Zenith Economic Quarterly

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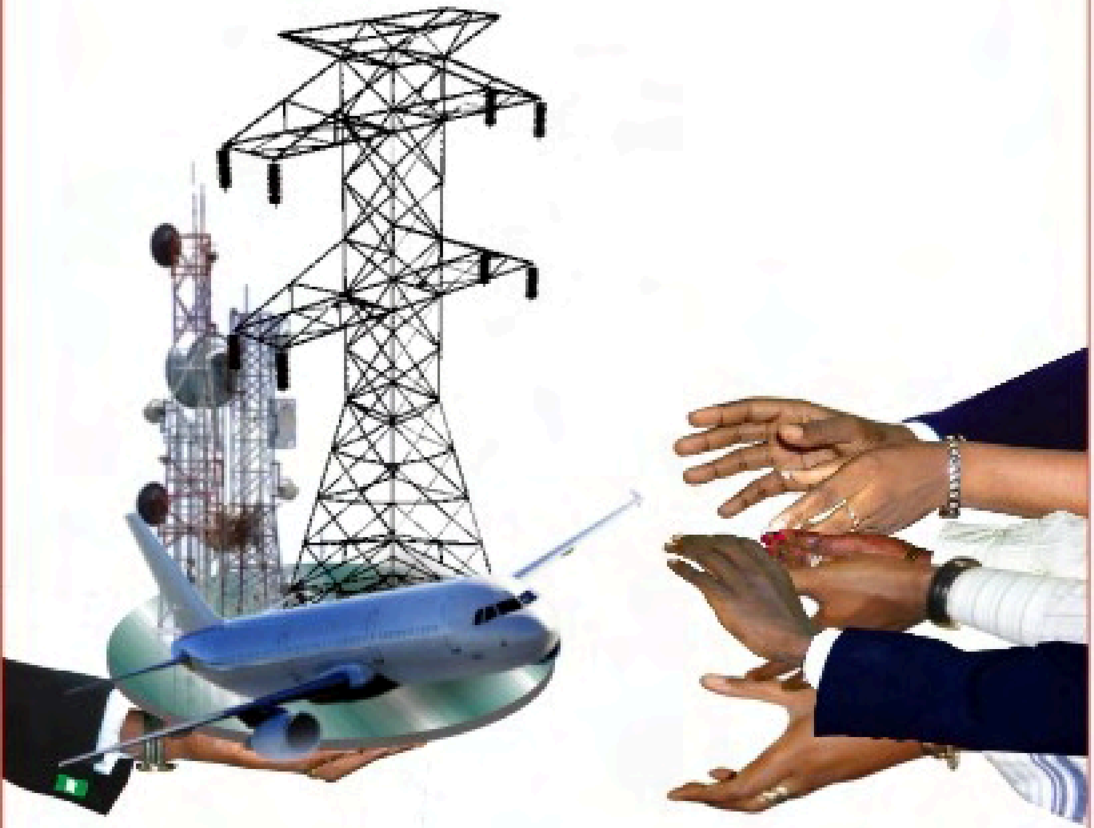

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Economies: What Issues & Trends in 2013?

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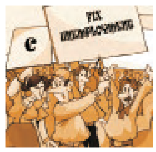

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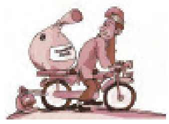

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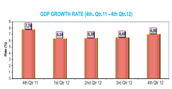


The Private Midas Touch

Most economists argue that private market factors can more efficiently deliver many goods or services than governments due to free market competition. They premise this stand on the fact that over time it tends to lead to lower prices, improved quality, more choices, less corruption, less red tape, and/or quicker delivery. This, some still argue, is not to say that everything should be privatized because, according to them, market failures and natural monopolies could be problematic.

But while these contentions go on *ad infinitum*, various forms of privatization had been applied in virtually all economic jurisdictions across the globe as integral part of overall economic structural adjustment. Nigeria is no exception in carrying out this process of transferring ownership of business, enterprise, agency, public service or public property from the public sector to the private sector, either to a business that operates for a profit or to a non-profit organization. Indeed, it has also entailed some outsourcing of services or functions to private firms. Privatization was indeed a key plank of the Structural Adjustment Programme (SAP) in Nigeria in 1986—and has passed through various phases to become part of the current transformation agenda of the Federal Government.

Nigeria is no exception in carrying out this process of transferring ownership of business, enterprise, agency, public service or public property from the public sector to the private sector, either to a business that operates for a profit or to a non-profit organization.

In our analysis therefore, of this close-to-three-decades effort, under the title, "Privatization in Nigeria: Cause to Cheer?", the author posits that Nigeria like most countries has had its share of disappointing experience with privatization. All said however, the author believes that the process calls for political will, stressing that government should pursue ongoing privatization "with renewed vigour to a logical conclusion for the greater good of the economy." Related to this treatise is also an analysis of the current Appropriation Act, under the title "Budget 2013: From Economic Slow Down to Positive Outlook".

From Nigeria as a microcosm of the global economy, we moved our gaze to the world scene, in an article, "Economies: What Issues and Trends in 2013?" where the author identifies the lingering and stubbornly high unemployment rate in virtually all regions of the globe as a major challenge. Other issues would include the stagnation of economic growth in most developed economies; mounting sovereign debts and fiscal deficits; the realities of shifting balance of economic power, among others. To the author, these issues bring to the fore the need to strengthen global governance structures and tackle socio-economic challenges in the different regions as global rather than national issues.

In another article related to this position, we analyzed the impacts of the recent credit crunch on banks' strategy and liquidity management. In it, we identified the causes of the 2008 global economic meltdown—the excesses and exuberance of bankers and financial 'wizards' that led to the ramifications of the crises as well as the policies and strategies adopted in tackling the issues. In sum, the article warns that the impulse towards risk-taking can cause banks to disregard danger signals and run with the crowds and bet on bubbles, taking too many debts in the process.

Our man in London, in a piece titled "A Year to Fear for Equities?" examines the global financial and commodity markets and their outlook in 2013 and beyond. Observing that the diversity of analyst predictions mirrors the uncertainty in the global market, he asserts that until the global financial problems are truly resolved, "we can expect several more years of uncertainty, which might only properly end towards the end of the current decade or may be the early 2020s."

Also herein for your delight is "Agenda for Transformation: Petroleum Subsidy (2)", a continuation of a series on the subject matter. Our *Periscope* section is a treatise on the economy tagged "Economy: Rounding 2012 on Positive Fundamentals"; while the 'Facts & Figures' completes this package.

Enjoy your reading!

Marcel Okeke

My name is Bayo Olomodosi, the CEO of Babot Global Ventures (BGV) and we operate a current account for our company with Zenith Bank Plc.

A couple of days ago, I had the good fortune of stepping into your branch on Isaac John Street, Ikeja G.R.A. and was given a copy of your Zenith Economic Quarterly (Vol 8 No 4) to peruse while waiting for my transaction to be concluded. I must confess that I found the scope and level of research & economic analyses of various sectors of the Nigerian economy highly extensive, profound & impressive.

To this end, it is obvious that we at BGV will find information in this publication very useful to engender the positive growth of our business and also stimulate our mental faculties into finding various ways of bringing about good & positive service delivery to our clients and customers alike.

Therefore, we will appreciate if we can be included in your distribution list of those that will be sent this ZEQ whenever it is published subsequently. We will also appreciate if you could kindly send us older copies & volumes of this publication for our library.

Looking forward to a positive response from you accordingly.

Best Regards
For: Babot Global Ventures
Bayo Olomodosi
MD/CEO

I wish to request for inclusion in your mailing list for your richly informative and widely circulated journal. It would be of immense help to me in the discharge of my job. I would appreciate greatly if you would approve this request. Thank you.

Yours sincerely,
Nnamdi Okosieme
Director of Research and Documentation
Office of the Senior Special Assistant to the President on Public Affairs
Presidency, Asokoro, Abuja

We receive with gratitude the July, 2012 edition of ZEQ with the caption "Agric Transformation: Tackling Nigeria's Food Import Dependency" which you donated to our library.

We sincerely appreciate your continuous donation of this incisive publication to our library. We are grateful to you for identifying with our cause.

Yours faithfully,
EGHAREVBA, Efosa
Head, Readers Service Department
For: University Librarian
Igbinedion University, Okada, Edo State

I would like to acknowledge with profound appreciation and thanks, the receipt of your letter dated September 25, 2012 on the above subject matter.

The Embassy of the Federal Republic of Nigeria will indeed find the publication very useful as reference material for policy decision. Please accept the assurances of His Excellency's highest regards.

Olumide Olowo,
For: Ambassador
Embassy of the Federal Republic of Nigeria Paris, France

This is to acknowledge, with deep appreciation, the receipt of complimentary copies of your publications: Zenith Economic Quarterly (ZEQ), Vol. 8 No.2 April 2012 , Zenith Economic Quarterly (ZEQ), Vol. 8 No.3 July, 2012. The publication will definitely serve as a good addition to our library collection and our clients will find them of immense value. Thank you for the kind gesture. Yours truly,

Sunday Adenipekun,
Head, FITC Research

I am directed to acknowledge receipt, with thanks, a complimentary copy of your '2012 edition of the Zenith Economic Quarterly (ZEQ) magazine' which was received by the Mission on the 19th October 2012.

We congratulate the Zenith Bank Plc for a successful production. Please accept the assurances and esteemed consideration of the High Commissioner.

O. M. Agboola (Mr.)
For (High Commissioner)
High Commission of the Federal Republic of Nigeria Accra, Ghana.

I am directed by the Director-General, ASCON to acknowledge the receipt of a copy of your "Zenith Economic Quarterly (ZEQ)", July 2012 edition which specifically focuses on Agriculture Transformation.

I am to add that, the Director-General appreciates your kind gesture in this regard, as he promises to make the most judicious use of the Quarterly journal. Please accept as always, the Director-General's highest regards.

Thank you.
Ahmed Ojeifo
for: Director-General
The Administrative Staff College of Nigeria (ASCON)

On behalf of the Vice-Chancellor, Caleb University, Imota, Lagos; I write to acknowledge with profound gratitude the receipt of a complimentary copy of the April 2012 edition of the Zenith Economic Quarterly focusing on "Cashless Economy: Imperatives for Legal and Regulatory Framework".

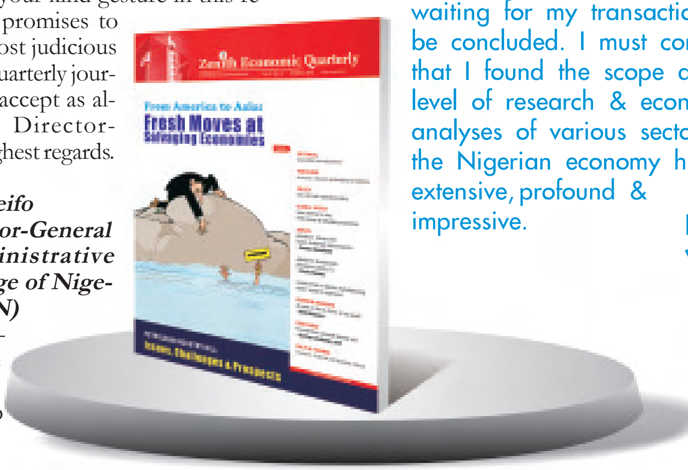
I wish to assure you that the journal will be processed and shelved appropriately to facilitate easy retrieval for our lecturers and students usage. The journal will no doubts be of great value, especially to the finance related courses of our university. Once again, I sincerely thank you for this invaluable donation.

