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Rebased GDP: Emerging Opportunities in the Nigerian Economy

INSIDE

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WASTE RECYCLING: unveiling the Wealth Beneath the Dung

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Gains from Fantasy?

Albert Einstein (1879-1955), the German-American world-famous theoretical physicist and 1921 Nobel Prize winner for Physics once said that "the gift of fantasy has meant more to me than my talent for absorbing positive knowledge." Indeed, the story of most inventions the world over has always been that of "fantasy to reality." And to most Nigerians, the story of the re-basing of the country's Gross Domestic Product (GDP) after close to a quarter of a century and its 'celebrated' outcome released early April 2014 was a 'fantasy'.

But in point of fact, the GDP rebasing exercise and the opportunities it has thrown up, if properly harnessed, could be the trigger for moving the country in the direction of its economic *Eldorado*. However, these opportunities are not 'obvious' and tangible. This informs our cover piece: ***Rebased GDP: Emerging Opportunities in the Nigerian Economy***. In it, the author rigorously explores and x-rays the vast and varied opportunities exposed by the rebasing exercise and its outcome. Says the author: "One of the interesting and perhaps the most important outcome of the GDP rebasing is the dominant role of the private sector in the economy as depicted by the size of the services sector...an indication that the Nigeria economy is gradually transforming structurally to a private sector-led one." Arguing that the country's new status as Africa's largest economy and its geographical advantages can be leveraged to broaden intra-African trade, the author also posits that the rebasing exercise has exposed the country's investment potential to the world. Indeed, the opportunities are legion.

The raging concern for the environment in all climes and the possible use of waste recycling to tackle the challenge is in focus in our second cover piece. Under the title: ***Waste Recycling: Unveiling the Wealth Beneath the Dung***, the author examines the various traditional and modern waste management techniques, pointing out however that recycling provides a way of "converting the heaps of wastes littering all the nooks and crannies of the world into massive economic opportunities." Numerous examples of waste management and recycling methods and corporations making fortunes from such endeavours in the developed economies are equally highlighted. The author sums up that re-use and recycling of waste materials has become the preferred option, as concerns grow over climate change, greenhouse gas emissions, global warming...and regulators and environmentalists around the world keep clamping down on irresponsible waste disposal practices.

Our series under 'Issues' on ***Risk Management in the Nigerian Banking System: Challenges & Prospects*** continues with a focus on collateralized lending, credit as a social relation and contemporary risk management structure. Under *Foreign Insight*, our independent investment consultant and financial strategist based in London, critically examines the socio-economic and political situation in Russia. He explores the impact of the Russia-Ukraine skirmishes on prices of commodities and financial markets across the globe; ending on the note of hope that the situation is resolved sooner than later.

Under the section *Discourse* we feature a treatise on ***Core Values of Banks in Nigeria and the Customers' Perception***. In it, the author posits that in communicating core values to the public, banks directly beckon interested persons to take note and rely on them as the minimum values they stand for, under all circumstances.

Our materials under *Policy*, *Facts & Figures* as well as *Periscope*, ever informative and captivating, complete this rich package for you.

Enjoy your reading!

Marcel Okeke

from our mailbox

I write to acknowledge the receipt of the October 2013 edition of the above named journal, and really appreciate your kind gesture for always having it in mind to send us copies. It is very educative and useful for economic analysis. I will really appreciate if I can get two copies or more of the July - September, 2013 edition for some vital information.

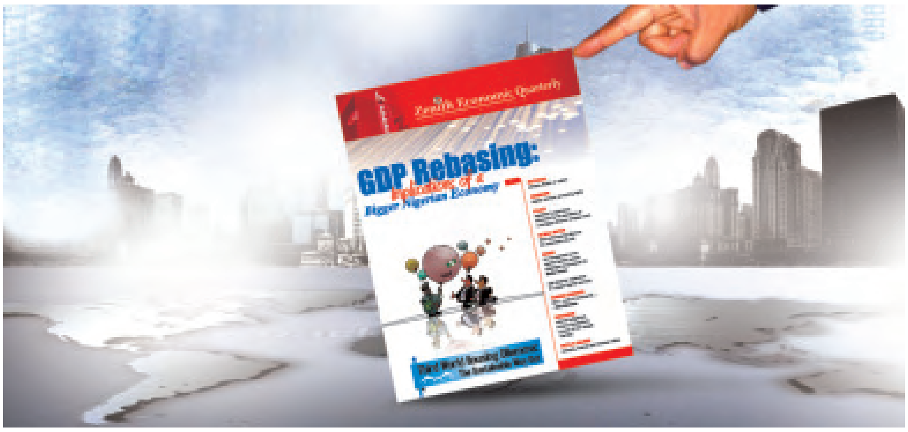
Eke U. Ubiji
Executive Secretary
Nigerian Association of Small and Medium Enterprises

I am directed to acknowledge with thanks, receipt of your letter dated 6th January, 2014 and copy of the October, 2013 edition of the Zenith Economic Quarterly (ZEQ), Journal.

Having taken a cursory look at the Journal, I expect it to be educative as it contains very useful information and incisive analysis that would help guide readers as well as actors dealing with economic and monetary policy.

Please, accept the assurances of the High Commissioner's best wishes and regards.

B.I. Sulaiman
Second Secretary
For: High Commissioner
Nigeria High Commission, Botswana



I am directed to acknowledge with thanks, the receipt of a copy of October 2013 edition of the Zenith Economic Quarterly (ZEQ) Magazine, dated 6th January, 2014.

While thanking you for this valuable and rich publication, please accept the assurances of the Ambassador's highest consideration.

A.B. Mohammed
Administrative Attaché
For: Ambassador
Embassy of the Federal Republic of Nigeria, Algeria

I am directed to acknowledge with thanks your letter dated 6th January, 2014 in which you sent a copy of the October, 2013 Edition of the Zenith Economic Quarterly, (ZEQ) to the office of Hon. Minister with focus on **"New Auto Policy: Key to Nigeria's Industrial Revolution?".** Also analysis on Oil Resources Dependency: Emerging Threats & Concerns.

Please accept the assurances of the Hon. Minister's highest regards.

Jamila Ibrahim
For: Hon. Minister,
Federal Capital Territory, Abuja

I am directed to acknowledge with thanks, receipt of a copy of the October 2013, Edition of the Zenith Economic Quarterly (ZEQ), which focuses on "New Auto Policy: Key to Nigeria's Industrial Revolution".

The publication will no doubt, serve as a source of information and a useful reference material.

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

Danladi Abu Amedu
For: Ambassador
Embassy of the Federal Republic of Nigeria, Indonesia

We hereby acknowledge the receipt of a copy of the October, 2013 edition of the Zenith Economic Quarterly (ZEQ) forwarded to the Department of Accountancy, University of Nigeria, Enugu Campus.

The Journal is quite informative and educative. We appreciate the robust analysis of issues on the Journal and we look forward to receiving more copies in future.

Thank you.

Dr. G. N. Ofoegbu
Ag Head, Department of Accountancy
University of Nigeria

I write on behalf of the University Management to acknowledge with sincere gratitude the receipt of a copy of your January 2014 edition of the Zenith Economic Quarterly (ZEQ) which focuses on "GDP Rebasing: Implications of a Bigger Nigerian Economy" being your donation to our University Library.

Your donation is highly appreciated as it will form a very good addition to our collection.

With kind regards!

Dr. E.L. Adebayo
Office of the University Librarian
Redeemer's University

Nigeria: Economy Sustains Positive Outlook

By Marcel Okeke

In keeping with the trend all through 2013, the Nigerian economy sustained strong fundamentals in the first quarter 2014, with many indicators remaining within the forecast regions. Indeed, the International Monetary Fund (IMF) in its 'World Economic Outlook' early in the year, projected that the country will grow at 7.10 per cent in 2014—some 0.35 percentage point above the Federal Government's target of 6.75 per cent. The IMF believes that growth in Nigeria will be buoyed by an increase in crude oil production and expansion in non-oil sector activities.

However, both the IMF projection and the Federal Government's estimate are conservative, considering that the Nigerian economy grew strongly all through 2013. According to the National Bureau of Statistics (NBS), Nigeria's real Gross Domestic Product (GDP) growth post-rebasing is estimated at 5.09 per cent in 2011, 6.66 per cent in 2012 and is forecast at 7.41 per cent in 2013. (The GDP rebasing process was indeed completed during the first quarter 2014 but the outcome was released in early April). The IMF had earlier in its Article IV consultation with Nigeria in February welcomed the country's continued strong macroeconomic performance and outlook, supported particularly by sustained high growth in the non-oil sector. On its part, the internationally recognized rating agency, Standards & Poor's (S&P) affirmed its BB long-term sovereign credit rating on Nigeria, but with a shift from neutral to negative outlook. The slight downgrade was largely based on oil theft and inadequacy of fiscal buffers, according to the agency, which also noted that crude production has fallen below levels in the 2013 budget and the Federal Government's proposals for 2014.

Thus, in the first quarter 2014, inflation remained in the target range, according to the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN). The downward trend in inflation, which commenced in December 2012 continued up to February 2014. The year-on-year headline inflation fell from 8.6 per cent in December 2013 to 8.0 per cent in January 2014; and further dropped to 7.7 per cent in February, but inched up to 7.8 per cent in March. The deceleration was largely due to the moderation in food inflation, which moved from 9.3 per cent in January 2014 to 9.2 per cent in February 2014, according to the NBS.

Similarly, the end-period exchange rate remained stable at the retail Dutch Auction System, rDAS, window but depreciated at the interbank and appreciated at the Bureau de Chang (BDC) segment of the market. The exchange rate at the rDAS during the review period opened at N157.61/US$ and closed at N157.26/US$, representing an appreciation of N0.35k or 0.22 per cent. At the Interbank foreign exchange market, the rate opened at N158.83/US$ and closed at N164.90/US$, averaging N161.89/US$, representing a depreciation of 3.68 per cent or N6 for the period. At the BDC segment of the foreign exchange market, the selling rate opened at N173.00/US$ and closed at N172.00/US$, representing an appreciation of 0.58 per cent or N1.00k. The BDC segment averaged N170.44/US$, representing an appreciation of 0.06 per cent.

The country's gross official external reserves as at March 2014 stood at US$37.83 billion compared with US$42.85 billion at end-December 2013, according to CBN data. The decrease in the reserves level was driven largely by the increased funding of the foreign exchange market in the face of intense pressure on the Naira and the need to maintain stability.

Activities in the capital market, however, were bearish all through the quarter under review—with the key market indicators declining in value. The Nigerian Stock Exchange (NSE) market capitalization dropped by 7.3 per cent to close at N12.27 trillion, from N13.23 trillion at the beginning of trading in January, 2014. The NSE All Shares Index also dropped, by 5.2 per cent, from 41.329.14 points at the beginning of trading in January 2014 to 39,186.93 points at the end of the quarter.

Regarding crude oil, the Organization of the Petroleum Exporting Countries (OPEC) data put Nigeria's production level at about 1.94mb/d in March, up from 1.91mb/d in February and 1.90mb/d in January. Nigeria's crude oil production stood

at an average of 1.92mb/d in 2013. Although the price of Bonny Light remained above US$100/b all through the period under review, crude oil production continued dropping to below the estimate of 2.3mbd used for the 2014 Federal Government budget. Indeed, the price of Bonny light oil averaged US$111.15/b in February slightly higher than US$109.94b in the month of January.

But while the oil production level was dropping, the nation's debt stock experienced some accretion. Data from the Debt Management Office (DMO) show that Nigeria's total public debt stock (external and domestic debts) as at March 31, 2014 stood at N10.16 trillion, representing an increase of 1.10 per cent from the December 31, 2013 figure of N10.04 trillion. The country's domestic debt stock (Federal Government and States) stood at N8.73 trillion—representing 86 per cent of total debt while the external debt (Federal Government and States) was N1.43 trillion –representing 14 per cent of total debt. Further details of the external debt stock showed that multilateral institutions accounted for 71.74 per cent of the country's total debt profile while bilateral debt represented 11.77 per cent. The International Development Association (IDA), a member of the World Bank Group, accounted for US$5.63 million while another member of the World Bank Group, International Fund for Agricultural Development (IFAD) is owed US$92.71 million.

The sum of US$150 million is also owed the African Development Bank (ADB) while the African Development Fund (ADF) is owed US$587.07 million. Nigeria also owes the European Development Fund (EDF) US$102.25 million while US$14.54 million is owed the Islamic Development Bank (EDB). The country also owes the Arab Bank for Economic Development in Africa (ABEDA) US$3.29 million.

Even as the public debt stock increased during the period under review, the rebased Gross Domestic Product (GDP) figures of the country which were released early April 2014 brought down the Debt: GDP Ratio from almost 20 per cent to eleven per cent. This makes Nigeria one of the least leveraged countries in the world.

A major initiative of the Federal Government during the quarter under review was the launching of the Nigeria Industrial Revolution Plan (NIRP) and the National Enterprise Development Programme (NEDEP). These initiatives with the target of generating up to N5 Trillion revenue annually from manufacturing activities, according to President Goodluck Jonathan, are aimed at ushering in a new era for industrial, micro, small and medium enterprises development in the country. He said: "The NIRP is the flagship industrialization programme ever embarked upon by this country. It will fast-track industrialization, accelerate inclusive economic growth, job creation, transform Nigeria's business environment and stop the drain on our foreign reserves caused by importing what we can produce locally."

The NIRP and NEDEP focus on developing such areas as agriculture

http://asiaenergyjournal.com/philippines-oil-company-to-buy-stake-in-frontier-oil-2797 and agro-products, metals and solid minerals, oil and gas, construction and light manufacturing services. The NIRP would also address major physical constraints impeding industrialization, improve the nation's investment climate and promote the patronage of made-in-Nigeria products. President Jonathan said "the goal of the Nigeria Industrial Revolution Plan is to increase the contribution of the manufacturing sector to GDP from the present four per cent to more than 10 per cent over the next five years. This will boost the annual revenue earnings of the Nigerian manufacturers by up to N5 trillion per annum."

Also, sequel to the country's new National Automotive Policy, the Federal Government in November last year raised duty and levies on imported cars by 50 per cent from 20 per cent to discourage importation of cars. The new tariff regime came into effect during the first quarter 2014. However, following protests by clearing agents and their refusal to clear any auto import at the new duty and levy rates, the federal government directed the Nigeria Customs Service (NCS) to suspend the new tariff and revert to the old order. The new regime is part of plan by the government to discourage importation of cars and businesses to create a robust market for local auto makers. There had been six assembly plants – two for cars and four for trucks – established in the seventies and eighties. These were: Peugeot Automobile Nigeria Limited (PAN) in Kaduna; Volkswagen of Nigeria Limited (VWON) in Lagos; Anambra Motor Manufacturing Limited (ANAMMCO) in Emene, Enugu; Steyr Nigeria Limited (Bauchi); National Truck Manufacturers (NTM) in Kano for Fiat trucks; and Leyland Nigeria Limited in Ibadan.

However, with the new automobile policy, a number of local auto manufacturing firms are making fresh investments while the defunct or moribund multinational ones are also making moves to re-establish in the country. Toyota, General Motors, Volkswagen and Nissan, among others, are some of the auto firms that are about re-establishing in the country.

THE CAPITAL MARKET

The Nigerian equities market in line with the global equities trend started the year 2014 on a negative note, as the usual January effect was breached after four consecutive years of positive January performance. The negative investors' sentiment towards emerging and frontier markets persisted due to the recovery of the economies in developed markets as well as the United States Federal Reserve's continued cut down of its Quantitative Easing (QE) programme. These, plus the outcome of the Central Bank of Nigeria's monetary policy committee (MPC) meeting in January sent shock waves through the market which made some foreign portfolio investors dump their shares (hot money) in the Nigerian market and rush to more attractive and less risky positions in more stable markets. The MPC January meeting, which resolved to increase the Cash Reserve Ratio, CRR, on public sector funds to 75 per cent from 50 per cent also had a negative effect on the exchange rate and further added to the uncertainty in the economy. The suspension of the Governor of the Central Bank of Nigeria at that time also contributed to the uncertainty and dip in equities prices in the market. Thus, bearish sentiments prevailed in the market all through the period under review, such that the All-Share Index of the Nigerian Stock Exchange which opened the quarter at 41,329.19 points closed at 38,748.01 points—a depreciation of about 6.25 per cent.

However, details of transactions on the NSE during the quarter show that the equities attracted N281.602 billion invested in 29.297 billion shares which were traded in 326,334 deals. A further breakdown of these figures show that investors made the highest investment of N99.35 billion staked on 12.291 billion shares in 104,578 deals in February. January accounted for N98.749 billion spent on 9.215 billion shares in 128,798 deals while March recorded N83.602 billion used to purchase 7.791 billion shares in 92,958 deals. The NSE record also show that Trans Nationwide Express Plc, a courier company, led in price appreciation at the end of the quarter under review, outperforming the NSE-ASI , which declined by 26.25 per cent.

A key development in the capital market during the quarter under review was the listing of the second exchange traded fund (ETF), with the admission the Vetiva Griffin 30 Exchange Traded Fund (VG30 ETF). This is the first equity-based ETF to be listed on the Nigerian bourse after the listing of the Newgold Exchange Traded Fund (a commodity based ETF) in 2011. The VG 30 ETF is designed to track the performance of the constituent companies of the 'NSE 30 Index' and to replicate the price and yield performance of the Index. The 'NSE 30 Index' comprises the top 30 companies in terms of market capitalization. The listing of the VG30 ETF followed the successful completion of its Initial Offer, which Cordros Capital Limited oversaw as the issuing house.

ETFs are essentially index funds that are listed and traded on the exchange like shares. Unlike share and mutual funds however, the ETFs will trade continuously all day long and allow investors to lock in a price for the underlying stocks immediately, rather than being bought and sold based on end-of-day prices.

BANKING AND FINANCE

One of the major developments in the banking and finance sector of the Nigerian economy in the first quarter 2014 was the suspension of the Governor of the Central Bank of Nigeria, Mallam Sanusi Lamido Sanusi by the Federal Government, and the appointment of his successor, Mr. Godwin Emefiele (whose appointment was confirmed by the Senate on Tuesday March 25, 2014). Consequently, Mr. Emefiele who at the time of his appointment was the Group Managing Director/Chief Executive Officer of Zenith Bank Plc,

assumes duty as the eleventh CBN Governor on June 3, 2014. Dr. Sarah Alade, one of the deputy governors at the CBN was appointed Acting Governor sequel to Sanusi's suspension. Under this milieu, the apex bank continued with its broad financial inclusion policy and other strategic initiatives. Thus, during the quarter, the monetary policy committee (MPC) met twice—in January and March—and implemented measures to combat perceived excess liquidity in the financial system.

At the January MPC meeting, the Committee resolved to increase the Cash Reserve Ratio (CRR) for public funds from 50 per cent to 75 per cent—effective February 4, 2014. The Committee however maintained the Monetary Policy Rate (MPR) at 12 per cent, Liquidity Ratio at 30 per cent and CRR for private funds at 12 per cent. At the March meeting, the Committee increased the CRR for private funds from 12 per cent to 15 per cent but kept the MPR at 12 per cent and the Liquidity Ratio at 30 per cent.

In pursuit of an improved customer identity management system in the banking sector, Mallam Sanusi had in February 2014 inaugurated the biometric registration of bank customers on behalf of Bankers' Committee. The biometric registration, the pilot phase of which commenced on April 1, 2014, would lead to the issuing of Bank Verification Number, a unique identity for every bank customer. This is intended to mitigate fraud, money laundering and other vices in the country.

While the biometric project was ongoing on its pilot phase under the auspices of the Bankers' Committee, the deposit money banks (DMBs) and other operators also embarked on their individual corporate strategies and programmes. There was also determined effort by the Asset Management Corporation of Nigeria (AMCON) to divest itself of its 100 per cent stake in some of the 'rescued banks'. Specifically, AMCON had called for the expression of interest (EOI) from prospective buyers of Enterprise Bank Limited, to which at least 24 local and foreign investors responded.

At individual levels, many of the DMBs carried on their local and offshore expansion or consolidation efforts. Specifically, First Bank of Nigeria continued in talks to acquire 100 per cent of the West African banking assets of the Switzerland's International Commercial Bank Financial Group Holdings, which has operations in four West African countries. First Bank said in a filing through the stock exchange that it had received approvals for the transaction from the Central Bank of Nigeria (CBN) and regulators across West Africa. On completion of the deal, First Bank will take over all the assets of the ICB in Ghana,

Sierra Leone, Gambia and Guinea. Ecobank Transnational Incorporated (ETI) was also in the process of acquiring about 96 per cent stake in Banco ProCredit of Mozambique. According to the ETI, when the deal sails through, it will bring the number of African countries in which Ecobank has presence to 36.

Most other DMBs during the quarter embarked on fresh capital sourcing under various arrangements. Fidelity Bank Plc, First City Monument Bank Plc, Diamond Bank Plc among others, each commenced the processes of raising new capital for strategic development. While Fidelity is getting set to raise N100billion from the domestic market, FCMB plans to raise $750m (N95.25bn) from both the domestic and international capital market. Diamond Bank Plc received all approvals to raise $500 million additional capital in its quest to raise its tier 2 capital by $750 million. Also, Skye Bank Plc raised a total of $150 million tier 2 capital as part of measures to beef up its equity and working capital. The bank said that it also expects to raise additional tier 2 capital by the end of July this year. Access Bank Plc on its part commenced the shopping for N70billion through a public offer billed to open this July. Zenith Bank Plc during the quarter packaged a US$500million Eurobond issue under a US$1bn Global Medium Term Note (GMTN) Programme that was announced on 1 April 2014. This recorded a massive over-subscription of 200 per cent. The bank had in 'selling' the issue organized a weeklong investors' road-show, coordinated by Goldman Sachs and Citibank, which culminated in an overwhelming endorsement by a diversified group of global investors from Europe, the US, Africa, Asia and the Middle East. The GMTN Programme provided Zenith Bank the opportunity to raise up to US$ 1 billion out of which a first tranche of US$500 million has been issued.

INFORMATION TECHNOLOGY & TELECOMMUNICATION

In the telecommunications sector, the challenge of poor quality of service by the major networks continued during the first quarter 2014. Indeed, the Nigerian Communications Commission (NCC), the industry regulator, felt so bad about the service quality that it had to impose fines on the key operators. According to the NCC, the fines, amounting to N647.5 million were as a result of poor quality of services provided by the GSM companies between July 2013 and January 2014.

In its continued effort to keep growing the telecoms industry, NCC in the period under review, carried out the 2.3 GHz spectrum license auction in Abuja. Winner of the auction, Bitflux Communications Limited, had to pay US$23.251 million and additional N155 million for the NCC to issue it with the 2.3GHz spectrum license together with a Unified Access License. The NCC announced its intention to auction one 30 MHz frequency slot in the 2.3 GHz Band to be used for the provision of Wholesale Wireless Access services on November 15, 2013. By the deadline for Expression of Interest (EOI) on December 11, 2013, only 27 companies expressed interest. Following the publication of the Information Memorandum for the auction process, and at the close of applications submission deadline of February 7, 2014 the NCC received only two applications from Bitflux Communications Limited and Globacom Limited. And subsequently, the auction was carried out for the two bidders, during which Bitflux emerged winner.

The 2.3GHz frequency spectrum is a wholesale spectrum; meaning that Bitflux (the owner) will not retail it, and will not compete with end users, but will be bound by law to sell wholesale to smaller operators like Internet Service Providers (ISPs). The ISPs will therefore be able to buy only little wholesale quantity to service their customers and in the process, remain in business of providing affordable internet service to end users.

During the quarter under review, the industry was also contending with the challenge of dormant phone

lines, such that as at end-January, 2014, a total of 44,665,145 connected telephone lines were dormant. This, according to the NCC data, represents 25.82 per cent of the total number of connected lines. The statistics also show the declining fortunes of fixed telephony in the country as the number of active lines came down to 365,433. NCC data further showed that although there were 177,230,928 lines as at February 2014, only 129, 002,841 were active. Similarly, in March, the number of telephone lines stood at 173,007,027; yet only 127,097,196 lines were active.

A number of reasons account for this high rate of inactivity of lines provided by the digital mobile networks operating in the country. These include the generally poor quality services which characterized the networks in recent times. Also, many subscribers, who have been apparently frustrated by the poor quality of services by the operators, find it more convenient to abandon their lines rather than carry phones that do not work when they need service desperately. There is also the issue of high rate of promotional activities targeted at attracting new subscribers, under which many lines are 'produced' but which subscribers do not really need.

Overall, the teledensity (number of persons owning phone lines per hundred) became unsteady during the quarter under review—as against the usual steady rise. Thus, while the teledensity stood at 91.40 in January 2014, it rose to 92.14 in February, but dropped to only 90.78 according to the NCC data.

With respect to Internet subscription, the MTN and Visafone remained the two leading networks with active internet subscribers in the GSM and CDMA segments of the telecoms market during the first quarter 2014. Specifically, according to the NCC data for February 2014 MTN controls about 52 per cent of internet subscriptions in the GSM segment, while Visafone takes care of about 87 per cent in the CDMA market. On the whole, the NCC statistics show that only 63,474,364 out of the 129,002,841 active subscribers on the GSM networks use internet data. The CDMA segment attracted about 167,630 out of the total number of active internet subscribers.

OIL AND GAS

According to the Organization of Petroleum Exporting Countries (OPEC), the global crude oil markets were impacted by the slowing pace of the economic growth in China, lower refinery demand, and ample supply, which outweighed supply disruptions and geopolitical tensions. The organization added that refined products in the Atlantic Basin have begun to weaken since mid-March on diminished support from heating fuel demand in the U.S. Europe also recorded a weak refined product demand due to a decline in export opportunities in the region. Data from Reuters show that the price of bonny light oil

http://www.cesalt.co.uk/oil-and-gas-applications/

averaged US$110.08/b in April, marginally lower than US$110.27b in the month of March. The price averaged US$111.15/b in February slightly higher than US$109.94b in the month of January.

