cards with its numerous applications are introduced.

Current identification scheme would become harmonised in phases so as to ensure seamless integration of identity infrastructure and 'change-over' to the new set of unique identifier requirements under the new system. These existing systems represent the 'legacy structure' while there would be a superstructure represented by the new scheme, national identity database and the supervision and management of the system thus would be created.

5.0 LEGAL, INSTITUTIONAL AND SUPERVISORY FRAMEWORK

5.1 Introduction

To ensure appropriate legal institutional and supervisory framework, Government proposes to review existing legislations and where necessary submit appropriate Bills for consideration of the National Assembly for enactment. There are two categories of issues in focus here: existing legislations and their provisions and required legislations,

5.2 Existing Legislations

Existing legislations which provide for one form of identity data collection or the other include the following:

(i) National Civic Registration Act;
(ii) Passport Act;
(iii) Immigration Act;
(iv) National Population Act;
(v) The National Health Insurance Scheme Act;
(vi) The INEC Act;
(vii) The FIRS Act;
(viii) Births and Deaths (Compulsory Registration) Act; and
(ix) The Pension Reform Act.

Whilst these statutory roles would continue to be performed, the integration of the various schemes will enhance interoperability and ensure that ultimately the introduction of the ID Scheme would further strengthen the national identity database, enhance access, verification and authentication processes.

5.3 Required Legislation

To ensure a seamless transformation of the DNCR from a Department to a Commission, a Bill for the enactment of an enabling law for the establishment of the National Identity Management Commission would be submitted to the

National Assembly for consideration for enactment into law.

The proposed Act would provide the necessary framework, regulatory and supervisory mechanism for the management of the National Identity Database (NID) and the introduction of the unique national identification scheme including the relevant information to be obtained and how.

Government proposes that there would be definition of the various transactions for which a GMP Card is compulsory in the Bill.

5.4 The Proposed National Identity Management Commission Act

In line with global best practices Government proposes in this policy, the establishment of a Commission which would be carved out of the present DNCR to carry out the functions of supervising and managing the national database, in addition to its other functions.

The object of the proposed Act is to make provisions for the establishment of a National Identity Database (NID) and the National Identity Management Commission (NIMC) charged with the responsibilities for maintenance of the National Database, the registration of individuals, and the issuance of General Multi-Purpose Identity Cards and for matters connected therewith.

The proposed Act covers a wide range of issues including:

(i) Establishment, functions and staff of the NIMC
(ii) Functions and Powers of the Commission
(iii) Financial provisions
(iv) Establishment of a National Identity Database
(v) Assignment of National Identification Numbers
(vi) Mandatory use of the National Identification Numbers for Transactions
(vii) Offences and Penalties
(viii) Miscellaneous provisions, etc.

6.0 IT Infrastructure for the National Identity Management System

The deployment of a complete identity solution requires an integrated national ICT infrastructure which would support the generation, storage, use and application of the database across a wide spectrum of users within the country. Accordingly, this policy proposes the following complementary ICT infrastructure development.

6.1 Necessary Infrastructure requirements

(i) Registration Centres with full ICT infrastructure

It is proposed that the registration and enrolment procedure would be standard and available throughout the year. In which case, it would be possible for an individual during the working hours on any day to present himself for registration under the new system as registration would be a continuous exercise at designated centres. These centres would be fitted with necessary ICT infrastructure and linked to the national database on line real time.

(ii) **The Central Hub**

To provide a superstructure for the new system requires the establishment of a central location where the National Identity database would be situated and the network connections would terminate with sufficient security and ICT architecture conducive for the interoperability of the system. The registration centres would be the 'service centres' of the super structure. The super structure would include the NIMC head office and the national database / data centre.

(iii) **The Legacy Systems**

All the existing databases that are hosted by the relevant government agencies constitute the 'legacy system'. The legacy system and their network (which would be retrofitted, upgraded and integrated into the new system) would continue to be responsible for data capturing (i.e. biometrics, including photographs, and other details specific to the agencies' statutory responsibilities). They will in turn communicate with the 'super structure' or central hub at the NIMC as and when they so require.

(iv) **Card Acceptance Devices (CAD)**

It is proposed that the General Multi-Purpose Cards (GMPC) installed with specific applications would be issued. It is therefore necessary to have Card Acceptance Devices to facilitate access to the central database for identity verification and applications utilisation. CADs to be deployed in the new system would include hand-held devices, mobile or stationary devices such as the ATM (which is now widely in use), digital kiosks, finger print scanners, point of sales, etc.

(v) **Connectivity**

It is proposed that the new system would require the incorporation of existing connectivity and establishment of new ones to achieve a secure connectivity with the hub (using closed Wide Area Network (WAN), Virtual Private Network (VPN), Dial Up or Fibre Optics), the CADs (using

Dial up, Global System of Telecommunication (GSM), and the payments application (bank connectivity) through the established switching organisation, for both acquisition and settlement functions.

(vi) **Automated Finger print Identification Systems (AFIS)**
Currently some of the existing databases in different government agencies use disparate AFIS standards for compressing and storing finger print images. It is proposed under this new system that there would be a uniform AFIS which would be specified by the NIMC although each agency would continue to store its own finger prints to suit its statutory responsibility and thus facilitate exchange of finger prints using the central database. The NIMC would house its own AFIS which would be attached to the national database.

6.2 **Token of Identification (GMPC)**
Each individual registered under the new system or whose individual database is identified under the new scheme would have a unique identifier issued to him. This would enable the issuance of the GMPC Card which would have a chip implanted on it and have the individuals identifier elements for specified applications uploaded on it including:

(i) National identity;
(ii) Immigration details (passport);
(iii) Drivers licence;
(iv) Medical insurance;
(v) Electoral system;
(vi) Tax.

to mention a few.

Accordingly it would be possible to integrate the proposed GMPC with the various existing government agencies databases including the above listed identification schemes.

6.3 **PKI and Other Infrastructure**
There are other ICT infrastructures, which would be needed to implant the new identity management system that would be provided by the solution providers as part of the hardware and software to be deployed to introduce the new system.

With specific reference to public key Infrastructure, it is proposed in this policy that the National ICT infrastructure backbone would be expeditiously deployed to enhance the effectiveness and functionality of the new system. Thus, Government has embarked on the upgrade and introduction, where necessary, of appropriate infrastructure through the Galaxy Backbone Plc and the Nigeria Communications Satellite Limited and other agencies of government to ensure adequate infrastructure support for the new system. It is expected that the complement of infrastructure would facilitate the capturing of data including biometric processing and management in a secure and efficient manner.

> Government recognises the need to establish an interoperable system with sufficient interactive window to facilitate the use of available database by government agencies without hindrance. Furthermore, the establishment of a system of national identity requires the harmonisation of existing systems to facilitate standardisation and subsequently achieving uniformity with a view to upgrading the entire individual's identity verification and authentication that is reliable and secure.

Furthermore adequate security and access procedures would be incorporated such that the integrity of the system is assured.

7.0 **Funding the National Identity Management System**
Government is mindful of the need to introduce a new system that would be reliable and sustainable. It has consequently decided on a public-private sector partnership scheme. The scheme would involve the concessioning of

the development and implanting of the new system through private sector funding under a 'Build Transfer and Operate (BTO) model for a specified number of years.

Currently members of the public pay for each identification scheme they are registered for. It is expected that under the system, the charges would be streamlined and over time, reduced with total elimination of duplication. It would therefore be possible for the PPP scheme to finance and sustain the new system

The objective is that government will not fund the new national identity management system although for obvious national security reasons, the database would remain the property of the Government.

8.0 **Consultation with Stakeholders**

The overall objective of policy is to provide direction on the deployment of identification technology and identity management solutions with a view to achieving an orderly deployment of solutions that enhance service delivery across the country.

The expectation is that from birth, all citizens are covered by the new scheme and the identity history is captured early and made to be part of a national identity database.

There have been several misconceptions and oftentimes misguided comments about the new system and its benefits. Government therefore proposes in this policy to undertake extensive public awareness campaigns in respect of the benefits of the new scheme and in particular, the benefits of the GMPC.

Furthermore Government proposes the integration of private sector identity initiatives through the various switch platforms and payment solutions in a phased manner. Continuous consultation with the private sector would continue the be an essential part of the scheme for giving effect to this policy.

Based on the need to bring registration centres close to citizens Government would explore the option of partnering with States and Local Governments to establish registration centres in the Local Government Head Quarters. Also establishment of registration centres in Post Offices and such public institutions would be given special attention.

It is Government's belief that the PPP scheme for the funding construction/rehabilitation of existing infrastructure and introduction of the ID Scheme would be very beneficial to the citizens.

10.0 CONCLUSION

Government is desirous of implementing the new system of identity management due to its firm belief in the benefits that accrue from it. Government believes that a strong identity management plays a critical role in the implementation of e-governance and further enhancement of the national payments system.

It is government's belief that the introduction of smartcard is realistic, it has been proven to be a reliable technology for verifying the identity of individuals and biometrics technology have been adopted to enhance the security level of identity management. Therefore, biometric smart card would enable government fast track its implementation of e-government not just in improving service delivery but also in enhancing security and protecting individual privacy.

The new system would address various lapses in the current system and provide a secure system that would facilitate the development of the consumer credit system in Nigeria. It would fast track the introduction of modern ICT in governance, while focusing attention on identity management rather than identification schemes and card issuance.

The harmonisation of all existing identity databases would greatly enhance identity management which would create new economic opportunities in Nigeria, improve government's revenue collection and generation while improving socioeconomic life of Nigerians.

Capital Market reform: Challenges & Opportunities

* By Mike Uzor

Ever since government policy began shifting in the direction of limiting the role of the public sector in business activity, the reform of the capital market has been a critical requirement for creating a viable private sector. The need for a balanced financial intermediation in a system significantly lacking in long-term money has been a strong signal that the domestic capital market here is overripe for a major change.

Some significant developments in the business and economic environment lately have led to greater attention and reliance on the capital market, also making operational and regulatory responses almost imperative. The developments have led to rapid growth of the capital market, raising awareness and volume of activity to a new level.

The high growth the market has recorded over the past seven years is hardly matched anywhere else in the world. From a market capitalization level of merely $3 billion at the end of 1999, the market has advanced to about $60 billion at present.

Driving forces of growth

The main starting point of the sustaining rapid growth was the discarding of institutional distinctions in the banking sector with the universal banking mandate that happened in 2000.

The policy opened the doors of capital market business to commercial banks that controlled the banking industry.

Until then, the stock exchange did not permit commercial banks to undertake investment banking business. Engagement in capital market operations was limited to merchant banks that played at the fringes. With the change in policy, the rapid growth in the financial services industry found an expression in a market set for explosive growth.

Other key driving forces of growth include the introduction of the automated trading and clearing system, the abrogation of restrictive investment laws and the enactment of accommodative investment and securities laws in 1999. The step up of privatization of public enterprises also provided a spur for capital market operations, opening wider the channels of foreign and domestic capital inflow.

The investment windows were however opening without the availability of adequate instruments in both volume and variety. A major draw back was the stagnation of the industrial sector, which did not create room for new entrants or for meaningful expansion of existing entities.

In effect, only the equities of a few multinational firms were available for trading. That clearly failed to give the market the depth that was needed to stimulate the inflow of new investment. The potential of the capital market as a source of development capital remained largely undiscovered and untapped and the stock market represented a tiny fraction of a large economy.

As a response in the way of increasing market depth, the stock exchange initiated the market for derivatives. Trading on rights has since commenced and volume of transactions has been growing steadily. However, the effort to groom small-scale enterprises in a second-tier market was undermined by operational difficulties that crippled most of them.

The Central Bank's low interest rate policy focus has been reinforced by the stability in liquidity levels in the money market.

The big banking bang

The most important event in the growth process of the capital market happened in 2004/2005. Banking industry consolidation produced a big bang effect to the market through high volume capital raising programmes. The Central Bank had set minimum qualifying capital for banks at N25 billion compared to the paid-up capital requirement of N2.0 billion – that most banks were unable to raise even then. Until then nobody ever imagined the capital market was capable of absorbing the high volume offers that turned out oversubscribed.

In the process of complying with the minimum regulatory capital requirement, banks staged the biggest public offer programmes ever seen in the Nigerian market, pumping billions of equities into the market. The highly successful offer programmes confirmed the huge potentials of the market that have since been waiting to be tapped.

The period of banking consolidation gave the market a high lift from the primary market angle. The primary market is quite popular here with investors and the innovative marketing approaches adopted by banks gave the market one of its biggest advances ever almost overnight.

The inflow of new money from both foreign and domestic investors within the 18 months of banking consolidation improved the ranking of the Nigerian market within the emerging markets group. It is the fastest growing equities market in Africa. With the sustaining rapid economic growth, the high growth momentum of the capital market is expected to be maintained in the coming years.

Re-entry of government bonds

Further driving forces of growth came from the reintroduction of long-dated government debt instruments, which were suspended in the 1980s. This was in response to monetary and fiscal policy changes aimed at shifting the financing base of excessive fiscal deficits from ways and means advances to long-term government debts.

There was a shift from long-term to medium-term dated bonds as a strategy to make the bonds marketable in short-term driven financial markets. This improved the attractiveness of the instruments and gave life once again to an otherwise dormant bonds market.

The stock exchange has also migrated from manual to electronic trading in bonds and primary dealership in the instruments has also commenced. These have greatly facilitated transactions in the bonds market, adding depth and variety to the instruments traded.

The apparent rediscovery of bonds in development

financing led to an upsurge of state government bonds soon after the civilian government came into office. The move was however short-lived, as regulatory authorities doubted the credit worthiness of state governments. That was borne out of bitter experiences of rampant credit abuses by previous state governments in banks that had led to financial distress and liquidations.

Monetary policy support

Over the past two years, monetary policy has achieved a great deal of stability compared to the turbulence of the preceding years. The Central Bank's low interest rate policy focus has been reinforced by the stability in liquidity levels in the money market.

The effect of these developments has been to drive high return seeking financial capital into the stock market. The consolidation induced inflow of large resources into the banking sector has further increased the flow of investment capital from money to the capital market.

The pressure for high rate of return has again been sustained by high domestic inflation rate. The Central Bank's low interest rate drive has been enforced against sustained effort to achieve single inflation rate target. That has been putting significant pressure on financial assets but only the stock market is in a position to respond to the demand for above inflation rate return.

For most of the period, money market rates were tied to the Central Bank's benchmark rate – the minimum rediscount rate. The rate, now replaced by monetary policy rate, is dictated by the bank and not subject to market based responses. The rate was progressively adjusted downwards in pursuit of a low lending rate objective.

The return of flight capital

Two major regulatory successes have also increased the retentive ability of the capital market in terms of capital flow. The economy, for the first time in about three decades is retaining an increased proportion of Nigerian originated financial capital. The first is government effort against money laundering, which has recorded an appreciable success in stemming capital flight.

Electronic processing of share issues is being extended to primary market offers and this represents a major development that will give the stock market here a big leap forward.

The second supportive policy action is the high level of exchange rate stability achieved over the past two years. That has closed the opportunity to profit from holding dollar denominated assets and reconverting to the naira later at depreciated exchange rate. The developments have added to the stability of financial markets and made available large sums of capital for investment in the stock market.

This is a big victory for the Nigerian economy, which is happening at a time of sustained rapid economic growth. Government revenue has been at an exceptionally high level in the past several years and reasonable stimulatory spending has happened to raise the level of business activity generally.

A new strength from pension reform

The commencement of a new pension scheme has created a strong flow of investment capital from retirees to the capital market. Retirees leaving the public sector are for the first time in Nigerian history able to get their retirement benefits within a reasonable time. The number of such people has increased over the past two years, as the government privatization machinery gained speed.

The pension reform itself created a new window in capital market operations for pension funds managers. An estimated 10 million employees are expected to register with the National Pension Commission [PENCOM] for retirement accounts. This has created a huge market for pension funds administrators [PFAs] – key actors in a stock market that have since been virtually absent in the Nigerian market.

Their presence will now increase the availability of longer-term investment capital in the market and raise the impact of institutional investing and trading in securities. About N300 billion contributed by the public and private sectors are estimated to be currently under the management of PFAs.

Contributions are estimated at N8-10 billion monthly. Nigeria hasn't had such a long-term stable fund for a long time. The inflow of huge funds for investment is clearly tasking the capital market in terms of absorptive capacity. The market is yet to develop the depth and investment options needed in response to the demand for financial

assets under the pension reform. How much of pension funds the capital market can attract depends on how fast it can create the needed investment characteristics.

Rewards of banking reform

The post consolidation period has shifted the bank-driven growth to the secondary arm of the market. This is a period of spectacular growth for banks, as they are rapidly rebuilding rates of return. A strong growth in earnings is happening industry wide and with that, prospects for improved investor compensation are equally widely spread. With earnings growth spread industry wide, investing risk in the sector has reduced significantly.

Equity investors have begun reaping the rewards of consolidation and they hope for more with the high growth momentum sustaining into the second year of post consolidation. General industry prospects are quite promising and banking shares are generally a much better risk now than any time in many years.

With a new strength in consolidation, banks are providing a driving force in the development of major arms of the capital market. These include pension funds management and mutual funds operations. In 2006 alone up to nine mutual funds were floated mostly by banks. The rapid growth in the capital market has created the window of opportunity for institutional investing.

Banks are equally providing the spur for the growth in the stock market with margin trading being one of the main channels for expressing the bigger operating capacities of banks in the post consolidated environment. How long will the bull run depends on the general stability of financial markets and interest rates. If there is any need for caution it is to see that there are no developments strong enough to cause banks to pull back from competing on the asset side of the balance sheet.

Margin financing seems to be an escape route for banks from the rising incidence of bad debts in a difficult economy. With worsening infrastructures, the operating difficulties facing the industrial sector have increased and banks will expectedly be more stringent with new lending for real sector businesses. Short-term lending and investing within the financial markets are therefore very likely to be the main concentration of banks for now. The stock market will most likely remain a major destination of bank financing in the medium-term.

The low interest rate environment is favourable for margin trading and there is no real pressure for money market rates to rise. Low interest rates are fostering the stock market from two angles. The first is the opportunity to borrow short-term funds to play for higher returns in the stock market. The second is the exit of higher return seeking capital from low yield money market instruments into equities.

Is the stock market exposed to undue risks by these developments? Not quite! The market isn't likely to take a hard turn in a situation where investment capital hardly has any promising opportunities for high returns in the short-term. The bull can be expected to keep running but disappointing earning reports can present some hurdles.

Electronic processing of share issues

The Securities and Exchange Commission approved the introduction of e-bonus system in 2004 to replace the issuance of physical certificates for scrip dividends. This will end the roundabout journey of issuing and dematerializing bonus share certificates by the registrars. The facility provides for direct credit of shares to the shareholders' stock accounts at the central depository [the CSCS]. This is considered to be the second most important step towards improving market liquidity and efficiency outside of the T + 3 settlement cycle.

The move is an overdue right step to save the market from the cumbersome process of share certificate verification. Share certificate issuance and verification is a snail

In spite of the significant increase in market capitalization, the Nigerian stock market remains relatively small. The main sectors of the economy are not represented in the market, which is one of the reasons why the stock market does not fully respond to macro-economic developments.

Apart from government institutions yet to be privatized, there are a number of potential blue chip companies that are not listed in the stock exchange. Regulators clearly need to come up with new incentives to admit a lot more companies into the stock market.

speed business here. It is therefore a major limiting factor to market liquidity. There is no time limit for share certificates to be issued either for bonus or for primary issues.

Sometimes certificates quality for the following year's dividend while they are yet to be received by shareholders. There is also no specified time for verification of share certificates from the time of lodgment. They lie fallow for several months at the registrars in the process of verification. On the average, share certificates stay up to two years from the point of issue before they can be activated for trading on the stock exchange. This is a clear disregard for time value of money.

Electronic processing of share issues is being extended to primary market offers and this represents a major development that will give the stock market here a big leap forward. It can be expected to improve corporate governance standard and take the Nigerian market to a higher scale in the international ranking of stock exchanges.

(ii) The need for reform

The phenomenal growth in capital market operations has not been without the need for fundamental changes within the market itself. There has been a significant increase in the number of capital market operators as the market grew in length and breadth. And with that came challenges of inadequate capacity for the growing volume of transactions. A number of operators have also been found wanting in the areas of professionalism and operating discipline.

Apart from the need to build institutional capacity, there have emerged a number of operational issues to be addressed. The entire regulatory framework needed a regulatory retouch.

Need for competitive transaction cost

The downward movement of interest rates in the money market had warranted a reduction in charges on various aspects of capital market transactions. Responding appropriately to declining short-term interest rates required lowering the cost of raising funds through the capital market. Lower transaction charges are needed to trap high return seeking financial capital leaving the money market as rates push further downwards.

There was the need to make the domestic capital market competitive in terms of transaction cost in respect of which Nigeria ranked among the highest in the world. To this effect, a committee was set up in 2006 to review the situation and recommend an appropriate structure of transaction charges. It is expected that a cut down in transaction charges will have a stimulatory impact on the market.

The need to cut down on cost was practically reinforced by the downward movement in short-term interest rates. The decline in money market rates made the cost of primary market offers relatively uncompetitive. Regulation clearly needed to respond appropriately to declining interest rates by lowering the cost of raising funds through the market. Reducing the cost of transactions in the secondary market was a strategic requirement to retain within the domestic financial markets high return seeking capital when interest rates decline.

Checking operating excesses

Regulatory policy also needed to move in the direction of checking operating excesses of stock broking firms that were increasingly getting out of hand. A clear expression of poor institutional capacity was the large presence of poorly capitalized firms facing extreme cash flow difficulties. In desperation, the cash strapped operators would

sell their clients' investments unauthorized.