Yours sincerely
Diyaolu, A.M
For: University Librarian
Caleb University, Lagos, Nigeria

I have been directed to acknowledge the receipt of a copy of the July 2012 edition of the above journal sent to our organization. We want to affirm that the journal is useful and educative to our organization and users. We hope to receive subsequent copies of the journal as it is published.

Thank you.
Yours faithfully,
B. R. Agbede (Mrs.)
For: Institute Librarian
Nigerian Institute of Social and Economic Research, Ibadan, Nigeria

> "A couple of days ago, I had the good fortune of stepping into your branch on Isaac John Street, Ikeja G.R.A. and was given a copy of your Zenith Economic Quarterly (Vol 8 No 4) to peruse while waiting for my transaction to be concluded. I must confess that I found the scope and level of research & economic analyses of various sectors of the Nigerian economy highly extensive, profound & impressive."



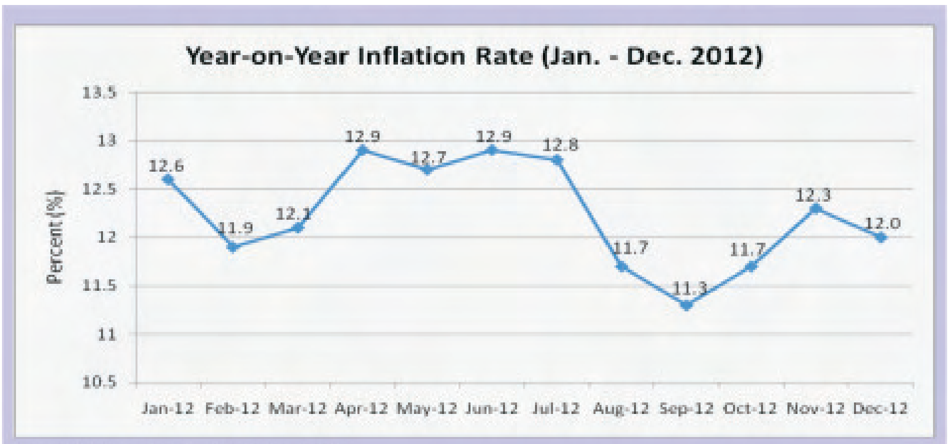
PERISCOPE

Economy: Rounding 2012 on Positive Fundamentals

By Marcel Okeke

Amidst a slowly recovering global economy, Nigeria's exhibited resilience and positive outlook, with most of the macroeconomic indicators tilting to an upside by the close of 2012. With an estimated Gross Domestic Product (GDP) growth rate of 6.61 per cent (as against the 2011 level of 7.45 per cent), an external reserves growth of 33.30 per cent, huge rally in the capital market and largely stable exchange rate, the Nigerian economy outperformed analysts' forecasts in several ways in 2012. This is in spite of security challenges and the flooding disaster in certain parts of the country that disrupted production and movement of goods and persons at some points in the year.

The cheery turn of events in the economy, especially in the second half 2012 was driven by such factors as fiscal discipline on the part of the Federal Government, rising foreign capital flows into the country and reduced speculative demand for dollars at the foreign exchange market, among others. Indeed, increased portfolio flows since mid August 2012—largely owing to Nigeria's inclusion in the JP Morgan Bond index—proved a decisive factor in driving supply at the inter-bank forex market in the rest of the year. This was further helped by the announcement in November of Nigeria's inclusion in the larger Barclays Emerging Markets Local Currency Government Bond Index effective March 31, 2013. Also, a World Bank report tagged 'Send Money Africa' shows that among all African countries, Nigeria got the largest remittance (US$21Billion) in 2012, out of the US$60 Billion in remittances to about 120 million recipients in the continent.

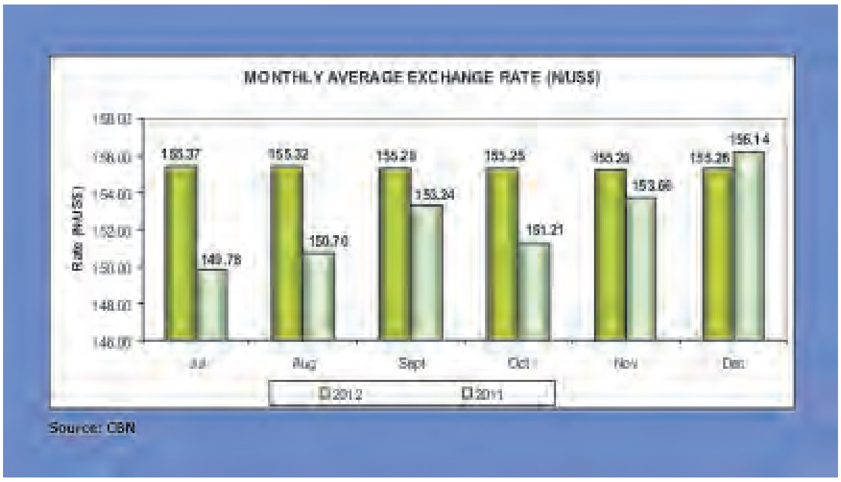


Source: National Bureau of Statistics (NBS)

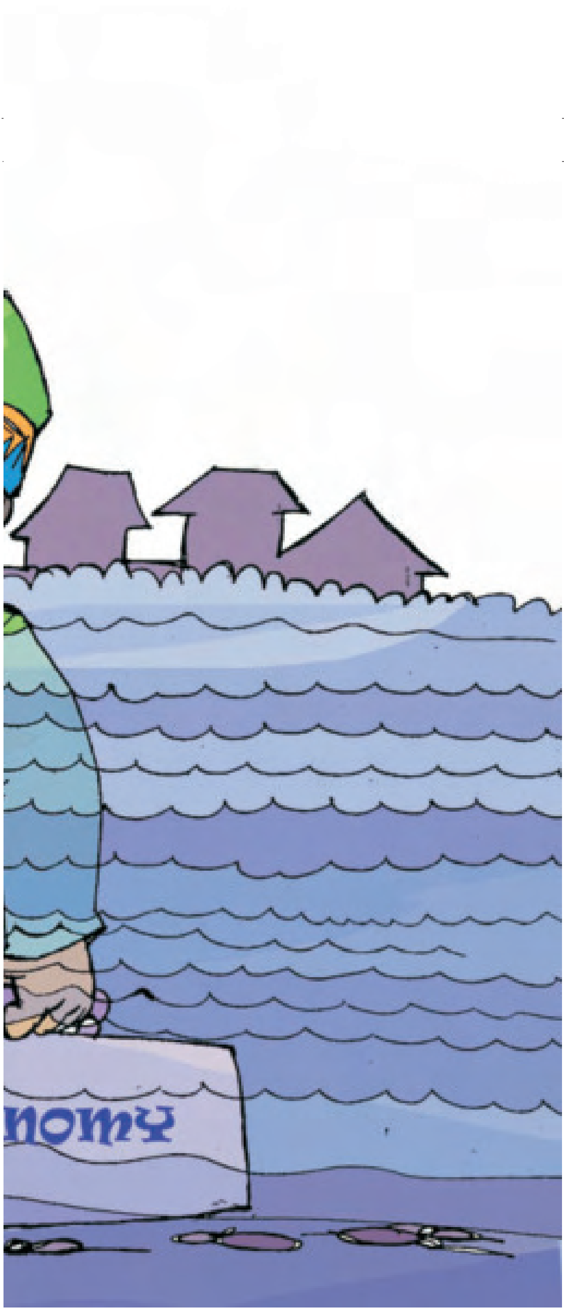
At the same time, the country's external reserves experienced a boost, hitting a robust multi-year high of US$44.18 billion at end-2012, an increase of about 34 per cent from US$32.90 billion as at the end of 2011. In deed, within the last quarter 2012 alone, the reserves level rose from US$42.167 billion in October to the new higher level at the close of the year—a value enough to cover about one full year of imports. This phenomenal increase in the level of foreign reserves was driven mainly by proceeds from crude oil and gas exports and crude-oil related taxes. Also, there was reduced funding of the wholesale Dutch Auction System (WDAS) owing to the huge inflow of foreign portfolio investments, which accounted for about 77 per cent of total inflows through the Central Bank of Nigeria. All these manifested in Naira appreciation at the official foreign exchange market during 2012; with the local currency gaining almost 100kobo to close the year at N155.77/US$1. This trend was particularly aided by the reduction in demand from oil marketers as a result of the investigation in the downstream sector of the oil industry, fiscal discipline on the part of government as well as favourable balance of trade, among others.

While the nation's remittance figures (inflow) and external reserves were rising, its external merchandise trade was also favourable. According to the National Bureau of Statistics (NBS) data, total value of Nigeria's external merchandise trade for the fourth quarter of 2012 stood at N7.19 trillion—an increase of N6.40 billion over the figure in the previous quarter. In deed, there was an increase of 15.5 per cent in the value of exports, from N19.44 trillion in 2011 to N22.45 trillion in 2012. The increase in the value of exports, according to the NBS, contributed immensely to the visible trade balance of N16.82 trillion in 2012 as against N9.55 trillion in 2011.

Some key planks of the Federal Government's Transformation Agenda also impacted the economy during the period under review in diverse ways. Specifically, in the area of agriculture,



Source: CBN



the Federal Government of Nigeria (FGN) came up with a number of tax and import duty waivers and import substitution measures in order to boost productivity in the sector and develop other agro-allied industries to improve the value chain. These fiscal measures are targeted at rice, sugar, cassava, wheat, cocoa, and fertilisers; just as the CBN and the Bank of Industry (BoI) are collaborating in the area of providing intervention funds for the sector at softer terms than obtainable in the open market.

Government's efforts to improve transportation network across the country (roads, rail, sea and airports) during 2012 have all began to subtly impact on wholesale and retail trade in Nigeria. This is reflecting in the relatively easier, more convenient and affordable ways in the movement of goods and persons. The Lagos-Kano railway line, for instance, has been opened while the Port-Harcourt-Maiduguri line is receiving an urgent upgrade. Also, the Abuja mass transit rail line is under construction while over 80 per cent of the Ajaokuta-Itakpe rail is already completed. The Lagos State Government is also working to interconnect the state with light rail system while work is ongoing to open up Nigeria to neighbouring West African countries through rail.

Also, the ongoing power sector reform has led to some noticeable improvement in power generation and distribution. This, to some degree, is already reflecting in the reducing cost of doing business in the country. Similarly, the local content initiative of the FGN has begun to create investment opportunities in the oil and gas sector for Nigerians. This will further improve when the Petroleum Industry Bill (PIB) now being debated at the National Assembly is passed into law.