For Nigeria, OPEC data put its production level at about 1.94mb/d in March, up from 1.91mb/d in February and 1.90mb/d in January. Nigeria's crude oil production stood at an average of 1.92mb/d in 2013. Although the price of Bonny Light remained above US$100/b all through the period under review, crude oil production continued dropping to below the estimate of 2.3mbd used for the 2014 Federal Government budget. Nigeria loses about 300,000 barrels of crude per day. This is attributable to oil theft, pipeline vandalism and sundry other challenges. But according to the Group Managing Director, Nigerian National Petroleum Corporation (NNPC) Mr. Andrew Yakubu during the "2014 Nigeria Oil and Gas Conference" in Abuja, these challenges are being tackled through the use of new technology and radar surveillance to boost maritime security. Also, there is increased sea patrol by the Nigerian Navy as well as air surveillance of pipelines with modern aircraft.

The second marginal field licensing round by the Federal Government remained underway during the first quarter 2014. The licensing process which commenced late 2013 was geared towards opening up the oil and gas sector to a wider participation so as to impact on the lives of more Nigerians. Again, according to the NNPC chief, the inauguration of the new licensing, which incorporated 31 marginal fields, 16 of which are located onshore, while 15 others are located offshore, was expected to enhance production capacity as well as increase the country's oil and gas reserves base. But while the licensing process remains ongoing, the Department of Petroleum Resources (DPR), the industry regulator, says the nation's crude oil reserves had as of March 2014 dropped by 5.4 per cent, from 37 billion barrels to 35 billion barrels. Similarly, the Petroleum Industry Bill (PIB), targeted at consolidating and updating many disparate existing laws in the oil and gas sector, still remained on the agenda of the National Assembly.

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

REGULATORY AND SUPERVISORY FRAMEWORK FOR THE OPERATIONS OF A MORTGAGE REFINANCE COMPANY

Continuation

4.0 CORPORATE GOVERNANCE REQUIREMENTS

4.1 BOARD OF DIRECTORS

4.1.1 The ultimate responsibility for every MRC's operations shall be vested in its Board of Directors.

4.1.2 The number of directors on the board of the MRC shall be a minimum of seven [7] and a maximum of fifteen [15]. The non-executive members must be at least twice the number of the executive directors at any point in time[3].

4.1.3 The Bank shall approve the appointment of each director who shall meet the qualifications for licensed bank directors as specified in the BOFIA, or as may be specified by the Bank from time to time.

4.1.4 Executive directors of the MRC shall hold office for a fixed term of not more than 5 years and such term may be renewed only once, while non-executive directors shall serve for a fixed term of not more than 4 years and such term may be renewed only twice. For the avoidance of doubt, the maximum tenure of an executive director shall not exceed a total of 10 years while a non-executive director shall not serve for periods exceeding 12 years in total.

4.1.5 Any executive director who has served two 5-year terms may equally serve as Managing Director, if so appointed, for the maximum of two 5-year terms (a combined maximum of 20years).

4.2 MINIMUM QUALIFICATIONS FOR BOARD MEMBERS

4.2.1 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Managing Director/Chief Executive or executive members of the Board.

(i) A recognized University Degree or its equivalent in any discipline, or a Professional qualification in banking, finance or other related fields with at least 10 years post qualification experience in banking or related industry.

(ii) Any person with any other qualifications or experience that may be considered adequate by the CBN can also hold any of the positions.

(iii) The appointment of the MRC's Chief Executive Officer shall be subject to the written approval of the Bank.

4.2.2 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Non-Executive members of the Board.

(i) A recognized University Degree, its equivalent or Professional qualification with at least 5 years post qualification experience.

(ii) Any person with any other qualifications or experience that may be considered adequate by the CBN can also hold the position.

(iii) The appointment of any Non-Executive board member shall be subject to the written approval of the Bank.

3 This provision is in harmony with CAMA and the Code of Corporate Governance.

4.3 FUNCTIONS OF THE BOARD OF DIRECTORS

4.3.1 The Board of Directors shall ensure that the MRC establishes and maintains an effective internal control system in line with the key components of the Committee of Sponsoring Organizations of the Treadway Commission's Integrated Framework for Internal Control (2004) and that addresses, at a minimum, the control environment, risk assessment, control activities, information and communication, and monitoring.

4.3.2 The Board of Directors shall appoint annually a firm approved by the Bank to be the MRC's auditor. The approved auditor shall meet the qualifications and have the duties, responsibilities, and authorities of approved bank auditors as specified in the BOFIA or by the Bank.

4.3.3 The Board of Directors shall establish, document, and communicate an organizational structure for the MRC that clearly shows the lines of authority, provides for effective communication, and ensures that there are no gaps in the lines of authority.

4.3.4 The Board of Directors shall review all delegations of authority to specific personnel or committees and require that such delegations state the extent of the authority and responsibilities delegated.

4.3.5 The Board of Directors shall establish reporting requirements for senior management, including specifying the nature and frequency of the management reports it shall receive.

4.3.6 The Board of Directors shall establish board committees to assist it in the discharge of its responsibilities, including an audit committee. The audit committee shall consist of at least three directors, at least one of whom shall have extensive accounting or related financial management experience. The Board of Directors shall specify the scope of the committees' powers and responsibilities, and their structures, processes and membership requirements.

4.4. DUTIES OF DIRECTORS

4.4.1 Directors shall have the duty to:

(a) Act in good faith, in a manner they believe to be in the MRC's best interests, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

(b) Administer the MRC's affairs fairly and impartially and without discrimination in favour of, or against, any shareholder or borrower.

(c) Direct the MRC's operations in conformity with the requirements set forth in these regulations and other such requirements and directives as the Bank shall issue from time to time.

(d) Review at least annually, and amend as appropriate, the following MRC's plans and policies: Business Plan, Capital Plan, Credit Policy, ALM Policy, Financial Management Policy, and the Code of Ethics and Business Conduct.

(e) Prepare and publish the MRC's annual report, including its audited financial statements, annually.

(f) Approve annual budgets, financial projections, and proposed pay-outs of dividends.

4.4.2 The "Approved Persons Regime " questionnaire (Annexure II) shall be completed and attached to the signed Curriculum Vitae (CV) of each significant shareholder (holding at least 5 per cent of the MRC's equity), proposed director and top management staff.

4.5 MINIMUM QUALIFICATIONS FOR SENIOR MANAGEMENT

The following minimum qualifications and experience are mandatory for officers who may occupy senior management positions in the MRC.

(i) A recognized University Degree in any discipline, its equivalent or Professional qualification in banking, finance or other related fields with at least 7 years post qualification experience in banking or related industry.

(ii) Any person with any other qualifications or experience that may be considered adequate by the Bank can hold any of the positions within the institution.

(iii) Every MRC shall be required to obtain a written approval of the Bank for its organizational structure and top management team.

4.6 DUTIES OF SENIOR MANAGEMENT

Every MRC's senior management shall be responsible for carrying out the directives of the Board of Directors and for conducting the day-to-day operations of the MRC in a safe and sound manner, including the establishment, implementation, and maintenance of the internal control system required by these regulations.

4.6.1 Senior management shall also:

(a) Ensure that the employees of the MRC fully understand and comply with all policies, procedures, and legal requirements applicable to their positions and responsibilities, including adherence to approved risk tolerances and mitigation strategies.

(b) Ensure that there is appropriate segregation of duties among employees and those employees are not assigned conflicting responsibilities.

(c) Ensure that employees receive necessary and appropriate information and training.

(d) Develop and implement operating procedures that translate the major business objectives, strategies, and policies established by the Board of Directors into effective operating standards.

(e) Ensure adherence to the lines of authority and responsibility established by the Board of Directors.

(f) Oversee the implementation and maintenance of management information and other operating systems.

(g) Establish and implement an effective system to track internal control weaknesses and the action taken to correct them.

(h) Monitor, and report periodically to the Board of Directors and audit committee about, the achievement of a MRC's business objectives and effectiveness of the internal control system.

(i) Perform, at least annually, a risk assessment that identifies and evaluates all material risks, including both quantitative and qualitative risks that could adversely affect the achievement of the MRC's business and performance objectives and compliance requirements. The risk assessment shall be in written form and shall be reviewed promptly by the Board of Directors upon its completion.

(j) Develop and implement a robust enterprise-wide risk management policy and framework.

5.0 SOURCES OF FUNDS

The sources of funds for the MRC shall consist of the following:

1) Equity, paid-up share capital and reserves.
2) Long term loans from sponsors.
3) Debentures/bonds.
4) Loans from national and supra-national governments and other bodies.
5) Funds from developmental partners.
6) Gifts and donations from charitable institutions.

6.0 RENDITION OF STATUTORY RETURNS

6.1 MONTHLY AND QUARTERLY RETURNS

In compliance with the provisions of Sections [2][b] of BOFIA the following returns shall be submitted to the CBN by the MRC:

a. Monthly Returns shall include statements of financial condition, income and capital compliance and leverage.

b. Monthly returns shall be submitted to the Director, Financial Policy and Regulations Department, CBN.

c. Quarterly Returns include statements of cash flow, capital, investments, outstanding advances and commitments, outstanding liabilities, and shareholders' stock holdings.

d. Quarterly returns shall be submitted to the Director, Financial Policy and Regulations Department (FPRD) and Director, Other Financial Institutions Supervision Department (OFISD), CBN.

e. Annual audited financial statements produced in accordance with International Financial Reporting Standards (IFRS) including the auditor's management letter and a statement on the effectiveness of internal controls signed by MRC's Board of Directors.

6.2 DEADLINE FOR SUBMISSION OF RETURNS

The MRC shall submit the required returns to the Bank within the period specified as follows or any other time as may be specified by the CBN from time to time:

a. Monthly – Not later than fourteen (14) days after the end of each month.

b. Quarterly - Not later than fourteen [14] days after the end of each quarter.

c. Annually – It shall submit and obtain a written approval of the Bank not later than four [4] months after the end of its accounting year.

6.3 DOMESTIC REPORT & AUDIT OPINION ON GOING-CONCERN STATUS

6.3.1 In accordance with Section 29(8) of BOFIA, the approved auditor is to forward to the Bank, a copy of the domestic report [management letter] on the MRC's activities, not later than 3 months after the end of its financial year. The domestic report should contain the MRC's management responses to issues raised by the auditor.

6.3.2 Every audited financial statement of the MRC shall contain opinion on the ability of such an institution to continue as a going concern into the foreseeable future as required by the International Auditing Guidelines No. 23 on Going Concern.

6.3.3 Every audited financial statement must bear the auditors' signature, seal and certification stamp.

6.3.4 Any auditor that fails to comply with the requirement of this section shall be blacklisted by the Bank.

6.4 PUBLICATION OF AUDITED ACCOUNTS

In accordance with the provisions of section 27(1) BOFIA,

a. The MRC shall submit its audited financial statements and the abridged version of the accounts to the Director of Other Financial Institutions Supervision Department for approval before publication.

b. The MRC shall, subject to a written approval of the CBN, not later than 4 months after the end of its financial year:

(i) Publish its approved financial statements in a daily newspaper printed in and circulating in Nigeria and as approved by the Bank; and

(ii) Exhibit its approved audited Financial Statement, which includes the Abridged Statement of Financial Position, Abridged Income Statement and the Auditor's Report thereon, in a conspicuous position in each of its offices and branches in Nigeria.

c. Every published account of a MRC shall disclose in details penalties paid as a result of contravention of the provisions of BOFIA, and provisions of any policy, circulars and guidelines in force during the financial year in question and the auditor's report shall reflect such contravention(s).

d. A copy of the newspaper in which the approved financial statement is published shall be forwarded to the Central Bank of Nigeria.

e. The financial statements submitted for the Bank's approval must be accompanied with:

(i) The abridged version of the accounts;

(ii) Copies of all relevant certificates of deposit, placement and sums on call from the respective correspondent banks.

6.5 REPORT ON INTERNAL CONTROL

a. Every MRC must, as part of its audited financial statements, include a statement on the effectiveness of the internal control signed off by the Board of Directors.

b. The internal control framework adopted by the MRC should be developed in line with key components of the Committee of Sponsoring Organizations of the Treadway Commission's Integrated Framework for Internal Control (2004) and should comprise the following areas of internal control: control environment, risk assessment, control activities, information and communication and monitoring.

c. Every MRC shall provide annually an independent assessment report on the adequacy of its risk management policy and procedures. The risks shall not be limited to operational, market and credit risks.

d. The MRC must develop, implement and submit evidence of implementation of an internal control framework (this should be clearly ascertainable from its manual of operations).

e. The MRC shall make a declaration on the risks faced by the entity and the controls implemented to mitigate the identified risks as part of its directors' report.

7.0 PRUDENTIAL REQUIREMENTS

7.1 CAPITAL ADEQUACY REQUIREMENTS

7.1.1 The MRC shall commence operations with, and maintain at all times, a minimum paid-up capital of N5.0 billion, or such higher amount as the Bank may prescribe.

7.1.2 Every MRC shall maintain, at all times, a minimum ratio of core capital to total assets (leverage ratio) of not less than 5.0 per cent.

7.1.3 Core, or Tier 1, capital shall consist of paid-up capital and reserves plus retained earnings, statutory reserves, other reserves and published current earnings, less goodwill and other intangible assets and identified losses, or as otherwise defined by the Bank for licensed financial institutions.

7.1.4 The MRC shall maintain at all times a minimum ratio of qualifying capital to the value of its risk-weighted assets of not less than 10.0 per cent.

7.1.5 Asset risk weights to be used for this computation shall be those prescribed by the Bank for licensed banks.

7.1.6 Capital requirements for any of the MRC's off-balance sheet exposures shall be computed according to the Bank's guidelines prescribed for licensed banks.

7.2 LIQUIDITY REQUIREMENT

7.2.1 The MRC shall maintain at all times sufficient liquid assets for meeting its maturing obligations in amounts that comply with the minimum liquidity ratio as specified by the Bank for licensed banks, or as otherwise specified by the Bank.

7.2.2 Every MRC shall adopt and implement sound and prudent liquidity management and funding policies that are consistent with the liquidity requirements and principles as specified in the BOFIA for licensed banks.

7.2.3 The MRC's liquidity policies shall be described in detail in its ALM Policy and be overseen by the Asset/Liability Management Committee.

7.2.4 The MRC's liquidity management should include:

(a) Techniques and procedures that effectively identify, measure, monitor and manage its liquidity risk.

(b) Periodic analyses of net funding requirements under alternative scenarios.

(c) Contingent liquidity planning.

7.3 CREDIT EXTENSION AND QUALIFIED COLLATERAL

7.3.1 CREDIT EXTENSION

7.3.1.1 The MRC shall only extend credit to borrowers in good standing.

7.3.1.2 The MRC shall deem a borrower **not** to be in good standing if that borrower:

(a) is delinquent on his payment obligations at any time, or

(b) receives a qualified opinion on its most recent audited financial statement, or

(c) is unprofitable for four consecutive quarters, or

(d) fails to meet its capital adequacy requirements as prescribed by the Bank, or

(e) is a borrower for whom the MRC receives a written notice from the Bank expressing material concerns about the borrower's financial condition or business operations resulting from its most recent supervisory inspection.

7.3.1.3 The MRC's credit extensions shall be fully secured by pledged qualified collateral at all times, with each borrower providing a specific listing of otherwise unencumbered collateral that secures each advance.

7.3.1.4 A credit extension shall be deemed fully secured when the value of the pledged qualified collateral exceeds at least 125 per cent of the advanced amount.

7.3.1.5 The MRC shall not extend total outstanding credit to any single borrower which is equal to or more than twenty times the value of the borrower's MRC shares or 25 per cent of its shareholders fund unimpaired by losses to customers, without prior approval of the CBN.

7.3.1.6 The MRC, in its discretion, may require delivery of a borrower's pledged collateral to its own custodian for safekeeping.

7.3.1.7 The MRC's outstanding advances to a borrower shall become immediately due and payable if that borrower is unable to provide sufficient qualified collateral to support its outstanding advances.

7.3.1.8 The MRC's advances shall be made with clearly disclosed, non-preferential terms and conditions.

7.3.2 QUALIFIED COLLATERALS

7.3.2.1 Qualified collaterals shall be limited to the following assets:

(a) First lien mortgages on owner-occupied residential properties that:

(i) meet the uniform underwriting standards as prescribed by the Bank for all MRCs;

(ii) are fully insured against common real property perils; and

(iii) have not had any arrears over the past six months.

(b) Securities issued, insured or guaranteed by the Federal Republic of Nigeria or any agency thereof.

(c) Bank deposits.

(d) Other assets as specified in the MRC's Credit Policy.

7.3.2.2 The MRC shall assess the value of the collateral that is to secure the advances before the advances are made, and at least within every six months thereafter for all outstanding advances.

7.3.2.3 Every MRC shall require borrowers to provide additional qualified collateral to compensate for any declines in the value of the pledged collateral securing their outstanding advances.

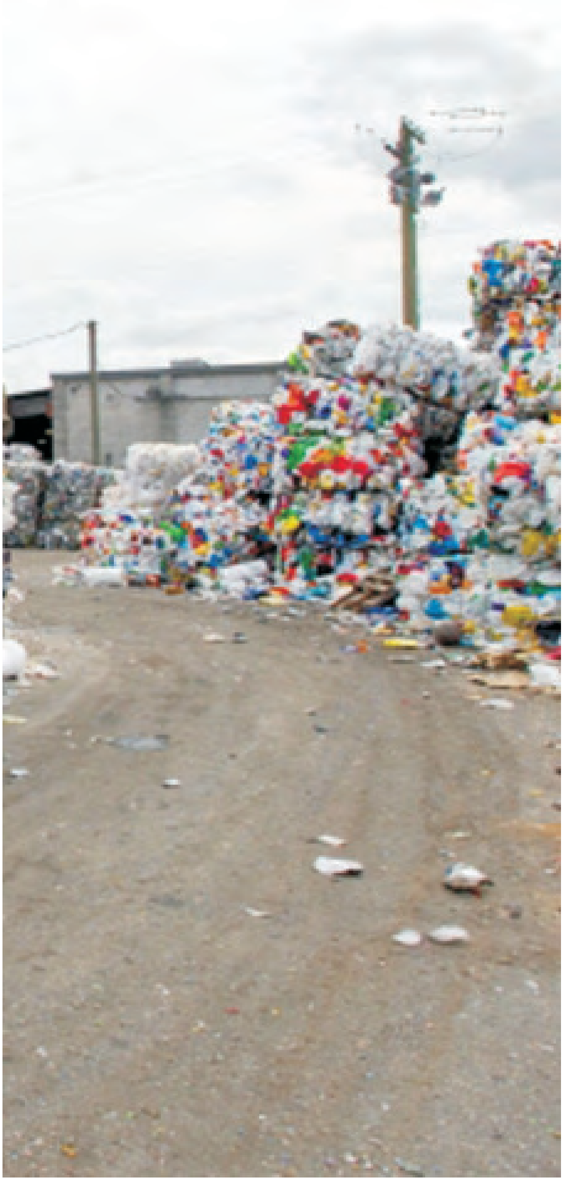
7.3.2.4 The MRC shall require borrowers to provide substitute qualified collateral if any security or residential mortgage securing an outstanding advance matures, prepays, defaults, or becomes more than 90 days delinquent.

(To be continued next edition)*

WASTE RECYCLING: unveiling the WEALTH BENEATH THE DUNG

By **EUNICE SAMPSON**

Like any other challenge in our world today, the creative and innovative have found ways of converting the heaps of wastes littering different nooks and crannies of the world into massive economic opportunities.



Effective waste management enhances the wellbeing of the ecological environment and the living organisms that dwell in it.

Waste is trash or junk that is no longer needed. It is in fact a nuisance – but one that can today be leveraged to generate massive wealth.

Managing the wastes generated by others has become serious business. And the growing prospect arises mostly from the increasing realization that virtually all manner of wastes can now be 'fixed', refurbished, recycled and reused for same or other purposes. Thus waste management has created several multi-billion dollar business empires around the world and is gradually becoming a major global economic sector. It is also proving to be a highly elastic industry with room for diverse categories of players and compelling innovation and technological advancements. Interestingly too, the waste management sector remains a safe haven for discerning investors. Because of the indispensability of its services, demand is hardly ever adversely affected by turbulent economic conditions. In the UK for example, at the height of the global economic recession in 2009 when several companies in key sectors declared bankruptcy and got placed under administration, the country's waste management sector recorded about the lowest rate of insolvency, with less than one percent of its businesses suffering financial turbulence.

Waste management the traditional way

Traditionally, wastes are collected from homes and industries and are either burnt, crushed, buried or dumped into landfills which are created from quarries, borrow pits and abandoned mining sites. But these traditional methods have been loudly criticized by environmentalists owing to the adverse impact they have on the physical environment. When released in liquid or gas form, waste can be referred to as emissions which could pollute the human environment. In fact, in all its forms – liquid, solid, gas – waste is a major nuisance to the ecological environment with highly destructive and damaging impact. Waste dumps result in the release of hazardous toxins into water channels and land areas. The decomposing waste releases carbon dioxide and other emissions that are capable of further compounding the problem of climate change and global warming. Besides, the use of landfills remains highly unsustainable. As such dump grounds get filled up it becomes increasingly impossible to create new ones to accommodate the ever increasing wastes generated daily.

Effective waste management enhances the wellbeing of the ecological environment and the living organisms that dwell in it. An environment where the wastes generated are efficiently disposed enjoys cleanliness which impacts positively on the health of humans and the purity of water channels. It also ensures the preservation of nature and its biodiversity, both flora and fauna, on land and in water. In human history, several mass extinctions of organisms have been recorded resulting in loss of thousands of living species – and flawed human activities, including bad waste disposal practices have been blamed for these.

Because of the growing danger that landfills pose to our health and the natural environment, several countries have introduced penalties to discourage the practice. In July

2012, Australia introduced a carbon pricing mechanism (CPM). In this new regime, the country's largest environmental polluters and operators of open landfills which have net greenhouse gas emissions (from flaring or electricity generation) exceeding the 25,000 tonne CO2-e (carbon dioxide equivalent) threshold are liable. Similar laws apply in several other developed economies, necessitating the growing emphasis on waste minimization, recycling and reuse.

In several low income economies, the traditional dumping of wastes on landfills is still the predominant practice. Recycling and reuse of waste is at best, at its infancy. Fly-tipping – the illegal dumping of waste – is still very rampant and regulation remains weak and mostly ineffective.

As the limitations in the traditional methods of waste management becomes more glaring, countries are making more efforts to evolve waste management practices that are more environment friendly, cost effective and could convert wastes into 'productive resources'. Several countries have reviewed their environmental laws to compel more sustainable waste management methods. According to the Australian *Environment Protection Act 1970*, for example, all wastes should be managed in the following order of preference:

1. avoidance
2. reuse
3. recycling
4. recovery of energy
5. treatment
6. containment
7. disposal.

The Australian example typifies the contemporary waste management preference of virtually every modern economy. While the *avoidance* of waste generation remains the dream of many, it remains mostly that – a dream. In reality, tonnes of

Private equity groups and profits in waste management

Company	PE group	Year bought	Year sold	yrs	Buy price	Sell price	Profit €	Profit % of purchase price
SAUR	PAI	2005	2007	2	1100	1720	620	56%
Sulo	Blackstone/Apax	2004	2007	3	500	1450	380	36%
Cleanaway DE	Blackstone/Apax	2005	2007	2	570	-	-	-
Cory	Montagu PE	2005	2007	2	300	840	540	180%
WRG	Terra Firma	2003	2006	3	760	2000	915	89%
Shanks landfills	Terra Firma	2004	2006	2	325	-	-	-
Average (excl BUS)				2.3	3555	6010	2455	69%
BUS	Star Capital	2005	2007	2	-	330	'healthy'	-

Source: *www.psiru.org/reports/2007-06-G-EWCs.doc*

trillions of wastes are generated around the world daily in the form of left over foods, construction wastes, industrial wastes, abandoned home appliances, furniture, bottles, glasses, cans and containers, plastics, among several others; and there has to be a sustainable way of taking care of them. A more realistic 'dream' is to institutionalize the practice of creating other useful products out of former wastes. And this is where *recycling* becomes the panacea.

The Business of Recycling

Around the world, waste constitutes an environmental, health and sustainability burden. To recycle waste is to convert it from this nuisance state to a useful and reusable state. Poor waste management practices are destroying the physical environment and threatening the earth's bio-diversity. The wellbeing of existing and future species is generally perceived to be at risk. It is therefore increasingly imperative that efficiency in waste management becomes a priority and a way of life for waste generators, disposers and managers. In achieving this, recycling has become the best and preferred waste management method.

In its simplest form, recycling is the process of converting wastes into useful or reusable materials. It is now generally seen as the sustainable waste management option as traditional methods fail to live up to environmental expectations. Today, recycling has become the biggest business opportunity in the waste management sector. Recycling could range from the operation of small, simple decomposing systems to the operation of high tech facilities that require huge capital investment and highly technical skills. With the right facilities and know-how in place, waste items such as aluminum beverage cans, steel food and aerosol cans, plastic bottles, glass bottles and jars, paperboard cartons, newspapers, metals, magazines, cardboards and several others can be converted with ease from their waste condition to reusable items.

Several factors are responsible for the growing adoption of recycling as the preferred waste management option. National governments, in the bid to discourage the environmentally damaging effects of conventional methods of waste disposal, are putting stringent regulatory measures in place, including punitive tax regimes and compensation fines. The UK in 2010 doubled its landfill tax from £24 to £48 per tonne of waste.

The components of wastes allowed into landfills and even the quantity are now also highly regulated in developed economies, creating great constraints and bottlenecks for operators of traditional landfills and leaving waste managers with little or no choice but to adopt recycling.