The stock exchange had earlier responded to the problem through the introduction of trade alert in 2005, a device to notify investors of transactions on their accounts in the central depository. By sending signals to investors before transactions on their accounts are concluded, trade alert was the exchange's answer to the question of unauthorized transactions on investors' accounts.

The introduction of the service came not only with additional cost but also with compulsion. This was at a time that the pressure to cut transaction cost was reaching its climax. A big controversy that followed its implementation stemmed from the question of who will act as the collecting agent for fees most clients were unwilling to pay.

This was subsequently resolved by building in the trade alert charges in total transaction cost at the point of trading. Meanwhile, the database and service delivery platforms to investors have not been set up. That means trade alert charges are being deducted for services not actually rendered. Apparently, the trade alert service represents an adequate response to a problem except for its element of compulsion.

Equity investors have begun reaping the rewards of consolidation and they hope for more with the high growth momentum sustaining into the second year of post consolidation.

The Securities and Exchange Commission has also had the conviction that price making in the market is fraught with a great deal of imperfections. It believes the equity market needs to shape up to a reasonable degree of professionalism in securities pricing. In the commission's view, a lot of price changes are not rooted in fundamentals and equity traders decisions on prices aren't backed by a strong research support.

(iii) The reform agenda

In the light of the developments, the finance ministry and SEC have set in motion the reform agenda for the capital market. Following the examples of regulatory changes in the banking and insurance sectors, the regulatory authorities are driving the market towards a major consolidation. The objective of the measure is to close the room for mushroom operators and rid the market of marginal practitioners creating image problem in a market looking up to international standard.

The main aspect of the reform agenda is the high volume recapitalization required of all categories of capital market operators. Stockbroker/dealers are expectedly the main candidates for regulatory cleansing. The minimum capitalization has therefore been raised from N70 million to N1.0 billion. They are expected to find the new money in about 18 months.

The regulators aren't expecting that more than a handful of stock broking firms will eventually succeed in building the new capital base. As happened in the banking and insurance sectors, they expect the new policy to set in motion a major consolidation process through mergers and acquisitions. In the end, they envisage a market served by significantly 'fewer but stronger dealing firms'.

In regulatory circles, consolidation now seems to be the panacea to the problem of financial distress and operating difficulties facing firms across sectors and industries. While there is no proof that consolidation will rid the market of the many problems encountered in dealing with stock broking firms, it appears to be one big step forward.

The stock broking business, in its original form, isn't a big capital carrying endeavour. But the combination of stock broking and dealership in the Nigerian market requires a reasonable level of capitalization to enable the firms take positions in the market on their own account. Dealing on their own account of course should be limited to the funds at their disposal and does not necessarily warrant the huge capital increase now required. The regulators however aren't just looking at capital adequacy.

In the effort to comply with the new regulatory requirement, stock broking firms have begun to explore various options and strategies. Many approaches are being made to institutions, mainly insurance companies to buy up major equity holding. This is in line with regulators' objective of diversifying ownership of stock broking firms and raising the standard of corporate governance in the firms. That is expected to raise credibility and confidence in a market growing rapidly and anxiously courting foreign portfolio investors.

Reasons for reform

The major reasons for enforcing a major consolidation policy rather than a modest increase in capital base, border much on operating discipline. They include the recur-

ring unauthorized sales of clients' investments by cash strapped stock broking firms. From the experiences of capital market regulators, under capitalization is the number one reason for most of the abuses by stock broking firms.

According to stock exchange officials, tampering with clients' accounts by stock broking firms has become rampant to the point of destroying the very product the exchange has to sell - public confidence. The many forms of investor cheating have warranted major sanitization measures to protect the investing public.

There is also the need to diversify ownership of dealing firms from the prevalent one-man ownership to reduce the level of risk to which the market is exposed in a rapidly growing transactions volume. Again, the regulatory challenges of dealing with hundreds of firms on a case-by-case basis will be easier met with consolidated operations.

Challenges of consolidation

Consolidation can be expected to be quite difficult to implement in the capital market business compared to banking and insurance sectors. Given the margin of increase in capital base, as many as 10 stock broking firms put together aren't likely to make up one new entity. The one unit operating framework without branch networks outside Lagos will not encourage merger deals among stock broking firms.

It is important to appreciate that what is being done is nothing other than compelling businesses that do not complement themselves to get together. There isn't much attraction and synergy among the mostly one office firms resident in one building or one or two streets apart on the Lagos metropolis to come together in consolidation.

Neither will most of them have much to show in terms of capital base, as the earlier recapitalization undertaken failed to improve the financial health of many of them. That seems to suggest that evidence of inflow of new money may be difficult to find when all cards are put on the table.

For the few that can raise the money on their own there will not be much attraction to acquire other firms. The reform can therefore be expected to sweep off the small, struggling firms that have neither capital nor high valued clients to contribute in consolidation.

The test for operating strength in the stock broking business is expressed either in terms of large capital base that permits high volume dealing or the number of high

net worth clients it can command. Firms that lack strength in these two areas are neither likely to find merger partners nor will they be good acquisition candidates. Worse for them is that the few high valued clients they may have are most likely to leave for the likely survivors of the recapitalization exercise.

In the wave of high level recapitalization now set to sweep through the capital market, most of the 250 functional stock broking firms will disappear, some into surviving entities and most into the corporate grave yard. The business itself will change significantly in the environment in which the number of operators drops suddenly from hundreds to a few dozens.

With the high chance that many operators will close shop, investors can be expected to be fretful about the safety of investments as the post consolidated picture begins to unfold. Investors will have to take steps to avoid a major risk that will soon be lurking in the horizon. That is the risk that a stock broking firm, unlikely to scale through the reform, tampers with clients' investments before it goes down.

There is yet no insurance against such risk and the concern that investors' accounts are directly open to the stockbroker will grow even more in the post consolidated environment. In the effort to protect their investments, there will be a gradual run on the small and the weak firms through account transfers and closures.

The houses that are able to move early to meet the new capitalization mark are very likely to attract fleeing investors and will be able to seize a major share of the market. Firms without a convincing evidence of scaling through the recapitalization hurdle are certain to begin to lose business almost immediately.

Small investors may be left out

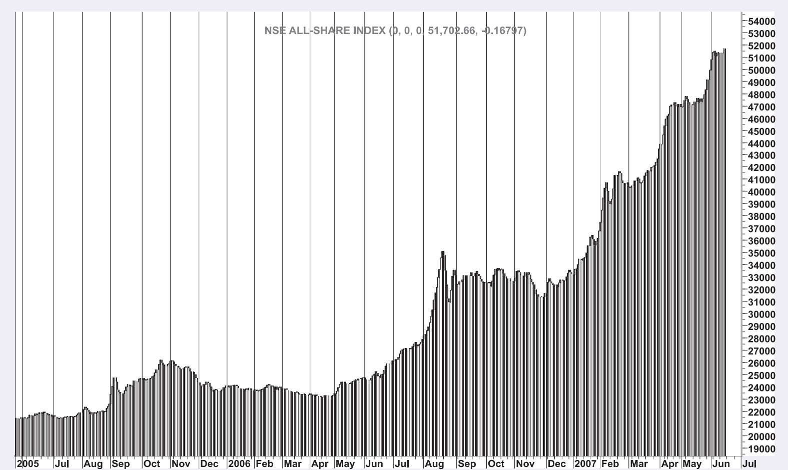
In the race from the small and the weak to the big and the strong, only the big investors will be able to easily make the shift. The biggest stock broking firms that will be the destination of investors have since set minimum account opening limits that exclude small accounts.

It can therefore be expected that many of the small investor friendly stock broking firms that cannot find the new capital aren't also likely to find a place in the consolidation. The emerging environment will be an oligopoly and the choice of stock broking firms will be limited to a significantly fewer number. The terms and conditions for availability of stock broking services will change drastically.

There is to be expected dregs of small investors' accounts that aren't likely to be welcome in the big firms that will emerge from the consolidation. The top names in the business aren't focused on the mass market and it can be taken for granted that the acquisition candidates will be forbidden to take penny accounts to the negotiation table. It should be expected that the emerging stock broking firms aren't going to be friendly with the small investor.

The preference for the big investor isn't a new development but only a matter of adding a regulatory inducement to an ongoing industry trend. Stockbrokers will seek to cut down on administrative cost and in the process, they will force the consolidation drive down the line.

All-share Index May 2005 – June 2007



As regulators prefer to deal with fewer but stronger firms so will the operators prefer to deal with fewer but bigger investors. The investor will, in the circumstance, need to get 'consolidated' to have a place in consolidated stock broking firms.

A cut in transaction cost

Another major aspect of the reform is a reduction in the cost of transactions across the board. As a part of the reform package, cost of transactions in both the primary and secondary arms of the capital market has been jerked down. With a cut that ranges from 147 to 260 basis points, investors will get a big relief on the usual charges for buying and selling equities in the secondary market.

Raising new capital from the primary market as well will now be done at a significantly lower cost. This repre-

sents the long desired complementary measure to the Central Bank's low interest rate drive in the money market. Policymakers believe that increased availability of investment capital at low cost will exert a stimulatory impact on the real sector, domestic output and employment.

With effect from April 24 2007, total transaction cost for buying equities through the secondary market has been lowered from 4.07% to 2.36%. On the other side of selling, total charges have been reduced from 4.12% to 2.65%. The main objective of policy is to make the domestic capital market competitive in attracting foreign and domestic investment capital.

The reduction in charges is likely to be compensated by the rapidly growing volume of transactions in both arms of the capital market. The likely stimulatory effect of the reduction in transaction charges on market turnover can be expected to make up for possible decline in revenue.

It can be expected however that stock broking firms are likely to respond in some ways to make up for apparent revenue losses. In their desire to raise the volume of deals, minimum account opening amounts are likely to be increased further and services that used to be cost free such as share certificate verification and printing of CSCS stock position may begin to attract charges.

Top Rising Stocks 2007

Company	Price/January Opening %
Fidelity Bank	340.1
NAHCO	182.9
Access Bank	176.0
Wema Bank	171.7
Prestige Assurance	144.8
Nig-German	142.3
Crusader Insurance	134.8
Zenith Bank	128.9
DN Meyer	126.7
AIICO	125.3
R T Briscoe	121.1
UAC Property	119.8

A new layer of investor protection

In the new round of recapitalization, the minimum capital requirement for issuing houses has also been increased from N150 million to N2.0 billion. In addition to that is the more stringent requirement that primary issues be fully underwritten. This is expected to enforce a higher degree of professionalism in managing new issues by ensuring that issuing houses do not promote and dump low quality offers on the investing public.

With the new policy, the chance for an offer failure is closed. The underwriter will make up for any public offer not taken up by the public. To be willing to take up that responsibility, it should be able to convince itself about the performance prospects of the company it is promoting. This is a new layer of protection for the investing public.

(iv) Likely effects of the reform

The reduction in charges will reinforce an already growing trend towards preference for high volume deals. Emphasis on volume will be a natural response to make up for revenue losses from the reduction in transaction charges. While that will apparently close the door to the small investor, an alternative door can be expected to open wider through mutual funds.

In the emerging new capital market environment, mutual funds are very likely to grow in popularity. They will be the necessary reconnecting link between the small investors likely to be displaced in the reform process and the stock market. A regulatory move will be needed in the direction of expanding the mutual funds window, which will cover the same type of gap for which micro finance banks are being put in place in the banking industry.

The new environment will also usher in other investment vehicles such as investment associations and clubs, which will follow the same principle of pooling individual funds together for greater impact in share investing. With growing awareness, various groups of investors can be expected to get involved in the market. As competition gets underway, stock broking firms are expected to design innovative products covering and dealing with investors in their groups.

To the extent that the reform limits access of people to the secondary market, it is bound to have serious implications for capital raising through the primary market. Minimum investing amounts for public offers will have to rise to match the stockbrokers' minimum account opening amounts.

Since investors are now required to open accounts with stock broking firms before certificate verification, share certificates worth less than minimum account opening values may not sail through easily for verification. Either way, the emerging signals aren't cheering for the small investor.

Banking, insurance lead the way

Banking and insurance are the two main sectors leading the rest of the stock market on share price advances so far this year. The two sectors account for virtually all the

top 10 members of the share price advances table so far in 2007. The operators here have taken advantage of major changes in operating conditions to build operating capacities and grow market share. Prospects for further share price advances look very good for these sectors.

Consolidation has had a stimulatory effect on the banking sector, which shows one of the best prospects for industry wide growth in revenue and profit. To find equities capable of building higher prices in the short-term, banking stocks remain highly promising.

The insurance sector is expected to go the way of banking with recapitalisation stimulating growth in the sector. The low priced insurance stocks are showing even much faster share price advances than banking stocks.

The rise of penny stocks

Again, the consolidation policy has got penny stocks moving out of this category. The natural process through which small businesses grow to become big has been halted. The instrument of consolidation has become the microwave for baking big businesses directly. The effect of this on the stock market is that the normal process of feeding the market with low priced, start-up equities has been tampered with and a gap created.

The highest share price advances in the six-month straight rally seen so far this year have come from penny stocks. Most of the equities that have doubled and tripled in prices this year belong to this group. And with that, the group of low priced equities is fast losing its membership.

With sustaining share price rally in an economy warming up for a post election boom, a number of penny stocks will rise above the status this year. Without any robust succession programme for this class of equities, penny stock strategists may soon run short of their ideal trading instruments. The stock exchange will need to reinforce the second-tier segment of the market and even create a third-tier in response to the present developments.

The banks are the first to go from the penny stock class as a direct result of consolidation. For penny stock strategists, banking shares are already completely out from their portfolios. In a matter of months from now, hardly any banking stock will be trading anywhere below N10 per share.

Insurance stocks are next on the rapid move away from penny stock membership. Induced by the same policy of consolidation, the insurance group accounts for the highest number of equities that have doubled and tripled in prices in just a few months of trading. Like banking, insurance stocks are largely on their way out from penny stocks. With consolidation spreading down and across, the days of penny stocks seem to be numbered.

Foreign investors coming

The stock market is getting a good attention of foreign investors and fund managers with its exceptionally good returns becoming too good to ignore. The market is seen as a sure evidence of a gradual return of flight capital and repatriation of funds by Nigerians in diaspora. Strong improvements in the external sector of the economy have also placed Nigeria among major destinations of investment capital within the emerging markets.

The trend of growing inflow of foreign originated investment capital is expected to be sustained and improved in a post election environment. Domestic financial markets are again expected to remain liquid with a number of government stimulatory spending votes coming on this year.

The outlook for the market remains exceptionally bullish and a year of high growth in the banking sector is providing the spur. The capacity of the market is certain to be over stretched this year, as large funds compete for the available instruments. Despite the sustaining rapid growth, the consolidation and the reforms, in terms of depth and absorptive capacity, it is obvious that the market here will remain a relatively small operation for some years ahead.

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The Impact of Capital Market Regulation on Nigerian Economy

* By Chuke Nwude

The Securities and Exchange Commission (SEC) is the apex regulatory institution of the Nigerian capital market. Since inception it has been playing within the capital market, roles similar to those played by the Central Bank of Nigeria (CBN) in the money market. The main function of SEC is to regulate and develop Nigerian capital market in order to assure stakeholders protection and enhance socio-economic development of Nigeria. How far the regulation of the capital market has impacted on the Nigerian economy is of interest to the researcher.

What is Regulation?

Black's law dictionary (2006) states that regulation is the act or process of controlling by rule or restriction and administered by the administrative agency. Longman family dictionary defines regulation as an authoritative rule dealing with details or procedure, a rule or order having the force of law. Hence regulation suggests the direct intervention or control

by government or its agencies in the economy or financial system, with defined legal framework. It is a framework of rules, procedures, and principles put in place to guide a system. It is the prescription and enforcement of the dos and donts expected of any player in a system. Supervision which is used interchangeably with regulation means monitoring the system to keep it in check and ensure that participants operate within stated regulations. Both regulation and supervision are given the force of law.

Forms of Regulation

Two types of it are the statutory and non-statutory. Statutory regulations are usually administered by agencies set up by law while the non-statutory regulations are formulated and administered by self-regulatory organizations (SROs). Statutorily SEC is empowered by law (ISA No. 45 of 1999) to regulate capital market activities in Nigeria. At present, the only self-regulatory organization in Nigeria capital market is the Nigerian Stock Exchange (NSE). Non-statutory regulations are not laws by themselves but they have the force of law derived from the primary statute. The SROs regulate the activities of their members to ensure high level of professionalism, ethical practices and efficiency in their conduct of business activities.

The Need for Capital Market Regulation

It is a truism that the financial sector is among the most regulated and supervised sectors of any economy be it developed or developing. This is as a result of the critical role the sector plays in a nation's economy as well as the nature of products traded in it which cannot be subjected to physical examination or inspection, but based purely on information about the products. As financial markets get liberalized, market participants are more likely to abuse its operations. It is generally believed that inadequate or absence of regulation is detrimental to the capital market as it encourages sharp practices by participants. Regulatory agencies are therefore necessary to police or monitor activities in the market with the ultimate aim of preventing or minimizing abuses which might mar market integrity, erode investors' confidence, thereby thwarting development in the capital market and the general economy.

Recorded history suggests that stockbrokers were first licensed to operate in England in the 13th century during the reign of Edward 1 of England. With time malpractice was detected in the mode of operation of the stockbrokers and stock jobbers. The climax was the financial disaster historically referred to as the south sea bubble, which resulted in the financial ruin of thousands of investors in Europe. This led to the South Sea Bubble Act of 1720 in England, which made it mandatory for those offering securities to the public to be cautious in the investment of public funds and to pay the appropriate penalties in the event of failed securities investments, especially if the public was misled with false information into subscribing to the offer (Analike 2007:2).

Since the south sea disaster the authorities in Europe, Americas and recently the emerging nations have taken all necessary steps to ensure, that their investing public is protected from unscrupulous financial market operators, who may want to exploit the ignorant public with offer which may be worthless, or over priced or manipulated by corporate insiders to their advantage and to the disadvantage of the investors. Full information of the securities being put up for subscription or for sale, the capital base of the offering company, the management and directors of the company, audited account, projected profits and dividends are some of the information to be fully disclosed in the offering documents or prospectus. This is to ensure that the investing public has full information on securities being offered for subscription or for sale before parting with their monies. In order to ensure that Nigerian investors are protected from fraudulent market operators and corporate insiders offering shares for subscription or for sale the Nigerian authorities set up the Securities and Exchange Commission (SEC) for the purpose of protecting investors in the capital market.

Though economic liberalization stimulates competition, innovation and entrepreneurial spirit, the domestic financial markets of mature economies are well regulated, supervised and operated within well defined framework. Supervisory activities in less developed countries (LDC)

are basically focused on domestic markets and measures for stimulating their development toward enhanced economic development. The aims of regulation are to protect investors from mismanagement of their funds, fraud, insider dealings and other forms of market malpractices; and protect the financial system from systemic risk, that is, the possibility that the failure of one financial institution could lead to the failure of several others, and result in a loss of confidence in the entire system.

Good regulation of capital market operations leads to profitability, growth and expansion which will lead to more employments. With more employment opportunities the likelihood of improved standards of living becomes certain.

Make Investments Easier: Without good regulation, the capital market will not be well organized but with good regulation the process of investing in the market will be organized and this will make it easier for investors to operate in the market. With more investors operating in the market, businesses will benefit from the increased fund and create boost for the economy.

Increased Confidence on the Market: The problem of doing business in Nigeria to a large extent is that of lack of trust and confidence in the system. With good capital market regulation accounting books of companies are subjected to serious scrutiny and this creates the confidence needed to attract investors and operators thereby creating a strong capital market that will drive the economy better.

Attract Foreign Investors: With good capital market foreign investors will be attracted easily to make investments in the country because they will have access to data and

information on activities in the market and the general business trend in Nigeria. The more foreign investment that is attracted to the country the more the economy will grow.

Business and Wealth Creation: Lack of fund has caused many companies to perform below their capacity and this has affected the growth of business, profitability and wealth. The consequence is retrenchment, low salaries, low tax payment etc but with good capital market regulation and access to fund there will be improved business performance, profitability, remuneration and tax payment that will benefit investors, employees and, also the government.

Ensure Standardization: For a company to access fund from the capital market it must have a standardized management and operational system. As such with good capital market regulation, business standards will improve and corporate governance will be enforced to boost business performance.

Strengthen the Naira: The Nigerian economy will be strengthened with good capital market regulation. A good capital market will stimulate business activities, leading to improved performance of the economy and standard of living. All these would strenghten the currency.

Measure of Economic Development

The growth or development of any economy rises or falls as a consequence of changes in some economic factors. The growth is conceived as a rise, over a period of time, like a year, in the level of its aggregate production or income or consumption after due allowances have been made for the amount of reproducible capital used in the process (Aboyade 1985). An element of refinement is to reduce this measure to the level of output per head, or income per head, or consumption per head having made allowance for any change in the country's population within the accounting period. The National Income (NI), a measure of economic development, is the money value of all the goods and services which became available to a nation over a given period from all its economic activities. It can be stated at constant prices (that is income method) which expresses the value of final goods and services produced in one year at their final stage prices. This is otherwise called the Gross National Product (GNP). It can also be stated as quantities valued at base year prices. The purchases of financial instruments from the capital market also contribute to the national income. A peep into the list of companies which tapped their funds from the capital market will showcase this. The growth in capital market funding in Nigeria can be ascribed to massive sell of shares during the past years. Generally a capital market exist to provide the facilities of a market where potential investors can put their money to work by buying securities, and where those who already own securities can freely and speedily turn them into cash. The advantage of going pub-

> The SEC requires detailed personal and business data on applicants and reserves the right following proper scrutiny of information supplied to it, to grant or deny registration.

lic by a company is seen by experts to be beyond the raising of cheap funds. A quoted company can attract better executives who would prefer to work for an institution as opposed to an individual (Adeniran 1991). Capital market is therefore, very vital to the growth of any economy.