On the other hand however the nation's public debt kept rising all through 2012, including the last quarter under review. In deed, data from the Debt Management Office (DMO) show that Nigeria's total debt stock (external and domestic debts) as at December 31, 2012 stood at N7.55 trillion, indicating an increase of about 16 per cent from the December 31, 2011 figure of N6.51trillion. A breakdown of the debt figure shows that the external component accounted for about 13.44 per cent of the total debt stock (that is N1.02 trillion or US$6.52 billion at exchange rate of N155.77/US$1); the domestic debt accounted for 86.56 per cent of the total debt (that is N6.54billion). The total public debt stock of the country as at December 31, 2012 is thus estimated at about 19.40 per cent of the Gross Domestic Product (GDP). This implies that the country still enjoys a wide fiscal sustainability space, since this level of debt-to-GDP ratio is far below the 40 per cent threshold for countries on the same pedestal with Nigeria.

Similar to the public debt stock, the inflation rate remained high at double-digit level all through 2012, contrary to the policy objective of the CBN and FGN budget target of 9.5 per cent. Available figures show that year-on-year inflation rate stood at 12 per cent at year-end, from 11.3 per cent in Sep-

States and Federal Governments' External Debt Stock as at 31st December, 2012(in US Dollars)

States and Federal Governments' External Debt Stock as at 31st December, 2012
(in US Dollars)

S/No	States and FGN	Multilateral	Bilateral, Commercial & Eurobond	Total	Percentage of Total External Debt
1	Lagos	611,253,157.43		611,253,157.43	9.36
2	Kaduna	215,683,732.56		215,683,732.56	3.30
3	Cross River	113,034,944.52		113,034,944.52	1.73
4	Ogun	102,064,668.63		102,064,668.63	1.56
5	Oyo	76,683,670.85		76,683,670.85	1.17
6	Katsina	74,694,206.56		74,694,206.56	1.14
7	Bauchi	67,131,718.36		67,131,718.36	1.03
8	Osun	62,760,653.21		62,760,653.21	0.96
9	Kano	61,792,864.24		61,792,864.24	0.95
10	Akwa Ibom	61,664,855.43		61,664,855.43	0.94
11	Imo	51,973,693.20		51,973,693.20	0.80
12	Ondo	51,851,443.85		51,851,443.85	0.79
13	Enugu	50,074,700.40		50,074,700.40	0.77
14	Kebbi	47,821,220.02		47,821,220.02	0.73
15	Kwara	45,551,435.19		45,551,435.19	0.70
16	Edo	42,741,838.97		42,741,838.97	0.65
17	Ebonyi	41,581,279.81		41,581,279.81	0.64
18	Sokoto	41,554,869.22		41,554,869.22	0.64
19	FCT	38,867,309.41		38,867,309.41	0.60
20	Nassarawa	36,978,600.93		36,978,600.93	0.57
21	Rivers	36,644,822.93		36,644,822.93	0.56
22	Ekiti	36,165,995.25		36,165,995.25	0.55
23	Abia	35,911,270.54		35,911,270.54	0.55
24	Kogi	33,838,688.46		33,838,688.46	0.52
25	Jigawa	33,669,099.54		33,669,099.54	0.52
26	Gombe	31,727,020.11		31,727,020.11	0.49
27	Yobe	31,274,682.79		31,274,682.79	0.48
28	Adamawa	30,225,908.22		30,225,908.22	0.46
29	Niger	29,777,330.83		29,777,330.83	0.46
30	Benue	28,420,603.49		28,420,603.49	0.44
31	Bayelsa	28,002,261.72		28,002,261.72	0.43
32	Zamfara	27,937,077.70		27,937,077.70	0.43
33	Anambra	26,708,648.57		26,708,648.57	0.41
34	Taraba	23,028,584.73		23,028,584.73	0.35
35	Plateau	21,934,123.31		21,934,123.31	0.34
36	Delta	18,997,501.36		18,997,501.36	0.29
37	Borno	14,154,525.62		14,154,525.62	0.22
	Sub-Total	2,384,179,007.97		2,384,179,007.97	36.53
	FGN	2,883,237,199.23	1,259,658,790.00	4,142,895,989.23	63.47
	Total	5,267,416,207.20	1,259,658,790.00	6,527,074,997.20	

Source: DMO

tember 2012. According to the Monetary Policy Committee (MPC) of the CBN, on the average, inflationary pressure remained elevated in 2012. A number of factors accounted for this trend, including the impact of the flood disaster in many agricultural belts of the country as well as the partial fuel subsidy withdrawal early in the year.

Early in October 2012, President Goodluck Jonathan presented a N4.92 trillion budget for 2013 to the National Assembly; this figure represented a five per cent increase over the previous year's level of N4.70 trillion. This "Budget of Fiscal Consolidation with Inclusive Growth" was premised on an oil price benchmark of US$75 per barrel—an assumption that the legislators moved up to US$79 in the course of deliberations on the budget. In deed legislative debates on the Appropriation Bill dragged into 2013, leading to delayed take-off of the budget. This scenario, no doubt, impacted on the economy in the quarter under review—and continued into the first quarter 2013.

THE CAPITAL MARKET

The Nigerian Stock Exchange (NSE) remained bullish all through the second half of 2012, recording the strongest performance since 2008, by the close of the year. In deed all equities market indicators consistently trended upwards throughout the period. Market data show that the All-Share Index (ASI) increased by 35.45 per cent from 20,730.63 points to28,078.80 points between December 30, 2011 and December 31, 2012. Market Capitalization (MC) also

2013 Approved Budget Highlights

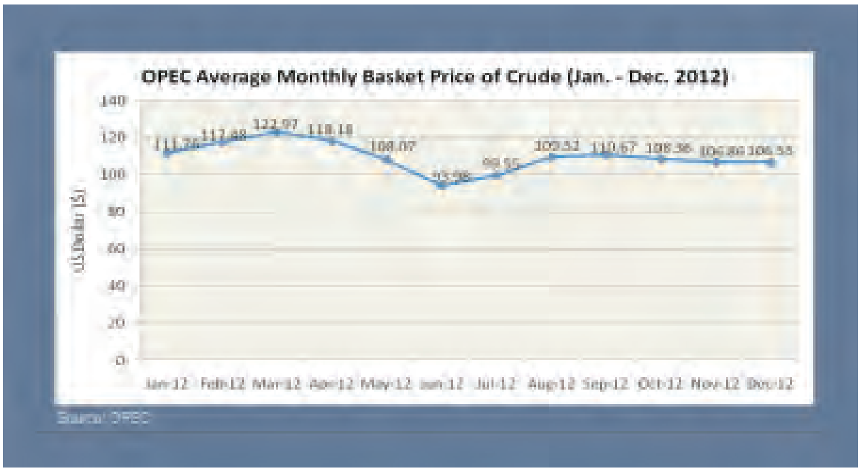
2013 Budget: Quick Facts	
Total Budget	₦4.987 trillion
Statutory Transfers	₦387.97 billion
Debt Service	₦591.76 billion
Recurrent Expenditure (Non-Debt)	₦2.38 trillion
- Personnel Cost	₦1.71 trillion
- Overheads	₦208.9 billion
Capital Expenditure	₦1.62 trillion
SURE-P	₦273.5 billion
Fiscal Deficit	1.05% of GDP
Oil Production	2.53 million barrels per day
Oil Benchmark	$79 per barrel
Exchange Rate	₦160/US$
Projected Real GDP Growth	6.5 percent

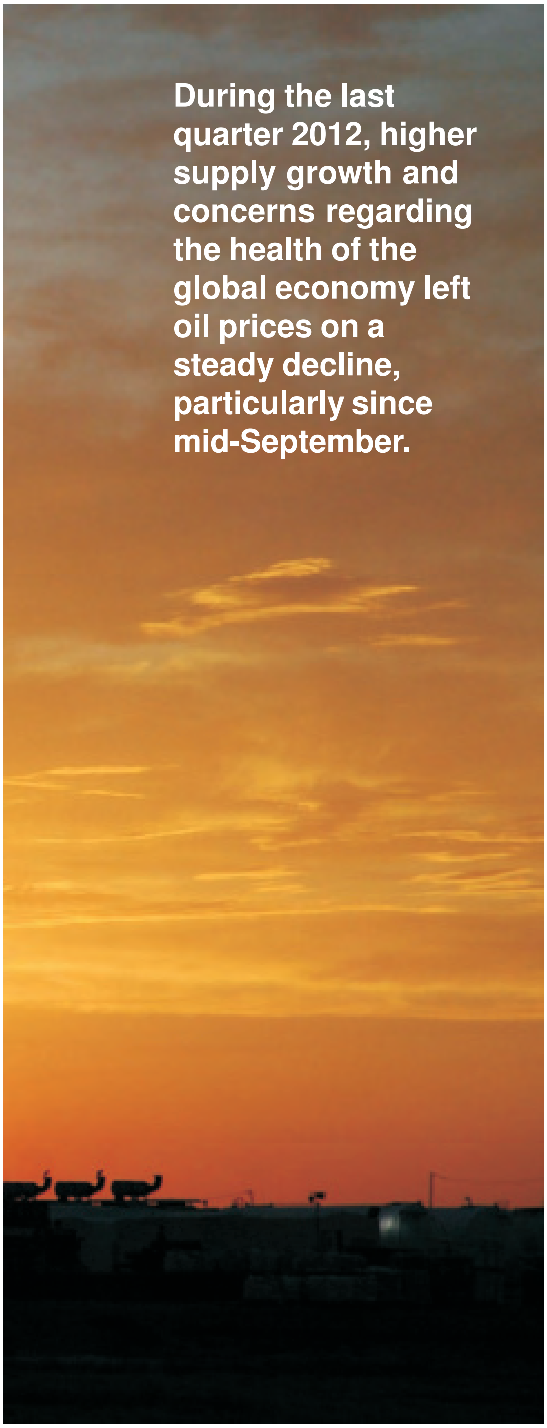
increased, by 37.38 per cent, from N6.53 trillion to N8.97 trillion during the same period. This cheery performance was driven by a number of factors including the commencement of 'Market Making' in September 2012, return of institutional investors to the market, the inclusion of Nigerian government bonds in the JP Morgan Government Bond Index-Emerging Markets (GBI-EM) as well as renewed appetite for equities by local investors.

The total value of equities traded on the NSE in 2012 stood at N658.22 billion (US$4.23 billion), representing an increase of N23.30 billion or 3.67 per cent over the N634.92 billion (US$4.18 billion) recorded at the end of 2011. Also, average daily value of equities stood at N2.65 billion in 2012, representing an increase of 2.71per cent over the N2.58 billion recorded in the preceding year. Further analysis of the market shows that the NSE recorded a local participation of 44 per cent in 2012, while foreign participation accounted for 56 per cent of activities during the year. Although the market did not record any Initial Public Offering (IPO) in 2012, it had two new listings—but de-listed four companies. Three banks were also de-listed and re-listed in compliance with the holding company structure initiative of the CBN.

In pursuit of its transformation initiatives, the NSE during the period under review appointed an executive director for its business development division as well as the head for the legal and regulation division. The NSE also kicked off a financial literacy programme –the investor

http://2.bp.blogspot.com/-i_KaiqQSxjs/T8ZCEbvJs_I/AAAAAAAAAHI/6sS66hHUhYA/s1600/oilrig.jpg clinic aspect of this was delivered in partnership with Morgan Stanley and Renaissance Capital. In the area of market development, two fiscal policy initiatives that took place during the last quarter 2012 also impacted the activities on the bourse. The FGN announced the elimination of value-added taxes (VAT) and stamp duties on all stock market transactions, to provide investors relief on transaction costs. Also, the Federal Government announced a N22.60 billion (US$145.39 million) debt relief package on the margin loan debt of 84 brokerage firms. Both measures have the potentials to further drive activities in the market in the short to mid term.