A new regulation that came into effect in British Columbia, Canada in

May 2014 requires that big businesses that produce and supply packaging and printed paper to household customers be responsible for collecting and recycling the materials once customers are done with them. These companies are also expected to keep record of the quantity of wastes collected and recycled in the process. No doubt, the new regulation would mean additional investment burden for businesses especially at the initial stage. And these businesses would most likely pass on this added financial burden to consumers through higher products pricing. However, as controversial as the new regulation has been, it is expected to have significant environmental impact and make recycling a must for virtually all the big businesses in British Columbia. And strategic business managers would be able to leverage partnerships, shared resources and innovation to convert this seeming regulatory headache into profitable business ventures. It would also help create jobs as companies expand into the mandatory recycling business

The Ever growing Opportunities

It is pertinent to mention the emergence of 'waste to energy' technology which has revolutionized and stratified the waste management industry, creating new opportunities for more technical, capital intensive investments and products offering. Today, waste management has gone way beyond collecting dirt and wastes and dumping them off in isolated landfills. Especially in the most developed economies of the world, it is also gradually evolving beyond the basic recycling methods as we know them. It has grown into a multibillion dollar industry with opportunities for small, medium and large corporate institutions.

Several pioneer global waste management companies which started off as small businesses have since leveraged innovation to scale up their service offerings and take their positions among the biggest companies of the world. A good example is Waste Management Incorporated. The company started operations in the United States in 1968 when its Founder, Wayne Huizenga bought his first garbage disposal truck. Today it is rated among the US Fortune 500 companies even though its services have remained, as its name implies, that of managing the wastes generated by others. And from doing this, it generated revenue of $13.98 billion at yearend 2013. In Europe, France's Veolia Environmental Services stands out as arguably the biggest global waste management company with over 300,000 employees in 48 countries and with more than 2,500 subsidiaries around the world. In 2012, Veolia's revenue stood at €29.4 billion.

Managing waste is now big business and a highly profitable one for investors. A report commissioned by the European Federation of Public Service Unions (EPSU), entitled "Waste management companies in Europe 2007" showed the encouraging profitability of private equity groups in their investments in waste management.

Also, a recent study prepared for the European Union Commission estimates that full implementation of EU waste legislation would save €72 billion a year; increase the annual turnover of the EU waste management and recycling sector by €42 billion; and create over 400,000 jobs by 2020.

The waste management sector is expanding rapidly, and innovation is the key driver of this growth. In the new order, 'waste monetization' has taken on a whole new meaning. Today, energy, including electricity, heat and bio-fuel is generated from wastes. *Waste-to-energy* is the most recent innovation in waste management which entails burning wastes to produce steam which is then used to turn turbines, producing electricity and other energy sources. Physi-

http://upload.wikimedia.org/wikipedia/commons/d/d0/LixaoCatadores20080220MarcelloCasalJrAgenciaBrasil.jpg

To promote the practice of recycling, regulations in several developed economies mandate retail stores to operate a free 'take back' scheme that allows customers to return to them items they no longer find useful.

cists are already exploring the possibility of harnessing extreme microbes as "supercharged carbon recyclers" that could be used to recycle carbon into renewable fuels and chemicals. This is how far the business of waste management has gone in the last decade.

Perhaps even more interesting is the evolving *anaerobic digestion* technology now available in some countries, including Australia. The Small Scale Anaerobic Digestion (SSAD) for example allows households to recycle their own solid and water wastes and convert them into sources of heat, electricity and fertilizers, which are in turn reused by the same households. By so doing, the ultimate aim is to decentralize the sources of energy and waste management and bring them closer to the people, at lower costs and in a more environment friendly manner.

Another attraction in waste recycling is that recycled materials are less expensive than products made from virgin materials. It usually requires significantly less energy, water and other resources to recycle materials than to produce new ones. For example, "recycling 1000 kg of aluminum cans saves approximately 5000 kg of bauxite ore being mined and 95% of the energy required to refine it." http://martinfrost.ws/htmlfiles//waste_management.html#Landfill. From the consumer perspective therefore, people are getting increasingly aware of, and showing preferences for recycled products and materials, not just for their positive environmental impact but also for their cost effectiveness. Prices of fresh materials are fast increasing, making recycled ones more attractive options. Environmentally aware consumers prefer to patronize materials and products that are certified to be recycled.

To promote the practice of recycling, regulations in several developed economies mandate retail stores to operate a free 'take back' scheme that allows customers to return to them items they no longer find useful. These could include household electrical and electronic appliances, batteries, cell phones, among others. Businesses are expected to take these wastes to designated recycling centres or recycle the items themselves. In some countries, retail stores have also been mandated to display visible posters and banners in their outlets, websites and products packages informing customers of this free waste 'take back' service.

Also, in parts of the United States, regulations now exist that make it an offence to mix certain categories of wastes together during collection or disposal, especially wastes that are categorized as hazardous. Usually, materials for recycling are collected separately with dedicated bins and collection vehicles to make for easier sorting and processing. Care is taken to ensure that those in the same category are disposed together and using the regulated channels and fol-

lowing the laid down procedures. These are all in efforts to reduce the negative impact of wastes on humans and the environment.

In 1986, the California Beverage Container Recycling and Litter Reduction Act created a statewide beverage container recycling scheme and set a minimum value payable to consumers that return their used containers for recycling. The fact that consumers knew that they could get some monetary value for every used beverage container they returned to the manufacturers, designated retailers or *convenience zones* was a big incentive to keep the environment litter-free and promote the practice of recycling.

In several developed cities, recycling and waste collection centres (including supermarkets, NGOs, small businesses, among others) get paid handling fees for the number of containers and other wastes they collect from consumers. In California, such wastes collection centres get paid up to $2,300 per month provided they achieve a minimum of 60,000 beverage containers. This creates an added source of revenue for the supermarket and other collection centres. In fact, small business could actually survive on such payments, especially if they are able to diversify their waste collections to other items which also earn them financial rewards.

From these examples, it is glaring that effective regulation would play a significant role in promoting recycling in economies where the practice is yet to be deeply entrenched and in unveiling the huge potential this growing industry holds.

Leveraging the Wasting Opportunities

The opportunity in waste management is a global one, creating a twin solution to environmental sustainability and wealth creation. Yet these huge opportunities are barely fully harnessed. Much of the potential benefits in waste recycling are simply wasting away, not only in developing and low income econo-

http://www.londonbiopackaging.com/about-our-products/waste-disposal/

mies but also in the most advanced. A recent European Union report on how member states manage their municipal waste showed startling differences across the EU. Several developed economies still dispose up to 50 percent of their wastes through landfills. As seen in the table below, as at 2006, several EU economies, including the United Kingdom and Greece still had land filling and incineration (burning) as their main waste management practices. Even though recent European Union legislations mandate that 50% of all household wastes and 70% of all construction wastes must be re-used or recycled by the year 2020, several member countries have fared poorly in actualizing this target.

While reviewing the outcome of a 2012 European Union sponsored report to ascertain the progress of EU countries in sustainable waste management, EU's Environment Commissioner Janez Potoènik had lamented: "*The picture that emerges from this exercise confirms my strong concerns. Many Member States are still landfilling huge amounts of municipal waste – the worst waste management option – despite better alternatives, and despite structural funds being available to finance better options. Valuable resources are being buried, potential economic benefits are being lost, jobs in the waste management sector are not being created, and human health and the environment suffer. This is hard to defend in our present economic circumstances*." http://europa.eu/rapid/press-release_IP-12-888_en.htm.

This same paradox is true for several economies outside the EU where the huge wealth beneath the heaps of wastes littering landfills is yet to be determined and explored. This is particularly pathetic for low income economies where heaps of wastes litter the streets unattended, and where millions of youths, skilled and unskilled, roam the streets daily in search of means of sustainable livelihood. Like Janez Potoènik observed above, by ignoring these heaps and failing to see and explore the business opportunities in them, '*valuable resources are being buried, potential economic benefits are being lost, jobs in the waste management sector are not being created, and human health and the environment suffer*'.

Government agencies in charge of waste management and the environment should begin to look beyond merely identifying or creating landfills to dump the tonnes of wastes generated daily into. Their job should include mapping out strategies on how to convert this huge dung into wealth for the poor and jobs for the unemployed. It is quite encouraging that several developing African economies including Nigeria, Cote d'Ivoire, Ghana, Kenya, among others have in the last decade identified the huge potential, and in fact declared a state of emergency in their agriculture sector. To complement this, perhaps it is also time to create a booming industry out of waste management, especially since like food, the demand for waste management would forever remain potent.

For several low income economies, the potential in waste management as an economic empowerment enabler remains almost completely untapped. The *wealth beneath the dung* is yet to be discovered both at the public and private sector levels. While aspiring entrepreneurs must begin to look this way for business opportunities that have little or no entry barriers and with little or no start off cost, governments and indeed non-profit organizations could also alleviate poverty and the rising unemployment situation by supporting the setting up of waste management businesses at individual and communal levels. This would not only help clean up the environment but also create wealth for the millions in desperate need of means of livelihood.

For the millions of job seekers out there looking to start off small scale businesses, opportunities exists in waste recycling at little or no start off cost - collection, sorting, sales and recycling of diverse waste ma-

terials including glasses, metals, plastic wastes, cell phones and several others. In India for example where a huge pool of job seekers exists, the country's annually generated solid wastes put at over 55 million tonnes become a potential goldmine that could be leveraged to create millions of job opportunities. The same applies in several other emerging and low income economies.

Delving into Waste Management

In delving into waste management business, a major first step would include identifying the wastes of interest, the likely markets, demand trends, existing recycling plants in the vicinity and how much the recyclers offer per tonne for the materials. It is also important to get information on existing competition and relevant government policies and regulations regarding the business. Equally important is the need to identify where the desired waste materials could be sourced. This would usually include households, companies, construction sites, supermarkets, restaurants, hotels, bars, parks, schools, stadia and sports centres, among others. These waste materials are usually collected free. At times, the owners of the waste might even be willing to pay a token to have it taken off them. Once collected, the wastes could be sorted by types, colour, content, among others, to enhance their value per kilo or tonne and their attractiveness to recyclers. Though regulations in several countries mandate recycling centres to collect any volume of waste on offer from certified operators, the higher the loads of wastes in tonnage, the easier it is to get a market and a good price for them.

According to existing research, it could cost as little as $5,000 to start off a waste management business, especially if the purchase of heavy equipment such as trucks are not required. For a standard sized waste management business, operational costs would usually include salaries and wages, taxes and fees, equipments, transportation, storage space and rental expenses, utilities and energy, advertising and promotion. If the start off plan is to collect wastes and send to recycling centres in exchange for cash, far less fund is required beyond buying waste collection bins and transporting the collected items to the designated collection centres. And for several low income economies where the waste sector is still highly underdeveloped, little or no regulatory barriers exist to inhibit new entrants. It is also interesting to note that several websites exist that are willing to buy off certain types of solid wastes without any form of physical contact with the waste collectors. Good examples are old cell phones which could attract as much as $50 per phone, and for which some online buyers are willing to pay the shipping costs for specified quantities. For developing economies where cell phone recycling centers barely exist, and where managing wasted cell phones constitutes a big headache, this creates a potential gold mine for interested collectors.

For small businesses that may want to venture into actual recycling, several small sized, low priced waste processors exist which they could leverage as their start off recycling tools. A good example is the P&P Office Waste Processor which processes paper wastes into fully made pencils.

The examples of Waste Management Inc., Republic Services Inc., Veolia Environmental Services, among other highly successful waste management companies around the world, have demonstrated the huge business opportunities that waste management portends for big and small entrepreneurs. With waste management, there is something for everyone to do, at individual and institutional levels, depending on available resources.

Options in Waste Management Business

Pickup: From the small business perspective, a waste management company could provide just services – collecting recyclable wastes from individuals, communities and institutions and sending them to recycling centers in exchange for cash. In Sweden and several other developed countries, individuals earn meaningful income from collecting trashed glasses, plastic bottles, tins and several other containers and selling them to designated collection centers. This practice is now institutionalized in most developed countries. To encourage this practice, some countries subsidize recycling programs from deposits paid on beverage containers.

Rentals: Some waste management businesses also focus on rental services, renting and leasing out waste management equipment and facilities such as dumpsters, drums for small wastes and trucks for bulk wastes. There are also special pickup equipments for the collection of hazardous wastes. Such rental services could be rendered to individuals, businesses, communities, among others.

Manufacturing: Waste management businesses exist that manufacture basic and sophisticated waste management tools, including waste disposal bags, waste bins, roll-off plastic containers, among others. For the medium to large companies, other waste management facilities up for manufacturing include trucks, dumpsters, waste processors and diverse types of recycling plants.

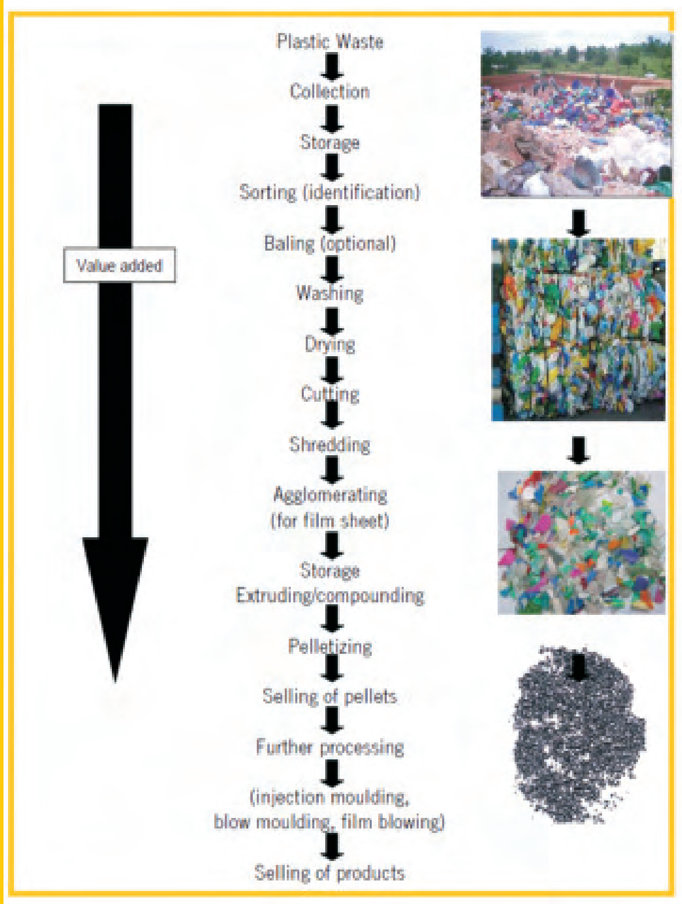
Recycling: Another option for waste management companies is the setting up of recycling facilities where collected wastes are converted into new products. Depending on the size of the company and the waste management facilities on ground, types of wastes that could be collected and recycled include *green wastes* which are cuttings from homes and community gardens, including leaves, tree limbs and stumps; *bulk wastes* including heavy items like furniture, mattresses, engine parts, which are today easily recyclable. Others include *organic wastes*, including food and other easily decomposable items; *construction and demolition wastes* which are wastes resulting from construction of housing and other infrastructural projects, including unwanted concrete, asphalt, sand, bricks, tiles, among others.

WASTE MANAGEMENT PRACTICES IN THE EU-15 COUNTRIES

1995				2006		
Country	Recycling	Landfill	Incineration	Recycling	Landfill	Incineration
EU15	26	58	16	44	34	22
Austria	41	47	12	61	10	29
Belgium	20	44	36	62	5	33
Denmark	31	17	52	40	5	55
Finland	35	65	0	33	59	9
France	18	45	37	32	35	33
Germany	45	39	16	68	1	32
Greece	1	99	0	13	87	0
Ireland	23	77	0	41	59	0
Italy	2	93	5	36	52	12
Luxembourg	20	27	53	43	19	38
Netherlands	46	29	25	64	2	34
Portugal	48	52	0	15	63	22
Spain	35	60	5	43	50	7
Sweden	26	35	39	48	5	47
United Kingdom	8	83	9	31	60	9

Source: http://warrr.org/1145/1/182.pdf

PROCESSES FOR RECYCLING PLASTIC WASTE



Source: http://www.worldwidehelpers.org/wwhweb/uploads/files/KnO-100399_Recycl ing%20plastics.pdf

Also recyclable are h*azardous wastes* which include chemicals such as paints, pesticides, ignitable materials and motor oil that have outlived their usefulness. Hazardous *wastes* are highly harmful to the ecological environment and human health and are therefore disposed and recycled with utmost care and expertise. In most countries, management of hazardous wastes is guided by strict regulations and guidelines.

For potential or existing business owners, opportunities exist in all of these areas of wastes management and more, depending on available capital, facilities, and expertise.

As concerns grow over climate change, greenhouse gas emissions, global warming and other ecological hazards, regulators and environmentalists around the world have intensified their clamp down on irresponsible waste disposal practices. Re-use and recycling of waste materials has become the preferred option. And thanks to ever improving waste management technologies and innovations, virtually everything is now recyclable – cell phones, computers, plastics, organic wastes, nylon, glass, food waste, furniture, vehicles, green waste, paper, water, wood, metal, construction wastes, clothing, jewelries, household electronic appliances, among others. These have created great business opportunities for discerning entrepreneurs. This is even more so for developing and low income economies where waste management potentials remain largely untapped. Added to this is the fact that waste management creates an endless opportunity that would last for as long as humanity.

The world is developing rapidly. Individuals, communities, industries keep using up more sophisticated items, both biodegradable and non-biodegradable. These items, solid, liquid, gas, or in which ever form they come, must be properly managed once they outlive their usefulness. If not, human health, the ecological environment, and indeed posterity, could suffer the consequences. Effective waste management such as recycling presents great opportunities not just to manage our environment better but also to create wealth for the world's growing population. For the discerning and innovative, waste management creates multiple channels of economic gains that cannot be ignored.

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

Risk management in the Nigerian banking system: CHALLENGES & PROSPECTS

part (3)

By Chuks Nwaze

In the last edition of this serial, we dwelt rather extensively on the conceptual framework of banking and risk management, including the regulatory environment in which banks operate. I also highlighted the parameters of loan (i.e. credit risk) appraisal which constitute the core of risk management in the banking domain; these include borrowers' character, collateral, economic conditions as well as bank management. In this edition, we shall ventilate comprehensively on the specific limitations or constraints of credit and the various theories associated with the lending function. We shall also commence the first part of empirical studies on the causes of non- performing loans which is a fundamental manifestation of risk management failure.

LIMITATIONS/ CONSTRAINTS ON CREDIT GROWTH

Internal Limitations

It is clear to all stakeholders, especially current and prospective borrowers, that credit with all its laudable economic implications is largely constrained in its supply and growth by various factors in the economy.

Chodechai (2004) while conducting a research into the factors that affect the degree of lending volume, interest rates and collateral in banks' loan decision-making process said that banks have to be careful with their pricing decisions as regards to lending as they cannot charge loan rates that are too low because the revenue from the interest income will not be enough to cover the cost of deposits, general expenses and the loss of revenue from some borrowers that do not pay. Moreover, charging too high loan interests may also create an adverse selection and moral hazard problems for the borrowers.

According to Olokoyo (2011), volume of deposit has the greatest impact and influence on the lending behavior of commercial banks and a change in it will yield the highest change in banks' loans and advances. Banks should therefore, strive hard to manage their deposits efficiently so that their objective of profitability can be achieved and the multiplier effects maintained to the maximum. This implies that deposit mobilisation is key to the survival of not only Nigerian banks but financial institutions all over the world.

Orji (1989) classifies these constraints on credit supply into three, viz external (environmental), internal and other constraints imposed by the

monetary authorities. However, Osayameh (1986) holds a slightly different view. He classifies credit constraints into internal and external.

However, Orji's classification seems to be more acceptable as Osayameh's external constraint compresses the external and monetary authority into one. There is no doubt, whatsoever, that availability of credit depends to a large extent on the prevailing economic climate which also stems from the fact that credit facilities are meant to ensure that growth and profitability are achieved. Besides the general economic climate, we also reckon with the significance of customers' attitude towards credit as economic lending is inevitably curtailed in a situation fraught with many risks arising from the unwillingness of loan applicants to supply the documents required for processing the facility. Osayameh also recognizes other constraints outside the banks' control such as inter-industry performances and political/social factors.

The internal constraints include those within the industry such as bank capital adequacy, liquidity and cash reserve ratios, deposit availability, credit policy and managerial competence. Osayameh (1986) also agrees that such external policies bordering on liquidity and cash reserve requirements as prescribed by the regulatory authorities from time to time as well as the statutory lending ceilings are also practical limitations on the creation of credit.

Statutory and Regulatory Limitations

Constraints imposed by the monetary/regulatory authority are either statutory or monetary in nature. Examples of statutory constraints are some of the provisions of Banks and Other Financial Institutions Act (BOFIA) as amended. Some of the restrictions imposed by this Act on bank lending activities include section 20.1(a) which limits the total amount of credit that can be extended to any one customer by a commercial bank to a maximum of 20 per cent of the shareholders fund unimpaired by losses. Another constraint is contained in section 20.1(b) which bars a bank from granting credit against the security of its own shares.

In addition, while section 20.2 (a) limits the amount of loan that a bank can grant, without the prior approval in writing of the CBN, to its directors or to any firm where any of its directors has vested interest, section 20.2 (b) disallows banks from permitting its officers and employees, unsecured advances, loans or other unsecured credit facilities, which in the aggregate, for any one officer or employee, an amount which exceeds one year's emoluments to such officer or employee. Other constraints imposed by the monetary authority stem from mandatory minimum sectoral allocations to priority sectors as determined from time to time as part of the monetary policies of government through the regulatory agencies.

A typical schedule of percentage allocation is shown in the table 2.1 below:

Table 2.1: Typical Sectoral Allocation of Commercial Banks' Credit

Sector	Commercial %%Banks
1 Priority Sectors	50.0 %
a Agric Production	(15.0)%
b. Manufacturing Enterprises	(35.0)%
2. Others	50.0 %
Total (1 +2)	100.0 %

Source: CBN Sectoral Guidelines (2009)

RISK MANAGEMENT PROCESS: THEORETICAL FRAMEWORK

The following are some of the theories relevant to the lending or risk management function of commercial banks which is an integral component of financial intermediation.

The theory of management as key to efficiency

According to Franzini (2009), management, otherwise known as corporate governance, is the response to typical agency problems between investors and managers of both financial and non-financial institutions who often have divergent interests as management often has no incentive to return any of the profits made from decisions taken by them. Hence they frequently resort to improper, risky or suboptimal decisions at the expense of the organization for their own benefit. For financial institutions, the sub optimal decisions can manifest in non-performing loans as a result of inaccurate appraisals, wrong approvals or improper credit monitoring. Franzini contends that if corporate governance codes are adhered to at all times, only a few things can go wrong and even when they do, there is an in-built corrective machinery.

The theory of collateralized lending

According to Greenbaum and Thakor (1995) as quoted in Blazy and Weill (2005), there are three fundamental reasons why banks ask for collaterals and the arguments can be summarized as follows. First, collateral allows for a reduction of the loan loss in the event of a default by providing for the bank a prior title on specific assets. Second, collateral helps to solve the problem of adverse selection borne by the bank when lending, as it constitutes a signaling instrument providing some valuable information to the bank.

These authors insist that collateral helps the bank to obtain private information owned by the borrower, as high quality borrowers are more inclined to accept to provide collateral in compensation of a low loan rate than low quality borrowers. Thirdly, collateral helps to solve the problem of moral hazard after the loan is granted: namely, the borrower is not encouraged to provide the optimal effort or the optimal level of investment. This mechanism is rooted in the binding role of collateral on the borrower which favors the alignment of his interests on the bank's interest.

The theory of credit as a social relation

Commenting on the concept of credit as a social relation, Moini (2001) is of the opinion that credit is a relationship of trust and condence between two or more persons. In other words, credit means that a certain condence is given and a certain trust reposed. Credit is a set of promises to pay; will those promises be kept?" (Bagehot 1906:22)? Thus, the expectation of at least one other person to the effect that a particular person will honor his/her promises constitutes the essence of credit. For this reason it may be asserted that credit is necessarily a social relation as opposed to a thing.