Investments and Securities Act No. 45, of 1999

The functions and powers of the Securities and Exchange Commission as provided by Act No. 45 of 1999 are as listed hereunder.

- To regulate investment and securities business in Nigeria.
- To register and regulate securities exchange, capital trade points futures, options and derivatives exchange, commodity exchanges and any other recognized investment exchange.
- To register securities to be offered for subscription or sale to the public
- To render assistance in all aspects including funding as may be deemed necessary to promote an investor wishing to establish securities exchange and capital trade points.
- To prepare adequate guidelines and organize training programmes and disseminate information necessary for the establishment of securities exchange and capital trade points.
- To register and regulate corporate and individual capital operators as defined in section 30 of the Act.
- To register and regulate the working of ventures capital funds and collective investment scheme including mutual funds.
- To facilitate the establishment of nationwide system for securities trading in the Nigerians capital market in order to protect investors and maintain fair end orderly markets.
- To facilitate the linking of all markets in securities through modern communication and data processing facilities in order to foster efficiency, enhance competition and increase the information available to brokers and investors.
- To act in the public interest having regard to the protection of investors and the maintenance of fair and orderly markets and to this end establish a nationwide trust scheme to compensate investors whose losses are not covered under the investors protection funds administered by securities exchanges and capital trade points.
- To keep and maintain separate registers of foreign direct investment and foreign portfolio investments.
- To register and regulate central depository companies and clearing and settlement companies, custodians of securities, credit rating agencies and such other agencies and intermediaries.
- To protect the integrity of the securities market against abuses from the practices of insider trading.
- To act as a regulatory apex organization for Nigerian capital market including the promotion and registration of self regulatory organizations and capital market trade associations in which it may delegate it's powers
- To review, approve and regulate mergers, acquisitions and all forms of business combination.
- To promote investors education and the training of all categories of intermediaries in the securities industry.
- To call for information from and undertake inspection conduct inquiries and audits of the security exchange unit trusts, mutual funds, capital trade points, futures, options and derivatives exchanges as well as other intermediaries and self-regulatory organization in the securities industry.
- To call for and furnish to any agency such information discharge of its functions.
- To levy fees or other charges on any person for carrying out investment and securities business in Nigeria.
- To conduct research into all or any aspect of the securities industry.
- To prevent fraudulent and unfair traded practices relating to securities industry.
- To advice the minister on all matters relating to the securities industry.
- To disqualify unfit individuals from being employed anywhere in the securities industry.
- To liaise effectively with the regulators and supervisors of other financial institutions locally and overseas and
- To perform such other functions and exercise such other powers not inconsistent with the decree as are

The National Income (NI), a measure of economic development, is the money value of all the goods and services which became available to a nation over a given period from all its economic activities.

necessary or expedient for giving full effect to the provisions of this decree.

Tools of Regulation by SEC

Registration: To ensure that only those considered fit and proper do business in the capital market and to ensure the worthiness of the instruments to be floated, the operators of the market are certificated through registration after proper scrutiny of the intending operators and the instruments to be issued. The functions and scope of business activities permissible for each type of operator and the conditions under which they can conduct such activities are specifically stated. The operating capital adequacy which is a key factor in maintaining stability in the market is stated. The SEC requires detailed personal and business data on applicants and reserves the right following proper scrutiny of information supplied to it, to grant or deny registration.

Surveillance: SEC maintains proper surveillance on securities trading to ensure orderly, fair, and equitable dealings in stocks to forestall illegal deals by privileged insiders at the expense of innocent and often ignorant investors which can destabilize the market. It sanctioned Trade Alert device that sends a notice on the investor's mobile phone indicating elaborately all transactions taking place in his account at CSCS, so that if unauthorized, the investor can stop it before it happen.

Investigation: Section 8(q) (r) of ISA empowers SEC to investigate all reports of violations and suspected violations of securities laws.

Rules making: To keep the market in check and enhance its growth and development SEC is duly empowered to formulate and review rules and regulations for the market as the occasions may demand.

Timing of Issues: The SEC controls the time and amount of issues on offer in order to avoid demand on the primary market beyond its absorptive capacity at any point in time.

Review of Accounts: It reviews the accounts of listed companies on regular basis to monitor the performance of various enterprises within each sector and seek explanation on areas where unfavorable developments occurred. This exercise provides statistics for meaningful evaluation of the market performance and also the economy. It also assist SEC in policy formulation. All transactions must be backed up by executed mandates and contract notes to avoid doubts in cases of disputes.

Approval of business combinations: It approves business combinations such as mergers and acquisitions to make sure the combinations are not likely to cause substantial restraint on competition or tend to create monopoly directly or indirectly.

Enforcement: The commission has the responsibility of ensuring that participants in the capital market comply with the securities laws. It has the power to institute penalties or sanctions and remedial actions if a violation is established. There is in-house joint monitoring committee for trying erring brokers. It is composed of representatives from company registrars, stock broking firms, CSCS and NSE. The emphasis here is on restitution such that the

investors do not lose value. The investment and securities tribunal(IST) adjudicates on civil cases in the capital market to ensure that such cases are given speedy resolution. A case is referred to IST after being handled by the Administrative Proceedings Committee (APC) of SEC.

Administrative Guidelines for foreign investments: The guidelines state that once the principal remitted by foreign investors is backed up by a certificate of capital importation issued by a Nigerian bank there is no need to seek CBN approval to remit dividends and the principal.

Data Presentation and Analysis

Impact of Capital Market Regulation on the Nigerian Economy

1. Investors' confidence

The capital market regulation has engendered high investors' confidence in the market, which has contributed significantly to savings mobilization. The capital market regulation has played a major role in taking the market to greater heights by opening doors for foreign investors into the economy. The enhanced confidence of foreign investors has resulted in inflows of foreign investments into the country. The Securities and Exchange Commission introduced code of conduct and code of corporate governance, which has helped to create more confidence in the economy. The network to the wider world especially Nigerians in diaspora has been expanded by introducing and installing various information technologies. Trade alert system that allows investors to receive immediate notice about what is happening to their stock automatically increases the investors' confidence. This has attracted a lot of foreign investors to the economy.

The capital market regulation has played a major role in taking the market to greater heights by opening doors for foreign investors into the economy.

2. **Financing Government infrastructural development**

Regulation of the capital market and its concomitant enhancement of investors' confidence have enabled government authorities to mobilize long-term capital for infrastructural development. It encourages all tiers of government to use the capital market to close their resources gap in the implementation of various developmental programmes. It helps the Federal Government's privatization and commercialization exercise, as it provides avenues through which enterprises which were hitherto not profitable under government control, to become privatized and profitable with better management. The Federal Government has divested its interest in several enterprises through public offerings/quotation. On the whole 35 companies were sold in the first exercise (late 1980s to early 1990s) while the on-going exercise so far has seen the sale of over 10 companies through the market. Examples of such companies include African Petroleum (AP), Unipetrol, and Cement Company of Northern Nigeria, just to mention a few of them.

3. **Banking sector**

The banking sector is experiencing a boom due to recapitalization regulation. The banking reforms, through the Central Bank of Nigeria (CBN) have made it possible for mergers and acquisitions to take place and also led to reasonable degree of confidence in the banking sector by Nigerians. A lot of hitherto private banks are now listed in the Nigerian Stock Exchange. All the banks mergers and acquisitions were reviewed and approved by the Securities and Exchange Commission for them to sail through. When the CBN Governor on July 4, 2004, asked banks to recapitalize to N25 billion up from N2 billion, the market which was once thought not to be deep enough jumped to the challenge and was able to mobilize enough funds for the banks. The public confidence in the ability of the market to raise long term funds, to strength the money market soared and even confidence of the operators also grew in that some of the banks came back to raise more money for infrastructural development and working capital amongst others. The market rose to the challenge and was able to satisfy the demands for more funds. Financial institutions particularly banks now find the market a viable option for meeting statutory capital requirement and financing fixed assets. In 2006 and even currently in 2007 many of our banks floated securities through the capital market for these purposes. Some years back, many of these banks would not have given serious thoughts to the capital market for fund raising. The grow-

ing preference for the capital market as a fund raising vehicle is partly driven by increased awareness of the capital market as an alternative source of funds, particularly, the awareness of the benefits derivable from equities, which do not carry repayment obligations

4. **Enhanced capacity in Industries**

The regulation of the capital market has enabled it to provide local opportunity to borrow or lend funds for long and medium term investment, thereby enhancing capacity in the production of goods and services. As a result of the stability in the market the country is witnessing a huge influx of foreign direct investment in the country. It shows that foreign investors have a rekindled confidence in the Nigerian economy and are willing to bring in their money to invest in the economy. Perhaps because of this growing confidence the government is putting structures on ground to ensure that by 2020 Nigeria becomes one of the 20 largest economies in the world and Lagos, the financial hub of Africa. If achieved, Nigeria will be the destination for foreign investors and investment.

5. **Liquidity to investors and corporate organizations**

Regulation of the capital market has provided avenues for marketability and quotation of stocks and opportunities to raise fresh capital, thereby creating liquidity to both investors and corporate organizations. The process of entering the market has become easier and many companies are attracted to the market to raise fund easily to finance their businesses. With the well regulated and operated capital market, raising fund is cheaper for companies and this will result to lower cost of production and cheaper price of good and services which will lead to increased demand thereby stimulating economic growth. The capital a company builds up after publicly quoting its shares in the primary market enables all those that invested in it to become part owners of the company. On the other hand, this public sourced fund will go a long way to solidify the liquidity of the company against any mishap and then gives the opportune masses the chance of owing investment in all or one of these big companies in Nigeria. This is a very lucrative avenue for people looking for a viable business to invest their money and the returns are faster than any other form of business ever known. It doesn't discriminate the choice of investors, either by age, occupation or level of education etc. Rather it is free for all to invest, as far as you can afford the on-going rate at which the product is offered. By so doing, it exposes one to the rudiments of good investment so early in life.

The growing preference for the capital market as a fund raising vehicle is partly driven by increased awareness of the capital market as an alternative source of funds, particularly, the awareness of the benefits derivable from equities, which do not carry repayment obligations

6. **Employment opportunities**

Capital market has also created employment opportunities through the ever-growing number of capital market operators and the various issuers who have raised funds from the market. Nigerian economy has generally experienced growth due to the capital market regulation which has made possible good Corporate Governance, employment creation, good infrastructure and new development in technology. These foreign investors create job opportunity to the economy with their investment. More so, when these investors are attracted by the capital market and get established, they help in enhancing the technical and technological know-how of our practitioners. This is done by either being employed in the company or through consultancy and this will go a long way to improve the skills and quality of our home made products, which will be highly appreciated and accepted in all markets.

7. **Institutional development.**

The Nigerian capital market has a wide variety and a good number of institutions, which facilitate the operations in the capital market. These institutions are therefore, consciously promoted. They include issuing houses, stock broking firms, registrars, trustees and portfolio managers. In the last ten years, the market has witnessed several entrants, which have increased competition and enhanced efficiency but also created some regulatory oversight challenges. There is also the question of the increase in share capital of the capital market operators to enhance confidence and stability.

8. **National Income**

There is the need to improve our economy's productive base. But investors have always shied away from investing in the production sector because it requires high capital and returns are not quick. With a good capital market as it is, it is now easier to raise fund for the industry and create a boost required to drive the economy. The improved investment powered by the wealth creation has also powered the Gross Domestic Product as well as the Gross National Product. The foreign companies like Mobil, Agip etc, are drawn into investment through the roles played by the capital market. In return we earn foreign exchange as well as promote and increase our foreign reserves. When we have a fat foreign reserves position, more grants and loans will be attracted.

9. **Prevention of Monopoly**

Section 99(3) (a) (b) of ISA states: "The commission shall approve any application made under this section if and only if the commission finds that-

(a) Such acquisition, whether directly or indirectly of the whole or any part of the equity or other share capital or of the whole or any part of the assets of another company is not likely to cause a substantial restraint of competition or tend to create a monopoly in any line of business enterprise." One important aspect of regulation is the regulation of monopolies. In some cases monopoly power hinders consumers, while in others monopoly power harms competition among businesses.

10. **Capital Appreciation**

This is the increase in values of equity an investor has after a period of time. For example, the public offer made by Dangote sugar at N18 per share in December 2006 later in April 2007 rose to as high as above N56 per share. The same way the shares appreciate in value is the same way the investor's capital appreciates, thereby enriching the economy in general. The fact that it brings about capital appreciation means that the profit declared for the year increased and this affects the dividend declared for the shareholders positively as the dividend will increase too. A business mind bothers first about the maximization of profit and if an investment that cost little can fetch so much, it then encourages more from the same investor and as well attracts new investors into the market.

11. **Increase in Shareholders Fund**

Capital market helps companies to increase their shareholders fund by granting them access to the market to source for fund and boost their capital. In order to meet the N25billion capital base, it was the capital market that all the banks ran to. All the banks consolidated by building up their shareholders fund either by merger and acquisition or by public funds.

12. **Establishment of 2nd Tier securities market (SSM)**

The regulation made possible the establishment of the 2nd Tier securities market (SSM) whereby indigenous companies are encouraged as well privileged to be quoted on the Nigerian stock exchange. By this, they access funds for various purposes, ranging from investments to

divestments, acquiring new plant and machinery to replace the obsolete ones, increasing their business scope both locally and internationally.

Summary of Findings, Conclusions and Recommendations

Findings

Information gathered from this study showcased the following facts:

- Foreign investors are now coming to invest in the Nigerian capital market
- Institutional investors are now moving in and investing in the market.
- Many lame stocks are now active stocks in the market. More companies are listing shares in the market. It increased the number of companies that use the market facilities for strengthening their capital structure for modernization and expansion of operation.
- The Nigerian capital market has provided the mechanism for raising new capital which contributes positively to the external financing of industries and commerce.
- Regulation has sanitized the market and funds are easily mobilized from numerous economic units for rapid capital formation for economic growth.
- There are changes in wealth ownership and composition
- Pricing mechanism is now market-determined and more transparent.
- Broadened ownership of asset base creates a healthy private sector
- Government is now alive to the usefulness of capital market as an alternative source of funding their projects.
- There is liquidity in the market
- The confidence of Nigerian investors in placing their savings into capital market investment is now high as attested to over the years by the over-subscription of 98% of equity securities floated on the stock market.

Conclusions

The capital market occupies a very important position in all economies, Nigerian economy not an exception. Its roles in economic development cannot be over-emphasized as it is a veritable source of funds for businesses. Nigerian economy was set back by years of military rule which created instability and hindered business development. But with the restoration of democratic rule, the country is now witnessing some growth as investors' confidence is being renewed.

Recommendations

There is the need to reorganise and professionalise most of the registrar departments. At present, it is difficult for investors to sell their shares; verification of signatures takes a long time. The quality of staff of most registrar departments must be improved just as quality of operations of issuing houses and stock-brokers has improved in line with volume of transactions handled.

Investors are getting frustrated by the issue of return money when they do not get all the shares they applied for in an issue. They become worse-of when the money do not get to them long after the issue has been completed.

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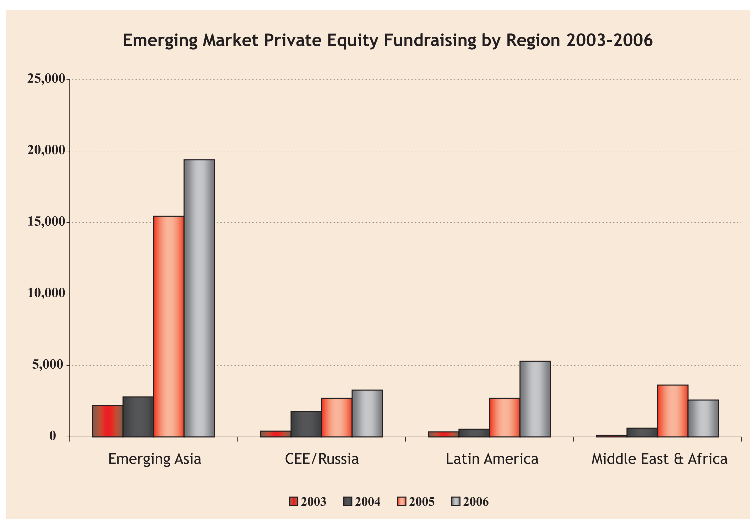
Nigeria: Conditions for Private Equity Market

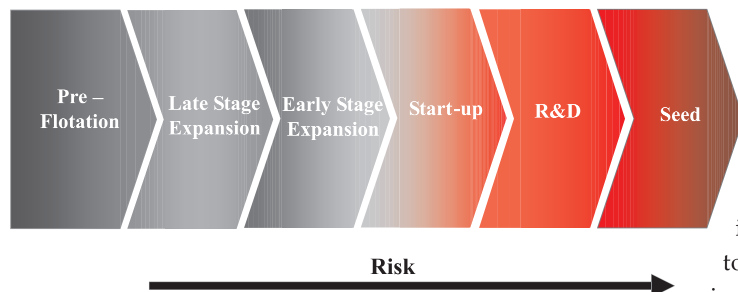
* By Elaine Delaney

"The point is, ladies and gentleman, that 'greed' — for lack of a better word — *is good*. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms — greed for life, for money, for love, knowledge — has marked the upward surge of mankind. And greed — you mark my words — will not only save *Teldar Paper*, but that other malfunctioning corporation called the USA." The infamous words of the fictional private equity shark, Gordon Gecko, in the 1980s film Wall Street adequately captured the corporate greed of the 1980s. The relentess pursuit of alpha combined with mediocre capital market returns has put private equity in the spotlight once again. The 1980s was the golden age of private equity investment; a far cry from today's emphasis on financial engineering rather than corporate rebuilding. A renaissance is set to occur given that the private equity boys are now turning their attention to the emerging markets.



Money never sleeps

Private equity investment plugs an important gap in corporate finance – domestic equity markets, credit markets and banks are typically too risk averse to partake in the investment opportunities that fill the private equity space.



Household names such as Apple, FedEx, The AA and Intel were borne by private equity funding. Such success stories attracted the attention of the institutional investors, who by the nature of their liabilities can afford to take long-term, illiquid views. A private equity investment is likely to tie up monies for periods of up to ten years and may not be cashflow positive until after five years. The compensation for this illiquidity comes in the form of higher expected returns. As their name suggests, private equity investors undertake equity investment and are therefore incentivised to ensure the success of their stakes, aligning their interests with those of the original shareholders and minimising principal-agent risks. Furthermore, they are set apart from other forms of financing by the expertise they bring to bear upon the company.

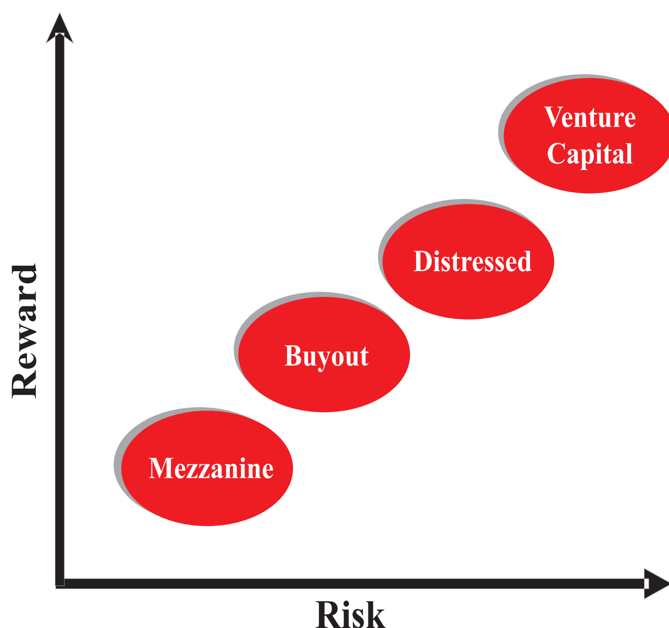
	Private equity	Senior debt
Term	Medium/Long	Short/Medium/Long
Commitment	Committed until exit	Facilities can be payable on demand if the covenants are not met.
Cash flow	Flexibility of dividend payments	Regular cash flow to make interest and principal payments.
Alignment	The greater the profitability of the company, the greater the returns to the investor.	Relies upon the company continuing to service its interest costs and to maintain the value of the assets on which the debt is secured.
In the event of bankruptcy	Ranks alongside other shareholders.	Generally has a first call on the companys assets.
In the event of difficulties	Private equity firm will work hard to ensure that the company is turned around.	Lender could put business into receivership in order to safeguard its loan.

Hindsight and 20-20 vision

Funds flowed unabated to Latin American and Asia Pacific markets on the untested premise that the private equity models that produced superlative returns in the Western markets could be carbon-copied for their developing counterparts. What investors failed to take account of was the enabling environment for private equity in developed markets: political and economic stability, legal enforceability, a supportive public policy framework and well-developed capital markets. Almost by definition, all such key drivers for a successful private equity climate are absent in emerging markets. The obstacle that has presented the greatest challenges to foreign investors is the company itself. In many instances, the companies in question have been family-controlled and therefore steeped in autonomy, opacity and limited external accountability. The lack of incentives to keep international standard accounts increases the importance of due diligence by investors. Seeking to establish the existence of subsidiaries, off-shore entities and inter-relationships between companies is a daunting task even for the most intrepid of investors. Understanding a country's tax regime is paramount if one is to understand the measures taken by companies to circumvent such. Corporate governance issues have no nationality; however they are particularly encouraged to live in emerging markets. Access to timely and accurate information is a prerequisite for an investor to make appropriate decisions. "Mr China" by Tim Clissold is a vivid account of how the "Johnny Just Come" investor can lose billions by inadequately understanding the investment regime of a country. Having a strategy to enter a market is one side of the coin – exiting is the other. Private equity monies can generally only exit through an IPO or a sale to another private equity investor.