OIL & GAS, POWER & ELECTRICITY

The Nigerian National Petroleum Corporation (NNPC) reported output averaging only 2.19 million barrels per day (mbpd) in fourth quarter 2012, compared to an average of 2.39mbpd in same period in 2011. There was also a slight contraction in production of both crude oil and natural gas during the quarter, the fifth situation of a year-on-year slowdown in the past six quarters. This is attributable to slowing investment as operators await a new legal framework and continuing vandalism and sabotage on oil pipelines and installations. It is likely however that low investment will be addressed shortly, with the passage of the Petroleum Industry Bill (PIB), which seeks to modernise and clarify operations in the sector.

During the last quarter 2012, higher supply growth and concerns regarding the health of the global economy left oil prices on a steady decline, particularly since mid-September. This downward pressure persisted as mounting concerns of a global economic slowdown, a pessimistic future demand outlook and significant crude stock build-up in the United States outweighed supply worries due to geopolitical factors. Particularly, the US presidential election, China's leadership transition, the Israeli general election and Iran's threat to stop all crude exports were some of the factors that influenced oil prices during the review period. Thus, Organization of Petroleum Exporting Countries (OPEC) Reference Basket (ORB) dropped in October for the first time since June, to stand at US$108.36 per barrel. It slipped further in November, despite the increase in global crude oil prices, dropping to US$106.86 per barrel. For Nigeria however, the level of oil prices remained far above its 2012 budget benchmark of US$70 per barrel—leading to the 'boost' in external reserves and Excess Crude Account (ECA) that prevailed for a better part of the year.

In the power sector, efforts at privatizing the generation companies (Gencos) and the distribution companies (Discos) dominated all activities in 2012 and particularly in the last quarter. Specifically, on September 5, 2012 President Goodluck Jonathan inaugurated the re-constituted Presidential Action Committee on Power (PACP) which he chairs and the Presidential Task Force on Power (PTFP) charged with the responsibility of developing, monitoring, facilitating and fast-tracking the power sector roadmap delivery targets, among other things. Privatizing the successor-companies of the PHCN which commenced in 2010 led to the short-listing of 207 inter-

ested parties from the Expression of Interest (EOI) exercise. Fifteen preferred bidders emerged from the long list during the last quarter 2012.

On September 25, 2012, the National Council on Privatization (NCP) announced the winning bids for five (5) out of the six (6) Gencos unbundled from the Power Holding Company of Nigeria (PHCN). Other winning bids for the other Genco and Discos were also announced during the year. According to the Presidential Task Force on Power (PTFP) these winning bidders altogether raised bank guarantees worth US$335,854,986, which was made available to the Bureau for Public Enterprises (BPE).

The PTFP also reported that additional power from the National Integrated Power Producers (NIPP) and other Independent Power Producers (IPP) were distributed to key urban and industrial centres during the year. Generation from most power stations, the PTFP said, was maintained in 2012 with significant capacity increases recorded for Shiroro Hydro. Generation during the year achieved a new peak of 4517.6MW on December 23, 2012, while a record average energy sent out of 4,028.85 MWh/h was attained on December 4, 2012.

This increased level, according to the Task Force, was due mainly to improvement in fuel, favourable water conditions for the hydro power plants and some completed evacuation gap closure projects allowing some of the power from newly-commissioned NIPPs - Omotosho (+450 MW), Olorunsogo (+112.5 MW), Sapele (+225 MW), Alaoji (+225 MW) - and IPPs (Rivers) to contribute to the power grid.

BANKING AND FINANCE

The plethora of initiatives adopted by the CBN to achieve a balanced growth and development of the economy (many through the Bankers' Committee) played out all through 2012. Some of these initiatives include: the Nigerian Sustainable Banking Principles (NSBP); Financial Inclusion Strategy; the Intervention Funds, etc. The Sustainability principles entail managing environmental and social risks in business decisions, safeguarding human rights, promoting women's economic empowerment, improving governance, transparency and accountability. It also involves managing bank's own environmental and social footprint, supporting capacity building in the financial sector and promoting collaborative partnerships to accelerate sector progress, among others.

In pursuit of all these, the NSBP and sector-specific guidelines (agric, oil & gas, power) have been developed and adopted for implementation while a sustainability committee is already set up in the CBN to provide oversight for the industry's implementation. Similarly, the CBN and the Bankers' Committee launched in October 2012, the national financial inclusion strategy aimed at reducing the number of adults excluded from access to financial services from about 46 per cent in 2010 to about 20 per cent in 2020. In order to achieve this target, the strategy focuses on increasing access to/take up of – credit, payment, savings and products etc - and channels (ATMs, POS', retail agents, DMB branch networks, etc).

A pilot implementation phase of the financial inclusion initiative has commenced in Borno State, where the Bankers' Committee, Federal Ministry of Technology and the State Government are already putting up structures for tracking the performance of the programme. The effort is intended to significantly improve the rate of employment in the state and provide a sustainable platform for achieving greater security of lives and properties in the entire state.

Under the women economic empowerment initiative aimed at promoting women into leadership and deci-

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sion making roles, the Bankers' Committee declared 2012 the year of 'Women Economic Empowerment'. In this regard, the apex bank in 2012 appointed Some qualified women into key positions, and a number of DMBs have since followed suit.

The CBN and the deposit money banks pursued vigorously the first major policy in 2012: the Cashless Lagos. The policy aimed at moving away from cash-based economy to electronic payment system saw a massive promotion of the various e-payment channels such as the Automated Teller Machines (ATMs), Point of Sales (PoS) terminals, mobile banking technology and internet banking, among others. The licensing of seven mobile money operators by the CBN in September provided a boost to the entire programme.

Under its economic development intervention efforts, the CBN in 2012 led a team to float NIRSAL Plc—a Nigerian focused start-up, non-bank agric financial services corporation to drive the market for agribusiness in the country. NIRSAL is Incentive-based Risk Sharing for Agriculture Lending. NIRSAL has already launched multiple "Financing Guidelines" to support banks' capacity building and lending; it has also commenced some pilot "value chain fixing" initiatives. Examples include the Lagos N30 billion aquaculture project to capture about 25 per cent of Nigerian fresh fish consumption; the N48 billion tomato paste production and processing domestication project, etc.

The apex bank also pursued with commitment, the implementation of the new banking model, as well as the adoption of the International Financial Reporting Standard (IFRS) by all DMBs. Thus, a number of banks during the period under review, engaged in their transition efforts to holding companies or other variants. A number of new banks were also putting finishing touches to their efforts to commence business. They include Societe Generale Bank which was preparing to commence operations as Heritage Bank; First Securities Discount House which was transforming into a merchant bank; Rand Merchant Bank which opened shop in Lagos, etc.

Telecommunications and ICT

Despite increasing complaints from the telecoms industry regulator (Nigerian Communications Commission) and mobile phone users over poor quality of service (QoS) by operators, telephone subscriber base kept increasing all through 2012, and particularly during the last quarter. Thus, the total number of GSM lines rose from 112.66 million in January to 135.25 million at end-December, 2012, according to NCC data. The CDMA segment moved from 13 million to 14 million during the same period. In deed, total connected lines grew from 128 million to 151.7 million in the same period. Similarly, active lines went up from 96.15 million to 113.20 million. These translated to the teledensity rising from 68.68 in January to 80.85 in December 2012, a development that further underscores Nigeria as the fastest growing telecoms market in Africa.

The issue of number portability also remained on the front burner in the last quarter 2012. Specifically, the NCC which commenced industry stakeholders' consultations on the matter in July 2012, appointed a consortium of three firms to operate the mobile number portability (MNP); and by November 2012, the body was already integrating its data with the NCC data centre, where data on all registered SIM cards had been captured and stored. The full operation of the MNP scheme is expected to commence in the first quarter of 2013. Also, in the exercise of its regulatory powers, the NCC early in November banned all promotions by Telecommunications Network Operators as well as lotteries being carried out on such networks. The ban also affected all proposed and approved promotions and lotteries on which the Commission had given approval further to the Memorandum of Understanding (MOU) entered into with the National Lottery Regulatory Commission (NLRC).

Justifying the measure, the NCC said the promotions and lotteries had increased the number of minutes available to subscribers for use within a limited period of time thereby creating congestion in the networks as subscribers try to use up the available minutes within the stipulated time. It added that on-net calls were being offered by Operators at tariffs well below the prevailing inter-connect rates thereby introducing anti-competitive practices and behaviour. The NCC said the termination of calls had also become difficult from one network to another and overall consumer experience on the networks had become very poor thereby making it extremely difficult for subscribers to make calls successfully.

Also in November 2012, the NCC made it mandatory for all telecoms operators to provide an instant SMS billing service to all their subscribers at the end of each call, as well as provide full cost details of every call and available balances. The move is aimed at curbing complaints over billing irregularities. The commencement date for the service, free for all subscribers in the country, was November 1. Any operator that fails to introduce the service would be fined N5 million as sanction and an additional N500,000 for every day the contravention persists, according to the NCC.

In 2012, each of the operators made some developmental strides, further positioning themselves for competition in the almost 'saturating' telecommunications market. In October 2012, Visafone signed an agreement with Research In Motion (RIM) to launch BlackBerry services on its CDMA network. The agreement made Visafone the first service provider to introduce CDMA-enabled BlackBerry smartphones in the Middle East and Africa region, according to the company's Chairman, Jim Ovia. The range of devices available on the network will include Curve 9310, Curve 9370 and Bold 9930, all of which will run on the BB7.1 operating system and can serve as mobile hotspots. The Bold 9930 and Curve 9370 are NFC-enabled and allow users to share information, documents and multimedia content by simply tapping their phones together. On its own part, Globacom in November 2012, began connecting new residential estates in Lagos and other cities to its fixed-line network. The operator is offering voice and high-speed internet services via its Glo Broadaccess infrastructure. In December 2012, Airtel Nigeria successfully completed its first 4G LTE trial, according to the company's CEO, Rajan Swaroop. This is towards the commercial roll-out of the LTE technology.

MTN Business launched a pilot project for its cloud computing service in six countries in Africa, including Nigeria, on December 6 2012. MTN launched the Cloud Service Brokerage (CSB) model, which centralises access to various services in the cloud ecosystem with a broker, in this case MTN, acting as a single point of contact for customers by aggregating, integrating and implementing cloud services from multiple providers. The operator is targeting small and medium-scale enterprises (SMEs) for the pilot which runs until the end of January 2013. According to MTN Nigeria, participating firms will gain access to centralised services on the platform, including Microsoft Office Desktop, Mozypro, Dialcom, McAfee, Averiware, Microsoft Sharepoint and Microsoft Dynamics CRM.

MainOne Cable Company, also during the period under review, announced that it had formed a business partnership with Phase3 Telecom to increase penetration of broadband internet in Nigeria and West Africa by bringing affordable services to the region.

MainOne Cable Company, also during the period under review, announced that it had formed a business partnership with Phase3 Telecom to increase penetration of broadband internet in Nigeria and West Africa by bringing affordable services to the region. Under the partnership, the pair will offer Nigerians high capacity broadband services using Phase3 Telecom's aerial fibre network and Main One's bandwidth deployed through its undersea cable. The partnership requires the integration of the pair's networks and collaboration in provisioning and service delivery.