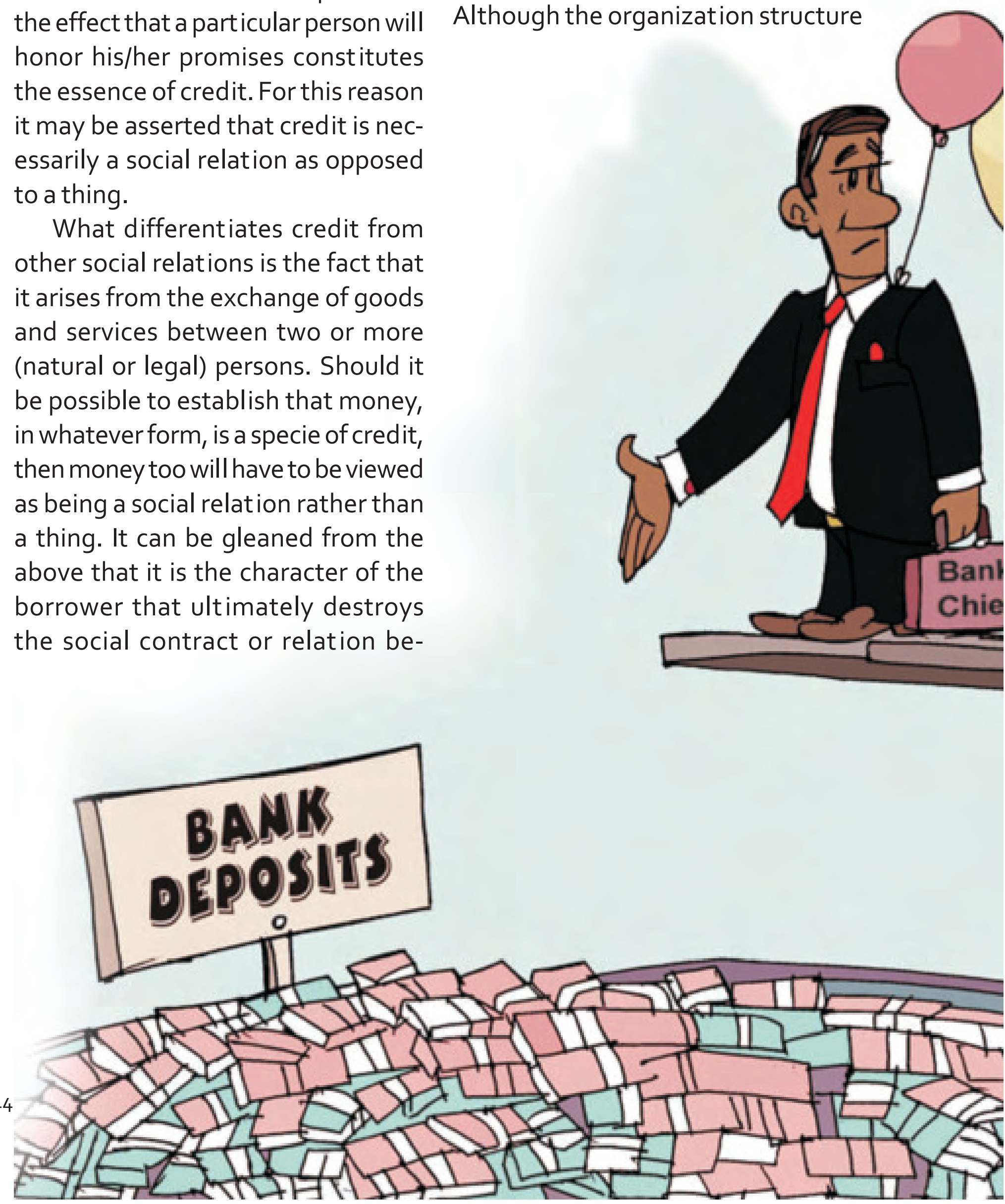
What differentiates credit from other social relations is the fact that it arises from the exchange of goods and services between two or more (natural or legal) persons. Should it be possible to establish that money, in whatever form, is a specie of credit, then money too will have to be viewed as being a social relation rather than a thing. It can be gleaned from the above that it is the character of the borrower that ultimately destroys the social contract or relation between the lender and the borrower.

Before going into empirical framework, it is appropriate to consider the traditional structure of credit administration and practice in a typical banking environment.

CREDIT RISK MANAGEMENT: STRUCTURE AND PRACTICE

Contemporary Risk Management Structure

A credit risk management structure sets out the machinery for the day-to-day administration of risk assets. Although the organization structure



of the lending function varies from bank to bank, the system adopted by a particular lending institution is largely determined by the board's attitude towards delegation of authority to the rank and file of loan officers, the character and quality of the lending officers, and the bank's size and its loan portfolio. For example, while a single loan officer in a small bank may perform all the activities involved, in the larger ones, there is a much greater level of departmentalization and specialization in the credit administration process.

The machinery for routine administration, in respect of the bank is usually formulated along some general guidelines which include supervision, observance of covenants, margin requirements, excess lines, draw-downs, insurance and management of problem loans. These functions are executed by the various committees set up by the bank/lender. In practice, there is usually a Directors' Loan Committee (DLC) as well as Officer Loan Review Committee (OLRC). The Directors' Loan Committee which is made up of the bank's MD, a senior loan officer and at least two board members is charged with such responsibilities as handling loan proposals beyond the scope of the OLRC and requests bordering on policy.

The OLRC is responsible for the continuous review of the bank's loan portfolio. It meets over troubled or distressed loans and reports to the Chief Executive and to the Board. It follows up on all weak loans until their weakness is corrected or the loan is collected. The OLRC in most banks has authority to reassign the loan if the officer is not making progress on the recovery. These two groups of loan committees are supported by Hampel at al (1986). He submitted that two committees are necessary

Banks, generally, have credit units or departments which perform crucial roles in the loan administration function. The department is supervisory in nature. It is separated from the credit approval function and serves primarily to advice or counsel both management and the credit officers; the composition varies from bank to bank.

Kennedy (1969) classified credit department into three, based on their functions and responsibilities. (i) The first are those that play no major role in the credit policies and decisions of the bank, they are strictly restricted to fact-finding duties. (ii)The second are those that determine the extent and character of the investigations and analysis of each case, develop and analyze the data assembled and also make firm recommendations taking cognizance of all the risks involved. (iii) The third are those that combine all the previous two functions above and, in addition, actually assume the powers of approving loans or otherwise.

Kennedy notes further that while (i) obtains in small banks, medium and big banks have credit departments which with functions akin to (ii). The responsibilities in (iii) are seldom assumed by the credit administration department of most banks. The functions of the credit administration department according to Orji (1989) include record keeping and credit analysis which though separate and distinct are nonetheless closely related and combine to provide the loan officer with adequate information upon which to base his decision. Kennedy suggests that in aggressive banks, the credit administration department may also be involved in attracting new customers, as much as they are also involved in the training of new loan officers.

Risk Asset Review

A function sometimes separated from the credit administration function is the loan review function which is part of the duties of the credit department in most banks. The function itself is simply a periodic audit of the ongoing performance of some or all of the active loans in a banks' loan portfolio. The Chief Executive is ultimately accountable for loan quality and can act readily to remedy whatever deficiencies as may become apparent.

The loan review activity is done to ensure the following: the financial condition and repayment ability of the borrower, completeness of documentation, consistency of credit with credit policy, perfection of security pledged for the credit facility, and compliance with regulatory provisions. In the final analysis, it is the specific organizational structure of a bank that determines the structure, nomenclature, and composition of the various operating units, departments or divisions. As no two organizations are the same in this regard, it stands to reason that no particular system should be assumed to be better than others.

SYMPTOMS OF RISK MANAGEMENT FAILURE

Before considering the studies that have been carried out in this respect, it is necessary to understand the basis upon which decisions and classifications are made with respect to non-performing credits.

In order to achieve cross-country comparability, non-performing loans are redefined in the updated November 2007 version of the Compilation Guide (IMF, 2007, p.6) on the basis of a uniform criterion of "principal or interest payments 90 days overdue" (Baristz, 2007). A credit facility be it overdraft, an advance, guarantee, letter of credit, term loan, bond and so on is said to be non-performing or delinquent when there is divergence from the terms and conditions reached in contracting the facility. Banks, because of the adverse implication of delinquent loans expend considerable effort to prevent their loans from becoming bad.

Orji (1986) classified delinquent facilities into three: good, problem, doubtful or bad debts. Good overdue debts are those that have remained unpaid after the stipulated date. Such loans are distinguished by the fact that they are still operated by the customer. The problem overdue debts are those that are unpaid and expired facilities that have been poorly operated, if at all, in the past after initial drawdown. Lastly, bad and doubtful overdue debts are those that are unpaid with very slim chances, if any, of being recovered. There is a consensus that no loan can become bad all of a sudden.

Nonetheless, there are danger signals, which a skillful eye can see, that are indicative of trouble. There are several signals, also, that serve as useful guides. An instinct, however, for sensing and identifying trouble is developed over time through firsthand experience. These signals or symptoms are either financial, external or management in nature.

Financial Symptoms include major sale of assets, deteriorating ratios in relation to, inventory, turnover, receivable to sales, payables ratios, retained earnings as a percentage of assets. Large short-term debt maturities which the company cannot cover through normal cash generation, high leverage, inability to quickly clean up its seasonal borrowing, evidence of other banks or financial sources refusing credit or granting it on terms more stringent than expected, violation of covenants, requests for extensions of maturities, delays in public offerings or unusually high rates, as well as permanent overdraft facilities.

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External Symptoms have to do with unexpected adverse industry or regulatory developments, adverse stock market reports, downgrade of debt ratings, adverse international developments, unusual increase in trade enquiries, etc.

Management Symptoms include, but not limited to significant changes in ownership, key management, lines of business, business strategy, evasive answers to direct questions concerning recent or projected performance, refusal of request for internal information i.e. auditors' reports, projections, unusual accounting practices and shifts from conservative accounting principles, late submission of financial statements, arrogance in place of borrower co-operation, excessive spending for "management lifestyle", declining sales, net income, profit margins, or industry ratios, as well as observed deviation from normal seasonal borrowing pattern.

It is important that these signals or symptoms should be recognized or identified as early as possible to enable prompt remedial actions to be mounted before the situation deteriorates from substandard to doubtful or from doubtful to bad credit. The question we are now about to answer is: "What gives rise to these symptoms?" In other words, "what are the root causes of the problem"?

RISK MANAGEMENT FAILURE: EMPIRICAL FINDINGS

This section, which constitutes the core of this enquiry, will delve into the specific research findings on the independent variables which have to do with the causes of non-performing loans which is a fundamental evidence of risk management failure in the banking system. This will be done from the prism of other jurisdictions around the world. Specifically, the causes on which the empirical studies are based are: borrower's character, economic conditions, collateral and corporate governance.

Internal and External Conditions

We hasten to say that the causes of loan default can be viewed from various perspectives. While some authors have shared it between the customer and the bank, others say the causes are both internal and external. There is no doubt, however, that some of the causes are controllable by the banks through an efficient management of credit facilities from inception to retirement. Hence, the onus lies to a large extent on the banks in averting loan delinquency.

According to Mabvure, Gwangwava, Manuere, Mutibvu and Kamoyo (2012) who conducted a research into the causes of delinquent loans in Zimbabwe, non-performing loans were caused by internal and external factors. Internal factors such as poor credit policy, weak credit analysis, poor credit monitoring, inadequate risk management and insider loans have a limited influence towards non-performing loans. The research findings highlighted external factors namely natural disaster (unexpected occurrence), government policy and integrity of the borrower as the major factors that caused non-performing loan. Although the authors did not explain the actual reasons for this dominant influence of external factors over non-performing loans, we reckon that it has to do with the internal factors being controllable while the external ones are not.

Economic Determinants

Economic factors are also related to environmental conditions which constitute one of the major causes of non-performing loans. According to Farhan, Sattar, Chaudhry and Khalil (2012) who focused on the economic determinants of non-performing loans in the Pakistani banking sector since 2006, all the hypothesis were accepted and correlation and regression analysis described that interest rate, energy crisis, unemployment, inflation and exchange rate have significant and positive relationship with non-performing loans while GDP growth has significant negative relationship with the non-performing loans of Pakistani banking sector. Bad performance of energy sectors along with poor economic settings/conditions are the main factors causing non-performing loans in Pakistan. They added that unemployment is the other factor which has caused a huge volume of NPLs especially in the consumer finance.

Saba (2012) also did a similar research on the subject which confirmed the positive association not only between interest rate and NPLs but also between real GDP per capita and NPLs. This position was also supported by Khemraj and Pasha (2005) even though the emphasis here is on the positive link between real interest rate and NPLs. In other words, when a commercial bank increases its real interest rates, this may translate into higher NPLs.

Beck, Jakubik and Piloiu (2013) also added their own voice while investigating the relationship between real GDP growth, exchange rate and stock prices with a data set for seventy five (75) countries covering a period of 10 years. According to them, real GDP growth is the main driver of non-performing loans during the past decade. In other words, a drop in global economic activity remains the most important risk for bank asset quality. Exchange rate depreciations might lead to an increase in non-performing loans in countries with a high degree of lending in foreign currencies to un-hedged borrowers...a drop in stock prices also negatively affects bank asset quality in countries with large stock markets relative to the economy.

Nkusu (2011) in his own extensive study on the linkages between NPL and economic activity also submitted that deterioration in the macroeconomic environment is associated with debt service problems, culminating into rising NPL. Conversely, a favourable macroeconomic environment generates subdued NPL as was observed in the run-up to the 2008 crisis. There is a convergence of opinion that economic factors or circumstances such as real GDP growth, inflation, exchange rate, unemployment, etc, contribute in no small way towards loan performance or otherwise. This is because banks and their borrowers do not operate in any other island. They are part of the overall scheme of things in the economic system.

Risk-Taking as Determinant

The issue of risk-taking as a determinant of non-performing loans has to do with the inclinations, preferences or habits of bank management. In their submission, Khemraj and Pasha (2005) also studied and documented the positive association between loan to asset ratio and non-performing loans. This indicates that banks with greater penchant for risk-taking incurred higher NPLs. Since a higher level of risk is widely believed to attract higher returns, a higher level of non-performing loans is also an inevitable consequence of the obsession for risk-taking. Instructively, however, even as many banks are enjoying the penchant for risk-taking, they are not adequately equipped to handle it.

In a study of the risk-taking behavior of five Chinese banks, Haneef, Riaz, Ramzan, Rana, Ishaq and Karim (2012) observed that none of the banks examined has a Risk Officer or

http://www.theafricom.com/wp-content/uploads/2014/04/Peoples-Bank-of-China.jpg

anybody charged with that responsibility. It was also noted that although banks hire Management Trainees who are rotated through the various departments to better under-

stand the functions of the banks, there is no formal risk management training.

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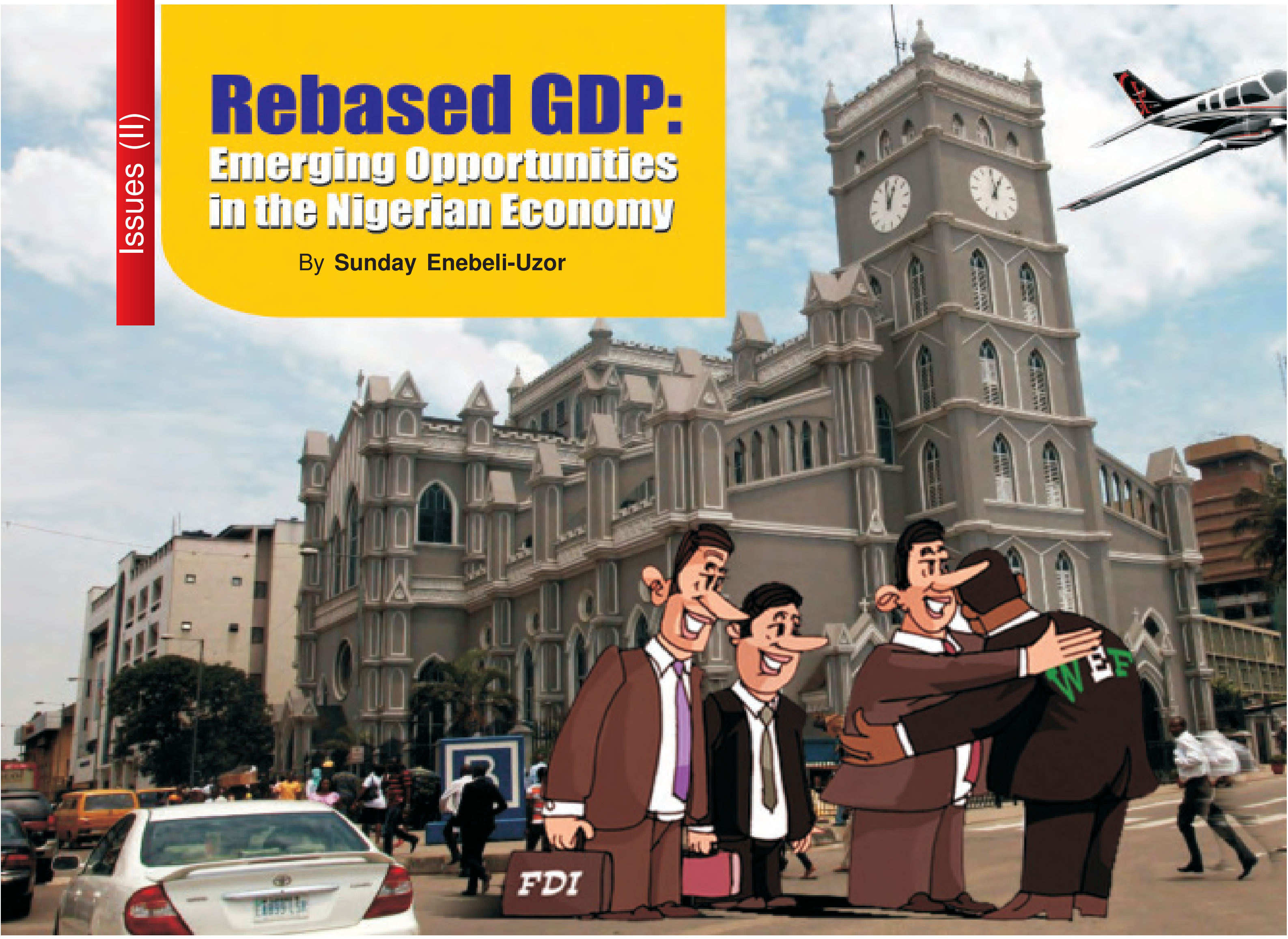
Rebased GDP: Emerging Opportunities in the Nigerian Economy

By **Sunday Enebeli-Uzor**



After missing several timelines, the preliminary rebased estimates of Nigeria's nominal Gross Domestic Product (GDP) has been unveiled by the National Bureau of Statistics (NBS). According to the NBS, the rebased estimates indicate that nominal GDP for Nigeria was N54,204,795.12 million in 2010, N63,258,579.01 million in 2011, N71,186,534.89 million in 2012 and forecast to be N80,222,128.32 million in 2013. In United States dollar terms, this translates to $360,644.01million in 2010, $408,805.60million in 2011, $453,966.81 million in 2012 and $509,970.14million in 2013 (forecast). The results showed that Nigeria's GDP was 89 percent larger than previously estimated, surpassing earlier projections of between 40 and 60 percent. The entire GDP rebasing exercise involved changing the base year used in the computation of GDP from 1990 to 2010, in the process taking into account new sectors of the economy that had sprung up over the last twenty four years, and also structural changes that have occurred in the economy. With the re-calculated statistics, the Nigerian economy now ranks as the 26th largest in world, officially becoming Africa's largest economy and knocking South Africa off its decades-long perch as the continent's largest economy.

The results of the GDP rebasing exercise do not suggest an abrupt surge in the size of the Nigerian economy due to a sudden economic boom. The change merely represents the evolution of the economy over recent years with secondary and tertiary industries now contributing

a larger share of GDP. What has changed really is the methodology utilised by the nation's number crunchers (the National Bureau of Statistics) in the estimation and presentation of economic data. This method incorporates informal and newly-evolved industries, activities and sectors that were not included in previous national accounts estimates. Put succinctly, the new GDP estimate has not changed any of the realities of Nigeria's economy. It has not increased the size of the domestic market and it will not correct any structural deficiencies or eliminate any impediments to the country's development. However, the new GDP estimates give a more accurate reflection of the value added of the production of goods and services in all sectors of the economy. In other words, in practical terms not much on-the-ground has changed, but the data simply now reflect on-the-ground situation more accurately. The rebased GDP also highlights the country's under-realised economic potential, and this is likely to trigger an upsurge in Foreign Direct Investment (FDI) as investors would be attracted to take advantage of the size of the Nigerian economy.

New GDP Estimates: Fact or Fiction?

Expectedly, the rebasing of Nigeria's GDP caught the attention of the world, eliciting myriad interests, analyses, and commentaries and, for many reasons, rightly so. Infact, no economic development in recent times has provoked media blitz across the globe, and within the country like the outcome of Nigeria's GDP rebasing. Some are curious on the sort of economic miracle that has happened to suddenly leapfrog the Nigerian economy to its new status. While some have raised concerns on the veracity of the new GDP estimates, others bother on cynicism. For keen observers of the Nigerian economy however, the outcome of the GDP rebasing exercise is not a surprise but a validation of the obvious. For over two decades (precisely twenty-four years), Nigeria did not rebase its GDP – an exercise that should be undertaken every five years in adherence to global best practice as recommended by the United Nations Statistics Division (UNSD). Also, programmes and policies aimed at structural transformation of the Nigerian economy and restoration of the productive sectors have been ongoing for some time, precisely since the return of democratic rule in 1999. The present administration's Transformation Agenda provided renewed impetus for a private sector-led, non-oil sector growth. The effect of these government programmes and policies are beginning to manifest in the economy.

Prior to the rebasing exercise (which saw the base year change to 2010), 1990 was the base year for computing Nigeria's GDP. The reality therefore is that over time, Nigeria's GDP has been misstated and obsolete. Relying on the previous estimates for policy formulation has been grossly misleading. Also, the new GDP estimates calculated on the new base year of 2010 measures 46 industries from the previous 33, and gives greater weighting to sectors such as telecommunications, entertainment, and financial services. Infact, some analysts believe that the Nigerian economy is still underestimated considering the humongous informal sector that has not been properly captured in the GDP rebasing exercise. Reassuringly, the outcome of the GDP rebasing exercise was validated by the Joint Mission of the International Monetary Fund (IMF), the World Bank and African Development Bank (AfDB) having been involved in providing technical assistance for the entire rebasing exercise. Nevertheless, certain refinements are still being undertaken and the final estimates of the nominal GDP will be released around mid-2014.

Nominal GDP in millions of Naira before rebasing

OLD SERIES (Nm)	2010	2011	2012	2013f
Agriculture	10,310,655.64	11,593,434.13	13,413,842.46	14,709,104.92
Industry	15,659,521.00	16,569,291.58	16,456,457.10	15,374,554.67
Services	8,014,577.50	9,247,134.90	10,673,800.38	12,313,106.11
Total Nominal GDP	**33,984,754.13**	**37,409,860.61**	**40,544,099.94**	**42,396,765.71**

Source: National Bureau of Statistics (NBS)

Nominal GDP in millions of Naira after rebasing

NEW SERIES (Nm)	2010	2011	2012	2013f
Agriculture	12,988,809.19	14,421,928.95	15,918,631.70	17,625,142.90
Industry	13,992,438.93	17,615,537.36	19,024,322.24	20,671,951.46
Services	27,223,547.01	31,221,112.69	36,243,580.95	41,925,033.96
Total Nominal GDP	**54,204,795.12**	**63,258,579.00**	**71,186,534.89**	**80,222,128.32**

Source: National Bureau of Statistics (NBS)

The New Structure of the Nigerian Economy

The results of the GDP rebasing exercise indicate a significant change in the structure of the Nigerian economy. The outcome shows a decline in the share of the Agricultural Sector and a rise in the share of Services in nominal GDP, an indication of stronger diversification than earlier reported in official statistics. According to the NBS, prior to rebasing, the Agricultural Sector contributed 30.3 percent to the GDP, while Industry accounted for 46.1 percent and Services represented 23.6 percent as at 2010. Post rebasing, in nominal terms, the share of Agriculture declined to 24 percent, while the share of Industry to the country's GDP has also declined to 25.8 percent. The share of Services to the country's GDP increased to 50.2 percent in 2010. Also, the number of economic activities accounting for 70 percent of nominal GDP has risen from three to six after the rebasing. The six economic activities include crop production; trade; crude petroleum and natural gas; telecommunications and information services; real estate as well as food, beverage and tobacco.

The economic activities with the most notable changes include human health & social services, information and communication as well as professional, scientific and technical services. GDP estimates based on the 1990 nominal series, indicates that Wholesale and Retail trade was the largest component of the services sector, followed by Hotel and Restaurants, and Real Estate Services. Post rebasing, Wholesale and Retail trade remains the largest component of the Services sector, followed by Telecommunications before Real Estate Services. The rebased GDP series also includes new economic activities which hitherto where not part of the GDP computation. New activities included in the new computation framework are entertainment, research, patents and copyrights.

Changes in Estimation Procedure

In arriving at the new GDP estimates, the NBS modified and refined the methods and processes for computing value addition in certain sectors especially agriculture, and oil & gas, as well as other improvements in the data collection procedures. These modifications and refinements culminated in significant changes between the old and new GDP series. For instance, prior to rebasing, oil & gas output was compiled using a combination of the annual reports from the Nigerian National Petroleum

Corporation (NNPC) which gave data on the volume of barrels of oil produced, and an estimation of the gas component. The estimation process after the rebasing exercise still uses the annual reports of NNPC to obtain data on oil & gas statistics, while intermediate consumption is now estimated through the annual reports of oil producing companies. The change in estimation procedure culminated in a decline in oil & gas value added by 42.1 percent.

According to the NBS, coverage of more crops for the rebasing exercise, and the imputation of crops estimated for own consumption were two changes in the computation of value addition of the agricultural sector. The NBS-CBN 2010 Socioeconomic Survey and the Nigerian Exportable Crops Survey for 2010 provided data on quantities, farm gate prices, and input costs of 69 crops. This was larger than the number of crops accounted for by the previous data source used in estimating value added for the agricultural sector pre-rebasing. As a result of the change in the source of the data for agricultural statistics from the NBS National Accounts Quarterly series to the NBS-CBN socio-economic Survey of 2010, there has been a 26.7 percent increase in the value added on crop production, a 43.9 percent increase in the value added of livestock, a 9.2 percent increase in the value of fishery, and a 23.9 percent decrease in the value of forestry.

The new GDP series also utilised robust administrative data due to better coverage. The telecommunications industry has also seen its importance affirmed by the new data. Rather than accounting for less than 1.0 percent of GDP, the sector contributed around 9.0 percent in each year between 2010 and 2013. Valued added for electricity, gas and steam increased by 367.6 percent, water supply increased by 2,450.8 percent, while construction increased by 298.1 percent. Valued added of the manufacturing sector increased by 456.5 percent in the 2010 GDP series. Most of the rest of the increase in output has come from other services such as real estate, finance and insurance and professional services.