A brief history of the bandwagon

The standard mantra of risk versus reward should suggest that private equity in the emerging market space should offer higher returns than in the developed markets. Initially, this did not prove to be the case and it is therefore instructive to examine the reasons behind this in order to avoid such issues plaguing the Nigerian market and history repeating itself. Private equity is instrumental to capital market and macroeconomic development; it is imperative that lessons learnt from transition economies are not ignored. Foreign direct investment has always played an important role in developing markets; over the 1990s the advanced developed economies recorded double-digit annual growth in FDI flows. However, these were largely focused on the large local



companies. Globally, governments began to understand the benefits of liberalizing their economies and creating greater accessibility for foreign investment. Supported by development financial institutions, governments moved away from private finance to fund public sector deficits. All these factors paved the way for private equity investment to flourish. Latin America received $5bn in private equity funding whilst Asia Pacific (ex Japan) markets swelled by $50bn over the early part of the 1990s. Eastern Europe soon followed with a similar tale. Such amounts were possible given the role that the IFC, the European Bank for Reconstruction and Development and USAID played, not only by committing some $15 billion, but also their names.

Act Western, think Western

First generation funds to access these markets adopted a one-size-fits-all approach, mimicking the approach that had been successful in US and Western European markets. Strategy, organizational structure, transaction origination and fund-raising approaches were replicated; from a macro to a micro level it appeared that a blanket approach was adopted. Private equity returns are just that; private. It is difficult to gain insight into the returns of funds specifically unless an investor in that particular fund. Futhermore, there is no acceptable overall benchmark to provide insight to the overall marketplace. However, significant anecdotal evidence exists that emerging market private equity returns were not living up to expectations. Over 40% of respondents managing a combined assets under management of US$2 trillion stated that returns were below or far below expectations. The situation was further exacerbated by the dollar's steep appreciation against Latin American and Asian currencies; translating mediocre local returns into derisory dollar returns. The combination of poor absolute and relative returns equated to a protracted period of fund-raising difficulties for many emerging market funds.

Hard currency lessons learnt

If we turn again to the fictional character of Wall Street's anti-hero Gordon Gecko, we find that he was able to pinpoint the critical issues back in the 1980s:

"The most valuable commodity I know of is information"

Accuracy, timeliness and transparency of information are essential in order for an investor to make an informed decision throughout the investment lifespan. Investors underestimated the difficulties that they would face in engaging entrepreneurs to provide them with the necessary information. Rather, the assumption was made that a new board would be inaugurated in which the investor would be able to actively participate in making strategic decisions. In reality, the status quo of many boards continues, with minority shareholders sidelined, unable to access information required to monitor progress, develop strategy and further undermining the investor's capability to plan their exit strategy.

"I look at a hundred deals a day. I pick one."

Initially, fund managers adopted a passive approach to investment; analyzing deals that crossed their desks using the same textbook approach that they were familiar with in Western markets. Originate through market intelligence, conduct due diligence, build a model, negotiate with the owners, fill in the forms, close the deal and sit back and watch the returns accrue.

"If you're not inside, you're outside!"

Managing a private equity investment in an emerging market requires dedicated local resources. Initially, many fund managers underinvested in developing a local presence, acting merely as "briefcase investors". "Act local, think global" has a particular resonance in emerging markets which are more likely to have business practices and customs that are alien to a Western operator. Also, given the greater propensity for limited regulatory oversight, it would have been more prudent for such managers to remain closer to their investments in order to exert influ-

ence and control.

"It's a zero sum game, somebody wins, somebody loses. Money itself isn't lost or made, it's simply transferred from one perception to another."

Private equity funds exist to make returns to their shareholders. They can only do this with a clear exit strategy. Western markets offer the prospect of a ready and willing capital market to underpin the private equity sphere. Empirical evidence suggests that an exit via a US IPO on average will yield a 55% per annum return against a sale to a strategic investor of 12% per annum. Exit via IPO is often only a viable option for the larger issues, given the corresponding local market's lack of breadth and depth.

"Every battle is won before it is ever fought"

The impact of weak corporate governance is amplified if the legal agreements that establish the nature of the relationship between the shareholder and the company are difficult to enforce. Limited legal recourse places the investor at a significant disadvantage in the event of management disagreements; the local company is likely to be significantly more adept at legal maneuvering. As a direct consequence of protracted legal issues in respect of minority interests, many fund managers now refuse to enter a deal unless they are the majority shareholder. Lack of shareholder protection has been cited by many fund managers as a reason why they will avoid investing in particular countries altogether.

Recalculating for PE

In order for a buoyant and successful private equity market to flourish in Nigeria, all stakeholders must participate; in particular government, capital market regulators, investors, entrepreneurs and DFIs. In light of the experience of advanced developing economies, the following high-level measures can go some way towards encouraging a successful marketplace:

Government/Capital Market Regulators

1. Liberalise the business landscape

The World Bank has ranked the ease of doing business in Nigeria against 175 countries as follows:

Ease of...	2006 rank	2005 rank	Change in rank
Doing Business	*108*	*109*	*+1*
Starting a Business	118	115	-3
Dealing with Licenses	129	134	+5
Employing Workers	56	56	0
Registering Property	170	171	+1
Getting Credit	83	76	-7
Protecting Investors	46	43	-3
Paying Taxes	105	99	-6
Trading Across Borders	137	141	+4
Enforcing Contracts	66	105	+39
Closing a Business	72	72	0

Examining the changes over the last year, it is reassuring to see the noteworthy increase in contract enforceability. However, significant improvements need to be made to improve property registration (170/175) and cross-border trading (137/175).

2. Increase investor protection

The World Bank score places Nigeria in the twelfth tier of countries, alongside countries such as Kazakhstan and Angola. Moderate reforms to include protecting minority interests in shareholder suits, increased director accountability and higher disclosure requirements will drastically improve the protection afforded to shareholders.

3. Strengthen capital markets

The capital markets are in their infancy in Nigeria. This offers regulators considerable latitude in implementing regulation that will act as a natural precursor to properly functioning private equity markets.

4. Increased investor flexibility

Private equity investment has typically been funded by high net worth individuals and institutional investors given its characteristics. Pension funds in particular have been strong proponents of private equity investment, often encouraged by government initiatives. Enabling Nigerian pension funds to invest in local private equity will enable greater asset-liability matching, the potential for increased

returns and the ability of pension fund monies to act as a stimulant to the real economy.

Private Equity Firms

1. **Act local**

In order for a private equity firm to be truly successful it should establish a local presence, staffed by experienced international investors supported by seasoned local professionals. This will enable the firm to gather market intelligence, examine investment opportunities robustly and conduct a meaningful dialogue with other shareholders.

2. **Time value of money**

A hands-on approach should be adopted; the value of having "eyes and ears on ground" is immeasurable. The private equity investor will need to invest significant time in enhancing their own shareholder value by strengthening the corporate governance, restructuring management and enhancing transparency and accountability. Merely reading the quarterly report will constrain both the company and the investors' potential for returns.

3. **Cherry-picking**

A passive approach to deal-making can significantly reduce the investable universe. Private equity investors must be able and willing to originate their own dealflow, recognising their own skillset and expertise. A sectoral approach can enable a fund manager to identify those areas that they will be able to add most value, create shareholder returns and extract profits to maximum effect.

4. **Exit stage left**

Necessity is the mother of innovation; the lack of a liquid IPO market should not act as too great a stumbling block to thwart private equity investment. Innovative exit strategies have been developed, from recapitalisation to mezzanine structures, in order to achieve the desired result. As stated earlier, entry and exit strategy should be considered with equal rigour.

As developed markets become increasingly saturated, investors are looking at emerging market private equity as the next frontier.

Entrepreneurs

1. **Increased transparency**

Business owners should recognise the benefits that private equity investors can bring and treat such investors as partners, sharing pertinent information to allow a cohesive strategy to be developed. Private equity firms can bring much-needed long term capital to the table that is typically scarce in emerging markets, sharing in the risks and consequent rewards and driving the business to its next stage.

2. **Slicing and dicing**

The temptation to incur debt and maintain management control is at the detriment to the company generally. A mindset shift is needed amongst many entrepreneurs to appreciate that whilst they may hold a smaller proportion of the pie; the value of that portion should be significantly larger than the whole pie in the absence of private equity.

3. **Global best practices**

Financial, marketing, structuring, strategic and employment global best practices can be introduced easing the move from a local firm to an international player.

The Birth of Venus

The Nigerian market has recently witnessed the renaissance; from Starcomms to Diamond Bank, the market has started to discover the opportunities that exist outside the traditional oil & gas space. The recent successful launch of Travant Capital Partners Ltd can only serve to strengthen the fledgling private equity marketplace. It is no coincidence that these opportunities are occurring now; the currency stability, declining inflation, increased oil reserves and overall macroeconomic management are laying the canvass for private equity investors. Welcome to the renaissance.

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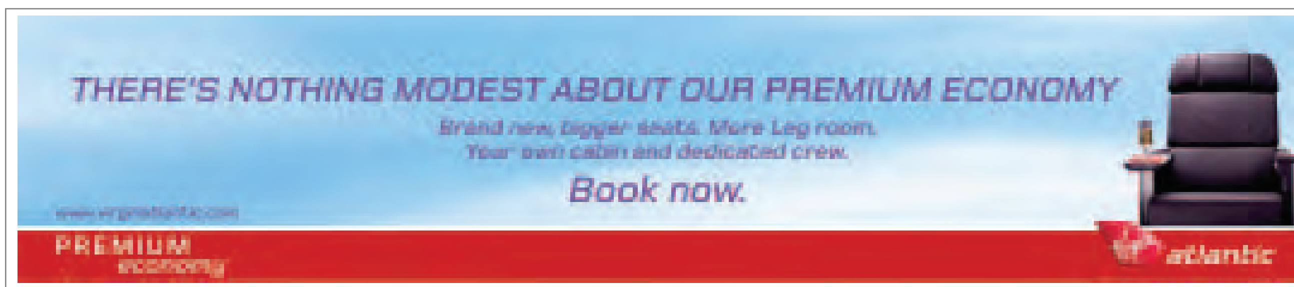


Uses & Abuses of Governance indicators

* By Christiane Arndt & Charles Oman

Why interest in governance?

Four sets of phenomena have combined to drive the explosive growth of interest in the quality of governance – and with it the use of governance indicators – in recent years.

A first set of phenomena has much to do with the spectacular growth of international investment in developing countries over the last 15 years. Foreign direct investment going to those countries, whether to create or acquire production capacities to serve local markets, or to serve global markets or the investors' home markets, has grown from an average annual net inflow of about $10 billion in the early 1980s, to over $67 billion in 1992-94 and over $150 billion since 1997. Equally spectacular and important for driving up interest in the quality of local governance has been the growth of international portfolio investment in emerging markets[1] from net annual flows of below $2 million in the late 1980s to about $20 billion in bonds and another $26 billion in portfolio equity in the

1990s.[2] International investors' major newfound interest in the quality of governance in developing countries is thus in part simply a reflection of the spectacular increase in the value of their assets exposed to risk in those countries.

A second set of phenomena driving the explosive growth of attention to the quality of governance in developing countries derives from the end of the Cold War. Throughout the post-war period the attitudes and behavior of OECD governments and their national and multilateral aid agencies towards developing-country governments were colored by the latter's position in the bi-polar world created by the Cold War. U.S. President Franklin Roosevelt's often-quoted remark about Nicaragua's ruthless dictator Anastasio Somoza – that "He's a bastard, but he's our bastard," because of the non-communist stronghold Somoza maintained in Central America – is emblematic of the attitudes and behavior towards governments throughout the developing world until the end of the 1980s.[3]

Only after the demise of the Soviet Union have these attitudes and behavior become susceptible to real change – and increasingly so – with the perceived disappearance of the communist threat. A watershed was World Bank President James Wolfensohn's decision in 1996 to radically reverse the Bank's longstanding policy that it could not explicitly recognize or seek to address the acute problems of corruption in many of its borrowing countries, because local politics were outside the Bank's official mandate, to giving those problems a high priority. While World Bank lending to promote economic reforms fell by 14 per cent annually between 2000 and 2004, its lending to improve governance rose by 11 per cent annually during that period, and by the latter year 25 per cent of its lending was committed to law and public administration in borrowing countries.[4]

Growing perceptions in recent years of a relative failure or inadequacy of policy reforms widely undertaken in the 1980s and 1990s are a third set of phenomena driving the growth of interest in governance. Those policy reforms – reflected in the sea change in economic policy orientation noted earlier and sometimes referred to, at least in the Latin American context, as the "Washington Consensus" – were spurred by a combination of factors. These notably included the onset of the Third World debt crisis in 1982, followed by the drying up of voluntary international bank lending to developing countries (especially the "sovereign" lending that had grown spectacularly to recycle petro-dollars in the wake of the 1973 oil shock). They also included the sustained decline in commodity prices and, in many countries, a collapse of local development banks together with that of import-substituting industrialization strategies. The combined result was the markedly slowed growth that plagued much of the developing world from the 1980s and gave impetus to widespread policy reforms there during the 1980s and 1990s.[5]

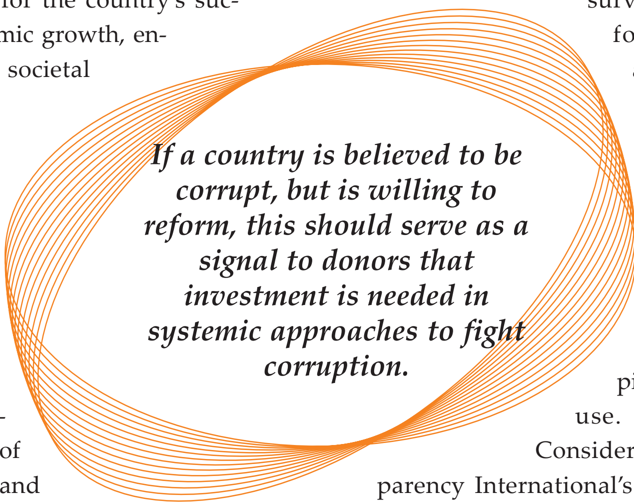
Yet the resulting widespread policy shift during the 1980s and 1990s in favor of greater "market friendliness" in developing countries, notably in Latin America, Africa and South Asia – and actively encouraged by the multilateral financial organizations that found themselves in a strong position to do so through lending conditionality – ultimately proved relatively disappointing.[6] The ensuing debate over whether the relative failures are better ex-

plained by too much or rather by too little effective implementation of the recommended reforms is less important for our purposes than is the general recognition, today, that the reforms were relatively unsuccessful. This recognition has contributed to a growing understanding – including within the multilateral organizations and among staunch defenders of the importance of market-friendly policy regimes – that strong markets require good governance, and that poor local governance may go far to explain the relative reform failures of the 1980s and 1990s.

Finally, a fourth set of phenomena driving the explosion of interest in governance has been the work of Douglass North and the New Institutional Economics of which he is a leading figure. That work has convincingly demonstrated the importance of a country's system of governance – its formal and informal institutions (the latter including its culture and unwritten values) and their interaction with the behavior of economic and political entrepreneurs and organizations – for the country's success in terms of its long-term economic growth, enhancement of human welfare, and societal development.

(Mis)uses of Governance Indicators

International investors, official national and multilateral aid agencies, development analysts and academics, and others tend to use – and widely misuse – governance indicators produced by dozens of organizations to compare the quality of governance both among countries and over time in their decision-making processes.



If a country is believed to be corrupt, but is willing to reform, this should serve as a signal to donors that investment is needed in systemic approaches to fight corruption.

Consider international investors, for example. Because FDI usually constitutes a relatively long-term commitment of resources by the investor – funds invested in real assets are often not very liquid and thus relatively "hostage" to the success of the invested enterprise – foreign direct investors tend to spend much time and effort to compare countries they are seriously considering as potential investment locations. Political instability, weak rule of law, contempt for property rights, or poorly functioning judiciary can easily discourage investors that perceive the risk of loss in a country as too high, or too difficult to gauge. The research departments of multinational corporate investors and banks now widely construct or use governance indicators to try to assess the general country risk and governance situation in potential investment locations.

Providers of official development assistance (ODA), both national governments and multilateral organizations, paid little attention to the quality of governance in recipient countries during the Cold War period, as explained earlier. Following the watershed decision by World Bank President James Wolfensohn in 1996 to reverse course, and give high priority to addressing corruption and bad governance as major barriers to development, the Bank undertook research showing a strong positive correlation between the quality of governance and the effectiveness of ODA in a recipient country.

As donors increasingly make the quality of governance in recipient countries an important criterion for aid-allocation decisions, they feel a growing need for governance indicators - not least to be able to base those decisions on consistent and transparent criteria. An informal recent survey of six official donors found broad support among them for the use of governance indicators in country-recipient selection. Donors' growing use of governance indicators also reveals, however, a number of serious problems or potential pitfalls associated with that use.

Consider the widely used Transparency International's (TI) Corruption Perceptions Index (CPI). Cited widely and frequently in literally thousands of newspapers worldwide, CPI has played an invaluable role in originating and giving sustained impetus to what has become a global movement against corruption. The international shaming that follows its publication of scores encourages a race to the top both among neighbors and globally, among countries at all levels in the league table. Yet the CPI is also widely misused.

While TI clearly asserts that the CPI is a ranking and cannot be used as a measure of national performance in the fight against corruption, it is often (mis)interpreted by newspapers, and sometimes (mis)used by donors, as precisely such a measure. The reason why the CPI is not a measure of corruption – and cannot reliably be used as a basis for aid-allocation decisions – is because year to year changes both in its methodology and in the list of coun-

tries it covers mean that it does not discriminate reliably either 1) among countries with scores close to each other; or 2) between conditions of corruption, even in the same country, over time. Nor should it be forgotten that more than 50 countries, including many that are undoubtedly plagued by severe corruption, are not ranked on the CPI.

Put differently, the standardization technique TI uses to produce the CPI emphasizes the rank ordering of countries over internal reforms (or the lack thereof) in any country. This means that the CPI cannot be used as an indicator of progress to reward reform efforts in any country (and that a country's score will change even though corruption there remains unchanged). Changes in the composition of the sources and methodologies used, from year to year, mean that country-rank scores are not comparable over time. Thus, in its press releases, "TI warns against misinterpreting such arbitrary changes in the rank order of countries. Despite these warnings, media headlines frequently refer to changes in a country's rank order and the various caveats on TI's website remain largely unreported and widely misunderstood."[7]

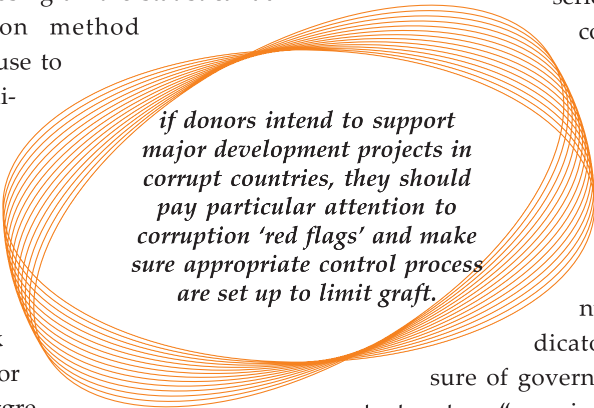
In its own words, TI "does not encourage the CPI to be used for decisions on aid allocation. Countries that are perceived as very corrupt... need help to emerge from the corruption-poverty spiral. If a country is believed to be corrupt, but is willing to reform, this should serve as a signal to donors that investment is needed in systemic approaches to fight corruption. And if donors intend to support major development projects in corrupt countries, they should pay particular attention to corruption 'red flags' and make sure appropriate control process are set up to limit graft."[8]

Analysts and academics also make wide use of governance indicators. Correlation and regression analyses that use corruption indicators have been crucial in putting the corruption issue on the international agenda, for example. Yet researchers' use of governance indicators is widely plagued with pitfalls. The nature and limitations of composite governance indicators, which their users often seem not fully to grasp, or admit, unfortunately weaken the rigor and thus the credibility of many studies.

Consider the World Bank's governance indicators. Kaufmann and his co-authors explicitly caution against using their indicators for ranking purposes because of the measurement errors embodied in their indicators (errors that are not unique to their indicators, it must be emphasized). Nor do they aggregate their six composite indicators, or a subset thereof, to create an overall composite indicator – they always use them separately – because, in their own words, of "non-trivial issues when constructing one composite governance indicator for a country."[9] Many important studies nev-

ertheless (mis)use the World Bank's indicators precisely in these ways.

It is understandable that users would like to have an overall indicator of governance. However, taking a simple average of the six World Bank indicators and using it in studies is problematic for at least two reasons. First, taking a simple average means loosing all the statistical advantages of the aggregation method Kaufmann and his co-authors use to produce both the composite indicators and the corresponding confidence intervals for countries' scores on a given indicator. Second, it is no more appropriate to use an aggregate "governance" score that combines the different World Bank indicators into a single number for a given country than it is to aggregate the quality of apples and the quality of oranges: if the quality of apples is very bad and the quality of oranges is very good, saying that the quality of fruit is satisfactory would mask the respective quality differences in the different types of fruit.



To illustrate the second reason, consider a comparison of China and India, which have similar scores if one looks at an aggregate of each country's scores on all six World Bank governance indicators for 2004. Yet China scores in the upper half of all countries on "Government Effectiveness" and in the lower quarter of all countries on "Voice & Accountability," whereas India scores in the middle of all countries on both of these indicators. The aggregate hides potentially important differences between the two countries in their scores on different indicators, yet provides no meaningful overall indicator of governance with which to compare the two countries.