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

NIGERIA INCENTIVE-BASED RISK SHARING SYSTEM FOR AGRICULTURAL LENDING

NIRSAL

Credit Risk Guarantee and Interest Drawback Fund Operational Guidelines and Operations

Effective Date: April 4, 2012

1. NIRSAL Background

1.1. The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) is an initiative of the Central Bank of Nigeria (CBN), the Bankers Committee (BC) and the Federal Ministry of Agriculture & Rural Development (FMA&RD). Important design and structuring input was also provided by numerous stakeholders including farmer groups, other Ministries, Departments and Agencies (MDAs), processors, civil society groups, and financial services providers.

1.2. NIRSAL is currently a project implementation office (PIO) within the Central Bank of Nigeria's Development Finance Department (DFD). NIRSAL intends to evolve into aprivate non-bank financial institution (NBFI) once all appropriate authorizations, registrations and documentation are concluded.

1.3. The mandate of NIRSAL shall be to act as the custodian of all credit guarantee schemes, interest draw back schemes, and commercialization initiatives related to an integrated value chain approach to agriculture and agribusiness in Nigeria. Policy formulation responsibilities will remain with the appropriate line ministries.

1.4. In order to ensure responsiveness of its overall guidelines to evolving market conditions, NIRSAL will periodically meet with key counterparties and stakeholders to discuss technical issues related to the optimal functioning of the guidelines.

1.5. All rights and responsibilities associated with NIRSAL prior to the creation of the NBFI will be automatically transferred to the NBFI and its successor entities once legally formed.

2. Definition: NIRSAL and De-Risking the Agriculture Value Chain

2.1. NIRSAL is a Risk Sharing Fund (herein after, "Fund") designed to identify, redefine, measure, re-price and evolve strategies for the risks of lending to the Nigerian agriculture value chain.

2.2. The intention of the Fund is to create incentives and catalyze processes to encourage the growth of formal credit (direct and indirect) for the agriculture value chain, as a mechanism for driving wealth creation among value chain participants. NIRSAL is also expected to be

a catalyst for innovative risk management strategies, long term financing for agribusiness, and significant job creation by new entrepreneurs and established market participants in the agribusiness sector and broader Nigerian economy.

2.3. An increase in formal credit inflows into agriculture will be achieved by improving the capacity of financial intermediaries to provide credit, refocusing credit provisioning on integrated value chains, and establishment of a differentiated guarantee mechanism to share credit related risks in the value chain. The net goal is creating confidence for additional counterparty balance sheet risks in agriculture. The anticipated net impact of the NIRSAL framework is to improve the pricing, management and understanding of risk in formal lending to agriculture related enterprises by a wide range of financial intermediaries and investors.

2.4. CBN in 2011 required that all deposit money banks establish independent agriculture desks/departments and skilled teams whose knowledge base and expertise will grow over time, and therefore expand their capacity to respond to the evolving needs of the agribusiness economy.

2.5. From the effective date of the guidelines, non-deposit money bank credit providers, trade finance provider, debt capital market operators and other credit providers who are direct counterparties of NIRSAL will have to comply with the agriculture desk requirement. We also expect that deposit money banks will also comply with the relevant sections of the Prudential Guidelines related to agriculture e.g. Sections 9 and 12 as prescribed by the Central Bank of Nigeria.

3. The NIRSAL Risk Sharing Fund

3.1. The NIRSAL Risk Fund ("Fund") in FY 2012 is composed of two parts: (i) a 45 billion Credit Risk Guarantee (CRG) component covering losses on loans per contractual specification, and (ii) a 5 billion Interest Draw Back program (IDP) providing interest payment support on loans issued under NIRSAL guidelines.

3.2. The initial 50 billion capital pool will be further expanded subject to ongoing discussions within CBN, as CBN intends to transfer additional funds to NIRSAL by rolling into NIRSAL certain existing programs managed by the CBN.

3.3. NIRSAL will also work with relevant Federal MDAs, State Governments and 3rd party capital providers (domestic and foreign, government and private) who want to co-invest in the Fund.

3.4. The Fund shall be self-sustaining as a result of being periodically topped up by the cash proceeds from client subscriptions to the risk guarantee product, prudent provisioning for non-performing loans, earnings on the Fund's investments, and net credit risk outlays.

4. Broad Operating Principles of the Fund

4.1. The Fund refers to the capital base of NIRSAL dedicated to providing credit risk guarantees associated with the agribusiness value chain. NIRSAL does not place capital or credit lines with banks or other institutions for onward lending to borrowers.

4.2. The Fund and its guidelines shall be operational with **effect as from April 1, 2012**

4.3. Only loans issued after the effective date of NIRSAL's CRG launch shall be covered by the Fund. Such loans must be fully compliant with NIRSAL's Credit Risk Guarantee (CRG) Guidelines. However, loans issued prior to the effective date of NIRSAL's Guidelines launch shall on a case by case basis be allowed to purchase CRGs, **only** if the terms of such loans match the lending requirements of NIRSAL's Risk Sharing Fund.

4.4. The Fund's financial year runs from January 1 to December 31.

4.5. Counterparties of the Fund are to lend to the agribusiness value chain using their own and/or invested, deposited and/or aggregated 3rd party assets in the case of assets managers.

4.6. Such lending can be secured against loss by purchasing a "Credit Risk Guarantee" product (CRG) from NIRSAL over the life of the underlying loan or credit contract.

4.7. NIRSAL at its sole discretion reserves the right to re-guarantee the original CRG with a 3rd party e.g. a guarantee provider or a reinsurance corporation, local or foreign. NIRSAL also at its sole discretion can securitize elements of its CRG portfolio in order to create additional liquidity. Nothing in such liquidity creation actions should be construed as a negation of NIRSAL's primary guarantee obligation to its counterparties.

4.8. Only purchase of a CRG qualifies an underlying borrower to access the IDP. Nonetheless, counterparties are free to lend without an IDP or a CRG.

4.9. The credit provided by counterparties to the Fund shall be in the form of loans, and/or debt instruments such as short term notes, medium term notes, and long term notes. Parties are free to lend and invest such capital in any agribusiness value chain as they see fit.

4.10. The Fund will not guarantee equity instruments and investments. However, in the case of convertible debt, the guarantee cover will cease as of the effective conversion date of the debt instrument into an equity instrument.

5. **Financing Activities Covered by NIRSAL Guarantee**

All activities within the agribusiness value chain are covered with no exceptions subject to the additional requirements defined in this document. Should conflict arise in the course of a transaction, the Guidelines as of the date of the original transaction shall be the governing authority.

5.1. For the purposes of the Fund, **the agribusiness value chain is defined** as any economic/investment activity, the supporting equipment, and the specialized technical capacity and/or personnel required to execute such activity in the agribusiness and related value chain as articulated below:

5.1.1. The borrowings of State, Federal and Local Government entities if acting as project sponsor on an agribusiness value chain barrier removal project e.g. infrastructure with clear governance and segregated cash flows using mechanisms such as **a Special** Purpose Vehicle (SPV) with an independent board of directors.

5.1.2. Preparing land for livestock breeding or preparing land for planting i.e. clearing, treating soil, testing soil quality, etc.

5.1.3. Preparing water bodies and irrigation programs for use by the agribusiness value chain e.g. reticulation and dam construction

5.1.4. Developing cluster enabling infrastructure to reduce cost and improve **efficiencies** e.g. local road, bridge, dam, or power plants dedicated to agribusiness activities, and related networks

5.1.5. Procuring inputs such as animal feed, veterinary products (e.g. vaccines, artificial insemination and growth enhancers), embedded generation, agricultural machinery and equipment, seed (hybrid, genetically modified and open pollinated varieties), fertilizer (organic and inorganic), micronutrients (organic and inorganic), crop protection chemicals (organic and inorganic), and related material required to generate optimal crop and livestock yields

5.1.6. Raising livestock (including aquaculture) from infancy to production, harvesting, and preparation for sale independent of the end use of such livestock

5.1.7. Planting the seeds (including for replication purposes if breeder or foundation seed), nurturing the young crops, and managing the overall process through actual crop

harvest (including plantation management including protective chemical spraying, land based, aerial or otherwise)

5.1.8. Harvesting (manual, mechanical, automated and equipment based), onsite cleaning, processing and waste disposal

5.1.9. Storage and post-harvest handling providers (farm gate pick-up and storage services, grain elevator asset owners and managers, warehouse asset owners and managers, warehouse receipt operators, cold storage asset owners and managers, and other related storage options)

5.1.10. Transportation, logistics and maintenance specific to agribusiness and agricultural products transport (at least 40% of freight volume in past 6 months if existing provider) including trucking, railroad, air freight, freight and logistics management providers; activities covered include agricultural mechanization initiatives, including agro-service centers conducting leasing, hiring, and repair/replacement services for equipment as well as providers of aerial plant protection sprays etc.

5.1.11. Processors including primary, secondary and tertiary processors of harvested products (crops, livestock, aquaculture, etc)

5.1.12. Packaging companies serving the food, beverage and industrial **markets** with direct supply chain links to specified local agribusiness and crop value chains in Nigeria e.g. tomato paste brand owners who purchase and package paste from Nigeria based processors of raw tomatoes into paste

5.1.13. Wholesale downstream distributors serving only export and the following domestic end customer markets: hospitality providers (e.g. hotels, school lunch programs, fast food providers), supermarkets, and other large institutional buyers.

Trading companies and traders who import final processed products for domestic distribution are excluded from guarantee consideration.

5.1.14. Specialized service providers such as companies and training institutions (academic and professional) dedicated to agribusiness skill development, provision of extension services and demonstration of optimal practices in the value chain

5.2. The detailed breakdown of the value chain is hereby classified for purposes of monitoring and evaluation, as well as broad risk management as follows (see table):

The definition of the value chain is subject to periodic refinement by NIRSAL with input from the CBN, the FMA&RD, and other market participants. The definition in force at the time of the original transaction shall be the governing authority throughout the life of the underlying loan.

6. **Eligibility to Utilize Guarantee Facilities to Secure Borrowing (Underlying Borrowers and Obligors)**

6.1. Eligible borrowers under the NIRSAL guidelines shall be:

6.1.1. **Group 1**: Smallholder Farmers, Cooperatives and Farmer Groups (Single or Mixed Cropping): Farmers whose individual holdings do not exceed one of the following as appropriate in each credit cycle:

6.1.1.1. Land holdings of 10 hectares of land or less

6.1.1.2. Cattle (5 bulls or cows with a maximum of 10 cattle), or 8 rams or 8 goats or 10 pigs (irrespective of mix of boar and sows)

6.1.1.3. 200 birds or less birds (broiler or layer)

6.1.1.4. 1,000 fingerlings/juveniles or less

6.1.1.5. Each small holder is required to belong to a registered farmer group that is autonomous from political groups such as a state, local or federal government; such groups need not show a long history of existence in or-

Value Chain Category	Category Name	Illustrative and Non-Exhaustive Examples
Category 1	Preparation & Infrastructure	• Preparing land and removing physical barriers • Preparing water bodies / irrigation • Cluster Enabling Infrastructure
Category 2	Inputs	• Inputs (vaccines, veterinary products, animal feed, embedded power equipment, agricultural machinery, seeds, fertilizer, crop protection, micronutrients, and related material)
Category 3	Planting/Breeding, Nurturing & Harvesting	• Livestock raising / husbandry lifecycle • Planting • Crop management including weeding / replanting • Harvesting
Category 4	Storage and Post-Harvest Handling	• Storage • Post-Harvest Handling • Transportation • Logistics
Category 5	Processing	• Processing across all stages • Packaging companies
Category 6	Distribution	• Wholesale downstream distributors (export and domestic) • Specialized services providers

der to qualify. While new farmer groups can be formed for purposes of borrowing but each group must submit to due diligence terms as prescribed by the guidelines and their lender.