Manufacturing Sector still performing

Contrary to previous claims, the manufacturing sector of the Nigerian economy is contributing reasonably to GDP, an indication that the sector is far more important than the old GDP numbers showed. According to

http://en.wikipedia.org/wiki/File:Geely_assembly_line_in_Beilun,_Ningbo.JPG the old figures, manufacturing's share of GDP remained stagnant at 1.9 percent between 2010 and 2013, when in fact it increased from 6.6 percent to 6.8 percent over that period. The relative growth in the contribution of manufacturing to the economy is the cumulative effect of government policies to support the sector. In 2013 for example, licences for cement importation were not issued – an indication that Nigeria has almost attained self-sufficiency in cement production. Cement importation has been one of the major drains on the country's foreign exchange. The recently launched Nigerian Automobile Industry Development Plan that seeks to resuscitate the moribund automotive industry, domesticate automotive technology, is also showing flickers of hope. Not only has a number of automobile manufacturers indicated keen interest in investing in Nigeria, the first assembled in Nigeria car pursuant to the new auto policy has been rolled out by Nissan. Other automobile manufacturers are at various stages of setting up vehicle assembling plants in Nigeria. According to the National Automobile Council, twelve (12) auto manufacturing companies are expected to have established vehicle assembly plants in the country by the end of the year.

New Growth Drivers

Despite being much larger than previously estimated, the Nigerian economy has continued to grow impressively over the years according to the rebased GDP data. In real terms, the economy expanded by 5.1 percent, 6.7 percent and 7.4 percent in 2011, 2012 and 2013 respectively compared to respective old-data figures of 7.4 percent, 6.6 percent and 6.9 percent. This growth trend indicates that headline growth rate has remained similar to that implied by the previous figures. However, the new data show some interesting trends in GDP and sector-specific growth. The growth drivers are

slightly different according to the new figures. Most notable is the contribution of agriculture, which is not only smaller as a proportion of total GDP but has also been growing more slowly than formerly indicated. This is an indication that the agricultural sector has been contributing far less to headline growth than previously believed. It also suggests that reforms in the sector have not started yielding the desired results especially in contributing to GDP. Another pertinent development gleaned from the rebased GDP data is the fact that the oil & gas sector has not been stagnant as the old GDP data suggested. Whereas previous data showed that oil & gas sector growth hovered around 0 percent over the last three years, the new GDP data reveals that the sector expanded by 3.4 percent in 2011 before contracting by 2.3 percent in 2012 and then rebounded by 5.2 percent in 2013. From 0.9 per cent, the contribution of the telecommunication sector has expanded to 8.7 per cent. The biggest leap was made in the services sector with a rise in contribution from 29 per cent to 52 per cent.

http://sites.psu.edu/wethepeople/wp-content/uploads/sites/4597/2013/11/offshore-oil-rig-3.jpg

Emerging Opportunities in the Nigerian Economy

Whilst the discussions on the GDP rebasing exercise continues to rage, the preliminary estimates have thrown up interesting opportunities which can be leveraged for investment decisions by the private sector, and evidence-based planning and policy formulation by the government. The outcome has provided new impetus for informed debate, and policy dialogue on the Nigerian economy. The results will also enable researchers and policymakers to investigate the causal mechanisms and relationships between the various sectors of the Nigerian economy. One interesting and perhaps the most important outcome of the GDP rebasing exercise is the dominant role of the private sector in the economy as depicted by the size of the services sector. This is an indication that the Nigerian economy is gradually transforming structurally to a private sector led economy. The public sector (government) appears to be finally playing its rightful role as the enabler while the private sector drives economic growth. With further transfer of public sector assets to the private sector through the privatisation programme, it is expected that the private sector will mobilise more resources for investment in critical infrastructure for accelerated growth and broader economic base. The outcome of the GDP rebasing exercise has created a huge gap in the ratio of tax revenues to the GDP (down from 22 percent to 12 percent) and also highlights the potential for improved tax collection in a diversified Nigerian economy.

Another pertinent outcome of the rebased GDP is Nigeria's role in intra-Africa trade by virtue of its absolute size as the continent's largest economy. The country's new status as the continent's largest economy and its geographical advantages can be leveraged to broaden intra-African trade that benefits the continent. Nigeria's manufacturing sector is now worth $35billion and constitutes 6.8 percent of GDP, and this expected to improve further as productivity increases following the power sector reforms. There is already a gradual outflow of made in Nigeria products (cement, sacks, and biscuits) into sub-regional markets. The result of the GDP rebasing exercise provides new impetus for Nigeria as a major manufacturing hub. This will further attract investments in addition to merchandises from other African countries, effectively creating a two-way directional trade flows. The Nigerian economy more than ever before deserves a more dominant manufacturing sector because it offers special opportunities for capital accumulation. Capital accumulation can be more easily realised in spatially concentrated manufacturing than in many other sectors that are spatially dispersed. The sector also offers special opportunities for economies of scale, and has linkage and spillover effects.

The outcome of the GDP rebasing exercise has exposed Nigeria's investment potential to the world. Coming at a time when the economies of Asia and Europe are saturated, and investors are looking at the next strong growth story outside China and India, the outcome of the rebasing exercise has provided a new fillip to Western and Asian investors looking for new investment frontiers. Nigeria has become unavoidably visible on the radar for anyone looking for new investment opportunities especially in Africa. The rebased GDP figure has positioned the Nigerian market as one of the world's best emerging-market investment opportunities. Many investors already view Nigeria as the most attractive consumer market in Africa, given its large population of about 170million, improving business environment, youthful and increasingly urbanised population, and rising middle class. Nigeria is expected in the foreseeable future to continue to be the preferred destination of Foreign Direct Investment (FDI) inflow into Africa.

Consequently, Nigeria's public debt, budget and current account ratios are likely to be among the best in Africa and in the emerging markets following the GDP rebasing exercise.

The result of the rebasing exercise unarguably also has positive impact on the perception of the Nigerian economy. The outcome gives psychological boost that could give the country more influence on the world stage. The new GDP figure will improve the country's overall rating in the comity of nations because the most important global governance institutions, from the G8 to the G20, are all based essentially on GDP credentials. The rebased GDP estimates have changed some of the country's macro ratios. For instance, Nigeria's relatively low public debt to GDP ratio of 19 percent as at 2012 shrank further to 11 percent after the rebasing, making Nigeria one of the least leveraged countries in the

world. The authorities have however indicated that there are no immediate plans to change the country's borrowing pattern. There will also be improvement in the budget deficit to GDP ratio. Consequently, Nigeria's public debt, budget and current account ratios are likely to be among the best in Africa and in the emerging markets following the GDP rebasing exercise. The country's sovereign credit ratings are also likely to improve.

Percentage change in Nominal GDP between old and new base years

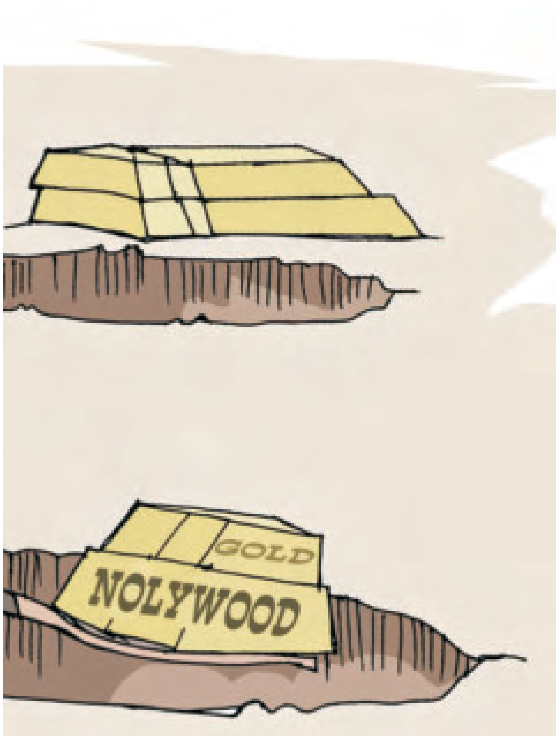
Percentage change between Old and New GDP Series

Sector	2010	2011	2012	2013f
Agriculture	25.97	24.40	18.67	19.82
Industry	-10.65	6.31	15.60	34.46
Services	239.68	237.63	239.56	240.49
Total Nominal GDP	**59.50**	**69.10**	**75.58**	**89.22**

Source: National Bureau of Statistics (NBS)

Not yet *Uhuru*

Beyond the media blitz, euphoria, and "bragging rights" that "being on top" has conferred on Nigeria following its new status as Africa's largest economy, concerted effort is required to deepen and further diversify the Nigerian economy. Infact, Nigeria's new status as the continent's biggest economy inevitably brings a burden of justification on the managers of the economy. Although GDP remains the most frequently cited indicator of economic performance of a country, and is often used as a barometer of the general health of the economy, the measure has been intensely criticised for excluding non-economic issues such as access to clean water, education, and health as well as access to opportunity. The outcome of the rebasing exercise notwithstanding, Nigeria's economic potential remains constrained by huge infrastructural deficit, especially power. Power has been variously identified as the major challenge inhibiting Nigeria's real growth as almost every business has to generate its own power at enormous costs. Households also expend a significant proportion of their disposable income on private power generation. It is estimated that the Nigerian economy has the potential to grow between 10 and 12 percent if the perennial power outage suffered in the country is sorted out.



To truly be Africa's leading economy, the Nigerian economy must be diversified away from disarticulated and narrow primary extractive activities to secondary production activities especially manufacturing. Higher productivity, economic-inclusiveness, employment generation, and wealth-creation are much higher in the manufacturing sector than in several other sectors of the economy. The humongous size of the service sector is an indication that the productive base of the economy is weak. Also, the near monolithic nature of exports makes the economy susceptible to external shocks arising from volatility of crude oil prices in the international commodities market. Strenuous effort is required to transform the Nigerian economy to become competitive as it is presently one of the least competitive and ranks abysmally low on the ease of doing business index. The outcome of the GDP rebasing exercise has provided a more accurate picture of the economy and the government now knows the right levers to pull to achieve real growth, economic-inclusiveness, employment generation, and wealth-creation. Discerning investors also now have a clearer picture of the opportunities in the Nigerian economy. However, until government policies and programmes to address income inequality, and wealth redistribution are articulated and conscientiously implemented, it is not yet *Uhuru* for the Nigerian economy.

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

When the Czar has a cold,
all Russia coughs

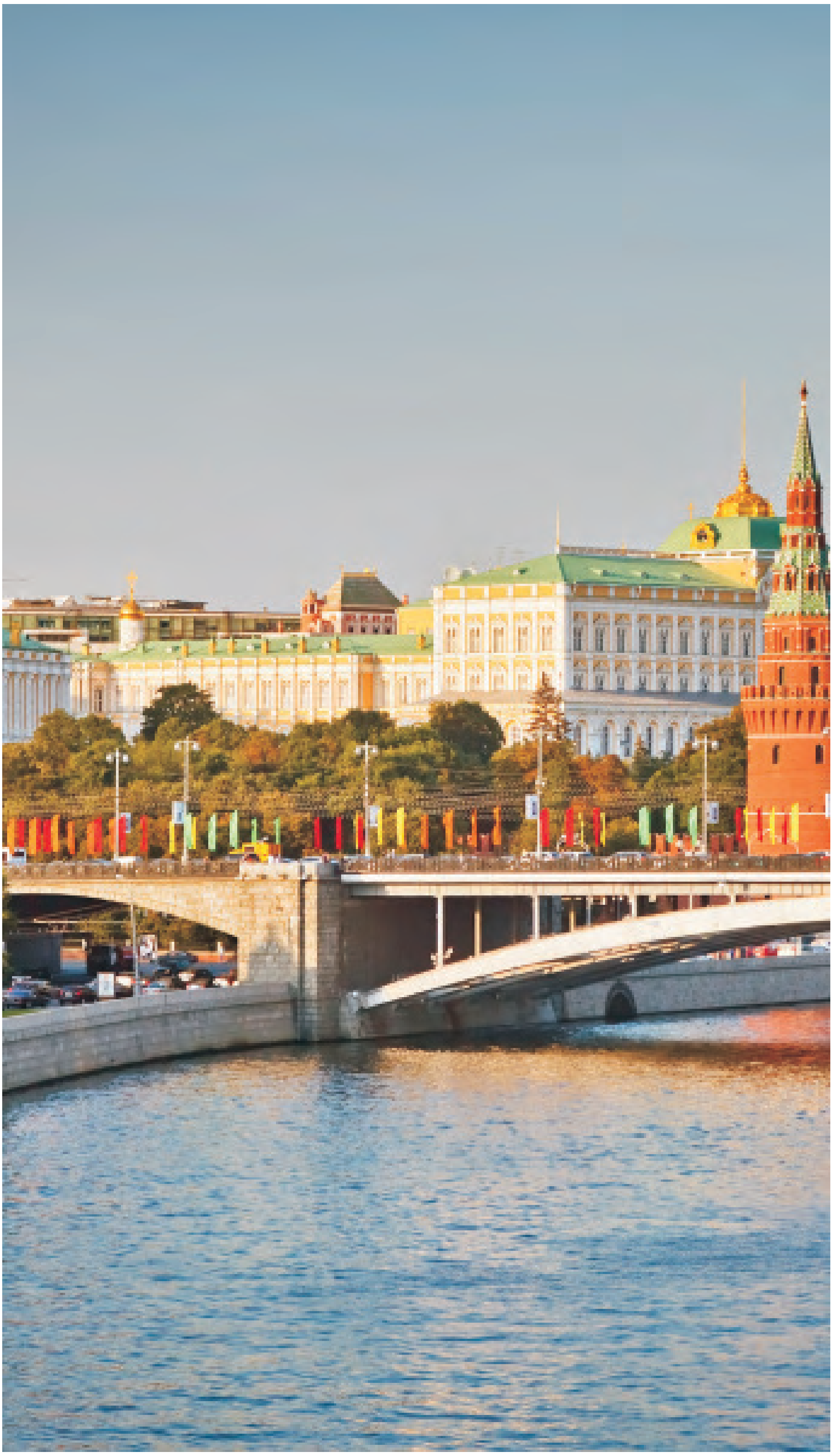
- Russian Proverb

RUSSIA - A PROBLEM 100 YEARS AGO
WILL HISTORY REPEAT ITSELF?

- By Neil Hitchens

The continuing and seemingly endless skirmishes in the Ukraine are symptomatic of a shift in the current World Order. – A century ago Russia was seen as ripe for revolution and very much one of the weakest countries in Europe. In 2014 it is now an entirely opposite situation. Russia is now seen as the catalyst for unwelcome change in states bordering what is officially called The Russian Federation. In many ways it is more dangerous now than during the Cold War because of the fragmentation of its old empire.

The inability to nip the growing Ukrainian problems at their inception has now emboldened Russia to such an extent since the annexation of the Crimean peninsula in March that it is almost certain that its current territorial ambitions will not stop at the Sea of Azov. Indeed the ease with which the pre-1954 borders of the Crimean Oblast were changed from union with Ukraine back to Russia does not augur well on many levels – economic, political or financial. The slow grinding nature of this conflict


http://www.tourism-moscow.com/wp-content/uploads/2014/03/moscow-kreml in.jpg

has many echoes of the start of the First World War in 1914, where much was ignored in the hope that what was a little 'local difficulty' instead erupted into a firestorm that engulfed the entire world.

What seems to have been forgotten (already) is that the Crimean annexation was based on the biased fact that there was a vast majority of Russian speakers and Russian citizens who felt trapped in what they felt was an aliennation. There are many such existing enclaves throughout Europe which, were there to be the sense from President Putin that they could be easy pickings, could prove to be the start of not only a second Cold War but even worse. While the names of the Kaliningrad Oblast (between Poland and Lithuania), San'kova-Medvezh'e (within Belarus), Krakhoba and Uryanoba (within Azerbaijan) are all pretty unfamiliar to most people this may not remain so for too long.

Indeed the area that is probably most at risk is the breakaway state of Transnistria wedged between the Western border of Ukraine and Eastern part of Moldova. The local inhabitants are probably the last remaining Soviet Republic in existence and even the UN has acknowledged that this area remains "under the effective authority or at least decisive influence of Russia".

It would not take too much 'coaxing' for the locals to ask for assistance and safety from the Russian armed forces. As the only way to Transnistria would be via Ukraine and more particularly Odessa the movement of vast numbers of Russian troops across Southern Ukraine could be the catalyst for yet another Balkan type war.

However, without wishing to sound overly pessimistic I think the first signs of something 'big' happening would be incursions from Kaliningrad into Lithuania – the three Baltic states have always been viewed by Russia as 'their territory'. Those of us who were Russian language students in the 1970's were always keenly aware that the Soviet Union was particularly adept at packing then Soviet Socialist Republics with large number of ethnic Russians – this was the case in Lithuania, Latvia and Estonia. Today there remain large minorities of Russians who, when the time was suddenly and mysteriously 'appropriate', could suddenly ask for Russian assistance in keeping their cultural and ethnic identities secure. It is the ability of the old Soviet system to place thousands of sleeper citizens that reinforces the view that this is all part of a 20 – 30 year programme, the effects of which are only now beginning to be visible since the break-up of a Soviet Empire that officially ceased to exist on December 26th 1991 when final order 142-H came into force twenty-two years on, it appears to be time for Russia to flex its military muscles.

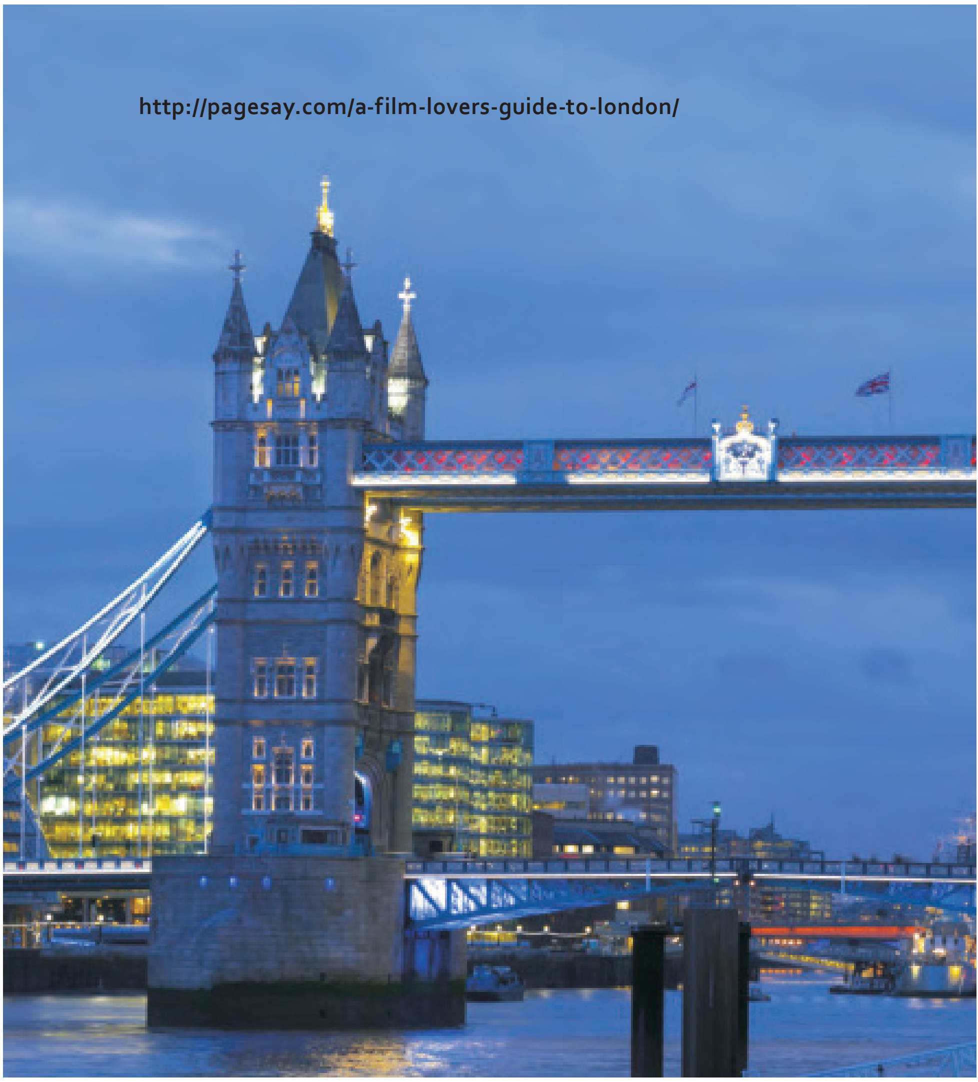
Yet, to date, all that has happened is a few minor economic sanctions being imposed on a few Russian politicians by the EU and the US, the feeling in the Kremlin is one of 'so far, so good'. It is unlikely that NATO would be willing to place any troops on the ground within the territories of Russia and its allies and this is the nub of the problem. Similar to the obvious inaction in Syria (which now seems as if we are in a decisive end-game with the victory of the Government forces in the civil war) where much was promised and practically nothing actually delivered, so far Ukraine has been one where there has been a lot of tut-tutting by the G7, NATO and the UN and not a lot has actually happened to ease the situation.

The longer this continues the worse the eventual outcome.

US and UK – both now show their true economic colours.

Despite the growing tensions around the Black Sea, the US and the UK are both showing a clean pair of heels, economically, to the rest of the world. As we have written about previously and indeed were one of the first to predict, the recessionary busting measures introduced by both countries are now proving to not only have worked, but the end of the recession now brings into play the awkward question of who will raise interest rates first?

In the US the continuing pull back in the Quantitative Easing (QE) programme will mean that shortly this avenue of economic stimulus will cease to exist. The new Governor of the Federal Reserve, Janet Yellen, in her first Federal Open Market Committee meeting in March made good on her promise of continuity, again cutting back the central bank's asset purchases. Continuing $10 billion reductions per month in QE means the Fed is now reducing its monthly bond purchases to $45 billion in line with Fed watchers' tapering exceptions. The Fed will cut both the monthly mortgage bond purchases as well as the existing Treasury purchases. During the March meeting the FOMC wrote, "Information received since the Federal Open Market Committee met in January indicates that growth in economic activity slowed during the winter months, in part reflecting adverse weather conditions. Labour



market indicators were mixed but on balance showed further improvement."

Looking ahead the committee reaffirmed its commitment to low interest rates by removing references to a 6.5% unemployment threshold, as expected. The committee wrote,

"In determining how long to maintain the current 0% to 0.25% target range for the Federal Funds Rate, the Committee will assess progress–both realized and expected–toward its objectives of maximum employment and 2 Percent inflation. This assessment will take into account a wide range of information, including measures of labour market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments."

Some did worry, given the very cold weather in the Continental US during January and February, if the Fed might change course on slightly weaker economic data. Most, however, attributed declines in retail sales and housing starts to unusually cold winter weather. Yellen promised to look into the weather impact, but made no public statements indicating she foresaw changing the course. However, as we have noted previously, you need to listen to what the Fed is saying and ignore the scribblings of some of the more extreme commentators. QE was initiated to address weakness in housing and labour markets, as well as lagging consumer confidence. As these areas have improved dramatically it looks like their work here is done. It is going to take something bigger to derail the Fed's consistent pace of asset purchase reduction – and here even civil war in the Ukraine is unlikely to stop the eventual disappearance of QE by the autumn of 2014.

With the disappearance of QE, economists and investors are turning their attention to forward guidance on interest rates — a separate central bank tool that has often been confused with tapering. In the heat of the economic downturn, only four years ago,then Chairman Ben Bernanke announced he would consider raising interest rates when the unemployment rate hit 6.5%. It was probably pretty easy to mention such a trigger number then when the unemployment rate was at 8%. Now the rate is down to 6.7% and continuing to fall the Fed and others are finding that the broader indicators are not quite strong enough to justify a rate rise, just yet. Wage and payroll growth remain sluggish. At just 1.1%, inflation is well below the Fed's 2% objective.

I feel that there will instead, for a short period, be a move away from quantitative guidance in favour of a more feel based approach. Certainly, for the present, the 6.5% unemployment rate remains more of a threshold rate rather than an absolute trigger. To emphasise this I would also expect Yellen to continue moving the focus away from the headline employment number, but not to remove it completely.

In the UK, the need for a rate rise is more pressing than in the US – with UK GDP likely to be above 3% in 2014, substantially higher than the US or indeed the rest of Europe, everything seems to be going rather too well for the Bank of England governor Mark Carney. Unemployment is falling fast, including youth unemployment, growth is up, inflation is non-existent and house prices are booming again. Industrial production, retail sales and consumer confidence are all at recent highs. The economy also looks set to recover the final bit of lost GDP growth from the financial crisis within the next three months – in short the pressing need for a series of small but necessary rate rises is growing fast.

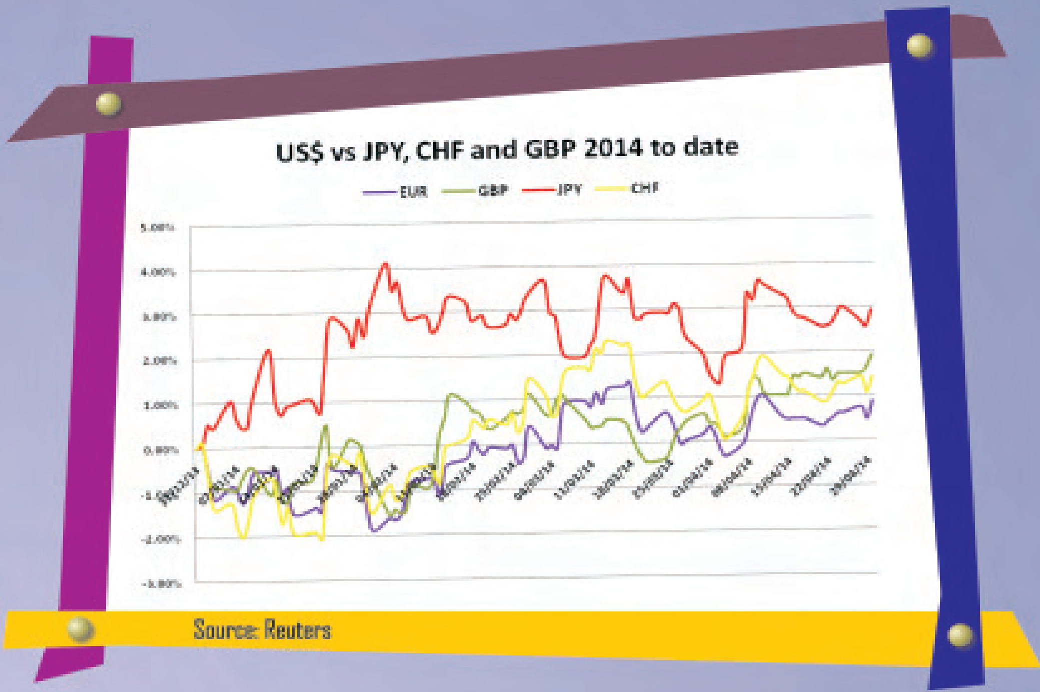
On the back of this Sterling continues to climb to new highs almost weekly in advance of data expected to show that the UK recovery picked up pace in the first quarter of 2014. Additionally external confidence in the UK is being seen not only in the purchase of property by non-UK nationals but more interestingly in the increasing amount of takeover and merger and acquisition (M&A) activity seen in the London stock market

– the recent interest of Pfizer in taking over Astra Zeneca being just one indicator. Indeed so large is this purported deal that it has had a positive influence on the market rate of the Pound. However, the recent rally that has propelled sterling up more than 10% on a trade-weighted basis over the past year has recently been losing steam but this is to be expected.