Similarly, if a country scores very well on the majority of the World Bank indicators but very badly on one of them, the country's overall aggregate still presents a favorable picture of the country's "governance." Take Israel and Oman, for example. They have similar aggregate scores that lie in the upper half of all countries, but Israel's score on "Political Stability" and Oman's score on "Voice & Accountability" both lie in the lowest quarter of all countries. Users who rely on an aggregate of the six World Bank indicators would be easily induced to believe that the quality of governance [fruits] is fine and comparable in the two countries without realizing that there is a serious problem with the "Voice & Accountability" [apples] in Oman and the Israeli "Political Stability" [oranges].

One must also remember that each of the six World Bank indicators is already extremely complex on its own. This complexity, which reflects the large number and diversity of existing indicators used to construct each measure of governance means that the substantive content or true "meaning" of each composite indicator is already lacking in transparency and very difficult to decipher or interpret in real governance terms. This lack of transparency is only multiplied for an aggregate that combines several of the World Bank indicators, to the point that it becomes very difficult to attribute any substantive "governance" meaning to such an aggregate.

Another example that comes to mind is the landmark UNDP Programme on Governance in the Arab Region, which has played an invaluable role in bringing attention to bear on the problems of governance in Arab countries. The problem, which does not diminish the importance of the Programme in other respects, is that it uses the World

Bank indicators and CPI scores to compare the quality of governance among countries whose scores are much too close to each other. If one keeps in mind the measurement errors inherent in the calculation of those scores, it becomes evident that any such comparison is meaningless. Not only does the Programme make such cross-country comparisons, it does so over time – and even provides a tool on its webpage that encourages users to do likewise. Unfortunately, neither such comparisons among countries with similar scores nor their comparison over time is analytically sound.

Moving Forward

While there will never be one perfect governance indicator, the production and use of more transparent governance indicators will better serve the needs of both external users and developing countries seeking to improve the quality of local governance.

We believe it even more important to emphasize the need for greater transparency in the production and use of governance indicators. Specifically, we believe it possible, and important, for users, especially "external stakeholders," to raise the minimum-quality standard they set for the governance indicators they use particularly as regards the transparency of those indicators – relative to those widely in use today.

Our recommendation is to move beyond the distinction between relatively transparent indicators built to serve "internal stakeholders" and the policy needs of developing countries, on the one hand, and composite perceptions-based indicators widely used and misused by "external stakeholders" for cross-country comparisons, on the other. To achieve such greater understanding of the causes of governance realities requires users effectively to understand the strengths and limitations of the indicators they use. The producers of governance indicators must provide the following in order to help users understand their ratings:

- *Full disclosure of methods and criteria scoring:* Producers should clearly explain for non-specialists the methodology used to construct their indicators, including underlying assumptions that give *de facto* "meaning" to specific indicators.
- *Full disclosure of countries' scores:* Producers should publish not only countries' scores on each composite indicator but on each of the underlying indicators from which the composite indicator is constructed.

Encouraging organizations to clarify the norms and criteria behind their standards for "good governance" by setting higher standards for the transparency of the indicators they use should thus help to strengthen the bases, both analytical and political, for better understanding the kinds of institutions most conducive to development in developing countries today. This should in turn help raise awareness both locally and internationally of how best to try to overcome obstacles to achieving those institutions. Raising the standards of transparency that we demand in the governance indicators we use – and produce – should thus help effectively to improve the quality of governance in developing countries.

*(*__Christiane Arndt and Charles Oman__ are both of the Organisation of Economic Co-operation and Development (OECD).* *We are grateful to the OECD for the permission to publish this article.)*

Notes

[1] The term "emerging market economy" was reportedly coined in 1981 by Antoine W. van Agtmael of the World Bank Group's International Finance Corporation. International investors, especially banks and portfolio investors, now widely refer to the low- and middle-income countries where they lend and invest as such.

[2] World Bank (2005), *World Development Indicators Online, 2005*, World Bank.

[3] The remark was made, of course, prior to the onset of the Cold War.

[4] World Bank (2004), *World Bank Annual Report 2004*, Washington, D.C.

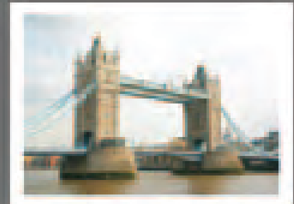
[5] Oman, C. and G. Wignaraja (1991), *The Postwar Evolution of Development Thinking*, Palgrave MacMillan Ltd. and Development Centre Study, London.

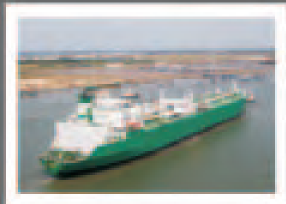
[6] Easterly, W. (2002), *The Elusive Quest for Growth*, MIT Press, Cambridge, Massachusetts.

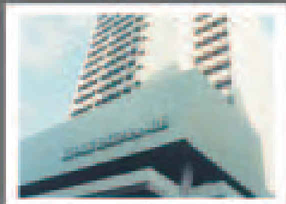
[7] Galtung, F. (2005), "Measuring the Immeasurable: Boundaries and Functions of (Macro) Corruption Indices" in *Measuring Corruption*, Ashgate, United Kingdom.

[8] Transparency International (2004), *Frequently Asked Questions about the TI Corruption Perceptions Index (CPI) 2004*, available online at: www.transparency.org/cpi/2004/cpi2004_faq.en.html#five.

[9] Kaufmann, D., A. Kraay and M. Mastuzzi (2005), "Illustrative Composite Governance Indicator Worldwide Map," World Bank, Washington, D.C., available online at: http://info.worldbank.org/governance/kkz2004/maps.html







NIGERIA – UK: fostering relations on Trade Imbalance

* By Tony Monye

As at end-2006, the United Kingdom emerged as Nigeria's largest exporting nation in the whole of Europe, ahead of countries like Germany, France, Italy, Netherlands, and Spain. In fact, Nigeria's imports from the UK alone are about 68.13 per cent of these countries' put together. Germany and France came distant second and third, respectively. This picture of the United Kingdom-Nigeria trade relationship is a vivid representation of how imports from the UK have been in the past half a decade, consistently dwarfing other countries'. On the export side, the relationship takes a different shape. The UK's imports from Nigeria rank as second to the last of a group of six European countries. Spain is Nigeria's most favoured exports destination, followed closely by France. These figures are a strong reflection of trade imbalance between Nigeria and the United Kingdom.

Nigeria's imports from the United Kingdom have shown consistent rise in the past five years (2002 – 2006). It went up by about 161 per cent between 2002 and 2006; from N132,032.0million to N344,609.9million. On yearly basis, United Kingdom's exports to Nigeria went up, with the exception of 2005 when Nigeria's imports dropped by about 26.7 per cent over the previous year's figures. It however rebounded by a huge 128.15 per cent in 2006. Nigeria's export trend has been a bit random, periods of crests and seasons of troughs. The country's exports to the United Kingdom hit an all-time high in 2003, when they went up by a massive 867.87 per cent; from N1,283.7million achieved in 2002 to N12,424.6million. The following year, the trend witnessed a reversal, by as high as 80 per cent; from the previous year's figure to N2,485.1million in 2004. The haphazard nature of exports continued in the last two years, up in 2005 by over 170 per cent and down the succeeding year by as much as 40.47 per cent.

Trade: Nigeria and the UK – Imports

Yearly/Country	UK	Germany	Netherlands	Italy	France	Spain	Europe Total	United States
2002	132,032.0	64,046.3	33,471.4	31,192.8	43,574.2	10,133.0	445,112.5	134,988.8
2003	183,478.6	140,572.7	41,380.9	82,123.3	61,271.1	18,381.2	700,043.5	298,416.1
2004	205,957.2	148,623.4	47,118.7	28,435.6	64,431.3	125,664.2	783,207.6	174,209.4
2005	151,043.4	84,781.9	60,493.7	23,640.2	125,909.8	14,902.0	655,196.3	361,048.0
2006	344,609.9	163,057.3	90,126.5	99,672.7	128,683.7	24,282.0	1,159,502.0	455,165.2

Source: National Bureau of Statistics / Research & Economic Intelligence Group

Trade: Nigeria and the UK – Exports

Yearly/Country	UK	Germany	Netherlands	Italy	France	Spain	Europe Total	United States
2002	1,283.7	43,993.2	34,741.7	87,005.5	120,212.1	122,842.2	532,245.4	701,064.4
2003	12,424.6	65,277.3	69,140.6	88,844.4	175,559.0	191,663.0	684,699.9	1,189,476.6
2004	2,485.1	50,763.3	54,683.6	83,480.8	227,059.2	375,399.4	880,215.7	2,201,793.4
2005	6,739.7	136,007.8	6,883.0	108,427.2	340,766.1	534,353.3	1,221,357.3	2,703,093.7
2006	4,075.7	453.5	195,003.1	187,344.5	427,505.6	602,954.5	1,599,325.1	3,400,558.4

Source: National Bureau of Statistics / Research & Economic Intelligence Group

Nigeria: Trade and Investment with the UK

The United Kingdom, without doubt can be partly credited with setting Nigeria's industrial base. Some of the earliest companies in the country were largely British. The Royal Niger Company, a leading mercantile firm chartered by the British Government in the nineteenth century, could be counted as one of the very first. The UK is one of the largest investors in Nigeria, with cumulative investment worth several billion pounds by some of her companies such as Shell in the oil and gas sector, Unilever in the manufacturing, and Guinness, Cadbury-Schweppes in the brewery and beverage sector. GlaxoSmithKline provides a good British representation in the pharmaceutical industry, while British Airways and Virgin Atlantic come under the aviation industry. British-America Tobacco is one company where the British partnered with the Americans to contribute to the growth of the Nigerian economy

Nigeria can be regarded as the second destination for business by the British in sub-Saharan Africa, just behind South Africa. The gross trade imbalance highlighted can be reasoned out. It is often said that as a people, Nigerians generally have a tendency to look to British goods and services and even in some cases, their ways. Also, United Kingdom is home to about five million Nigerians, the largest concentration of Nigerians in a single country abroad and, in the Diaspora contributing to the growth of the British economy. Nigerians in the UK are another

huge source of overseas remittances back home. With rising income level in the country, the balance of trade may move further in favour of the British given a high propensity that exists for imported goods and services.

Nigeria – UK: Historical

Nigeria and the UK have strong political, historical, language and constitutional ties. The two countries have always pursued special, mutually beneficial relationship dating back to 1861. It was the year the British began the gradual colonization of the country with the annexation of Lagos through the offer of 'protectorateship'. In brief, the name 'Nigeria' was coined by the wife of the country's first Governor-General, Lady Flora Lugard, who had borrowed from nature's gift to the country, River Niger. On Independence Day in 1960, the British were the first to establish diplomatic relations with Nigeria which both countries have guarded with some suspicion of rivals.

Nigeria is the largest English-language speaking country in the whole of Africa. South Africa comes next. Apart from these, on Freedom day, most of the laws in the country's statute books were almost wholly copied from the United Kingdom. Therefore, when businesses are conducted between citizens of both countries, they do so under familiar terrain provided by the similarities in both countries' systems of adjudication. Also important is the fact that the first system of government practised by Nigeria, the Parliamentary System, could be said to be a simple 'transfer' of the British system to Nigeria. The six years experimentation with parliamentary system was prematurely brought to an end by the military in 1966 through a coup d'etat. In 1979, given the return of the country to civil rule, the nation dispensed with it and instead, opted for the American system – the Executive system.

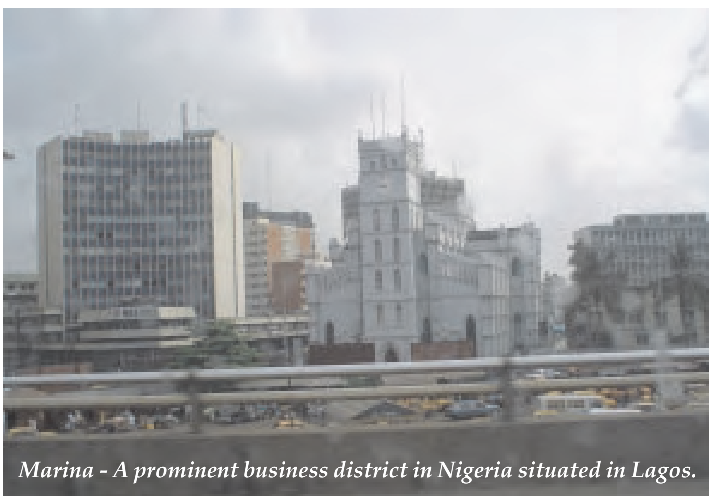
River Thames

Nigeria has since then held on to it, although with some slight modifications here and there to make room for local differences, practices and values.

To the officials at 10 Downing Street, Nigeria, being a member of the Commonwealth, is an important ally and a crucial economic partner south of the Sahara. However, the two nations have had to go through long periods of amicability interspersed with short ones of uneasiness. On a general note, according to the British High Commission, the relationship between both countries can be said to be strong and the UK has been a leading key advocate of debt relief recently achieved by Nigeria.

Nigeria – UK: Demographics

The demographic structures of the two countries differ. They both reflect the state of the individual country's level of development. Nigeria's population figure at over 140 million is more than twice that of the United Kingdom. The gap in the years ahead will not only be maintained but also increased, given that Nigeria has a higher net addition rate placed side by side with the UK. To reflect the fact that the UK is a more advanced economy almost under all indices, the life expectancy of an average Briton, at 78.7 years is almost twice his Nigerian counterpart. Nigeria soars over the UK when benchmarked on fertility rate. An average Nigerian woman is likely to have about 6 children during the course of her lifetime while a British woman looks at about two.


Marina - A prominent business district in Nigeria situated in Lagos.

Nigeria, with a land mass of 923,768 square kilometre, is a huge country compared to the UK. Her size is about three times more than the UK at 244,820 square kilometre. The size of the two countries' land area is about the same benchmarked against their total area in percentage terms. Both

Key Demographic Indices: Nigeria and the UK

Index	Nigeria	United Kingdom
Population (millions)	140.5 (2006)	60.776 (2007 estimate)
Population Growth Rate (%)	2.379 (2007 estimate)	0.275 (2007 estimate)
Life Expectancy at Birth:		
Total Population (years):	47.77	78.7
Male (years):	46.83	76.23
Female (years):	48.07	81.3
Total Fertility Rate (TFR):	5.45 Children born / Woman (2007 est.)	1.66 Children born / Woman (2007 est.)
Land Area:		
Total (sq. km)	923,768	244,820
Land (sq. km)	910,768	241,590
Water (sq. km)	13,000	3,230
Land Use:		
Arable Land:	33.02%	23.23%
Permanent Crops:	3.14%	0.2%
Others:	63.84% (2005)	76.57% (2005)

countries have 98.67 per cent.

Nigeria – UK: Economics:

The dis-similarities between the two countries continue when viewed through the prism of economics. Nigeria is a developing, low-income economy according to the World Development Report (2006) and the third largest economy in the poorest continent, Africa, after South Africa and Algeria. The same study classifies the United Kingdom as a high-income economy with the fifth largest gross domestic product in the world in terms of market exchange rates. The UK is situated in the richest continent in the world, Europe and is the second biggest economy behind Germany in that part of the world.

The size of the UK economy, at $1.93trillion is about ten times that of Nigeria in terms of gross domestic products (at purchasing power parity, PPP). In terms of annual growth rate, the British economy at 2.8 per cent experienced in 2006, however, paled behind its Nigerian counterpart put at 5.3 per cent. The domineering stature of the British economy over the Nigerian one is again brought to the open when comparison is made on per capita income basis. Nigeria's per capita income is put at $1,500 which is some distance behind the UK's figure at $31,800 – a massive 2120 per cent difference!

Nigeria with a foreign reserves position of $42.97 billion, which ranks as Africa's highest as at end-2006, is over 110 per cent that of the British external reserves, at $38.83. This means that Nigeria has higher ability to meet with its obligations more than her British counterpart if all other things are held constant. The Chinese foreign reserves holdings put at over US$1trillion are the world's largest.

The sector by sector contributions to gross domestic product (GDP) of the two countries give inkling to the nature of the two economies. The more developed an

Key Economic Indicators: Nigeria and the UK

Index	Nigeria	United Kingdom
GDP (Purchasing Power Parity)	$191.4 billion (2006)	$1.93 trillion (2006)
GDP (Official Exchange Rate)	$83.36 billion (2006	$2.34 trillion (2006)
GDP - Real Growth Rate	5.3 % (2006)	2.8% (2006)
GDP Per Capita (PPP)	$1,500 (2006)	$31,800 (2006)
Military Expenditures - % of GDP	1.5 (2006)	2.4% (2005)
Foreign Reserves	$42.97 billion (2006)	$38.83 billion (2006)
GDP Composition by Sector:		
Agriculture:	17.3%	1.00%
Industry:	53.2%	25.6%
Services:	29.5% (2006)	73.4% (2006)
Exchange Rate to the US$	N127	GBP0.50
Labour Force:	48.99 million (2006)	31.1 million (2006)
Unemployment Rate:	5.8% (2006)	2.9% (2006)
Investment (Gross Fixed)	26.4% of GDP (2006)	17.2% of GDP (2006)
Budget:		
Revenue:	$17.86 billion	$973 billion
Expenditures:	$19.05 billion; including capital expenditures. (2006)	$1.04 trillion, including capital expenditure of $87billion (2006)
Inflation Rate (Consumer Prices):	10.5% (2006)	3.00% (2006)
Public Debt:	10.4% of GDP (2006)	42.2 of GDP (2006)
Debt External	$6.278 billion (2006)	$8.28 billion (2006)
Natural Resources:	Natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, arable land etc	Coal, petroleum, natural Gas, iron ore, lead, zinc, tin, limestone, salt, clay, Chalk, Gypsum, potash, silica sand, slate, arable land.
Exports:		
Total:	$59.01 billion f.o.b. (2006)	$468.8 billion f.o.b. (2006)
Commodities:	Petroleum and Petroleum products, 95%, Cocoa, rubber.	Manufactured goods, fuels, chemicals, food, beverages, tobacco.
Key Partners:	US. 52.5%, Spain 8.2%, Brazil 6.1% (2006)	US. 15.1%, Germany 10.5%, France 8.9%, Ireland 7.3%, Netherlands 5.5%, Belgium 5%, Spain 4.4%
Imports:		
Total:	$25.1 billion f.o.b. (2006)	$603 billion f.o.b. (2006)
Commodities:	Machinery, Chemicals, transport equipment, manufactured goods, food and live animals etc.	Manufactured goods, machinery, fuels; foodstuffs.
Key Partners:	China 10.4%, US. 7.3%, UK6.7%, Netherlands 6%, France 5.9%, Brazil 4.3%, Germany 4.2% (2005).	Germany 12.8%, US. 8.7%, France 7.1%, Netherlands 6.6%, China 5.00%, Norway 4.7%, Belgium 4.6%, Italy 4% (2005)

Sources: Central Intelligence Agency (CIA), United Nations Development Programmes (UNDP), African Development Bank (AfDB), National Bureau of Statistics (NBS) and Research & Economic Intelligence Group.

economy, the less the contribution of the primary sector to the GDP. This is true of the UK's where the net additions to the GDP from the agricultural sector are just a mere 1.00 per cent. On the other hand, the service sector dominates all others, by a whooping 73.4 per cent as at end-2006, followed by the industry sector with 25.6 per cent. Nigeria's picture points to its developing characteristics with the industrial sector overtaking the agricultural counterpart with 53.2 to 17.3 per cent respectively. Agriculture used to be the mainstay of the Nigerian economy. In a nutshell, agriculture is still responsible for about half of the employment opportunities in the country, especially in the rural areas where it still accounts for over 70 per cent. Nigeria's service sector's contribution is growing, with net additions to the GDP of about 29.5 per cent.

20 Largest Stock Exchanges by Market Capitalisation

S/No.	Stock Exchange	Market Capitalisation (trillions (US$)	Country Domicile
1.	NYSE Euronext	20.692	United States
2.	Tokyo Stock Exchange	4.679	Japan
3.	NASDAQ	4.163	United States
4.	London Stock Exchange	4.023	United Kingdom
5.	Toronto Stock Exchange	1.985	Canada
6.	Frankfurt Stock Exchange (Deutsche Borse)	1.973	Germany
7.	Hong Kong Stock Exchange	1.918	Taiwan
8.	Shanghai Stock Exchange	1.792	China
9.	Madrid Stock Exchange (BME Spanish Exchanges)	1.515	Spain
10.	Australia Securities Exchange	1.324	Australia
11.	Swiss Exchange	1.318	Switzerland
12.	Nordic Stock Exchange Group (OMX)	1.296	Denmark, Finland, Iceland, Sweden etc.
13.	Milan Stock Exchange (Borsa Italiana)	1.123	Italy
14.	Bombay Stock Exchange	1.005	India
15.	Korea Exchange	1.001	South korea
16.	Sao Paulo Stock Exchange (Bovespa)	0.981	Brazil
17.	National Stock Exchange of India	0.962	India
18.	Moscow Inter-bank Currency Exchange	0.86	Russia
19.	Johannesburg Securities Exchange	0.802	South Africa
20.	Taiwan Stock Exchange	0.610	Taiwan

Sources: World Federation of Exchanges (June 2007).