6.1.2. **Group 2**: Medium Sized Farmers, Cooperatives and Farmer Groups (Single or Mixed Cropping): Farmers whose individual holdings do not exceed one of the following as appropriate in each credit cycle:

6.1.2.1. Land holdings between 10.1 and 20.4 hectares of land;

6.1.2.2. Cattle (10 bulls or cows with a maximum of 20 cattle), or 20 rams or 20 goats or 30 pigs (irrespective of mix of boar and sows)

6.1.2.3. Between 201 - 500 birds (broiler or layer)

6.1.2.4. Between 1,000 - 5,000 fingerlings/juveniles

6.1.2.5. Such farmers if applying as an individual entity should be registered; if part of a farmer group, such a group must be a legally registered farmer group that is autonomous from political groups such as a state, local or federal government.

New groups can be formed for purposes of borrowing but each group must submit to due diligence terms as prescribed by the guidelines and their lender.

6.1.3. **Group 3**: Large Cooperatives, Corporations and Farmers (Single or Mixed Cropping): Farmers whose individual and/or commercial/corporate holdings equal or exceeds one of the following as appropriate in each credit cycle:

6.1.3.1. Land holdings exceeding 20.5 hectares

6.1.3.2. Cattle (80 or more bulls or 50 cows (milking or otherwise), or 100 rams or 100 goats or 100 pigs (irrespective of mix of boar and sows)

6.1.3.3. Over 501 birds (broiler or layer)

6.1.3.4. Over 6,000 fingerlings/juveniles

6.1.3.5. Such farmers if an individual entity is required to be a legally registered corporation, as well submit to due diligence terms as prescribed by the guidelines and their lender.

6.1.4. **Group 4**: Agribusiness: Corporations focused on processing agribusiness produce/feedstock, primary, secondary or tertiary with a clear purchase agreement or supply chain tied to domestic producers in Nigeria

6.1.5. **Group 5**: Logistics Providers: Providers of supporting transport and storage assets to the farming and agribusiness markets; category also includes wholesale distributors of agribusiness produce including hospitals, supermarkets, hotels and large end buyers

6.1.6. **Group 6**: Integrated Farms, Processors and Logistics: Enterprises whose business activities have explicit category overflows across crop production, processing and distribution e.g. road based transport providers.

6.1.7. **Group 7**: Agro-dealers, Input and Equipment Suppliers: Enterprises whose business includes the manufacture, supply and distribution of inputs (wholesale and/or retail) and agribusiness and food processing equipment e.g. rice mills; categories also includes general service providers at agro-service centers, as well as providers of maintenance services on a range of agribusiness equipment. Category also includes any 'outsourcing'/contractual services such as plant nurseries, aviation air sprays, meteorological forecasting, market information systems, fee for service database providers, and data analytics providers dedicated to the agribusiness community.

6.2. Irrespective of the source of the credit and the intended use, in order to be eligible for CRG and/or IDP support under the Fund, a prospective obligor/beneficiary/borrower shall:

6.2.1. Certify that the loan meets the guidelines published by NIRSAL, and commit to responding promptly to any questions raised by NIRSAL

6.2.2. Provide any additional documentation as may be required by NIRSAL to process the guarantee

6.2.3. Agree to random due diligence, audit and inspection of business or farm premises by NIRSAL and/or its appointed agents

6.2.4. Comply with the governance provisions of its applicable regulator e.g. filing of audited annual returns. For example:

6.2.4.1. *Cooperatives*: State and federal Cooperative Law as applicable

6.2.4.2. *Corporations*: the Companies and Allied Matters Act (CAMA) and Investment & Securities Act (ISA) as applicable

6.2.5. Comply with all applicable state and federal tax laws e.g. tax identification number, and regulations, as well as render regular returns to the appropriate authorities

6.2.6. Pay appropriate monthly premiums as spelt out in the guarantee agreement

6.2.7. Agree to comply with NIRSAL's filing and monitoring requirements including electronic submission, portfolio management and loan monitoring

6.2.8. Comply with other reasonable requirements as may be published by NIRSAL periodically

7. Eligibility to Operate As a NIRSAL Counterparty (i.e. Lenders and Issuers)

7.1. Eligible counterparties for NIRSAL shall be the following entities legally registered and authorized to operate in Nigeria:

7.1.1. deposit money banks;

7.1.2. other specialized banks e.g. merchant banks

7.1.3. debt capital market issuers/underwriters/investment banks/advisers;

7.1.4. discount houses;

7.1.5. development banks

7.1.6. specialized trade finance providers;

7.1.7. pooled asset managers/investment fund managers/private equity funds;

7.1.8. aggregated credit providers; and

7.1.9. related credit management parties e.g. industry associations or large farmer cooperatives who issue medium and long term bond financing on behalf of borrower pools

7.1.10. commodity and marketing corporations with

> **"Enterprises whose business includes the manufacture, supply and distribution of inputs (wholesale and/or retail) and agribusiness and food processing equipment e.g. rice mills; categories also includes general service providers at agro-service centers, as well as providers of maintenance services on a range of agribusiness equipment. Category also includes any 'outsourcing'/contractual services such as plant nurseries, aviation air sprays, meteorological forecasting, market information systems, fee for service database providers, and data analytics providers dedicated to the agribusiness community."**


http://www.osundefender.org/wp-content/uploads/2012/10/farmers487487341.jpg

sufficient governance safeguards

7.1.11. farmer aggregation platform managers and related service providers registered as corporations

7.2. To be eligible as a counterparty to the Fund, a prospective obligor/beneficiary/borrower shall:

7.2.1. Enter into a Master Agreement with NIRSAL

7.2.2. Conduct proper due diligence on all loans and credits issued, and at NIRSAL's request, make the proceedings of such reviews available for analysis

7.2.3. Apply for the CRG and/or IDP on behalf of clients on NIRSAL's designated form.

7.2.4. Certify that the form of credit issued meets the guidelines published by NIRSAL, and commit to responding promptly to any questions raised by NIRSAL

7.2.5. Provide any additional documentation as may be required by NIRSAL to process the guarantee

7.2.6. Agree to random due diligence, audit and inspection of loan book, assets (pledge or otherwise), business premises, and/or premises associated with underlying lending or

underwriting by NIRSAL and/or its appointed agents

7.2.7. Comply with the governance provisions of its applicable regulator e.g. filing of audited annual returns:

7.2.7.1. *Cooperatives*: State and federal Cooperative Law as applicable

7.2.7.2. *Banks and other Corporations*: existing CBN prudential and reserve guidelines as well as related regulations governing financial institutions, the Companies and Allied Matters Act (CAMA), and the Investment and Securities Act (ISA)

7.2.8. Comply with all applicable state and federal tax laws e.g. tax identification number, and regulations, as well as render regular returns to the appropriate authorities

7.2.9. Agree to comply with NIRSAL's filing and monitoring requirements including electronic submission, portfolio management and loan monitoring

7.2.10. Comply with other reasonable requirements as may be published and amended by NIRSAL periodically

8. Modalities of the Fund

8.1. Purchase of a CRG from NIRSAL requires the payment of a guarantee fee of **3.0% per** annum or 25 basis points per month (0.25% per month) on the outstanding balance **of the guaranteed portion of the loan, credit line, bond issue or related instruments**.

8.2. The guarantee fee covers the credit related risk of default related to the principal loan and interest accrued.

8.3. The fee will be used to partially cover NIRSAL's operational costs and be invested in a reserve treasury account from which loan and credit losses will be paid, as well as a portion of the IDP provided from.

8.4. At NIRSAL's sole discretion, the guarantee fee may be subject to revision by NIRSAL based on the projected and actual portfolio losses NIRSAL faces each financial year.

However, once a contract is signed the guarantee fee for that specific contract remains fixed for the duration of the specific contract.

8.5. Counterparties to the Fund's guarantee and related schemes **are required to lend based** on project cash flows and the protective value of NIRSAL's credit risk guarantee **since parties are made whole up to the level of coverage.**

8.6. Be that as it may, notwithstanding the provisions above, at their discretion in order to improve initial credit risk comfort, counterparties are also **allowed to require**

that borrowers make equity and collateral contributions as follows:

8.6.1. Collateral: Subject to the specific credit risk involved, multiple forms of collateral shall be accepted including credit bonds issued by insurance companies or related parties, title to farm land, an off-taker's surety or credit collateral or guarantee, off-taker contract, and innovative contract specific collateral acceptable to all the parties in the transaction

8.6.2. **Equity:** Between 0% - 20% equity based on the size of the credit, the transaction's specific risk conditions and the specific terms agreed between the parties. Equity contributions exceeding 20% will be grounds for rejection of the CRG application and sanctioning of the counterparty by NIRSAL.

8.7. NIRSAL encourages large off-takers whose capacity to borrow at the lowest cost of capital and implied collateral/equity requirements to become the borrower instead of small and medium sized farmers (SMF).

8.7.1. In such arrangements, the off-taker borrows cash but distributes primarily inputs or intermediate materials to farmers or contractors via its supplier network, and is repaid with product at a negotiated price or cash.

8.7.2. SMFs are encouraged to join such off-taker arrangements while building their credit history. In such arrangements, off-takers are required to share individual farmer repayment history with banks and credit bureaus in order to support overall risk pricing transparency.

8.8. In the medium to long term, cash flows associated with **off-taker arrangements** i.e. buyer agreements between parties in the supply chain, off-taker contracts, forward purchase contracts, and related documentation will become the basis for a significant portion of lending under NIRSAL's risk umbrella.

8.8.1. We strongly encourage counterparties to develop the capacity to structure such contracts while NIRSAL continues to work with other stakeholders to eliminate or minimize factors that constrain the full migration to market based risk e.g. availability of warehouses, reduction in side-selling, quality of collateral and existence of credible off-takers.

8.9. In return, counterparties can require as a condition for lending that cash proceeds from the underlying transaction be escrowed at a bank of their choosing and a right of first refusal to the proceeds granted by the borrower in return for lending without, minimal or nontraditional collateral.

8.10. Parties to an off-taker and/or credit supply agreement are expected to agree up front based on the economics of the underlying business what the project or venture's costs and revenues are, and what portion of cash inflows will accrue to the lender as repayment on the loan, bond or credit.

8.11. Underlying borrowers are also encouraged to adopt a business model with their suppliers and parties to an off-taker agreement that replicates the arrangements with the credit providers, in return for forward input supplies and periodic maintenance stipends where applicable e.g. payments to farmer groups in between nursery or planting and harvest periods

8.12. In the absence of off-taker contracts, NIRSAL encourages lenders to explore creative ways of financing including taking a pledge over stocks being financed but temporarily stored in warehouses.