Investors have been betting that a broad-based economic recovery will leave the Bank of England little choice but to raise interest rates earlier than other large central banks. Data from the Commodity Futures Trading Commission shows that long sterling positions are now the most popular trade among currency speculators.

Some strategists warn that this leaves the pound vulnerable to any disappointment in economic data that could lead hedge funds to unwind those trades. Indeed it is felt that much of the good news is already priced into sterling. Coming up over the next few months the UK has the prospect of a possible yes vote in the Scottish Independence referendum as well as possible deeper and more serious sanctions against a wider stratum of Russians currently using the UK as their offshore base.

However there does appear to be no slowing in demand for UK equities – which we will touch on later. It is highly possible that were there to be problems in Europe, say fighting spilled over from the Ukraine and physically impacted onto members of the EU such as the Baltic states, Poland or even Romania, Hungary or Slovakia – all of whom are literally in the firing line for any Russian military manoeuvres – the nearest (or rather furthest away from the battlefront) European safe haven currency after the Swiss Franc would be the UK. Here we feel that the major beneficiary could be the Euro/ Sterling rate which while currently cruising at around 0.8250 could well revisit levels below 0.8000 to possibly go as low as 0.7500 if the Euro itself gets crushed on any escalating militia action in Central Europe.



The main worry is that the UK recovery could prove less durable than hoped, if it relies on debt-fuelled consumption and a housing market upswing. So were the next estimates of UK GDP Growth due after the closing date for this piece, to be better than expected then the path of Sterling against the US dollar would be beyond US 1.70 – a rate not seen for many years. However it will be the breakdown of growth that will be more important to currency investors. This is because if stronger growth is due to housing and credit-related consumption, policy makers could adopt macro prudential measures to dampen the housing market, before they consider raising interest rates.

Yes, on the balance of probability the pound is vulnerable to weaker than expected data and/or macro prudential tightening, and verbal intervention from the BoE. But investors may well push it higher before they pause to consider those risks.

With unemployment now below the BoE's 7 % threshold, the Bank is no longer bound by its guidance last August to keep interest rates at an historic low of 0.5 %. Monetary Policy Committee members predict greater dissent among their ranks. The BoE's quarterly forecasts and inflation report will signal a further shift towards earlier rate rises. In a poll for Reuters recently economists again brought forward the date they expect interest rates to rise. The market consensus now suggests tightening will begin in the first quarter of 2015.

That first rate hike will be both painful and slightly unexpected.

For certain there will be no action this side of the summer or indeed going into the Autumn Budget statement, especially if Scotland actually votes to remain within the Union: but – and here I am really sticking my neck out – there then remains very little room for an actual rate rise before the General Election of May 2015. While I think Governor Carney would rather wrestle alligators than commit or indicate a timetable for rate hikes, he needs to be convinced that not only can the economy take the first hike (which should be a given by October 2014) but also he is probably already sweating about the possibility that he actually ends up moving rates too late – especially if there is to be a change of government in just over a year.

I would not be surprised if there was to be a rate rise of ¼% in December 2014 to bring rates to 0.75% and there could then be a further rise of 0.25% in either June or July 2015, bringing the Base Rate to 1%. After this I would expect an almost quarterly rate rise for the next two to three years so that we eventually end up with UK benchmark interestrates of 3.50% - 4.00% by 2018 – in other words merely bringing them back to the long term average.

Elsewhere in the world, the number 2 economy, China, continues to perplex and worry.

The surprise will be that UK rates rise ***sooner*** than expected.

Elsewhere in the world, the number 2 economy, China, continues to perplex and worry. Releases showing that China's growth slowed sharply in the first quarter of 2014, raised pressure on Beijing to provide a fresh round of government stimulus to prop up the sluggish economy. In the three months to the end of March, China's gross domestic product expanded 7.4% from the same period a year earlier, a slowdown from 7.7% growth in the fourth quarter of 2013 but faster than the 7.2% pace that some analysts had predicted.

The expansion in the first quarter was the slowest since the third quarter of 2012 when the government loosened monetary policy and accelerated infrastructure investment as growth dropped to 7.4%.

The most recent slowest quarterly growth in recent years was a trough of 6.2% shortly after the recent global financial crisis troughed. Comparing the first quarter with the fourth quarter, growth appeared to slow even more, with quarter-on-quarter expansion of 1.4%, compared with a 1.8% figure in the fourth quarter.

Since the start of 2014 it has been expected that economic indicators would indicate a pronounced slowdown in China which, it must be remembered has been the fastest growing major economy for more than a decade and a powerful stabilising force in the wake of the global financial crisis.

That contrasts, as we have already said, with the picture in developed markets, where the US is expected to lead the strongest recovery in years and memories of the crisis are starting to fade. In China, imports and exports have contracted in the first three months in spite of predictions at the start of the year that stronger US and European demand would prop up slowing Chinese growth. Recent economic releases for Chinese retail sales and industrial production figures showed some signs of stabilisation in the economy. But in the past quarter, slumping trade, weak manufacturing, slowing real estate sales, lower investment and lacklustre consumption have convinced most economists to downgrade their growth predictions for 2014.

Here I agree but would still keep a figure of above 7%. However even at 7% the Chinese economy will still show longer term supreme outperformance of the US or the UK. If you use a 2% growth rate for the US and a 3% for the UK then after 5 years at 7% China will grow +50% vs. the US's +13% and the UK's +19%. After 10 years the figures move ahead to China +97%, UK +34% and US +22%. Finally after 20 years the figures still show China's massive potential – the Chinese economy would have grown at +287%, the UK +81% and the US +49% - still amazing figures.

Beijing has set a target of "about" 7.5 % growth for the year but the country's leaders said that they would be comfortable with a lower rate provided that there are no significant fluctuations and employment holds up.

In apparent response to the slowdown in the first quarter, Premier Li Keqiang who would have seen the data ahead of time revealed a "mini-stimulus" on April 2 designed to reassure investors that Beijing will not allow the economy to go off a cliff. The package included tax breaks for small businesses and accelerated plans to build more infrastructure projects.

A property market crash would devastate Chinese investment – watch this space!

http://galleryhip.com/skyscraper-clipart.html

After the financial crisis and the collapse of Lehman Brothers in October 2008 China launched a massive state-led building boom that propped up domestic growth and global demand, particularly for commodities. There is worrying evidence that China's credit-fuelled, investment-heavy growth model has now reached its limits. There appears to be overbuilding and oversupply in the real estate market; sales volumes and prices have collapsed in many smaller cities. Even though real estate construction accounted for as much as 16 % of GDP last year this, it must be remembered was a very similar level to what was seen in Ireland or Spain before their respective housing bubbles burst.

A property market crash would devastate Chinese investment – watch this space!

Elsewhere in the world we note with interest that Russian GDP is beginning to slide and slide rapidly. After a -0.50% reading for Q1 2014, Russia's economy is likely to shrink again in the second quarter of 2014. Performance in the third quarter would largely depend on the level of geopolitical uncertainty – and again we dare not forecast so far ahead given the crisis over neighbouring Ukraine, which has seen Western sanctions imposed and scared off investors.

Worrying as well are indications that energy output is also shrinking - output of electricity, freight transport and gas production had all been weak and business activity indicators do not give rise for optimism. Everything points to a weak GDP forecast in line with the view of the International Monetary Fund, which said last week that Russia was already "experiencing recession". The Organization for Economic Cooperation and Development (OECD) also recently cut its forecast for Russian growth this year by almost four-fifths, to +0.5% from a previous +2.3%, saying the impact of events in Ukraine had halted a modest recovery under way at the end of 2013. The IMF took an even more gloomy view, cutting its 2014 growth forecast for Russia's oil and gas-based economy to just +0.2% from an earlier +1.3%.

Russia's economy grew 1.3% last year. The IMF said Ukraine-related sanctions, imposed by the United States and the European Union, were scaring off investors.

Recently Russia's central bank unexpectedly raised interest rates for the second time in less than two months, hiking its main rate by 50 basis points to 7.5% to prevent a weakening rouble fuelling inflation.

As can be seen the Rouble at one stage fell by over 10% but this pales into insignificance with the 41% collapse in the Ukrainian currency year to date. Given the likely economic stagnation for the rest of 2014 it is likely the Rouble could push past 40 / US$ if things get really bad. Perhaps it is this economic reality that might force President Putin to call off the attack dogs and try and restore economic sanity within Russia.

Certainly the Russian stock market is indicating worse to come.......

Global Equity Markets – the best is over for now…

The Crimean/Ukrainian crisis has certainly cast a shadow over equity market performances – but after last year's very solid returns in some cases of over 30% this is in part to be expected.

As can be seen the US indices for the year have not really moved too much overall but because of the sharp fall in investor confidence in February because of Ukraine, markets fell by over 7% only to recover within a month. However after last year's stellar performances from the Dow and the S&P 500, to have total returns so far for 2014 of +0.03% and +1.93% respectively is disappointing, but overall not too surprising. Similar returns can be seen from most stock markets which have been to a greater or lesser extent by the same geo-political concerns.

Although investors had been concerned about the economic impact of a reduction in Fed stimulus—reflected in the gradual upward trend in Treasury yields in the lead up to the taper decision—economic indicators now signal that the domestic economy is in relatively robust health. While weakness in manufacturing data in January was attributed to harsh winter weather, optimism grew as new home prices were reported to have jumped sharply, easing concerns that the housing market recovery could be losing momentum. Retail sales rose for the first time in three months in January, and February's employment report provided reassurance that US labour market conditions were improving.

The US economy appears to be reaching a point at which it is robust enough to create jobs, stimulate spending and generate corporate earnings to support the equity market. The Fed is likely to keep interest rates at their record lows into 2015, providing an added tailwind.

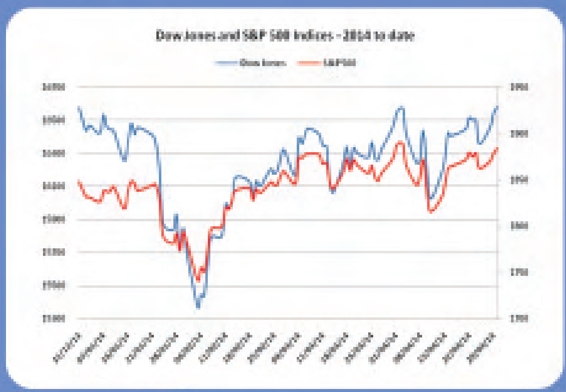
The UK equity market ended the six-month period in positive territory, with the FTSE All-Share Index up 4.79%. Strong UK equity returns in the final quarter of 2013 were followed by three months of more lacklustre performance, as investor risk aversion grew due to increased volatility in emerging market economies and currencies. For the period as a whole, UK small and medium-sized companies outperformed their larger counterparts, with domestically oriented companies that benefited the most from the recovery in the real economy faring particularly well

As we have mentioned the pace of the UK economic recovery continues to exceed earlier expectations. GDP expanded by 0.7% in the final quarter of 2013, while the UK economy grew by 1.7% for the year as a whole. Growth was broad-based across the manufacturing, services and construction sectors, indicative of a more balanced recovery. In February, output in the UK services sector was reported to have recovered to levels last seen before the 2008-9 financial crisis, while the estimate for construction output was revised upwards. The strong upswing in the UK manufacturing sector was also maintained.

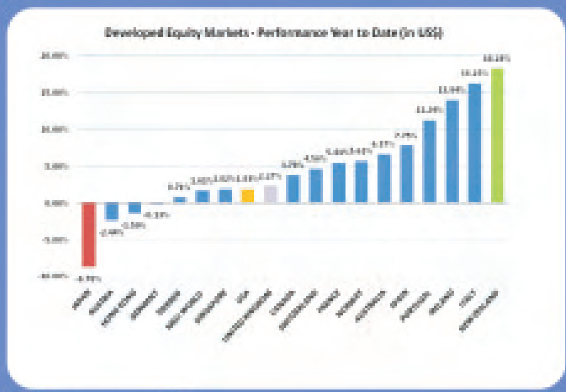
A narrowing in the gap between earnings growth and inflation is viewed as a positive, given that falling real incomes have hindered the UK economic recovery thus far. As the

The Crimean/Ukrainian crisis has certainly cast a shadow over equity market performances – but after last year's very solid returns in some cases of over 30% this is in part to be expected.

http://www.theguardian.com/world/2014/mar/04/ukraine-putin-three-headaches. Photograph: Asahi Shimbun/ Getty Images



Source:Reuters



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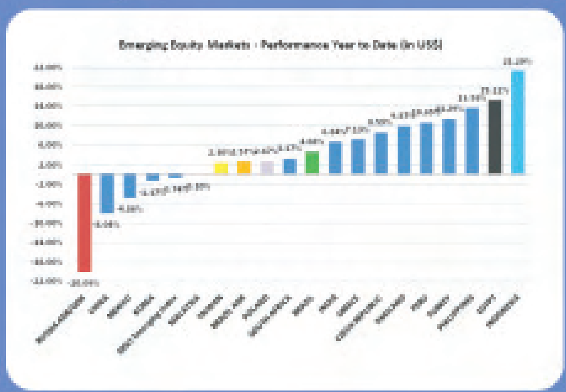

Source MSCI/Barra

Source MSCI/Barra

recovery becomes further entrenched, the ability of cash-rich UK companies with strong balance sheets to deliver earnings growth and increase their dividend yields should increase. This should be supportive for the UK stock market.

In Continental Europe the economic recovery is sporadic but possibly over the worst.

Following several years of struggle, the Eurozone economic recovery gained traction in the six months to the end of March 2014 and as a result regional equity markets remained well supported, with the MSCI Europe Index ending the period 7.15% higher. Peripheral Eurozone equities provided investors with sizeable returns—Italy's FTSE MIB was up 16.25% for the year to date and outperformed larger regional markets such as Germany and France.

Despite unemployment remaining at a record high in the Eurozone, investor sentiment towards the region became more positive, particularly as a pick-up in Purchasing Managers' Indices (PMI) in January suggested that manufacturing activity was improving, with growth in new order and export volumes remaining stronger. Activity growth in the Eurozone manufacturing sector was led by Germany. But other countries also performed well—even Greece, somehow, allegedly moved back into expansionary territory. Meanwhile, France showed signs of stabilising, buoyed by a surge in exports. At the level of the Eurozone economy, GDP grew by 0.3% in the final three months of 2013, the third successive quarterly expansion and ahead of expectations.

However headwinds remain in Europe. Consumer Price Inflation (CPI) fell to only +0.7% annualised prompting the European Central Bank (ECB) to consider further policy action (apart from the 0.25% cut in interest rates towards the end of 2013) to counter the risks posed by deflation, which include falling consumer demand and the potential for slowing activity across economic sectors. While growing uncertainty about Russia's engagement in the Crimean peninsula of Ukraine also weighed on sentiment towards the end of the period, the mood was one of cautious optimism, particularly as the Eurozone manufacturing sector continued to deliver the best levels of output growth since early 2011.

Until the Ukrainian crisis is resolved one way or another it is likely that attention will be focussed more on commodities and currencies rather than European equities. For the moment, it is probably prudent to spend the next few months analysing your potential stock picks and be ready, most probably in some mini-equity collapse, to have the courage of your convictions and buy stocks at distressed levels. Unless there is a swift resolution, unlikely at the time of writing, stocks will find moving higher difficult at best.

Japan, though, has had a torrid time of late – a net -8.78% fall so far this year has seen the 2013 sharp reversal of fortunes continue into the New Year and beyond. Having been among the strongest performers of 2013, the market suffered significant losses in the first quarter of 2014. The TOPIX Index, which tracks a broad range of Japanese company shares, ended the six-month period down 5.74%.

Prime Minister Shinzo Abe's ambitious economic reform agenda, known as "Abenomics", continued to have a transformative effect on the Japanese economy. Possibly the biggest positive impact of increased domestic policy support, comprising fiscal and monetary measures, as well as structural reform over the longer term, has been upward pressure on prices. Following years of persistent deflation, or falling prices, Abe appears to have triggered inflation – albeit at modest levels and even at 1.5% is still short of the Bank of Japan's 2% inflation target.

At the end of our reporting period, concerns grew about the effect on Japan's putative recovery of the implementation of a consumption tax increase in April, which might dent consumer demand and stifle economic growth prospects. However, the Bank of Japan continues to provide ample liquidity through its large-scale bond purchase programme.

However when dealing with Japanese equities, no matter how seemingly well supported they are, caution is always advised.

Within any index or indices series, the Japanese stock markets continue to have a historically biased high weighting. As we have cautioned before, underlying liquidity outside to the 25 market weighted stocks is illusionary and positions in smaller traded stocks can be difficult to build up and even more difficult to sell. As such, no matter whatever your enthusiasm for these stocks we would suggest trading via ETFs (Exchange Traded Funds) rather than attempt-

ing to build up interesting positions in thinly traded entities. When you need to exit you will be able to do so easily with ETFs, with individual stocks you could take, genuinely, weeks to exit some of the micro-traded Japanese equities.

The performance of Emerging Market equities was disappointing – the overall Index registering a small loss for the year to date.

Investor sentiment in the period was dominated by the US Federal Reserve's announcement that it would start reducing its monthly asset purchases. Emerging markets have been a prime beneficiary of the increased liquidity resulting from ultra-loose monetary policy in the US, and many emerging market economies—particularly those with large current account deficits—were seen as vulnerable to a reduction in stimulus.

Emerging markets were also hit by continued economic slowdown in China, as Chinese economic data weakened in the period. There were also concerns over the scale of borrowing in the Chinese shadow banking sector. Exporters to China, especially in Latin America and emerging Asia, were particularly affected. Towards the end of the period, rising geopolitical tensions between Russia and Ukraine further weighed on sentiment.

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The fall in the Russian market of over 20% so far in 2014 is, we feel, only the beginning of a long drawn out markets slump until or unless the Ukrainian situation is resolved.

In the long term, though, emerging economies still offer a significant growth advantage over their developed peers, due to a younger demographic profile, an increasingly wealthy middle class and rising intra-emerging market trade. Current share price valuations suggest that we may be nearing an attractive entry point for investment in selective Emerging Market indices.

Frontier equity markets continue to perplex and baffle – while the FM Index is up +11.12% year to date there are more than usual varying performances. Nigeria and Ghana after last year's moves are worrisome short term. While markets that should have sold off on recent problems such as Bulgaria and Lithuania are showing good moves. As we have also warned previously, direct exposure to these markets is at best tricky and any weighting should be tempered by the knowledge that in a crash, exiting would be impossible. However it would not be impossible, say, to see the current laggards have a good move over the next two quarters, especially if domestic problems can be resolved and any commodity moves are positive ones for local economies.

2014 – time for an equity correction?

While many stock markets are only marginally off record highs, there are growing chorus of calls and/or predictions of a larger correction or crash. In the press, comparisons to 2008, 1999, 1987 and 1929 are all the rage. In many ways this is a signal that markets are probably just going to move sideways while the problems in Ukraine, North Korea, West Africa and Syria work their way out of the system.

The Internet can be partially blamed for this chatter as bloggers desperately seek some sensationalism to get attention amid the cacophony of market commentary. But it also reminds us all about the enduring psychological damage to investors from the 2008 financial crisis. Fears that every correction will result in a crash, or that any large positive moves as seen in 2013 will be immediately reversed, remain at the forefront of the investor psyche.

The market pullback in February certainly let the bears come out to play. The well-known commentator, Marc Faber, aka Dr. Doom, appeared on television pontificating over a likely re-run of 1987, but worse. Faber suggested the S&P 500 would fall 30% this year.

OK – there is something called free speech and everyone is allowed their own opinions. But...... the only problem is that he's been talking of a market crash for more than two years and it hasn't happened – in the meantime markets have shot ahead and serious profits have been booked by investors.

Other so called gurus have tried to out-do this and some are calling for falls of 50% or more. Interesting stuff but to be honest wide off the mark.

In the US markets some say that stocks are very expensive but while I do agree that certain sectors are overvalued, from a global standpoint, the US stock indices are one of the few big markets which look pricey. The likes of Asia are cheap in comparison, perhaps for a reason. However US stocks are in this case leading the Global equity rally, not following. US corporate margins are at record highs, but not so massively higher than in the past. The recent lift-off in margins is partly due to an accounting quirk. US corporations have been earning more from overseas (40% of total) – which is a direct result of the past few decades of shifting production to cheaper countries. Foreign sales are included in the corporate earnings/GDP ratio but costs are excluded. This effectively means overseas operations are treated as earning 100% margins. If you remove this accounting quirk, corporate margins aren't so wildly elevated.

Others also point to the coming and inevitable rise in interest rates arguing in the past that Fed tightening has typically been bad for stocks. That's not quite right. In fact, the early stages of interest rate rises have been positive for stocks on most occasions. At no stage over the past century has the S&P 500 peaked prior to or after the first rate rise. Moreover, cyclical bull markets have been one-third the way through when the first rate increase occurs. Market peaks have been reached three years after the initial rate hike, on average. The shortest lag between first rate increase and market peak has been one-and-a-half years in the late '60s.

Typically, the Fed has been slow to aggressively hike rates to tame inflation, and tightening together with a slowing economy has led to recession. But given the Fed won't start raising rates until next year at the earliest, history would suggest the market may not peak for another two-and-a-half years at a minimum.

On the other hand, there's the risk of deflation - deflation is the number one bogeyman of central bankers. While the US tapers stimulus, the Eurozone is expected to undertake more QE soon and Japan and China may follow suit. The risks from Europe, Japan and China simultaneously conducting further bouts of QE to depreciate their currencies can't be underestimated. History shows currency wars often lead to trade wars, which negatively impact global trade. That is probably a year or so away. But this is probably a trigger for a market correction in 2015/16. But by then the political landscape will have changed yet again after elections in the UK and the US and there will have to have been some solution in Ukraine.

So, for now, no correction in 2014.

Global bond markets – on high alert

While many expect a pick-up in US economic activity during 2014/15, Treasury rates remain low – a conundrum that frustrates bearish bond investors who believe 2014 is the year of explosive rises in yields. In 2005 Alan Greenspan, the then Federal Reserve chairman, described the then low level of a 10-year Treasury yielding 4.15% against the backdrop

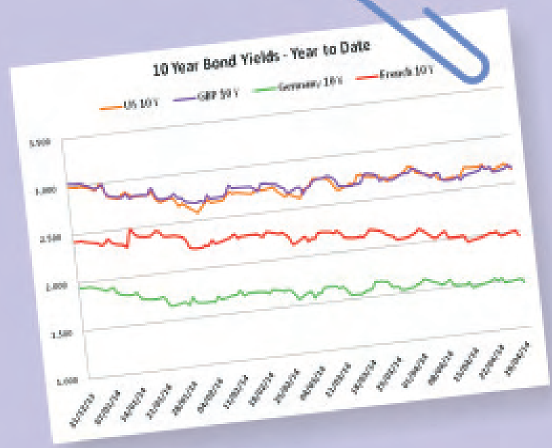
of tightening monetary policy as a conundrum.

Today, many in the bond market are once more scratching their heads when they see the 10-year note yielding 2.68%, down from 3% in January. So, why are longer-dated government bonds doing so well and handily eclipsing this year's returns for lower rated company paper and equities?

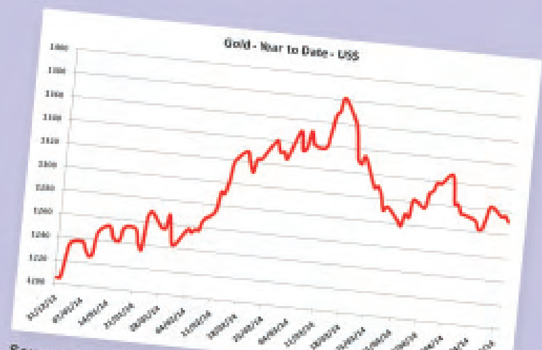
Well, unlike 2005, when Mr Greenspan talked of a bond conundrum, the Fed is not raising its key borrowing rate......just yet. Indeed as we have discussed the first major economy to press the GO button will be the UK in under 9 months' time. Also, slightly perplexingly, the recent decline in long-term Treasury yields has occurred as QE is being switched off.

However, it is now obvious that in the continuous interplay between equities and long-dated Treasury bonds, pension funds and insurers have cashed in on last year's 30% rally in the S&P 500, taken profits and switched the ensuing money from equities back into government bonds. The bond market has also, quite sensibly, fully priced in the removal of QE. Attention is now focused on when the Fed will finally start tightening policy – however, even at this distance, this is unlikely to happen during the next year or two.

Short term yields though are much more volatile and have risen since January. This has resulted in the shape of the yield curve flattening which is typical of the kind of behaviour we see ahead of central banks shifting policy. It appears likely that, while a stronger economy stands to push bond yields higher, such a move will be led by shorter maturity Treasuries and not the long end.