Stock Exchanges: Nigeria and London

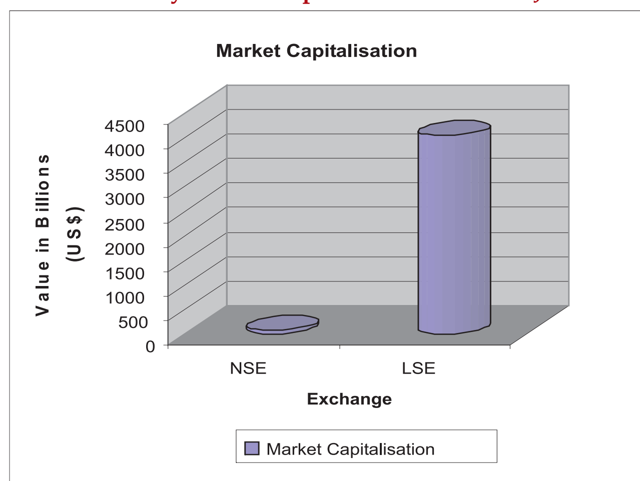
With market capitalisation (MC) in excess of US$4trillion, the London Stock Exchange (LSE) ranks as the fourth largest in the world in a list topped by New York Stock Exchange (NYSE) Euronext with MC of US$20.692trillion. The LSE was founded in 1801, some 341 years after the world's first stock exchange was established in Antwerp, Belgium under the rule of Philip the Good. As at end-June, 2007, there were over 2,749 companies listed on the exchange, with many overseas listing as well as UK companies. As at 10th February, 2007, the National Association Securities Dealers Automated Quotations (NASDAQ) upped its stake in the LSE by additional 5 per cent; from 25 to 30 per cent. This holding, NASDAQ hopes, will make a rival takeover bid unlikely to succeed.

NSE vs LSE by Market Capitalisation June ending 2007

Stock Exchange	Market Capitalisation (billion, US$)
Nigerian Stock Exchange	61.316
London Stock Exchange	4,023.00

Source: LSE and NSE websites

NSE vs LSE by Market Capitalisation as at end-June 2007



Source: LSE and NSE

Structurally, the LSE is broken down along the main and alternative investment markets, as well as EDX London – the derivatives arm. There are also the independent Financial Times Stock Exchange (FTSE) group which maintains a series of indices for measuring performances on the LSE especially amongst the top-100 quoted companies (FTSE 100), top-250 firms (FTSE 250), and top-350 (FTSE 350).

The Nigerian Stock Exchange (NSE) situated in the country's commercial capital, Lagos, was established in 1960. With a market capitalisation of US$61.316 as at end-June, 2007, the Exchange is arguably the fastest growing in the world. Analysts project that it has the capacity to hit the US$100 billion mark at end-2007. Drawing from its trend so far, the NSE seems determined to surpass its projected growth potential. With returns rate, conservatively put at 35 per cent, the NSE rates as the world's most attractive exchange for investors. At present, there are more than 300 companies listed on the Exchange, of these firms, only one is international, Ecobank Transnational Incorporation.

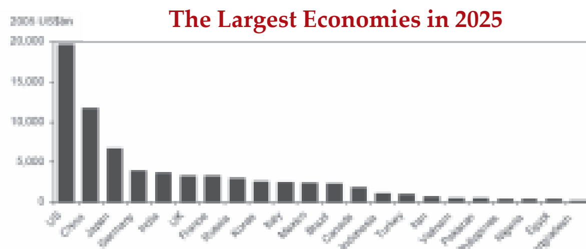
The NSE has received a buzz in activities in recent years. Chief amongst the factors that impacted on its growth is the abolition of the legislation against the inflow of foreign capital. Now, there is a growing number of foreign dealers and brokers and investors of any nationality who are keen on investing in the exchange. The NSE also

makes room for Nigerian companies to engage in multiple and cross border listings in foreign markets.

Nigeria – UK: Futurescope

The economies of the UK and Nigeria will rank among the twenty largest in the world in less than two decades according to a study by Goldman Sachs. The UK's would drop one place backward, overtaken by India, with GDP value close to the US$5 trillion mark. On the other hand, the Nigerian economy will be the largest one in Africa, emerging from the shadows of South Africa, the continent's most dominant economy at present. The United States will still lead the rest of the world, with GDP figure of close to US$20 trillion.

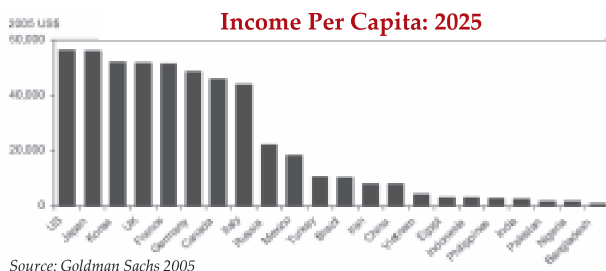
Income per capita will witness an upward trend in both



Source: Goldman Sachs 2005

countries. At almost, US$55,000 per capita income, the UK's will rank as the fourth highest in a list topped by the United States with almost US$60,000. Nigeria will take the second slot amongst African countries with figures nearing US$3,000. Egypt here assumes the leadership position amongst the countries in the continent.

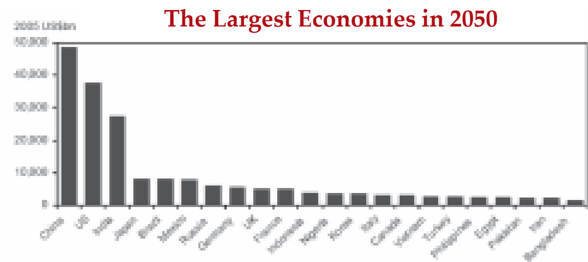
In 2050, Nigeria would have entrenched her presence



Source: Goldman Sachs 2005

in the list of the world's top-20 economies; moving 8 places from what it attained 25 years earlier; from the 20th position to the 12th, just behind and in front of Indonesia and Korea (South), respectively and with GDP values closing US$5trillion. By that time, Nigeria would have outpaced two key members of the Group of Eight (G8), Italy and Canada. At almost US$7trillion, the UK's GDP figure would have shown marginally increment over the 25 years period, dropping three places to the 9th position overtaken by Brazil, Mexico and Russia.

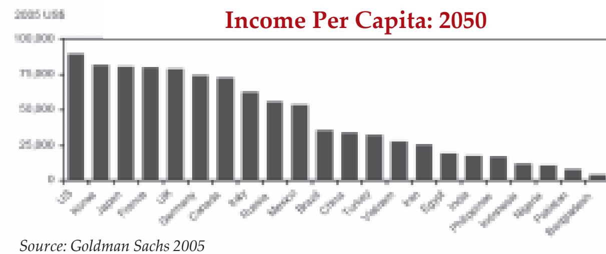
On the basis of income per capita, the Egyptian figure



Source: Goldman Sachs 2005

will still eclipse Nigeria's and at the same time, topping other countries in Africa. Of the 22 countries profiled, Nigeria's figure will put her at the 20th slot, ahead of only Pakistan and Bangladesh. The per capita wealth of the UK, at over US$75,000 will rank her as the 5th best in the world whereas the US will still lead the rest of the world with over US$87,500 as per capita income.

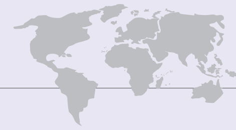
The future of the two countries – Nigeria and UK, por-



Source: Goldman Sachs 2005

tends much opportunity to be explored and exploited. Democracy, one of the key requirements by most western nations in strengthening economic and social relations, is firming up in the country. Nigeria has finally succeeded in transferring power from one civilian administration to another. The present Nigerian government seems poised to continue with some of the reform policies of the past administration. The economic and business climate in the country appears to be in the right direction as they are gradually being made more investment-friendly for the needed foreign direct investment (FDI) inflow. The United Kingdom, on her part, is also stretching her hand in the direction of the world's last bride, Africa hoping to expand trade. Nigeria here seems a veritable partner given the time-tested nature of the two countries' relations and other attributes Nigeria possesses that put her in good stead to deal with, better than other countries in sub-Saharan Africa.

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



African Capital Markets
The Direction, The Pace

*By Eunice Sampson

The ultimate aim of the acclaimed Millennium Development Goals (MDGs) is to halve global poverty by 2015. For Africa, the capital market could play an enormous role in achieving this target.

"If you have stronger companies that have greater access to capital for their growing businesses ... then there is the potential for creating more sustainable jobs, which can also lead to a reduction in poverty," ….Alan Kyerematen, Director, Enterprise Africa, UNDP.

The capital market offers returns in the form of capital appreciation, dividends, bonuses, and the increasing propensity to save, all which have the potential to create wealth.

One of the advantages of capital market investment, critical for the perculiar African situation, is its flexibility. For the investor, very little initial capital is required for investment; for the fund seeker, the amount of capital that could be generated from the market is enormous.

In Nigeria for example, it is interesting to note that investors in the capital market could invest as little as N1,000 ($8.00) on securities. On the other

hand, in recent times, some local firms have raised as much as N100bn (about $80million) through the capital market, from a single offer.

For a continent like Africa where poverty is rife, GDP per capita is low and cost of capital is high, the elasticity and flexibility of the capital market offers a win-win situation for the two key players – the investor and the fund seeker.

AFRICAN ECONOMY – AN OVERVIEW

The theme of the age long African story has not changed much – high rate of poverty, illiteracy, unemployment, infrastructure decay, etc. Over 70% of Africans still live below the poverty line; a great majority of the population still remains un-banked; saving culture and investment in securities are luxuries still outside the reach of over 70% of the population.

However some far-reaching restructuring are beginning to take place in major African economies, promising a more prosperous future for the continent:

- An annual average growth rate of about 5% has been sustained for more than 4 years;
- African governments in all regions are beginning to 'let go', loosening their tight grip on the economy and paving way for a private sector driven economy
- Overregulation is gradually giving way for market forces to determine the direction of the economy
- Economic planning and strategy are being given more serious attention.
- There is greater emphasis on reforms in all sectors, usually kick started with the financial services sector
- Infrastructure and legal structures are being put in place to improve the investment climate and encourage local and foreign investments.
- Fiscal discipline is being entrenched while efforts are being made in different countries to diversify the economy for enhanced and more sustainable economic prosperity.

After decades of trailing behind other continents, Africa's economic performance indicators are beginning to look up.

The time seems right for the continent to focus on developing its capital market, to further consolidate on ongoing economic progress.

Among the current trends in the African economy, and one which can set the pace for the development of its capital market is *privatization of state owned enterprises*. African leaders must begin to see the convenient link between poverty alleviation and the duo of privatization and capital market development; and be willing to take advantage of them to drive their economies towards recovery.

THE CAPITAL MARKET IN AFRICA

Unlike their peers in developed economies, African capital markets are only just evolving. Apart from a few like those of South Africa, Egypt and Zimbabwe, which have history spanning over 100 years, most capital markets in Africa have less than 20 years history, with some (for example, the Maputo Stock Exchange, Mozambique) being as young as eight years.

There are currently about 19 capital markets in the continent, most of which were formed between 1989 and now.

The leading capital markets include those of South Africa, Nigeria, Egypt, and Kenya, with each of these leading the South, West, North and East African regions, respectively.

As local companies respond to a fast globalizing world economy, and bigger and more profitable firms emerge in the continent, African capital market could soon come of age.

Some locally quoted firms in Africa now also play in international Exchanges as listed companies, a boost for the local economies.

As at June 2007, about 10 Nigerian banks (Zenith Bank, First Bank, United Bank for Africa (UBA),

Major Stock Exchanges in Africa (2006 & 2007)

S/N	Exchange	Location	Founded	Listed Companies	Market Capitalization
1.	Johannesburg Securities Exchange	Johannesburg	1887	500	US$711.2bn
2.	Cairo & Alexandria Stock Exchange	Cairo, Alexandria	1888	595	US$93.7bn
3.	Nigerian Stock Exchange	Lagos	1960	285	US$62.5bn
4.	Casablanca Stock Exchange	Morocco	1929	66	US$49.4bn
5.	Zimbabwe Stock Exchange	Harare	1896	65	US$25bn
6.	Ghana Stock Exchange	Accra	1990	32	US$12.6bn
7.	Nairobi Stock Exchange	Nairobi	1954	49	US$10.7bn
8.	Bourse Regionale des Valeur Mobilieres	Abidjan	1998	39	US$6.3bn
9.	Khartoum Stock Exchange	Sudan	1995	53	US$4.656bn
10.	Bourse de Tunis	Tunis	1969	48	US$ 4.2bn
11.	Dar es Salaam Stock Exchange	Dar es Salaam, Tanzania	1998	9	US$2.4bn

Source : Wikipedia; Research & EIG

Intercontinental Bank, Union Bank, Oceanic Bank, Guarantee Trust Bank, Ecobank, Afribank and Access Bank) were concluding plans to enlist in the London Stock Exchange.

Some Internationally Listed African Stocks

S/N	African Company	Origin	Foreign Exchange Listed
1.	Sasol (Petrochemicals)	South Africa	New York Stock Exchange:
2.	Sappi (Paper)	South Africa	New York Stock Exchange; London Stock Exchange
3.	Naspers (Media)	South Africa	New York Stock Exchange:
4.	Nampak (Packaging	South Africa	New York Stock Exchange:
5.	Gold Fields (Metals)	South Africa	New York Stock Exchange; London Stock Exchange
6.	Anglo Platinum	South Africa	London Stock Exchange
7.	Gold Fields	South Africa	London Stock Exchange
8.	Harmony Gold Mining Co	South Africa	London Stock Exchange
9.	Mando Machinery Corp	South Africa	London Stock Exchange
10.	Nmbz Holdings	Zimbabwe	London Stock Exchange
11.	Hwange Colliery Co	Zimbabwe	London Stock Exchange
12.	Meikles Africa	Zimbabwe	London Stock Exchange
13.	Nmbz Holdings	Zimbabwe	London Stock Exchange
14.	Zccm Investments Holdings	Zambia	London Stock Exchange
15.	Commercial Intl Bank (Egypt) S.A.E	Egypt	London Stock Exchange
16.	Efg Hermes Hldgs	Egypt	London Stock Exchange
17.	El Ezz Steel Rebars S.A.E	Egypt	London Stock Exchange
18.	Lecico Egypt S.A.E	Egypt	London Stock Exchange
19.	Orascom Constructions Industry	Egypt	London Stock Exchange
20.	Orascom Telecom Hldgs	Egypt	London Stock Exchange
21.	Paints & Chemical Industries	Egypt	London Stock Exchange
22.	Suez Cement Co	Egypt	London Stock Exchange
23.	Telecom Egypt	Egypt	London Stock Exchange

Major Characteristics of African Exchanges

Aside from the Johannesburg Stock Exchange, most other Africa Exchanges share the following similarities:

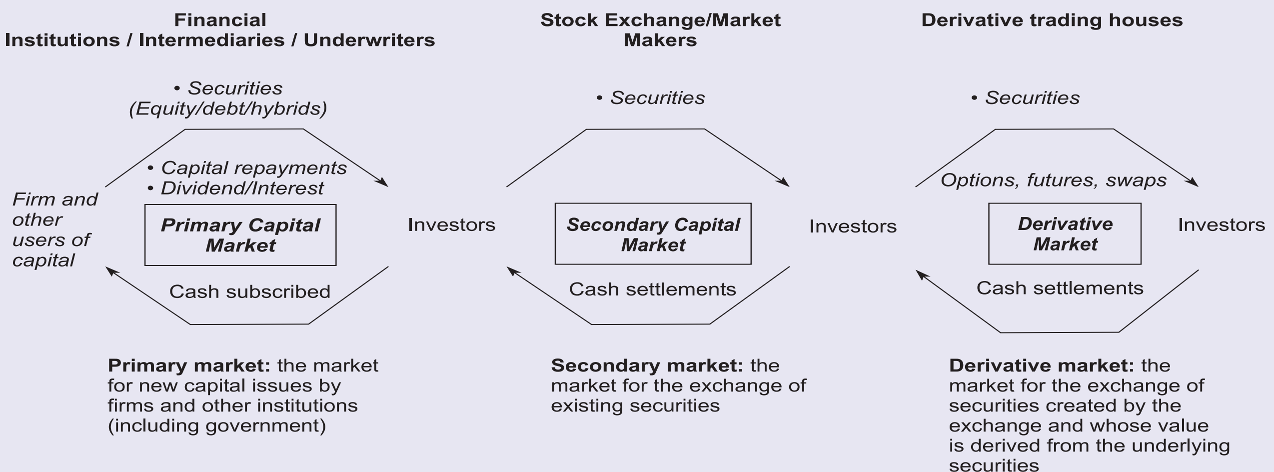
- Low market capitalization
- Small average company size
- Meagre number of listed companies
- Risk averseness and preference for government securities
- Overregulation and heavy government control
- Low trading activities and stocks dormancy
- Low liquidity levels since the value of shares traded is usually too small vis-à-vis the total market capitalization
- Poor information access and exchange
- Low participation of foreign institutions
- Low returns on investment
- High volatility and 'speculative bubbles'

Since very few companies are listed, the few prominent stocks dominate total trading activities day after day. In some markets, a single security could account for over 50% of total market capitalization and daily volume and value of trade.

Current Drivers of Capital Market Activities

Despite the seeming hiccups identified above, many African capital markets have in the last 3 years witnessed significant growth, stimulated by changes in the wider economies. Owing to evolving economic trends, some capital markets in the continent are actually experiencing

Structure of the Capital Market



Source: "Challenges For Financial Sector Reform In Africa" Victor Murinde University of Birmingham; 2007

a boom in the volume and value of trade and in the returns to investors.

Factors driving increasing activities and profitability in these Exchanges include:

- Adoption of market-driven economic reforms
- Overhaul of the financial services industry
- High liquidity and growing incentives to save
- More stable democratic structures
- Growing public awareness
- Privatization of state-owned enterprises
- Lifting of price controls and reduction in government monopolies
- Globalisation and greater involvement of foreign investors in African capital markets
- Pension reforms
- Dwindling disincentives in bank deposit due mostly to falling rates

However, the pace of advancement is not the same for all economies; and different factors are propelling the growth being experienced in the markets.

In Zimbabwe, the current bubble in the stock market is buoyed by prevailing record high liquidity and inflationary pressure (close to 4000%) amidst a low interest rate regime and negative real returns on interest-bearing instruments.

On Wednesday June 13, 2007, the mainstream industrial index in the Harare Stock Exchange closed 54.6% higher at 40 063 181,62 points. In the history of the Exchange, this was the highest ever leap in the index in a single day's trade.

On year-on-year basis, the all share index has risen by about 7000% in 2007 alone, a frightening bubble which, if there is a burst could further annihilate the dwindling Zimbabwean economy, especially since this huge volume of cash is being churned out as stock profits without any production activity ongoing in the economy to support it.

Driving privatization through the stock market would encourage the citizens to save more, empower them financially and give them a stake and a sense of involvement in the entire process.

The capital market in Egypt and Nigeria are also currently experiencing a major boom. Unlike that of Zimbabwe however, the bullish market in both countries are not propelled by inflation – inflation in Nigeria is actually at a low of about 6% while that of Egypt is also at a record low of 8.5% (June 2007). Rather, the market boom in both economies are driven by gains of economic, especially in the financial services sector; growing public awareness; all-time high investors' confidence; growing returns on stock investments; enhanced performance of quoted companies; falling bank rates and high liquidity in the system.

Impediments to Capital Market Growth

While some capital markets are fast recovering and rapidly closing the gaps between them and their peers in developed economies, others are still only crawling, with no hope of a turnaround anytime soon.

Some of the following factors hinder many African economies from tapping into the huge wealth lying fallow in their capital markets:

- Macroeconomic instability
- Political risks and civil conflicts
- Liquidity dearth, low income and poor savings
- Eroded public and investors' confidence
- Low awareness among the populace
- Archaic and moribund capital market operations/ practices
- Poor regulatory and supervisory framework
- Inappropriate legal structure
- Risk averseness
- Low return on capital market investments
- Slow FDI inflow
- Unskilled and inefficient leadership

These factors have clogged the progress of many Exchanges in Africa, making it difficult for corporate entities and individuals to take advantage of the wealth the market could offer.

Potentials in African Capital Markets

One of the most basic problems faced by real sector players today is *'finance'* – limited access to, and high cost of capital.

The development of its capital market is an urgent necessity for Africa since it offers the cheapest and most convenient access to capital for entrepreneurs. A well developed and regulated capital market would:

- Increase domestic resource mobilization
- Improve the supply of long-term capital
- Encourage the efficient allocation of existing resources
- Lower the cost of equity capital

- Spread the risks of long-term investment
- Enhance the supply of investable funds by attracting foreign portfolio capital
- Provide a wide array of highly profitable investment buckets

GROWING THE AFRICAN CAPITAL MARKET - ISSUES TO ADDRESS

Globalizing the Market

While foreign investors' involvement in African capital markets is seen by many as a positive development, others have their reservations. These reservations are borne out of the belief that the more integrated a country's stock market is with foreign holdings, the more susceptible it is to global financial shocks. For an already highly volatile African capital market which regulation is yet to be perfected, the risk of completely opening up the market to foreign securities holding is no doubt enormous.

Existing policies in some African countries (including Zimbabwe, Ghana and Botswana) allow foreigners to buy and sell shares freely and to buy up local stock broking firms when applicable. Other countries like Nigeria and Kenya are beginning to open up to foreign investors after years of restrictions.

Ajit Singh, a Cambridge economist recommends that African countries focus more on encouraging foreign direct investment than on attracting short-term investment flows through their capital market. This is because, in his opinion, *'large amounts of portfolio investment in Africa would greatly increase vulnerability to domestic and international shocks'*.

While his argument is very valid, yet protecting the continent's capital markets from foreign investors could do more harm than good in the long run. The solution is not on *shutting the doors* but on imbibing international standards and global best practices in capital market operations and regulations and in providing a conducive atmosphere for local and foreign investments to thrive.

Effective Regulation

While the option of globalizing the market is controversial, the most efficient way to achieve a win-win situation for stakeholders is through effective regulation. If the capital markets are more effectively regulated and corporate governance is enshrined among listed companies, and regulators it would be easier to guard against external shocks even in the instance of foreign participation in local markets.