8.13. Loans, credit lines, bond issuances and related non-equity instruments provided by counterparties shall be utilized as seen fit by the lender and borrower. Proceeds of loans guaranteed by NIRSAL counterparties however cannot be used for equity instrument purchases.

8.14. Interest on loans, credit lines, bond issuances and related instruments shall be competitive and market determined. NIRSAL will not specify minimum and maximum interest rates. The rates will be commercially determined based on existing MPR, and risk assessment of the transaction. NIRSAL's IDP will be applied after a commercially sound transaction is structured in order not to interfere with the orderly evolution of agribusiness finance markets.

8.15. NIRSAL's counterparties are encouraged to work with credit distribution partners such as microfinance institutions, trade credit providers, mobile banking providers and related institutions as part of mechanisms to improve retail distribution and financial inclusiveness especially in rural markets.

8.16. For institutions without a sufficient footprint in key agribusiness breadbasket regions, NIRSAL recommends identifying reputable local entities to provide distribution partnership as well as act as a source of new business leads. NIRSAL's Technical Assistance desk will provide training support for such parties to ensure optimal functioning of such partnership arrangements.

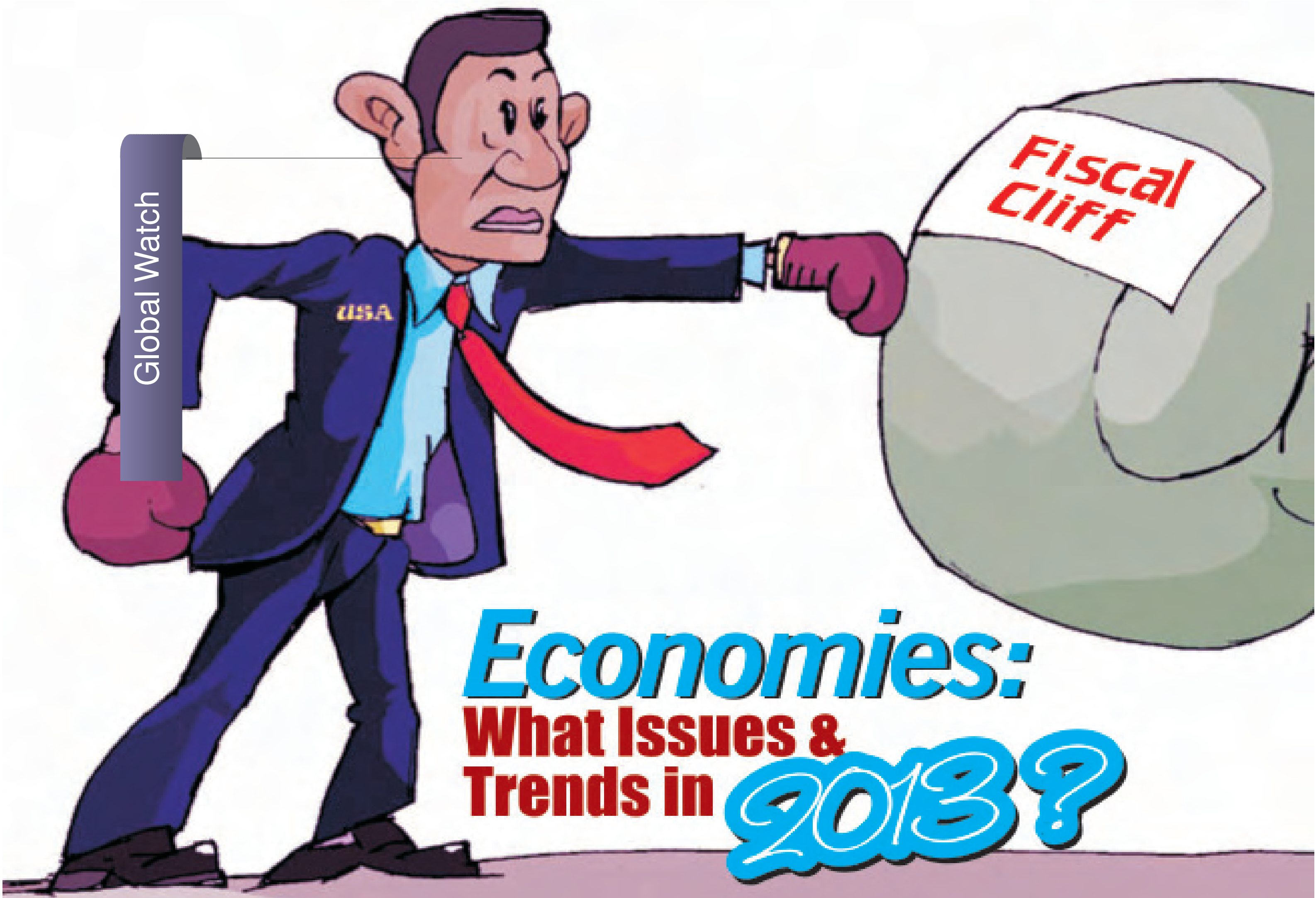
8.17. Participants who choose to partially outsource part of their loan origination and distribution should ensure that their partners sign a service provider agreement which extends the rights and responsibilities of the NIRSAL Master Agreement to such parties.

8.18. When appropriate, distribution companies are also encouraged to sign Master Agreements directly with NIRSAL, allowing them to benefit from the upside and incentives afforded such primary entities.

8.19. NIRSAL will directly provide technical assistance, capacity building, training material and in-person courses to all credit providers on a range of issues e.g. cash flow based lending, management of risk, agriculture value chain opportunities, etc. in order to broaden overall market knowledge and understanding of agriculture.

(Continued next edition)

ISSUED THIS 4TH DAY OF APRIL, 2012
BY CENTRAL BANK OF NIGERIA
ABUJA HEADQUARTERS FOR AND ON BEHALF OF NIRSAL



Economies: What Issues & Trends in 2013?

By EUNICE SAMPSON

After an eventful 2012, the world is set to face the realities that 2013 will bring. There is no doubt about it … several unanticipated developments will surface in the global economy this year. But a great deal of the critical issues will be mostly fallouts or carryovers from the previous year(s).

The lingering, stubbornly high unemployment rate in virtually all regions of the world would definitely be one of them. And so would the near stagnant economic growth in the most developed economies. Other critical issues world leaders and other stakeholders would worry about include mounting sovereign debts and fiscal deficits and the realities of the shifting balance of economic power. For the low income economies of this world, the fallouts of unequal distribution of wealth, including high rate of poverty, armed conflicts, and socio-economic and political unrests would again be the issues to ponder.

Ravaging unemployment … which way out?

Perhaps one of the biggest headaches world leaders will face in 2013 is the high rate of unemployment that has so far defiled solutions. For the first time in a very long time, unemployment has become not just a problem of low income countries, but of the entire global economy.

According to the International Labour Organization (ILO), unemployment increased by a whopping 4 million in 2012 driven by an unimpressive global growth performance. The most developed economies, especially in Europe, added the greatest number to the list of the unemployed. Among the world's biggest economies, seven out of the ten countries with the highest unemployment rate are in the European Union. The pack is led by Greece with unemployment rate of 26.8% as at October 2012; followed by Spain with 26.1% as at December. Portugal ended the year with 16.9% unemployment rate; Ireland with 14.6% and France with 10.6%. Unemployment rate in the Euro area as

estimated by Eurostat ended in 2012 at 11.70%. Outside the Euro area, unemployment in the United Kingdom increased to 7.80% in December 2012 from 7.70% in the preceding month.

But the unemployment worry is not peculiar to the European economies. Since the 2007/2008 economic crisis, the US alone has shed over 8 million jobs. Five years on, not up to half of this number has been recovered. The problem is already generating new concerns as we enter another year. According to the Bureau of Labor Statistics, US unemployment rate ended the first month of January 2013 at 7.9%, up from 7.80% in December 2012. Despite its own throng of economic woes, the age-ravaged Japanese economy remains about the least perturbed by the growing unemployment among the developed economies. As at December 2012, Japan's unemployment rate was an enviable 4.20%.

Perhaps the biggest problem presented by the unemployment crisis today is the unprecedented rate of youth joblessness. The ILO estimates that 73.8 million young people are unemployed worldwide and that the persisting global economic slowdown would likely push more into unemployment in the next couple of years. The global youth unemployment rate, which rose to 12.6% in 2012, is expected to increase further to 12.9% by 2017.

At 23.3%, again the Euro zone tops the list of youth unemployment among the developed economies with Greece and Spain holding the records of over 50% unemployment rate among young people who are willing and able to work. Youth unemployment currently stands at 20.5% in Britain, according to the Office for National Statistics; and 17.1% in the United States, according to the Bureau of Labor Statistics. The average youth unemployment rate across the G20 economies is 20.4%. Surprisingly, youth unemployment more than doubles the general rate of unemployment in all these economies … a worrisome trend indeed.

According to the latest ILO estimates (Global Employment Trend 2013; January 22, 2013), there will be 74.2 million unemployed youth aged 15 to 24 in 2013, an increase of 3.8 million since 2007.

Another interesting dimension to today's labour market is its growing globalization. Employers and employees alike now have a greater space to pick from. But whether this development has helped to increase job availability in some regions at the detriment of others is a contentious issue.

Perhaps an even more controversial trend in the global labour market is the growing automation of work processes. Machines are gradually taking over the role traditionally played by human workers. It could be argued that instead of humans against humans, the greatest competitors that workers and job seekers now face are man-made software running on man-made machines. The more corporations go *'live'*, the less human hands they recruit.

So, from 2013, what efforts will policy makers be making to reverse the ravaging unemployment trend? Analysts

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have different advice for world leaders, some of them contentious or example, some have called for governments to close their labour market to the forces of globalization during tough times, to ensure that the locals do not have to contend with job seekers from other parts of the world for the few available vacancies. But is this a sustainable option?

Others have suggested the adoption of the Germany-styled confrontation with youth unemployment where firms are given tax incentives as rewards for providing useful training for the youths and reducing their working hours during economic crisis rather than outright lay off. This model seems to have worked in Germany where youth unemployment is currently at about 8%, compared to the average of 23.3% in the Euro zone as at December 2012.

For the umpteenth time, world leaders would again go back to the *drawing board* in 2013 in an effort to address the menace of skyrocketing unemployment. The ILO suggests policy consistency on the part of policymakers and an increase in disposable income to boost consumption and encourage increased output and therefore job creation. It also advocates banking sector reforms and enhanced credit flow, especially to the productive sector of the economies, and debt easing for the most indebted households and sovereigns.

Stimulus rather than austerity economic measures have also been proposed as a way of boosting growth and economic activities. For the low income regions, economic diversification with emphasis on agriculture and other highly productive sectors would significantly address the ballooning unemployment problem.

Very importantly, the ILO advocates strongly for deliberate measures that would stimulate a reversal of the alarming rate of youth unemployment across the globe, including enhancing the employability of young people through practical education, retraining and entrepreneurial skills development. It also calls for policy measures that would ensure that the young and inexperienced are not discriminated against in the ever competitive labour market.

As the landmark 2015 timeframe set by the UN to halve global poverty rate draws near, perhaps one of the biggest handicaps to the realization of this goal is the growing rate of unemployment in all regions of the world. But experts are more optimistic about the outlook for 2013, at least for some regions. Regions with a blossoming middle class population, strong GDP growth and robust investments in infrastructure development would be able to recoup some of their lost jobs from 2013.