Source: Reuters



Source:Reuters

Moribund inflation also supports the case for holding long-dated bonds and one message from the Treasury market stands at odds with the consensus call of a sharp rebound in the economy over the coming months. Low bond yields and inflation suggests an economy still deleveraging after the bursting of the housing and credit bubble.

While many traders and investors continue to shun long-term bonds they have also missed the solid performance since January. Their bearish stance may not be vindicated any time soon.When it comes to consensus about bond yields, the US Treasury market has long frustrated the wisdom of market mavens. Just ask Doctor Greenspan.

Then again you could have been exposed to the wildy volatile Russian and Ukranian 10 year bond markets and have lost significant amounts of capital.

Commodities – geopolitical problems bring back welcome volatility

http://www.enterprisingenergy.org/wp-content/uploads/2013/09/background_oilrig.jpg

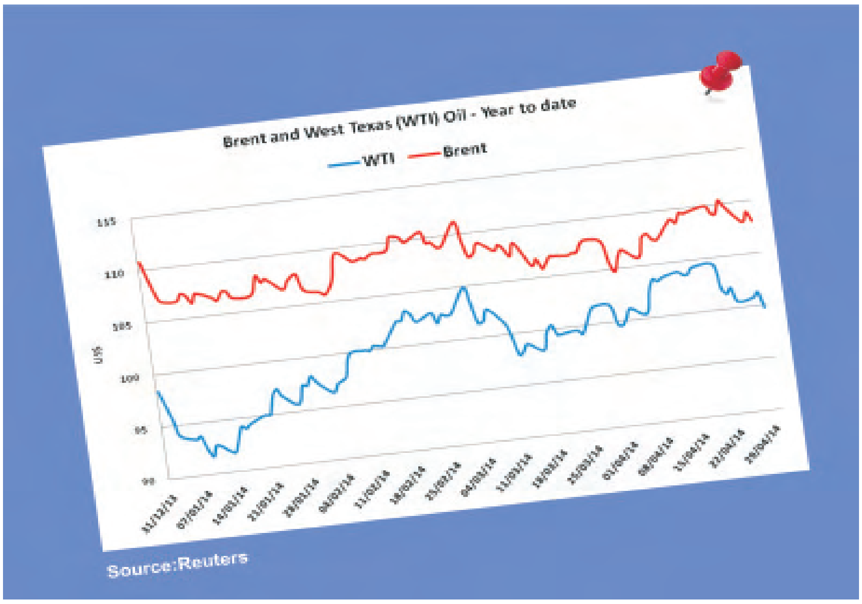
Gold ended the latest reporting period at just under $1,300 an ounce, a rise of 8% since the beginning of the year. Having risen 15% by mid-March on the escalating tensions around the Black Sea, traders continue to closely monitor the situation in Ukraine.

For the past month gold has been trading sideways after it fell sharply after hitting a seven-month high at $1,392 in mid-March. Yet volatility is slowly and inexorably increasing as the worsening situation in Ukraine supports the price of the metal.Clashes between the Ukrainian army and pro-Russian forces have counterweighed recent positive US macroeconomic data (which supports QE tapering) and gold has been therefore trading in a relatively narrow range between $1,268 and $1,335 over the past seven weeks.

Moreover, higher festival-season-related demand in India also initially appears to have provided additional support to prices recently, although India's demand has been physically curbed by policy measures adopted last year to tackle current account deficit.

Despite these factors some analysts seem to think that the price of gold could possibly drift to $1,200 towards the end of the year. While that is indeed possible, it is what happens between now and then that is more pertinent.

Increasing (and probably inevitably so) violence in Ukraine will continue to push investors towards the safe-haven metal. The more pro-Russian militants shoot down Ukrainian helicopters, the more likely is the spread of deadly disorder through Eastern Ukraine. Additional volatility is likely in the price of gold as Ukraine prepares to hold elections at the end of this month. That could well be the cue for some Russian short-term incursions 'to protect its citizens' – a spike well above $1,500 is therefore on the cards. But unless any incursion looks longer-term, such spikes will prove to be only short term trading opportunities.



Oil Prices – despite everything no net move so far this year

Short-term jitters remain to the fore with the price of oil, but any rise has been mostly off-set by increased production from some unexpected sources. Despite the world's attention being focussed on the conflict between Ukraine and Russia, this has been a constant worry to the market since late February, when tensions started to escalate significantly. It has increased precautionary demand in the oil market on concerns that the conflict could lead to a disruption of energy supplies from Russia. The market reaction has so far been relatively modest as the general perception is probably that neither Russia nor Europe, Russia's largest market for energy exports, can afford disruptions to the bilateral energy trade. Hence, the market may place a risk premium on the oil price as long as the conflict continues but the premium will be minimal unless tension escalates significantly.

However it has been noted by traders that Libya has taken a step further to normalising oil production as the government has managed to negotiate with rebels in the Barqa region in Eastern Libya. The rebels had kept control of four major oil ports since last summer and were effectively shutting down a large percentage of Libya's oil production. Although there remains some near term uncertainty over the outlook for Libyan oil production and exports, this recent progress raises the likelihood of a return to full and normal production of Libyan oil supplies soon. A return of Libyan oil would add to the increase in global supplies on the back of higher North American production, although Saudi Arabia would probably adjust its production lower to limit the downward pressure on prices.

However, as noted previously, the rehabilitation of Iran continues apace. Its Oil Ministry recently floated the idea of trying to up production by a further 1 million barrels of oil a day, something that will naturally have a dampening effect on oil prices. Indeed there could well be a sort of virtuous circle coming into play with Iran: the more oil it pumps the more foreign currency reserves it will be acquiring. These foreign currency reserves could then be used to upgrade and improve the efficiency of the Iran oil production programme which in turn would enable more oil to be produced – adding further to the country's foreign reserves. This would, hopefully, reduce the tension that has been present in the Gulf for the past decade and more.

Following the large drawdown of inventories over the winter season, which was much harsher than normal, the US has slowly begun stockpiling oil again. The harsh winter weather sent inventories in the US to their lowest levels since 2009, which is probably an uncomfortably low level. US inventory demand should support oil prices over coming months, but the overall feeling is that there really is little, if any, upside left for prices. Only a significant escalation in the conflict between Ukraine and Russia or perhaps a brighter outlook for the Chinese economy would send the oil price markedly above current levels.

While we maintain our view that the on-going global oil supply shock will push prices lower in the medium term, the short-term jitters, especially due to the geopolitical crisis in Eastern Europe, are likely to support prices for the next month or two.

Overall it is highly likely that in three months' time we are going to see the price of most financial products at or around current levels, provided the Ukrainian stand-off remains just that. However as soon as, or indeed if, Russia decides the time is ripe to flex its military muscles then all bets are off – Gold and oil will spike, equities will collapse and there will be a flight to safety.

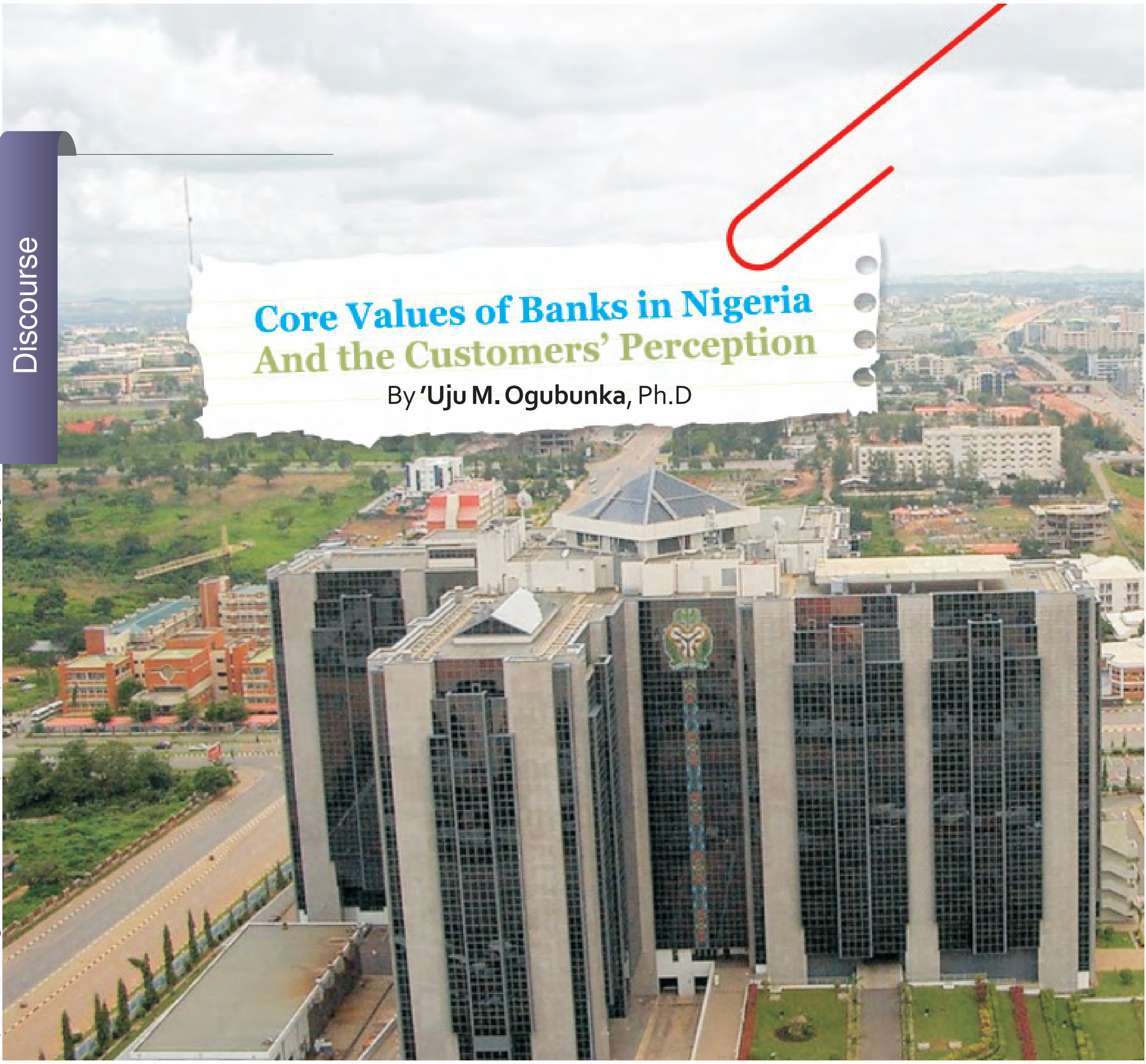
This however could well be reversed very quickly as any such action is likely to be short lived and possibly futile.

Stay vigilant!

(* Neil Hitchens is an Independent Investment Consultant and Financial Strategist. n.hitchens@btopenworld.com)

Core Values of Banks in Nigeria And the Customers' Perception

By **'Uju M. Ogubunka**, Ph.D



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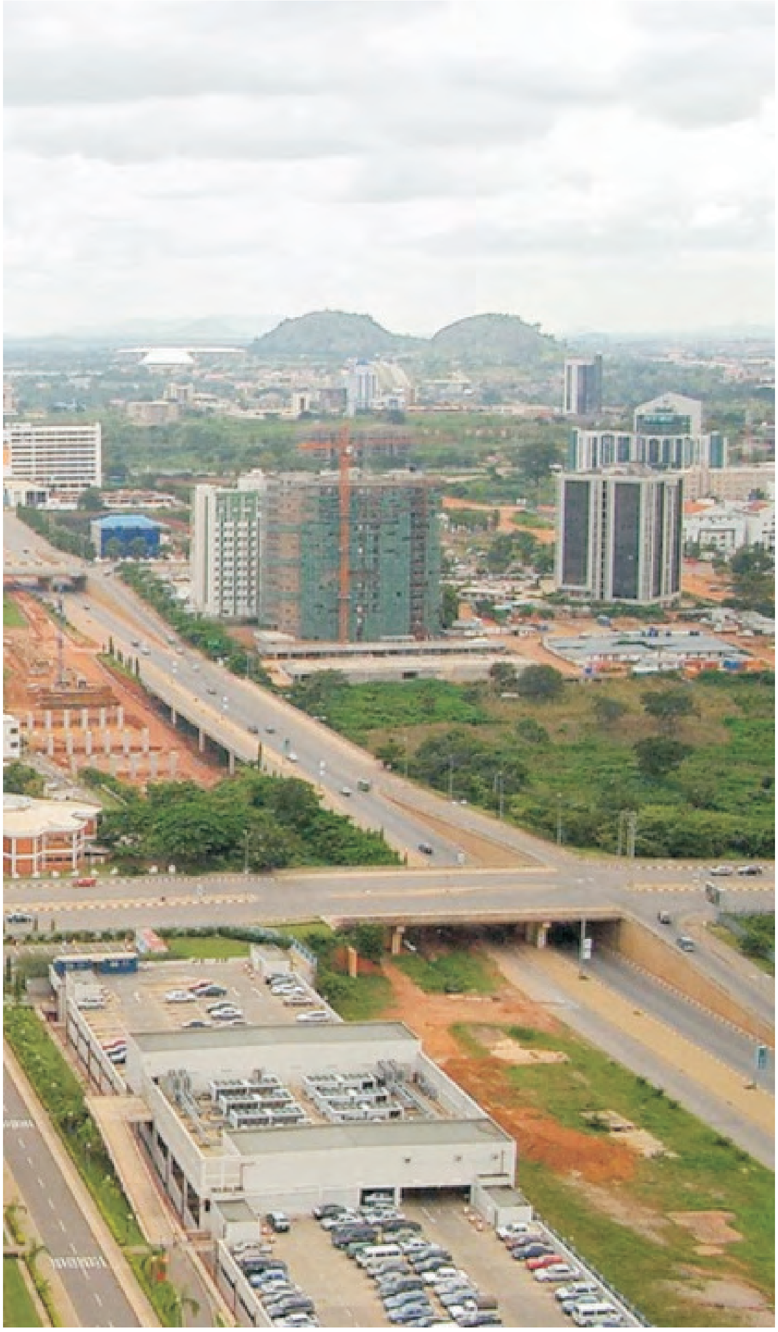
Banks in Nigeria, like their counterparts in most other jurisdictions, have developed and adopted their respective core values (CVs). The CVs define the principles that guide the institutions in the conduct of business with diverse stakeholders. They express, not only how internal stakeholders *(such as Directors and Employees)* are expected to behave in carrying out the business of the banks but also how external stakeholders (e. g customers, consumers and suppliers) should perceive them, especially as CVs express what organisations stand for.

Although no organisation is under compulsion to declare publicly its CVs, the experience in Nigeria shows that banks explicitly communicate theirs to the entire world. This is probably understandable since CVs are essential in the building and sustenance of trust and confidence of the banking public which banks need to remain in business.

Public communication of CVs by banks is channelled through printed materials such as Annual Reports, Corporate Profile Brochures, Pamphlets, Journals, Diaries, Calendars and Magazines. A major channel these days is the internet. Furthermore, CVs are also displayed on photo frames, carvings and paintings



on walls in the various offices of banks.

In communicating CVs to the public, banks directly beckon interested persons to take note and rely on them as the minimum values they stand for, under all circumstances. In fact, such communications can be construed to be explicit invitations, promises and commitments made by the owner institutions, to the interested general public to hold them responsible and accountable. Thus, individuals or groups could rely on the espoused values to do or not to do business with the institutions and assess how they live up to the values.

As important as CVs are in the life of an organisation, not much attention, if any, even through research efforts, is paid to them by external stakeholders. The main suggestive reasons for the situation are the thinking that a company decides for itself the values it believes are core to it and that "there is no universally 'right' set of values". As such, many companies, including banks, can afford to conduct their businesses far below what they promise, without any effort by the affected stakeholders to get them to 'live' their CVs and meet expectations.

Given that banks in Nigeria have CVs which they expressly commit to, it is expected that those who have business relationship with them should, not only be aware of their banks' respective CVs, but also have their own perception about them. This may lead to individuals and groups effectively demanding for and holding their banks responsible and accountable to living their espoused CVs, in the interest of all stakeholders. Consequently, if such situations become prevalent, banks will, most likely, brace up for better service delivery that is influenced not only by their CVs but also customers' and other stakeholders' demand on them to 'live' the values.

This exploratory study surveys the corporate values (CVs) adopted by different Deposit Money Banks (DMB) in Nigeria. The primary purpose is to appreciate the characteristics in terms of type, number and diversity or otherwise of the values. The survey will also give some insights from the perception of banks' customers about specific issues concerning their banks' CVs. The central objectives of the study are therefore to determine the type, number and preferred/predominant CVs of banks in Nigeria; customers' awareness of, and agreement/disagreement with the CVs chosen by the banks; the type, number and preferred CVs banks' customers *believe that banks in Nigeria should promote for better banking practice in the country*.

The study is presented in six sections. Section 2 which follows this introduction articulates a brief literature review. In section 3 is presented the methodology used while in section 4 is presented the data analysis. The findings, conclusions and recommendations are contained in sections 5 and 6.

2.0 LITERATURE REVIEW

Core Values (CVs), also referred to as corporate values in organisations, have become part of several institutions' 'selling points'. Consequently, during their corporate strategy sessions, institutions strive to align their strategies with their CVs. It is perhaps, in recognition of this that

Burns (2005) states that "the vision and mission must be consistent with the values of the organisation" (p.88).

2.1 Definition of Core Value

In Business Dictionary.com, core value is defined as "a principle that guides an organisation's internal conduct as well as its relationship with the external world". Similarly, Kaplan and Norton (2008), state that CVs of a company "prescribe its attitude, behaviour and character" (p.39). Furthermore, Tracy (2005) defines CVs as "standards used to judge behaviour" and "rules you follow when making decisions" (p.106).

The foregoing definitions or descriptions, no doubt indicate the remit of CVs. Approached from diverse directions, they simply point to the fact that companies determine how they want to be seen or perceived in the market, based on what they do or indeed, fail to do. This is perhaps, why Burns (2005), emphasises that CVs "set expectations regarding how the organisation operates and how it treats people" (p.88). Values, being sets of beliefs or principles that drive or motivate attitude and behaviour, it is expected that the outcome from their adherence will be positive thus, furthering the growth and development of the organisations.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2.2 Importance of Core Values

Organisations, including banks, consider their CVs important and central to their ways of business conduct, practices and behaviours. For example, Whole Foods Market, a company in the United States of America, states that it's "Core values reflect what is truly important to us as an organisation" (Kaplan & Norton, 2008, p.39). To emphasize this point, the company further describes its CVs as "the underpinning of our company culture" and "the soul of our company" (Wholefoodsmarket.com)(see also Kaplan & Norton, 2008, p.39). While Tracy (2005), also acknowledges the importance of CVs when he states that they "make the difference" (p.107), Collins (2001), affirms that they are "essential for enduring greatness"

(p.195). The importance of CVs can also be appreciated from what the values stand for in the organisation. In this regard Burns (2005) states that, "they create a constant framework within which to operate in a turbulent, changing environment" (p.89).

It is necessary to emphasize that, although CVs are important and may differ from one organisation to the other, it actually does not matter what values an organisation may have. According to Collins (2001), what matters is that a company has them, knows what they are, builds them explicitly into the organisation and preserves them over time (p.195). While this statement underscores the apparent existence of a variety of CVs, it also gives hint that CVs do not need to be changed frequently, as they need to be preserved over time.

2.3 Formulation of Core Values

An important question that arises is, whose responsibility is it to formulate or put in place company CVs? In an answer to the question, Gerstner, Jr. (2002) states that, "a company's initial culture is usually determined by its founder's mindset – that person's values, beliefs, preferences, and also idiosyncrasies" (p.183). Similarly, Burns (2005) also states that, CVs in a start-up "reflect the values of the founder, but as the organisation grows, they often reflect a wider community and face the risk of being diluted to the point where they are not clear" (p.88). Partly supporting this view, LEAP AFRICA (2009), states that values may be tied "to — the beliefs of the founder, but it is paramount to have staff participate in the selection of an organisation's values" (p.34) in order to ensure ownership and dedication. In furtherance of insights on the formulation of corporate values, Collins and Porras (2002) believe that, depending on the size, age, and geographic dispersion of a company, a 'Mars Group' should articulate the CVs of a company. They describe the group as "the people who likely have a gut-level understanding of your CVs, have the highest level of credibility with their peers, and the highest level of competence" (p.223). If, as an organisation grows, the CVs may 'reflect a wider community' or employees are given opportunity to 'participate in the selection' of the CVs or a 'Mars Group' is set up to articulate the CVs, it does appear then that CVs may, after all, be changed from time to time, and that there is no universal agreement on who should formulate corporate values. What may not be in contest though is that at the set up of a company, the founder or founders have the task of formulating and putting in place what may be described as the initial CVs. What happens thereafter may depend on a number of factors including those earlier highlighted by Collins and Porras (2002).

2.4 Types of Core Values

Many organisations operate similar type of businesses within the same environment (country, economy and industry) and perhaps, provide similar products and/or services to the same group of customers. They nevertheless, do not have the same type of CVs. There are therefore, various types of CVs among organisations. Indeed, Tracy (2005) buttresses this point when he lists some 141 different types of values that include: accuracy, adventure, caring, clear thinking, competence, determination, excellence, honesty, perseverance, professionalism, quality, teamwork, simplicity and trustworthiness (pp.205-207). Core values have witnessed different classifications. For example, Tracy (2005) classified them into primary, secondary and tertiary (p.104) while Kaplan and Norton

(2008), write about customer-focused, pragmatic, innovative or goal-oriented CVs (p.152). Armstrong (2012), on another hand mentions of implicit and idealistic CVs (p.124) and also presents the following as typical areas in which values can be expressed, implicitly or explicitly: "performance, competence, competitiveness, innovation, quality, customer service, teamwork, care and consideration for people" (p.125). On their part, Collins and Porras (2002) go further to show sets of CVs of seven different organisations they call 'visionary companies' (pp. 70-71). Some of the companies and their values include Motorola, with the values as - continuous self-renewal, treat each employee with dignity, as an individual; Procter & Gamble, with the values as - product excellence, honesty and fairness; and Walt Disney, with the values as - no cynicism allowed, fanatical attention to consistency and detail (p.70). Similarly, Manz (2005) points out what he calls 'four overriding values' that guided AES Corporation as "(1) to act with integrity (2) to be fair (3) to have fun and (4) to be socially responsible" (p.90).

It is essential to observe that while some CVs are expressed in single words, such as 'honesty' and 'excellence' others are in double or multiple words, or better still, phrases and sentences; for instance, 'customer service' and 'treat each employee with dignity as an individual'. Thus, from the foregoing, there can be no limit to the type of CVs and indeed, how they may be expressed. Two other important observations are that, an organisation's CVs exist 'as internal element, largely independent of the external environment' and they 'need no rational or external justification'.

http://www.designersfav.com/wp-content/uploads/teamwork.jpg

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The differences in CVs of organisations arise because each company decides for itself what its CVs should be. Consequently, no core value can be said to be the correct, right or superior one compared with another. This is corroborated by Collins (2001) when he states that "—there are no specific 'right' CVs for becoming an enduring great company" and "it does not matter what those CVs are" (p.195). However, some CVs such as integrity, excellence and honesty are often seen in many different companies.

2.5 Number of Core Values

How many CVs can a company possibly have, especially since there are many and different types? Although, there may be no hard and fast rule about this, given that an organisation is entitled to choose its CVs, Collins and Porras (2002), state that "Visionary companies tend to have only a few CVs, usually between three and six" (p.74). In a research they carried out, they found that none of the compa-

> **Ultimately, the only thing a company should not change over time is its core ideology *(beliefs/values)* – that is, if it wants to be a visionary company"**

nies they described as 'visionary' had more than six, and most had less (p.74). They justify this on the account that if a company has "more than five or six values", it "might not be capturing those that are truly core" (p.74). What this means therefore is that, before any company adopts a set of CVs, it is essential for it to reflect deeply in order to be able to find those values it truly considers core to it. Thus, a serious company will not choose a set of values it does not believe to core in how it wants to be seen by its stakeholders.

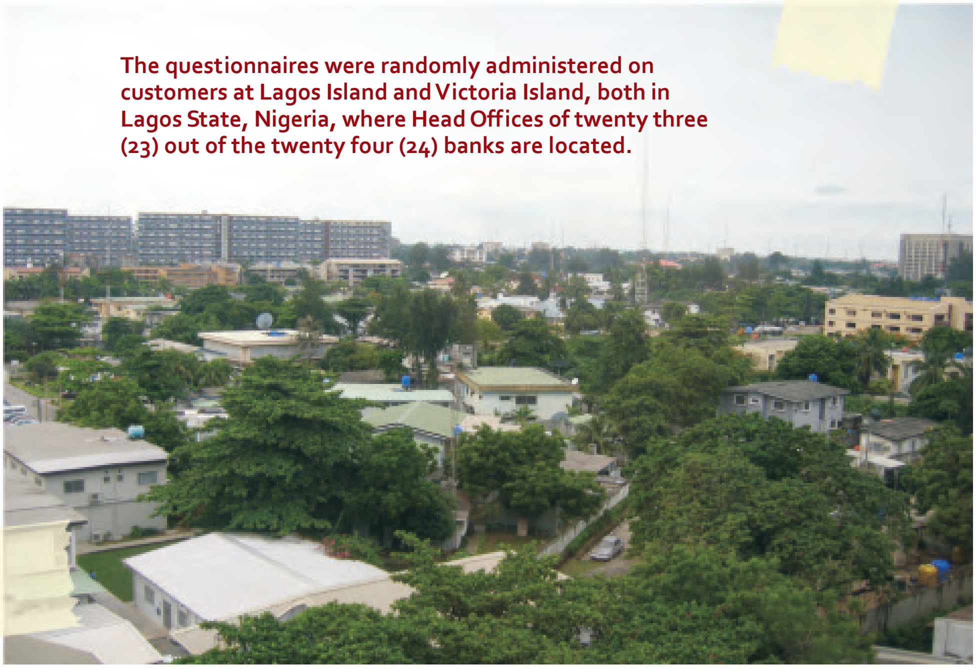
2.6 Preservation of Core Values

On the issue of 'preserving CVs over time', it is interesting that despite the famous statement that 'change is the only constant thing in life' CVs tend to defy frequent change, as they need to be preserved over time (Collins, 2001). Thus, while company strategies and tactics may succumb to flexibility and changes, CVs seem to be more constant. This is further appreciated from Collins and Porras (2002), who assert that "over time, cultural norms must change; strategy must change; product lines must change; Ultimately, the only thing a company should not change over time is its core ideology *(beliefs/values)* – that is, if it wants to be a visionary company" (p.82). They further assert that "CVs in a visionary company form a rock-solid foundation and need not drift with the trends and fashions of the day; in some cases, the CVs have remained intact for well over one hundred years" (p.8). It is in this respect that Whole Foods Market emphasises that its CVs are not values that "change from time to time, situation to situation, or person to person……" (See Kaplan and Norton, 2008 p.39).