Effective regulation would also ensure that the markets are better organized; investors' interests are better protected and public confidence is aroused.

Achieving Stable Socio-economic and Political Environment

One way to sustain the confidence of local and foreign investors is to ensure an active, boisterous and progressive economy. A vibrant, fast growing economy like that of China has in the last couple of years been able to sustain a stock market that is currently rated as one of the most profitable in the world.

Investors are not *Father Christmas* and would tend to withdraw their funds if necessary and re-invest them in markets where they are sure of economic stability and better returns.

Deepening the Market

Most African capital markets are still rather shallow and characterized by low public awareness, few listed companies; low trading activities; and small volume and value of transactions vis-à-vis the overall market capitalization. Recently, some Exchanges have devised strategies to overcome these setbacks, by for example, stimulating the interest and participation of small scale investors, who, incidentally, constitute over 65% of the potential investors in most African economies.

Companies which are seeking to raise funds should be encouraged to allot preferential shares to organized group of small investors, cooperatives, labour groups, etc. In some countries, there are deliberate efforts at ensuring regional coverage in securities holding among the populace.

On the other hand, initiatives that would encourage the listing of more companies should be constantly devised. For example, the recent introduction of a Third Tier Securities window by the Nigerian Stock Exchange, to meet the needs of SMEs seeking to raise funds through the capital market, is laudable. Listing requirements must be remodeled in most African Exchanges to create more room for smaller firms to operate.

CURRENT PACE OF AFRICAN STOCK MARKETS - EXAMPLES

South Africa (JSE)

The Johannesburg Stock Exchange (previously the JSE Securities Exchange) is the largest in Africa in market capitalization and the 19th largest in the world. With market capitalization currently put at over $700 billion and about 500 listed companies, it is the pacesetter in the continent,

controlling over 50% of the total value of the region's listed shares.

South African firms also lead in participation in foreign capital markets. Many South African firms are listed in foreign stock markets like the New York Stock Exchange and the London Stock Exchange; for example Naspers, Harmony, Telkom, Gold Fields, Sappi, Sasol, AngloGold Ashanti, etc.

The South African capital market has been experiencing a bull, supported by fundamentals such as macroeconomic stability, enhanced foreign investment inflow, improved corporate earnings, and hyper active stocks in the banking, mining and construction industries. The renewed interest in construction stocks is due mainly to activities preceding South Africa's hosting of the 2010 FIFA World Cup.

The JSE top 40 has grown by 51% annualised since 2005, and 61% in the last 3 years, a strong market performance and another indication of the immense potential in African capital markets.

Egypt (CASE)

In line with ongoing economic reforms in Egypt which begun in the early 1990s, the country's capital market (Cairo & Alexandria Stock Exchange [CASE]) has witnessed far-reaching changes in recent years. Growth in the capital market is driven by privatisation and deregulation activities and the reforms in the banking sector.

The consolidation exercise in the country's banking sector in 2006 and the M&A activities that ensued have been a major boost to the Exchange. The inflow of new investments into the sector lifted the liquidity position of the market and accelerated trading activities. As a result, value of domestic liquidity rose in June 2006, reaching about

Position in The World League As At 29 December 2006 (As Calculated by the World Federation of Exchanges)

	JSE		JSE	
	Dec 2006	**Ranking**	**Dec 2005**	**Ranking**
Market Capitalisation (US$ million)	711 232	19	549 310	17
Market Turnover (US$ million)	312 296	21	201 491	21
* Liquidity %	36,6	88	30	33

The Liquidity fugure has been adjusted for Off Order Book Principal Trades

Source: Johannesburg Stock Exchange (Annual Report 2006)

Emerging Stock Markets As At 29 December 2006 (Provided by the World Federation of Exchange)

	Number of Companies Listed	Value Traded (Million US$)	Market Capitalisation (Million US$)	Turnover Ratio %
JSE	389	312296	711232	48,90
Athens Exchange	290	107879	208256	58,56
Buenos Aires SE	106	5281	51240	7,23
Bursa Malaysia	1025	75487	235581	3623
Cairo & Alexandria SEs	595	48143	93496	70,03
Mauritius SE	63	210	4959	14,75
Mexican Exchange	335	96320	384345	29,64
Phillipine SE	240	11252	67852	21,79
Singapore Exchange	708	180440	384286	58,17
Tehran SE	320	4886	36315	13,75
Tel Aviv SE	606	65538	161732	46,60
Thailand SE	518	100654	140161	72,70

Source: Johannesburg Stock Exchange (Annual Report 2006)

JSE: Top 10 Equity by Market Capitalisation As At 29 December, 2006

Equity Name	Alpha Code	Market Capitalisation (Rand)
Anglo American Plc	AGL	518955281568
BHP Billiton Plc	BIL	318267555908
SABMiller Plc	SAB	240855403566
Richemont Securities DR	RCH	213498000000
Ango Platinum Ltd	AMS	196578148812
Sasol Ltd	SOL	161797021404
MTN Group Ltd	MTN	158680884540
Old Mutual Plc	OML	131471402641
Standard Bank Group Ltd	SBK	128768837306
First Rand Ltd	FSR	125095924832

Top 10 by Value for 2006

Equity Name	Alpha Code	Value (Rand)
Anglo American Plc	AGL	216350899351
Sasol Ltd	SOL	156526653546
BHP Billiton Plc	BIL	124960519071
MTN Group Ltd	MTN	101222164234
Impala Platinum Hidgs Ltd	IMP	83253445446
Standard Bank Group Ltd	SBK	81540636058
Goldfields Ltd	GFI	79898140134
SABMiller Plc	SAB	65652282856
First Rand Ltd	FSR	62459730526
Telkcom SA LTd	TKG	60757540403

Top 10 by Volume for 2006

Equity Name	Alpha Code	Volume (number of shares)
First Rand Ltd	FSR	3373551174
Old Mutual Olc	OML	2092709317
Richemont Securities DR	RCH	1778766371
MTN Group Ltd	MTN	1638651955
Sanlam Ltd	SLM	1522670223
Network Healthcare Hidgs	NTC	1178933967
Stenhoff international Hidgs	SHF	1055866604
Standard Bank Group Ltd	SBK	1014873155
BHP Billion Plc	BIL	950917306
Edgars Consolidated Stores Ltd	ECO	943658954

Source: Johannesburg Stock Exchange (Annual Report 2006)

LE 560.4 billion. Between 2004 and 2006, the Exchange grew by about 98% in total market value, driven mostly by increasing domestic liquidity.

Significantly, President Hosni Mubarak in 1997 declared Egypt an open market for investment without any limits. In response to that call, not only are some foreign securities quoted in Egypt's capital market today, some Egyptian stocks like Suez Cement Co, Telecom Egypt, Lecico Egypt, etc are now listed on foreign stock Exchanges. Rate of foreign participation in the local capital market is currently put at over 30%.

Egypt's capital market is one of the most promising in the continent. Daily transactions averaged 30,000 in 2005/2006 while market capitalisation during the same period rose to about LE 477 billion (about 80% of GDP) as against LE 172 billion by year end 2003.

It recently gained membership of the International Stock Market Union, becoming the first Arab stock market to join this union.

Since 2005, the Exchange has embraced global best practices including the introduction of Electronic Revealing System and the issuing of the Dow Jones Case Egypt Titans 20 Index.

While most indicators currently look good, the future of the market would however be determined by how steadfast the government remains about economic reforms and how these impact FDI inflow, growth in the real sector of the economy, investors' confidence and the disposable income available to the populace.

According to the OECD, "Egypt is to become the first Arab and first African country to sign the OECD Investment Declaration. This marks a new stage in Egypt's drive to attract more foreign direct investment (FDI). A series of policy reforms have helped to underpin a fifteen-fold increase in Egypt's FDI between 2001

and 2006. FDI reached a record USD 9 billion in the first three quarters of its 2007 fiscal year. This compares with USD 6.1 billion for the whole of 2006". … CASE website.

Its domineering regional status and huge tourism potential are some of the advantages the country could leverage on to attract increased domestic and foreign participation in its capital market.

Kenya (NSE)

Established in 1954, the Nairobi Stock exchange, NSE, is the leading and most progressive capital market in East Africa with about 18 member firms and 49 listed companies.

Between December 2002 and October 2006, the Exchange's market capitalization grew by 550%, from 112 billion shillings to about 730 billion shillings, while it's 20-Share Index increased by 260% to 4890.

One of the propelling forces behind the improved performance is the deregulation and privatisation exercise embarked on by the Kenyan government. Recently, government sold 30% of its shareholding in the Kenya Electricity Generating Company through the Nairobi Stock Exchange – an offer that was oversubscribed by 330% and fetched 8 billion Shillings:

Other drivers include growing awareness among Kenyans about the huge returns the capital market offers; government incentives, including a reduction in corporate tax for newly listed companies, the pension sector, driven by the Retirement Benefits Authority, which investment activities have improved liquidity and volume of trade in the market.

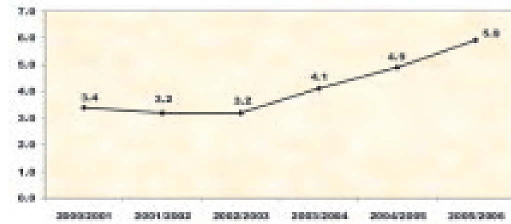
For the government, the Exchange has become an indispensable source for pooling funds for developmental projects:

"This year (2006), Treasury Bonds with a face value of 75 billion shillings have been issued and listed at the Nairobi Stock Exchange. The total face value of all listed Government of Kenya treasury bonds is 234 billion shillings. A 12-year treasury bond, with a face value of 4 billion shillings, was successfully issued and listed at the end of August 2006. Plans are also underway to issue a 15-year treasury bond for the first time. This is an indication that we are truly seeing our capital market come of age"…. President Mwai Kibaki; Oct. 25th, 2006.

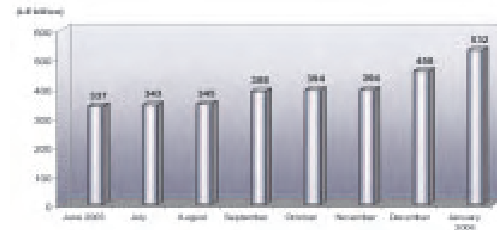
The capital market is an integral part of Kenya's plan to achieving its vision 2030, part of which includes a projected annual economic growth of 10% and attainment of the status of a middle income economy by 2030.

As part of the country's regional integration strategy, the NSE on October 2006 initiated the integration of all three Exchanges in the region (the Nairobi Stock Exchange, NSE; Dar es Salaam Stock Exchange, DSE; and Uganda Securities Exchange, USE) to form a single stock market called the East Africa Stock Exchange, this move would be

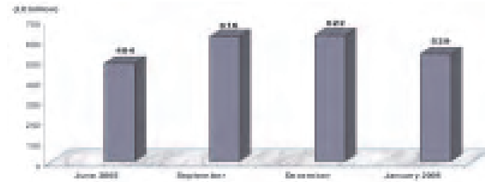
Egypt: Real GDP Growth Rate (2000/2001 – 2005/2006)



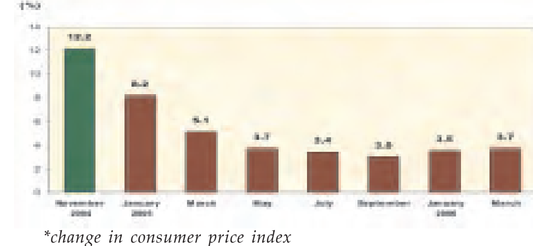
Egypt: Market Capitalization (June 2005 to Jan. 2006)



Egypt: Growth in Domestic Liquidity (Jun 2005–Jan. '06)



Egypt: Fall in Inflation Rates (Nov. 2004 – March 2006)*



*change in consumer price index

Egypt: Central Bank's Deposit and Lending Prices are Falling (June 2005 – March 2006)

Source: Ministry of Economic Dev, Egypt (http://www.mop.gov.eg)

Kenya Stock Exchange: Growth in Market Capitalization (In Billions of Kshs) 2001-2007

Month/Year	2001	2002	2003	2004	2005	2006	2007
JANUARY	101,667,581,557	89,121,872,994	123,241,537,870	363,990,848,736	330,879,835,000	481,285,392,805	824,293,486,087
FEBRUARY	104,343,191,270	88,391,395,090	130,071,732,559	375,294,707,604	334,582,015,378	469,656,950,829	723,092,663,000
MARCH	97,436,633,528	81,890,452,097	138,880,759,042	307,550,934,876	326,924,842,000	484,176,427,192	
APRIL	93,863,153,964	79,571,185,872	163,252,811,699	302,034,402,341	335,795,905,187	486,776,919,956	
MAY	91,382,336,019	80,523,642,230	177,727,412,571	287,037,528,384	373,065,633,386	614,901,590,511	
JUNE	98,684,541,138	83,302,175,638	180,655,567,242	273,083,351,127	420,322,623,538	623,197,182,335	
JULY	97,293,351,318	88,319,943,012	189,042,513,123	281,975,309,667	439,725,039,324	615,092,762,015	
AUGUST	89,277,785,539	85,410,414,803	214,402,445,140	287,387,821,058	442,819,750,897	668,578,120,740	
SEPTEMBER	85,867,231,569	85,784,832,266	252,140,270,461	288,295,335,890	449,795,018,250	726,783,531,826	
OCTOBER	88,862,925,055	91,250,186,145	252,140,270,461	297,473,828,903	454,954,606,933	771,700,390,081	
NOVEMBER	90,124,093,455	96,594,229,384	307,174,881,934	259,089,134,461	455,479,793,827	806,324,453,546	
DECEMBER	86,097,430,618	112,054,538,357	317,543,879,005	306,024,631,341	462,520,214,720	791,911,514,815	

Source: Nairobi Stock Exchange: Note that blank spaces means information not yet available

followed by the setting up of a single Depository System Corporation which would serve all East African countries.

On October 25th, 2007, the Exchange launched its Automated Trading System, to further facilitate the planned regional securities exchange, a strategy that would create a larger market in East Africa and make the region more attractive to foreign investors.

Nigeria (NSE)

"The speed of domestic and international market development we are witnessing in Nigeria outstrips anything we experienced in other markets. This means if the right environment is established in Nigeria, the rewards from the capital market will be very large and very rapid". - - - Stephen Jennings, CEO, Renaissance Group.

From a market capitalisation of just $2.94 billion eight years ago (1999), the Nigerian capital market as at June 2007 had listed stock value of about $63 billion, third in Africa only to South African and Egypt's Exchanges, respectively.

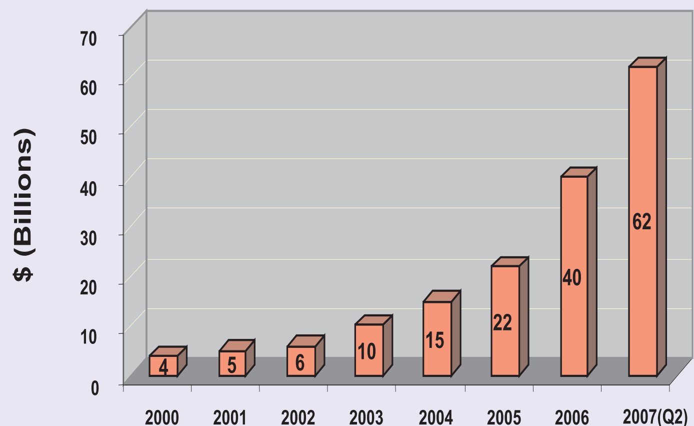
The Nigerian capital market is now rated as one of the fastest growing and most profitable in the world with an estimated return of over 350%.

Considering the much it has achieved in the last couple of years, the challenge for the Nigerian stock market now is how to sustain the current tempo and keep the enthusiasm of the local and foreign investors high.

GOING FORWARD

"Countries with highly active capital markets tend to have the highest levels of economic development, while those with lowly developed or no capital markets lag behind even where good economic opportunities for growth and development exist"... Jimnah Mbaru, Chairman, Dyer & Blair Investment Bank Ltd, Kenya.

NIGERIA STOCK EXCHANGE- MARKET CAPITALISATION (2000-2007



Source: NSE, Research & EIG

Nigeria: Top15 Quoted Companies in Market Capitalisation (as at June 15, 2007)

S/N	Securities	Share Price (N)	Units Issued (billion)	Market Capitalisation (NGN= bn)	Market Capitalisation (128NGN=USD) ($= bn)
1.	ZENITH BANK PLC	59.50	9.27	551.30	4.31
2.	FIRST BANK OF NIG. PLC	40.40	10.46	422.42	3.30
3.	UNION BANK NIG. PLC	43.00	9.65	414.94	3.24
4.	DANGOTE SUGAR REFINERY PLC	40.00	10.00	400.00	3.13
5.	UNITED BANK FOR AFRICA PLC	46.02	8.47	389.88	3.05
6.	OCEANIC BANK INTL PLC	30.84	11.64	359.04	2.81
7.	NIGERIAN BREW PLC.	44.00	7.56	332.75	2.60
8.	GUARANTY TRUST BANK PLC	37.96	8.00	303.68	2.37
9.	INTERCONTINENTAL BANK PLC	27.80	10.72	298.12	2.33
10.	ECOBANK TRANSNATIONAL INC.	173.25	1.22	212.16	1.66
11.	W.A. PORTLAND COMP. PLC.	66.98	3.00	201.05	1.57
12.	ECOBANK NIGERIA PLC	9.00	21.65	194.89	1.52
13.	DIAMOND BANK NIG. PLC	20.08	9.40	188.75	1.47
14.	GUINNESS NIG PLC	126.01	1.47	185.86	1.45
15.	PLATINUM HABIB BANK PLC	28.85	6.44	185.65	1.45

Source: Nigeria Stock Exchange / Research & Economic Intelligence Group

The financial intermediation role of the capital market if effectively leveraged could leapfrog economic transformation in Africa.

It is imperative to reiterate at this juncture, the need for African countries to weave ongoing economic reforms round their capital markets, especially the deregulation and privatisation exercises.

This emphasis is necessitated by the observation that much of the privatization programmes have not been channeled through the capital markets. Driving privatization through the stock market would encourage the citizens to save more, empower them financially and give them a stake and a sense of involvement in the entire process.

"Transferring ownership to the public through the stock exchange could be a very useful tool of, not only disempowering [former state managers], but also expanding the liquidity of these markets, developing the culture of investment, and expanding the horizon of investment opportunities that are available ….. privatization of shares in large state utilities in Nigeria through the stock exchange would "provide not only a boost for the exchange in terms of size and market capitalization, but also in terms of getting thousands and thousands of[local] people to become shareholders." - - - Mengistu Alemayehu, IFC (World Bank).

Also if African capital markets are to consolidate and build on the gains so far made, there is no over-emphasizing the need for:

- The development and empowerment of the real sector
- Socio-political stability
- The rule of law and a favourable regulatory system
- A diversified economy in place of the traditional mono-culture syndrome
- Huge investment in infrastructure to act as an attraction for investors and reduce the cost of doing business locally
- Shareholders' protection regulations to keep investors' confidence alive
- Transparency, accountability and good corporate governance in quoted companies and stock broking firms
- Adequate public awareness and enlightenment on securities investment
- The development of diverse investment buckets (including bonds and derivatives) for the public to choose from
- The removal of entry barriers for small - sized firms into the capital market, either as fund seekers or as investors
- Stimulating the growth and efficiency of the financial services system

The development of bond and equity markets in Africa would go a long way in alleviating poverty, building a solid domestic capital base, growing the real sector of the economy and reversing the age long vice of capital flight.

(*Eunice Sampson is an Assistant Editor, Zenith Economic Quarterly)

ZEQ DATABANK

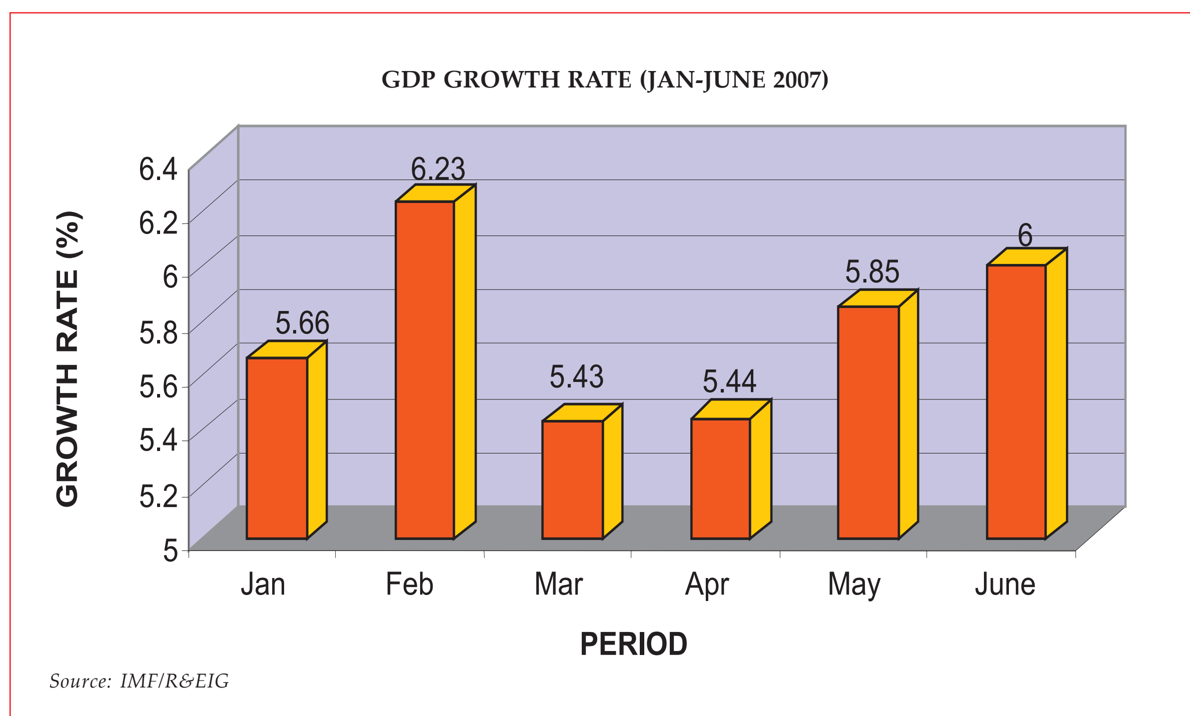
- Solomon Obembe

MACROECONOMIC ENVIRONMENT

Nigeria's macro-economy performed fairly well in the second quarter of 2007 defying analysts' projections. Economic commentators had forecast that major indices could plunge during this period as a result of the April general elections and May handing-over formalities. Although, the impacts of the elections were felt, there were notable improvements in almost all major macroeconomic fundamentals. The nation's currency, the Naira, for instance appreciated against some of the major foreign currencies. Also, inflation rate dropped in April but reversed in the last two months of the quarter. Gross Domestic Product (GDP) also experienced upward movement. With the improved contribution from non-oil exports, the sector looks set for possible all-time record growth in 2007. On the flip side, the major problem faced by the economy during this period was the sustained youth restiveness in the Niger-Delta region leading to cuts in oil production by major exploration companies.

GROSS DOMESTIC PRODUCT

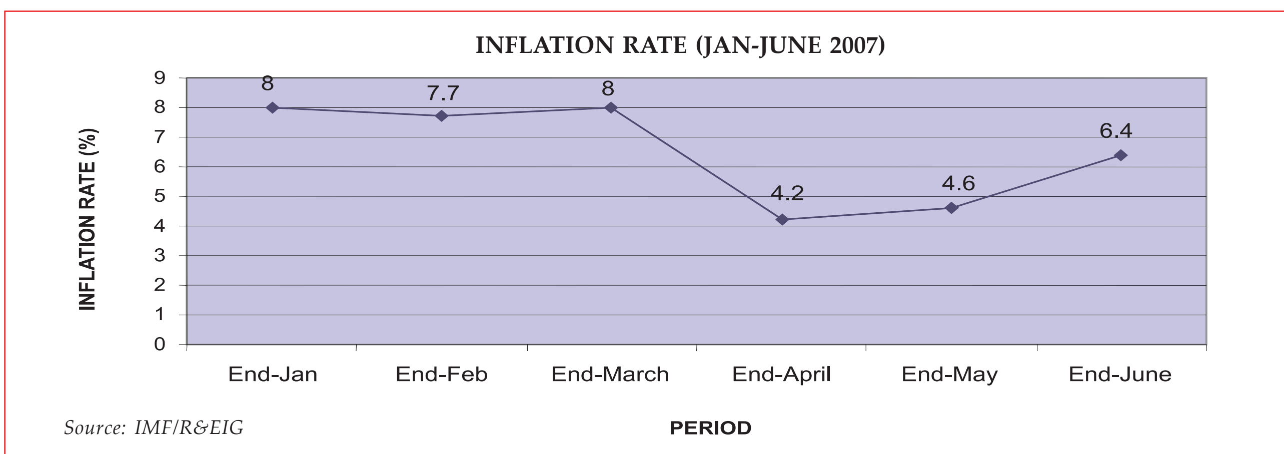
Government had made a projection of about 8 per cent growth rate in gross domestic product (GDP) for 2007. At the heart of the forecast is the growing role of the agricultural sector in terms of contribution to the nation's GDP and of course, its ability to generate employment for the teeming masses. GDP growth rate had averaged 5.77 per cent in the first quarter with the month of March contributing about 5.43 per cent. The second quarter witnessed some drop as GDP growth rate fell to 5.76 per cent. The economy seems poised to achieve its projected growth estimate as it is expected that the restiveness in the oil producing region will abate given government's readiness to constructively engage the Niger-Delta restive youths. It is expected that favourable crude oil prices too will have some positive impacts on GDP growth rate for the remaining quarters of the year. In addition, the fast approaching harvesting season, the calm after the storm of the recent increment in petroleum products prices, and the anticipated return-to-normal production level of the oil companies, will also boost GDP.



Source: IMF/R&EIG

INFLATION

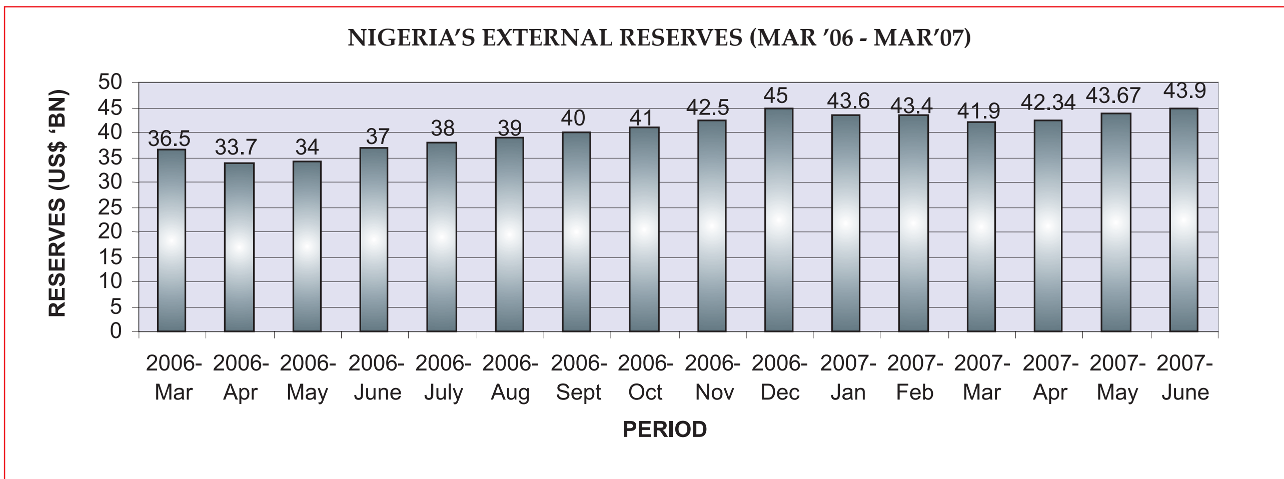
Year-on-year inflation experienced haphazard trend during the course of the second quarter. From a high of 8 per cent attained in March, it went down to 4.2 per cent in April. The following month, there was a trend reversal as it went up marginally to 4.6 per cent. The rising trend was sustained in June when it closed the quarter at 6.4 per cent. The inflation movement in the last two months of the quarter can be explained. The short-lived increase in value added tax (VAT) that was later reversed, hike in the prices of petroleum products, the drop in both the MPR and interest rate corridors, the rise in the cost of transportation occasioned by fuel price increase were some of the major factors that pushed up the inflation rate in the last two-thirds of the quarter. Inflationary trend in the last two months of the quarter had created some concern for the monetary authorities. This was because the movement in inflationary rate was contrary to what they had planned to achieve under the subsisting monetary policy regime.



Source: IMF/R&EIG

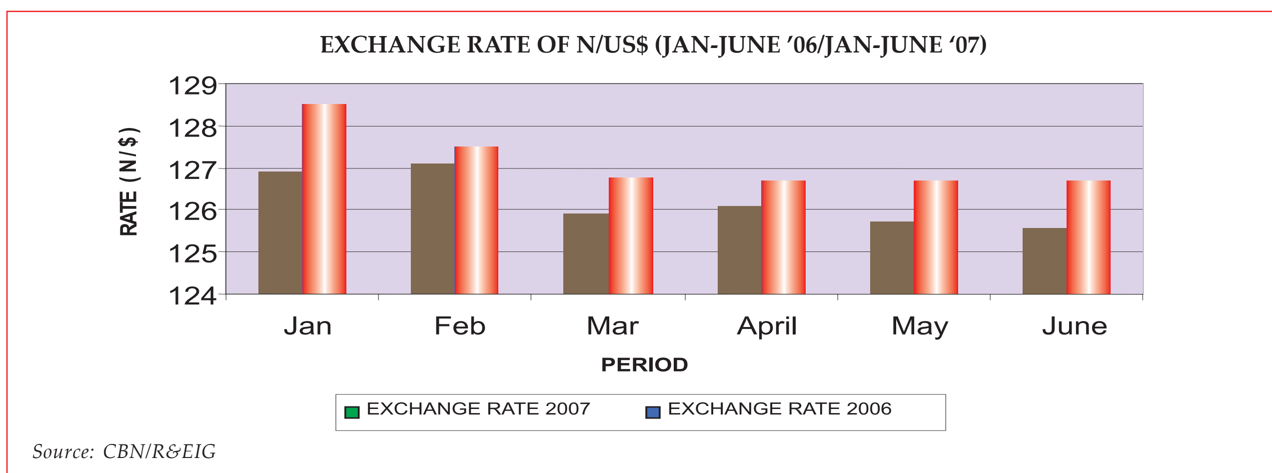
EXTERNAL RESERVES

Nigeria's external reserves position which had witnessed a declining trend throughout the first quarter rebounded in the second quarter. It went up by 4.8 percent; from $41.9 billion at first quarter-end to $43.90 billion at the end of second quarter. The reserves, at $41.9 billion at end-March 2007, rose slightly by 1 percent, to $42.34 billion in April. At the end of May, the reserves position had gone up by 3.1 percent to $43.67 billion. At end-June, the nation's foreign reserves had hit US$43.9 billion. According to the CBN, with the external reserves at this value, the nation can finance her import commitments / disbursements in excess of forty months.



EXCHANGE RATE

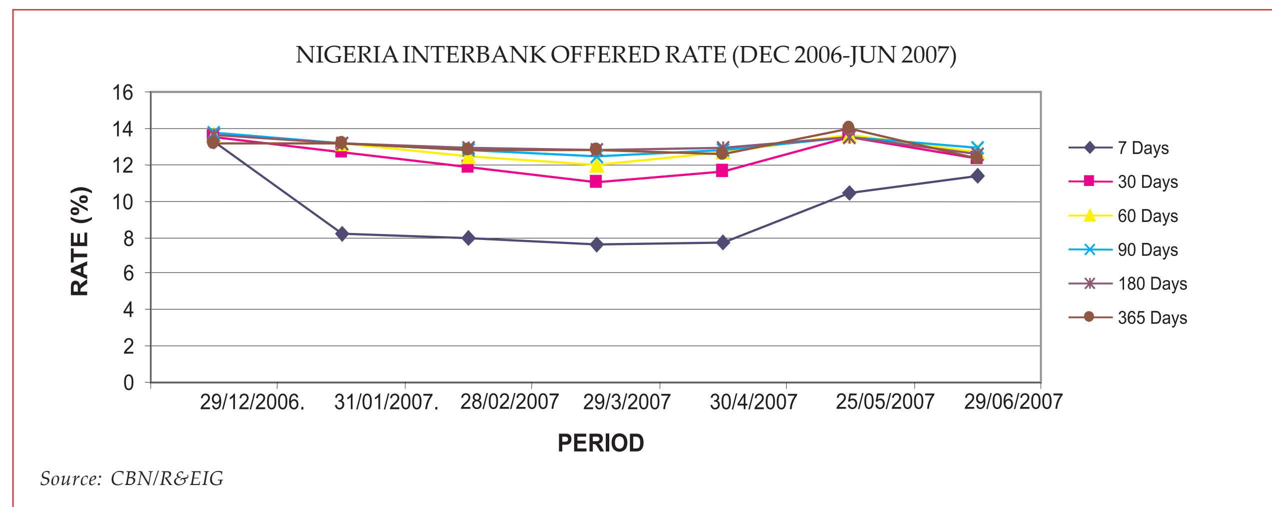
The Naira firmed up even further against the dollar in the second quarter of 2007. It gained about 35 kobo in the period; from N125.9:$1 at the end of the quarter-one to N125.55:$1 achieved at second quarter-end. Chief amongst the factors that gave boost to the Naira are the nation's falling debt profile, increasing external reserves, inflow of foreign direct investment due to increasing investors' confidence in the Nigerian economy, rising crude oil prices in the international market, etc. Comparatively, foreign exchange demand went up between first and second quarters by 38 percent; from $282.1 million to $390 million at the end of the second quarter. At end-June, more banks were participating in the Wholesale Dutch Auction System (WDAS) sessions as the number of institutions increased from thirteen to seventeen in June 2007.



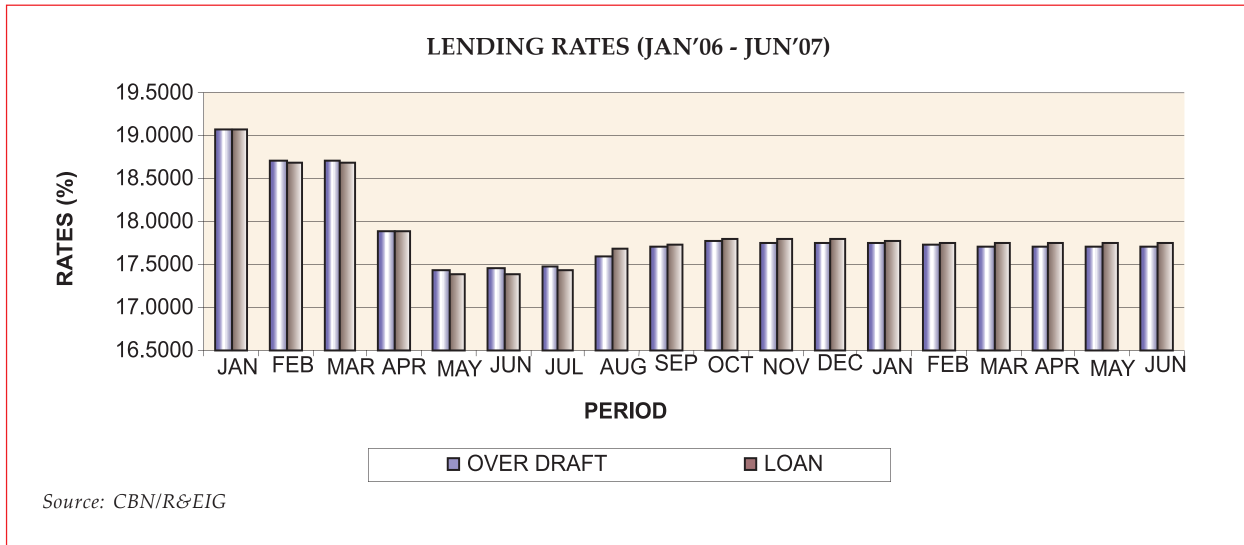
Source: CBN/R&EIG

INTEREST RATE

Interest rates moved generally downward in the second quarter of 2007 due partly to reduction in Monetary Policy Rate (MPR) by 200 basis points; from 10 percent to 8 percent. Apart from the reduction in the MPR, the CBN also narrowed the interest rate corridors, by 50 basis points, upper and lower bounds; from 300 basis points to 250. The prime lending rate (PLR) remained at 17.75 per cent. It had remained at this level since the second month of the first quarter. On the other hand, the drop in the MPR seems to have had no significant effects on inter-bank dealings as the offered rates went up by almost a percentage; from 11.45 per cent at the end of the first quarter to 12.36 per cent at the end of the second quarter.



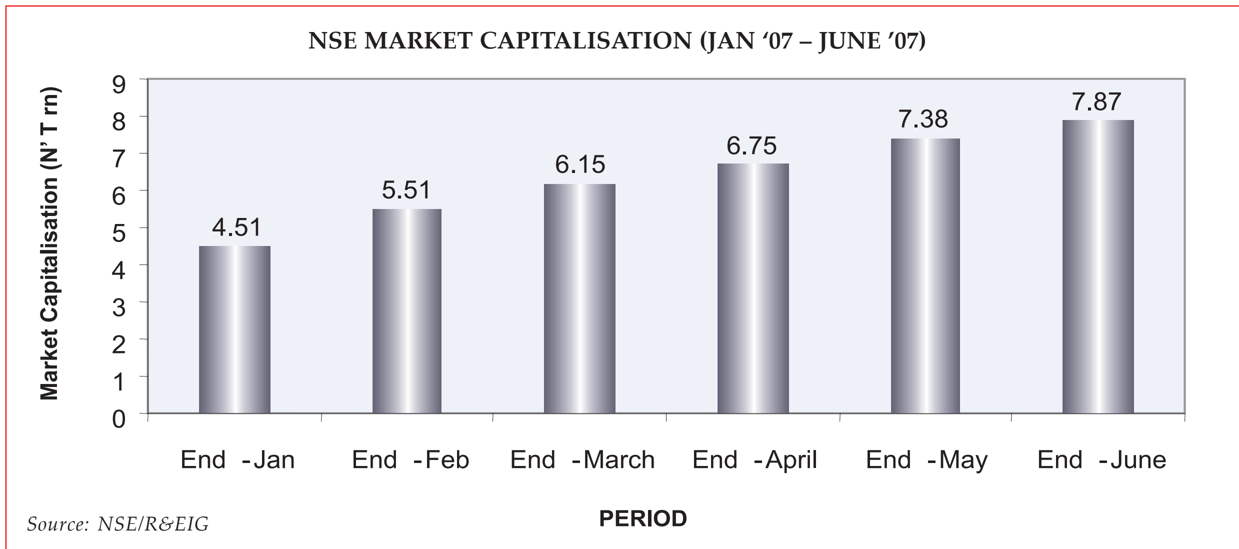
Source: CBN/R&EIG



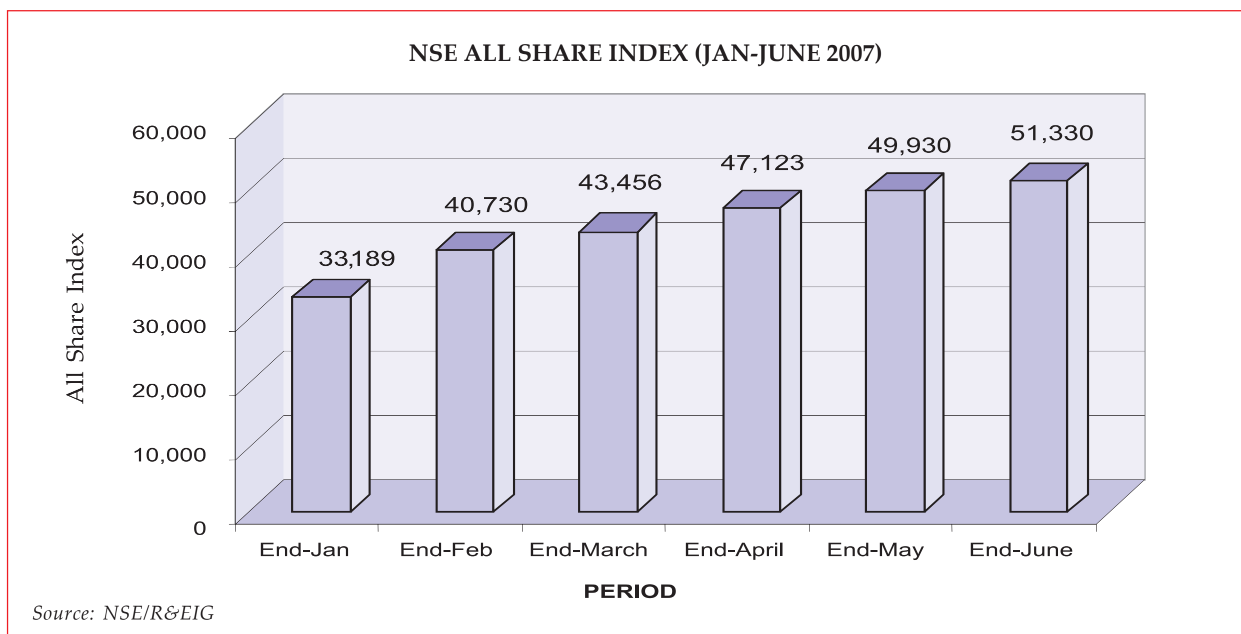
Source: CBN/R&EIG

CAPITAL MARKET

The Nigerian capital market's impressive performance in the first quarter of 2007 continued in the second quarter. The activity level went up appreciably as the All Share Index (ASI) rose by over 18 percent; from 43, 456.14 recorded at end-March 2007 to 51, 330.46 at the end of the second quarter. The market capitalisation of the Exchange rose by more than 28 per cent in second quarter; from N6.15 trillion at end-March to N7.9 trillion at the end quarter-two. First Bank's leadership position as the most capitalized company on the exchange was taken over by Dangote Sugar Refinery (DSR) in late April. DSR lost it to Zenith Bank less than three weeks later. Zenith Bank has since then maintained the enviable position of the most capitalized company on the Exchange. Another notable development on the Exchange during the period under review was the adoption of new trading time. Stock traders and dealers are now to trade between 9.30am and 12.30am as against the hitherto practice, 9.00am -12 noon. This new trading time, approved by the Council of the Exchange, came into effect from the 28th May, 2007.



Source: NSE/R&EIG



CRUDE OIL

Oil price per barrel in the international market experienced a rise of about 20 per cent during the second quarter; from US$61.65/barrel in late March to US$73.56/barrel at end-June. The nation's crude oil output which experienced serious decline in the first quarter of 2007 continued its downward trend in the second quarter. Nigeria's oil production capacity estimated at 2.5 million barrel per day in 2007 remains yet to be achieved. Youth restiveness in the Niger-Delta caused some production drop – of about 18 per cent. Consequently, the country's earnings from the commodity dropped at a time when other oil producing countries are smiling to the banks as a result of rising crude oil prices in the international market, which reached a record high of about $75/barrel in June.