All of these imply that while other elements that drive a company to success need to change frequently, CVs need not. This is perhaps, why elements such as strategies and tactics are of necessity required to be aligned to CVs – the foundation, on which an organisation is built. Viewed from the foregoing, CVs can be said to be no respecter of persons, situations or circumstances. They are rock-solid. Whatever prompts a change in CVs of an organisation must indeed, be very serious.

2.7 Realising Positive Impact of Core Values:

It is not enough for a company to have a set of CVs if they do not bring about positive impact. Such CVs will be mere statements that have no impetus to influence behaviour and thus, of no reality. Consequently, companies must 'live' their CVs if they expect them to make positive and meaningful impact, not only in their internal but also external affairs. In this regard, Eichenbaum (2007), emphasizes that value systems are about "walking the walk" (p.156) which Burns (2005), similarly describes as "walking the talk" (p.89). These mean that, leaders must practice what they preach for the CVs to be positively impactful. Armstrong (2012) makes this point clearer when he states that "implicit values that are deeply embedded in the culture of an organisation and are reinforced by the behaviour of management can be highly influential, while espoused values that are idealistic and are not reflected in managerial behaviour may have little or no effect" (p.124). In order to embed CVs in an organisation in expectation of positive impact, Burns (2005) suggests that CVs are to be taught *(to employees)* by leaders, who should show good example by practice and not mere words and statements. Similarly, LEAP AFRICA (2009) charges company leaders to be "personally dedicated, visible role models who follow through on organisational values". It believes that "employees will subconsciously form a social contract to abide by the organisation's values, when the leaders respect and integrate organisational values into management decision-making''. And while LEAP AFRICA recommends that CVs should be communicated to employees in the language that resonates with them, Burns (2005) strengthens it by highlighting the recommendation by Nonaka (1991) for the "use of language, metaphor and analogy in promoting values" (p.89). Although achieving all these prescriptions is, no doubt, a big and worthwhile challenge for leaders and managers in all forms of organisations, banks inclusive, there is hardly any doubt that it is perhaps, in line with some of them that companies' offices, magazines, product pamphlets, corporate profile booklets and even internet websites are adorned with their Core Value Statements.



The questionnaires were randomly administered on customers at Lagos Island and Victoria Island, both in Lagos State, Nigeria, where Head Offices of twenty three (23) out of the twenty four (24) banks are located.

3.0 METHODOLOGY

3.1 Nature and Sources of data

Two types of data – secondary and primary - are used in this study. The secondary data, which are the published CVs of banks, are sourced from the internet on the last quarter of year 2010 and/or 2010 Annual Reports and Statements of Accounts of the twenty-four (24) Deposit Money Banks (DMBs) operating in Nigeria as at December 31, 2010. The Annual Reports and Statements of Accounts became public documents before the end of the second quarter of year 2011. In cases where the CVs were stated on the two referenced sources, there was no discrepancy noticed on the available data. The primary data on the other hand, were collected using a questionnaire that was randomly administered to current account customers of the DMBs *(who are non employees of the banks)*. To the questionnaire was attached a list of forty-six (46) CVs collected from the banks' publications earlier stated. The respondents were requested to choose only ten (10) values from the listed forty-six (46), in addition to any other(s) they may consider, from their perspectives, to be relevant for banks. They were further requested to rank their choice on a scale of one to ten, with one being the first preferred and ten, the last. The respondents were also requested to offer their opinion on whether or not they agree with the CVs being promoted by their banks, the maximum number of CVs they believe a bank in Nigeria should have, and their recommended set of CVs for the banks.

3.2 Administration of Questionnaire

To generate the primary data, a total of 240 questionnaires were produced to be administered on ten target respondents at each of the locations in Nigeria where the 24 deposit money banks have their Head Offices. The questionnaires were randomly administered on customers at Lagos Island and Victoria Island, both in Lagos State, Nigeria, where Head Offices of twenty three (23) out of the twenty four (24) banks are located. The ten questionnaires meant for customers of the twenty fourth bank whose Head Office is in Abuja, could not be administered because of logistics reasons. Consequently, only 230 of the 240 questionnaires were administered on ten customers per bank. Apart from Lagos State being the centre of industry and commerce in Nigeria, its Lagos Island and Victoria Island areas host, arguably, the centre of banking in Nigeria. It was expected that the most enlightened bank customers within Lagos, if not the entire country, would be found at banks' Head Offices. Thus, customer population for the study was drawn not just from Lagos but from the areas with high concentration of well informed bank customers. A response rate of about 87% was achieved with 200 duly completed and returned questionnaires accepted.

3.3 Characteristics of Respondents

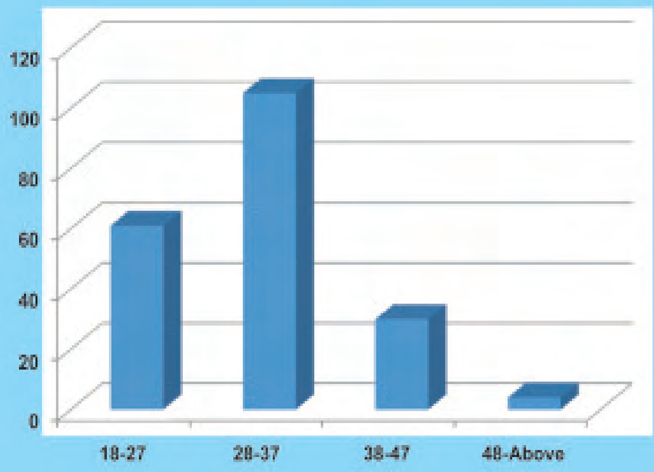
3.3.1 Age of Respondents:

As shown in Table 1 in Appendix 4 and Figure 1 below, the ages of 61 or 30% of the 200 respondents were within the range of 18 to 27 while 105 or 52.5% were within 28 to 37 years. In the age bracket of 38 to 47, the respondents were 30 in number or 15% of the total of 200. Those who were within the ages of 48 and above were only 4 or 2% of the respondents.

3.3.2 Profession/Occupation of Respondents:

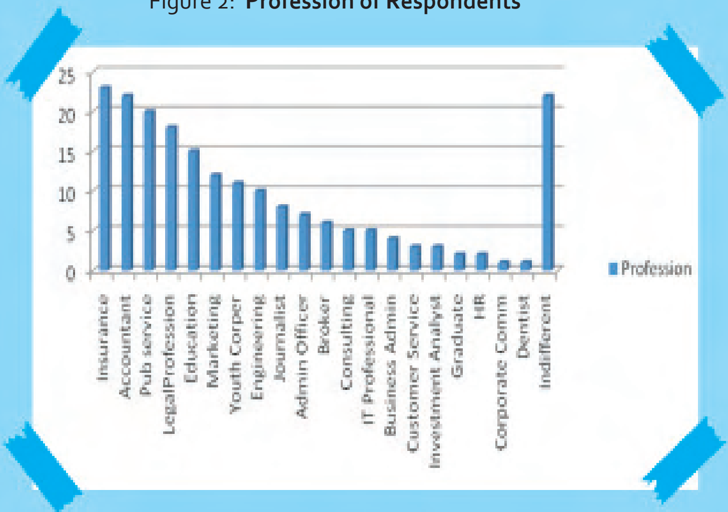
The profession/occupation of the respondents cuts across twenty (20) identified areas within the economy. As shown in Table 2 in Appendix 4 and Figure 2 below, insurance, with 23 or 12% of the 200 respondents, accounts for the profession with the highest number of respondents. This is followed by Accounting, 22 (11%), Public service, 20 (10%), Legal, 18 (9%), Education, 15 (8%), Marketing, 12 (6%), Youth Corps, 11 (6%) and Engineering, 10 (5%). The other 12 professions represented are shown from item 9 to 20 in Table 2. Collectively, they account for 47 or 27% of the 200 respondents. As expected, there is no respondent with "banking" as its occupation/profession, because the administration of the questionnaire was biased against them. This is to avoid biased responses from bank employees who may also be customers. It is however, noticeable that 22

Figure 1: **Age of Respondents**



*Source: **Table 1.***

Figure 2: **Profession of Respondents**



*Source: **Table 1.***

or 11% of the 200 respondents did not state their profession/occupation.

3.3.3 Ownership of Bank Account in Nigeria:

The 200 or 100% of the respondents, irrespective of age, agreed to have bank account in Nigeria and are therefore customers of one bank or the other.

3.4 Method of Data Analysis

This being an exploratory survey, descriptive and inferential methodologies are used in analysing the data. These make the outcome clearer and better for understanding by majority of stakeholders in the banking industry and the entire economy.

3.5 Limitations to the Study

The main limitation to this study is the size of the population upon which the primary data is based. We believe that the 200 respondents cannot be said to be representative enough of banks' customers in the country. However, given that the study is purely exploratory and indeed based on the current standing or practices of all the banks existing in 2010 on the subject matter, the size of the primary population may not adversely affect the findings. It is important however, to point out that while some of the banks that formed part of this study are no longer in existence as a result of the banking crisis of the late 2000, majority of them are still operating and a few new ones have emerged as a result of the current ongoing reforms. The other issue that may be considered as a limitation is perhaps the unsophisticated methodology used in the study. This is however, deliberate to simplify what could otherwise be termed complex in order to guarantee maximum clarity and understanding of the project.

*(*To be continued next edition)*

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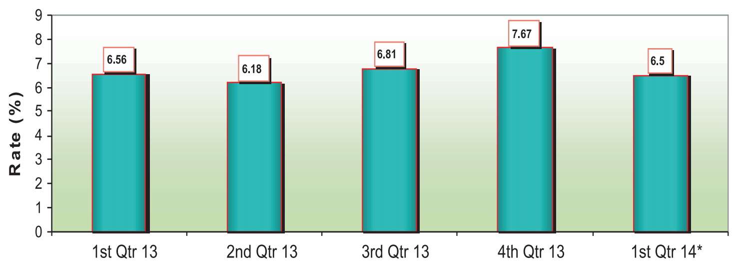
MACROECONOMIC ENVIRONMENT

In first quarter 2014, the Nigerian economy continued its growth momentum. While some indicators witnessed set-backs, others performed better than expected. Gross Domestic Product (GDP) in the first quarter started with a seasonal slump when compared with similar period last year. Inflation ended the quarter lower than expected. Foreign exchange reserves plunged as export revenues dwindled. The nation's currency, the naira, lost value significantly against other major currencies but stabilized towards the end of the quarter. The Monetary Policy Rate remained unchanged during the quarter. In the capital market, stock prices did not fare so well. Crude oil prices in the international capital market wobbled but recovered to end the quarter

GROSS DOMESTIC PRODUCT

Though the National Bureau of Statistics is yet to release the official Gross Domestic Product (GDP) growth figures for first quarter 2014, strong growth is expected within the 6 percent range. However, analysts expect real GDP growth to be downwardly adjusted to around 5 percent post-GDP revision. In the first quarter, real GDP growth is expected to be driven mainly by the non-oil sector. Despite the civil insecurity particularly in Northeastern states, ongoing dry season activities as well as land preparation could ensure that agriculture maintain its dominance as major contributor to GDP. Real GDP growth for 2013 was put at 7.41 percent. However, it is not yet clear to what extent the recent GDP rebasing which was announced this April would affect growth figures for the remaining quarters of the year.

GDP GROWTH RATE (1st Qtr.13 - 1st Qtr.14)

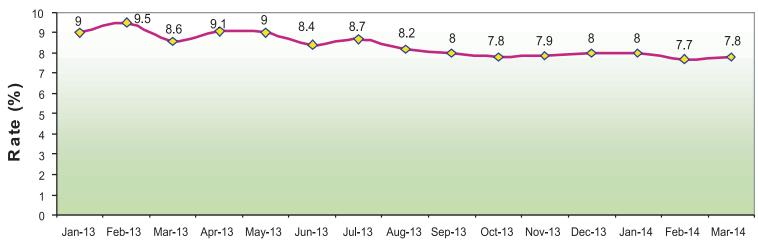


Source: ***National Bureau of statistics***

INFLATION

Year-on-year inflation slowed to 7.8 percent in first quarter 2014, remaining in the 'single digit zone' for the fifth consecutive quarter. Earlier in January, the headline rate remained unchanged at 8 percent due to steady prices of food items. It decelerated to a six year low in February due to lower prices of water, electricity, gas and transport relative to the corresponding period in 2013. However, inflationary pressures resurfaced marginally in March as food prices edged up mainly due to higher cost of bread and cereals, fish, dairy, oils, fats, and fruits. But core inflation increased at a slower rate in March, after picking up in February. In the months ahead, concerns of occasional spikes in the headline rate will remain as core inflation has been sending mixed signals since January 2014. Also, elevated security concerns and anticipated high election-related spending in the run-up to the 2015 general elections could put upward pressure on prices. However, the authorities project that inflation will remain within the single digit target range in the short to medium term.

Inflation, Year-on-Year (Jan.13 - Mar.14)

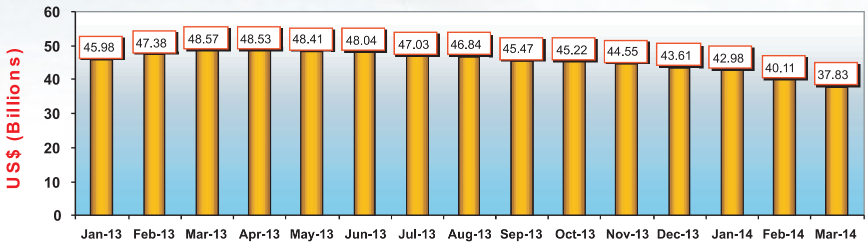


Source: ***National Bureau of statistics***

EXTERNAL RESERVES

The nation's external reserve shrunk in the first quarter 2014, despite surging crude oil prices in the international markets. Foreign exchange reserve has contracted by a whopping 22 percent in the last ten months compared to the 2013's peak of $48.86billion. The stock of external reserves stood at about US$37.83billion as at end March 2014, capable of financing up to 9 months worth of imports. The authorities attribute the drop in reserves to increased funding of the foreign exchange market and high domestic liquidity. In the near to medium term, the authorities project improvements in the stock of external reserves as a result of higher crude oil prices and output.

Foreign Exchange Reserves (Jan.13 - Mar.14)

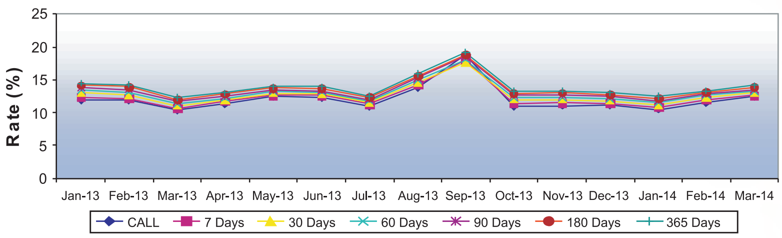


Source: **Central Bank of Nigeria**

INTEREST RATE

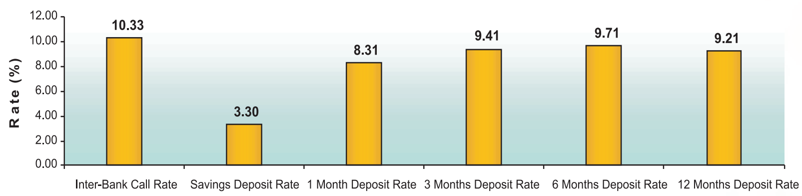
The CBN offered no surprises and kept its benchmark interest rate, the Monetary Policy Rate, unchanged at 12 percent in its March 24 and 25, 2014 meetings. It was the fifteenth consecutive hold since the Monetary Policy Rate (MPR) was raised by 275 basis points from 9.25 percent to 12.0 per cent in October 2011, in response to inflationary pressures. It also decided to increase the cash reserves requirement for private sector deposits by 300 basis points to 15 percent.

MONTHLY AVERAGE NIBOR (1st Qtr.13 - 1st Qtr.2014)



Source: FMDQOTC

MONTHLY AVERAGE DEPOSIT RATES (1st QTR.14)



Source: **Central Bank of Nigeria**

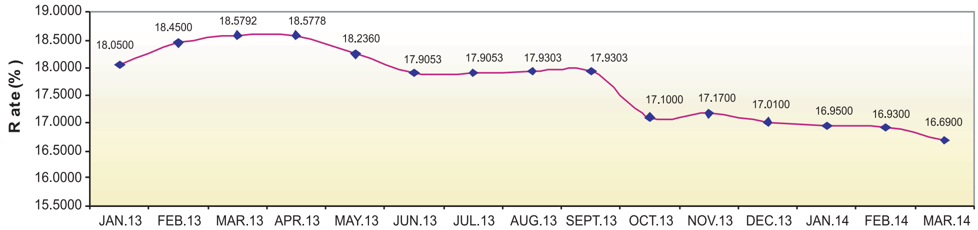
The average interbank rate witnessed volatile movements with significant rate swings during the quarter. Rates remained flat at around 10.25 percent in January as the system was awash with liquidity. However, the Open Buy Back (OBB) and overnight rates shot up to 13.75 and 14.0 percent from 10.25 percent, respectively in February, due to Cash Reserve Requirement (CRR) debit of about N583billion that dried up liquidity in the system. It was nonetheless momentary as rates retreated to 11 percent due to an inflow of N267.35billion from matured treasury bills. Unable to hold down the pressure, rates climbed back up in March and traded for as high as 18.50

Facts & Figures

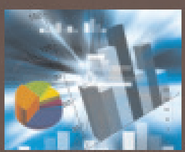
percent (overnight) due to NNPC's remittances, RDAs funding and NDIC debit. Pressure on rates eased at the tail end to as low as 10.25 percent on the OBB due to N300billion matured bonds credited to the system.

The average Prime Lending Rate (PLR) dropped slightly during the period, hovering around 16.93 percent as at end February 2014. Returns on the average deposit rate went up slightly across most investment horizons, with volatility higher on the 30 Days, 60 Days and 365Days tenors.

AVERAGE PRIME LENDING RATE (1st Qtr .13 - 1st Qtr.14)



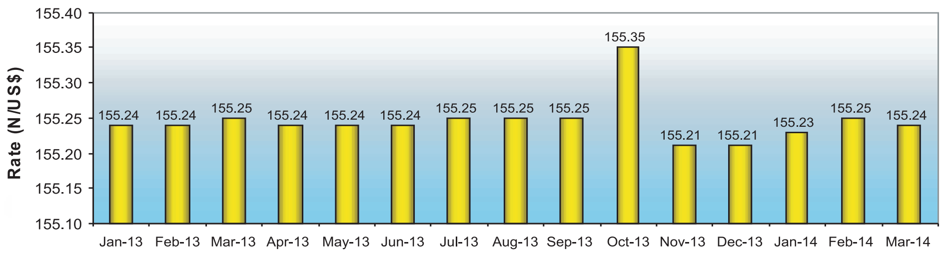
Source: **Central Bank of Nigeria**



EXCHANGE RATE

The nation's currency, the Naira, remained firm against major world currencies in the first quarter 2014 despite immense pressure from the foreign exchange market. It was able to maintain the CBN's target of within N155 +/- 3 percent band. Earlier in the quarter, the naira witnessed intense pressure coming from portfolio investors scaling down their exposures to emerging and frontier markets. On the domestic scene, the impact of the sudden suspension of the CBN governor on February 20th was immediately felt as the naira reached an all time high of N169 to a dollar, up from N164 the previous day. The action resulted in a temporary shutdown of the market to douse the pressure. When markets reopened on February 21, the naira recovered to around N166/US$1. To keep the lid on speculation, the CBN sold about $9.629billion against the $14.517billion demanded in its twice weekly Retail Dutch Auction. The premium between the official and interbank rates expanded to 5.6 percent as at end March 2014, compared to 3.6 percent in December. In the months ahead, the naira is projected to remain stable in the short to medium term due to higher crude oil prices in the international market.

MONTHLY AVERAGE EXCHANGE RATE (N/US$)



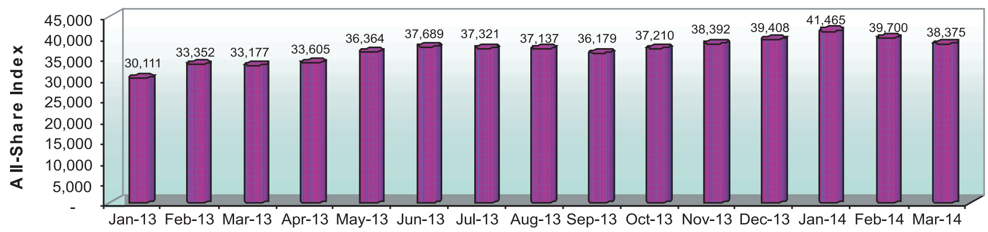
Source: Central Bank of Nigeria

Facts & Figures

CAPITAL MARKET

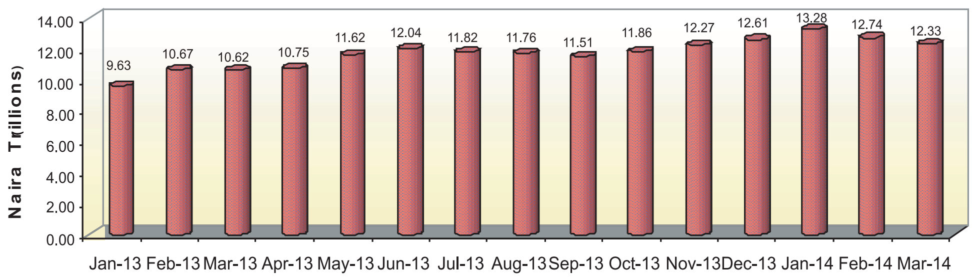
The capital market suffered a setback during the start of first quarter 2014, with share prices unable to hold on to earlier gains. It lost about 6.2 percent as the All-Share Index (ASI) and market capitalization finished lower at 38,748.01 and N12.446trillion, respectively, from 41,329.19 and N13.226trillion in the preceding quarter. Most foreign investors wrapped up their portfolios during the period and scaled back their appetite for risks in emerging market stocks due to the US Taper Policy. Sentiment was downbeat as the CBN governor was suspended in February, unsettling banking stocks and dragging the market down 1.42 percent. Just like the equities market, the bonds market was shut down almost immediately due to traders' concerns about sell off. On a brighter note, a number of quoted companies such as Forte Oil, Nigerian Breweries, PZ Cussons, Nestle, GTBank, Zenith Bank, Okomu Oil Palm, GlaxoSmithKline Nigeria and Lafarge Cement Wapco Nigeria paid impressive dividends of N4.00, N4.50, N1.30, N24.00, N1.45, N1.75, N1.00, N1.30 and N3.00 respectively. In the international capital market, Nigeria's Eurobond yields continued to be positively impacted by renewed concerns about Euro Zone's Sovereign Debt.

ALL SHARE INDEX (ASI) (1st Qtr.13 - 1st Qtr.14)

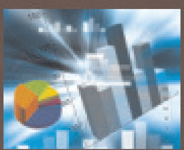


Source: **Nigerian Stock Exchange**

NSE MARKET CAPITALISATION (1st Qtr.13 - 1st Qtr.14)



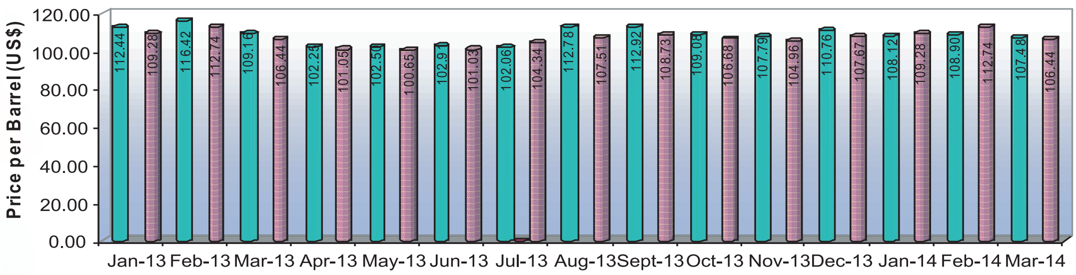
Source: **Nigerian Stock Exchange**



OIL & GAS

It was a wobbly start for crude oil prices, rising then falling in the first quarter 2014. It however posted a gain of around 2.8 percent amid mixed signals about the state of the world economy. In all, crude oil prices remained strong during the quarter, five percent higher than the corresponding period in 2013. Nigeria's brand of crude oil, bonny light, traded within a band of $91-$101 per barrel. Industry analysts attribute the mixed trend in crude oil prices to refinery maintenance in the US, high inventories, disappointing data from China's manufacturing sector; disruptions to three oil ports in Eastern Libya by rebel tribes. Oil prices are projected to grow at around 3 percent to $102 in 2014. At the Chatham House Conference in London on 27-28 January, 2014, OPEC expressed the belief that the market fundamentals remained balanced.

Oil Prices: Monthly Average Price Movements (1st Qtr.13 - 1st Qtr.14)



Source: **OPEC, Energy Information Administration**