However, this optimism seems more likely in the developing regions. Current realities in the developed world indicate that significant job recoveries might not be achieved in the very short term. Globally, the labour market outlook remains gloomy. The ILO expects a further rise in the number of unemployed worldwide by an estimated 5.1 million in 2013 and another 3 million in 2014, taking the population of the globally unemployed to more than 205 million that year.

Growth … now too slow!

The sorry unemployment situation in major EU economies in 2012 does not come as a surprise. Virtually all the countries in that bloc either declined or grew below 1% last year. Greece for example contracted -6.9% in 2012; Italy by an estimated -2.0%; Portugal

by -0.9%; Spain, by -0.7% and Ireland, -0.2%. France managed a 0.1% growth while Germany also grew by 0.7%. After a surprise 0.9% growth in the third quarter of 2012 boosted by the Summer Olympic Games, the UK economy shrunk by -0.3% in the last quarter of 2012 and ended the year at around 1.0% growth.

The world's third largest economy, Japan fared even worse with an estimated -0.4% contraction at year end 2012. Among the world's top 5 economies (excluding China), the US in 2012 was the top performer with a GDP advancement of 2.2%, a major improvement on its 1.8% growth the previous year.

The buoyant BRIC economies did not achieve their traditional growth pace either. After a disappointing 0.6% growth in the third quarter of 2012, Brazil expectedly achieved about 1.0% growth in 2012. Russia fared relatively better at an estimated 3.5% growth but a limp performance compared to the over 4.0% recorded in 2011. From 8.4% growth in 2010, 6.5% in 2011, and an estimated near 6% in 2012, India is forecast to advance by slightly over 5% this year, an unimpressive performance by one of world's fastest growing economies. Its forecast 2013 growth would be India's worst performance in a decade.

China snapped out of seven consecutive quarterly drops in growth to record an encouraging 7.8% in the fourth quarter of 2012, far beyond the expectations of many. But the 7.7% growth estimated for year end 2012 is its slowest growth in over a decade and a far cry from the 2010 growth of 10.4% and 2011's 9.2%.

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The outlook for the BRIC economies this year is however mixed. While China is mostly expected to build on its fourth quarter 2012 improvement to achieve a better growth in 2013, others like Brazil and India are more likely to experience slower growth. Russia on the other hand, is forecast to sustain the moderate growth it recorded last year. The World Bank expects the Russian economy to advance by 3.6% in 2013, 3.9% in 2014 and 3.8% in 2015.

Africa continues to weather the global economic storm relatively well. After a 4.9% growth in 2011, Sub Saharan Africa sustained its now traditional near 5.0% annual advancement with an estimated 4.8% growth in 2012. But the continent is not immune to the crisis in the Euro zone and the worrisome

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http://www.newsportsplayers.com/2012/07/london-olympic-2012-facts-and-figures.html

economic slowdown in China, a growing economic ally. The continent's five biggest economies, (South Africa, Egypt, Nigeria, Algeria and Morocco, in that order) witnessed mixed performance last year. South Africa for example was buoyed down by weaknesses in the global economy and its own structural weaknesses, leading to growth deceleration below 3.0% in 2012 after a 3.1% growth in 2011. However, outlook for 2013 seems brighter as several analysts project up to 3.6% growth this year based on optimism about global economic recovery and a resolution of the Euro zone crisis.

Africa's second biggest economy, Egypt was in 2012 weighed down by its internal socio-political unrests which were mostly fallouts of the Arab Spring and the effects of the global economic slowdown. A slow growth of 1.5% was achieved in 2012 with experts on that economy expecting a rebound of above 3.0% this year. Nigeria, one of the continent's fastest growing economies and its third largest also experienced some growth deceleration in 2012. Its estimated 6.6% growth last year was the slowest in three years, after recording 7.0% in 2009, 7.8% in 2010 and 7.4% in 2011. But its outlook for 2013 remains bright.

The World Bank estimates that the global economy advanced by 2.3% in 2012. By and large, the world economy is expected to fare fairly better in growth progression this year. But the pre-crisis average growth pace of around 5% would still take some time to accomplish. The World Bank puts global growth prospect at 2.4% in 2013, 3.1% in 2014 and 3.3% in 2015. For economies that have failed to improve, some stimulus might be in the offing again this year, while some, as we saw in 2012, would toe the path of stringent economic measures.

The struggle to reverse the trend of contracting growth in most of Europe, America, Asia and other parts of the world will no doubt occupy the front burner of global issues in 2013.

Debts, debts and more debts!

Demand and consumption are slowing, the productive sectors are not producing at full capacity, export earnings are dwindling and so is GDP growth. Not surprisingly, in several key economies, governments' expenditures now far exceed the revenue generated. The outcome is mounting fiscal deficits and of course, debts. Government's deficit – the gap between how much money it earns and how much it spends – has become a major economic and political issue in most countries.

Mounting national debt and record fiscal and trade deficits were a major headache for world leaders in 2012. Unfortunately, the problem, which does not have a quick fix solution, has been carried over into 2013. Currently, US public debt as percentage of GDP is 74.5%; in Japan, it is 198%; Italy, 119%; UK, 91.4%; Spain, 74%; Germany, 95%;

Greece, 196%; France, 87%; Ireland,175% and Portugal, 110%. Among the world's largest economies, the least indebted is Russia with public debt at about 10.3% of GDP, followed by China with 16%.

The U.S. government ran a $1.089 trillion budget deficit in the fiscal year that ended September 30, 2012, about 7.0% of the country's 2012 GDP. Though an improvement on the 2011 deficit of $1.297 trillion, or 8.7% of GDP and the deficit peak of $1.413 trillion (10.1% of GDP) in 2009, yet the figures remain too high for comfort. In 2013, the United States government will continue with the frustrating politics of tax negotiations and spending cuts to reign in escalating debts and deficits.

The US situation reflects the realities in most advanced economies right now. Operating at a current budget deficit of about 10% of GDP, Japan, the UK, the Euro zone and some developing economies are faced with tough fiscal challenges. Brazil posted a trade deficit of $4.035 billion this January, its biggest deficit on record. The gap was wider than the $1.3 billion deficit in January of 2012 and is an early indication that the ghost from the preceding year is yet to be put to rest.

Poverty and armed conflicts … 'who bells the cat?'

Poverty in the least developed economies of the world should be a major cause for concern for world leaders. The extent of globalization the world now enjoys goes beyond technological diffusion and a common market or information space. It also entails an easy proliferation of violence and armed conflicts, by whatever specific names they are called. There are more than enough empirical evidence to buttress the point that poverty and hunger breed socio-political discontent and uprising – and these are not without their far reaching global consequences. The fact that world leaders have so far failed to make any headway in significantly reducing global poverty, despite all existing theories and principles on the issue, is enough reason to place it at the fore front of issues to tackle in 2013, especially as the UN Millennium Development Goals set timeframe is barely two years away.

Beyond the usual lip service to reducing poverty in the low income regions is the need to obliterate those fundamental practices that persistently broaden the gap between the rich and the poor, whether at the individual or sovereigns levels. Chief of these are the imperialistic weapon called foreign debt and global capitalists practices that undermine the progress of low income economies and keep them perpetually underdeveloped and their natural resources unfairly exploited. On the domestic front, corrupt self-enrichment among the political leadership and reckless fiscal and monetary policies are retrogressive syndromes in low income regions that must be checked.

So, while the cyclical preoccupation with resolving economically induced social unrests continues way into 2013, whether any progress will be made on the issue or not will depend on the political will of national and global leaders to effect sustainable changes.

Shifting balance of power … is the world ready?

The rising influence of emerging economies, especially the BRIC countries will occupy a topical place in the private discourse of world leaders this year. The world economy is evolving at a historic pace, throwing up new issues and shifting the balance of economic power gradually in favour of the hitherto economic underdogs. According to OECD estimates, China will overtake the United States to become the world's biggest economy by 2016 … barely three years from now.

At the continental level, the UK is expected to overtake Germany in the early 2020s, to become the biggest economy in Europe. In Africa, Nigeria is forecast to overtake South Africa by 2017 to become the biggest economic power in the continent. In Asia, China at the end of 2010 leapfrogged Japan to become the largest economy in Asia and the second largest in the world in GDP, PPP terms.

But what would be the implication of these power shifts, especially among the G20 economies? And how would these changes impact the world, going forward? With the changing economic paradigm, will the world see more structured central governance in the years ahead?

For a world that now seems to be evolving and changing at the speed of lightening, leadership, whether at the national or global level will get ever more challenging and demanding. Is China or the other fast emerging economies ready for these seemingly swift changes and the leadership challenges they pose? Clear cut answers are not readily available to these disturbing questions … a good reason why the certain shift in economic power should be of grave concern to all.

US: from a 'fiscal cliff' to a sequester?

Series of tax cuts introduced during the George Bush (Jr.) administration were scheduled to expire on December 31, 2012 compelling the introduction of increases in income tax, estate and capital gains taxes, among others. In addition, automatic spending cuts legislated by the Budget Control Act of 2011 will also become effective on January 2, 2013. This legislation mandates the US government to cut public spending (defense and non-defense) by about $109 billion annually between 2013 and 2021 in an effort to curb mounting debt and fiscal defi-

http://hiromipaper.files.wordpress.com/2012/05/img_0163.jpg cit. The expected negative fallouts of these stringent fiscal measures effective 2013 is what have been described as the 'fiscal cliff'.

A last minute deal was struck between the US Presidency and Congress on January 1, 2013 to 'temporarily' avert the 'cliff'. But this move had failed to avert what has become the new buzzword in the global media this first quarter 2013 - the 'sequester'. Sequestration has been used to describe the automatic era of public spending cuts (totaling $1.2 trillion over a ten-year period) that the US economy entered into from March 1, 2013. This followed the failure of the Presidency and Congress to agree on ways to circumvent the Budget Control Act of 2011 which legislated it.

While President Barack Obama agrees on the need for limited spending cuts as part of efforts to address mounting deficits, he also proposes raising taxes for the high income earners – a move that the Republicans are strongly opposed to. And so there is a deadlock.

Now, American households and institutions must face the consequences of the country's bloated fiscal deficit and a $16.4 trillion national debt which translates to an indebtedness of $52,181 for every person living in the United States. They also face the consequences of the bitter political wrangling between the White House and the Republican dominated Congress that seem to disagree on virtually everything, minor or critical.

While the Presidency would continue to negotiate with the Congress on a plan that could halt the sequestration which had already taken effect, Republicans seem unwilling to consider any proposal that would further increase the tax burden on high income earners. And so the American fiscal dilemma continues and households and public institutions would have to adjust to surviving on less funds.

Aside from the military and other government agencies, worst hit by the US sequester would be social safety net programs such as the US Medicaid and other welfare programs for the elderly, pensioners and the disabled.

While details of the effects of the sequester on the US economy would become more glaring in the coming months, it could be said that the fiscal challenges faced by the United States pose a major handicap to the global economy in 2013. The US constitutes about a quarter of the global economy and the experience of its housing and financial sectors crises in 2007/2008 and their massive impact on the global economy is still too fresh on our minds. As an analyst rightly puts it, 'should the US head over the fiscal cliff, the rest of the world can expect to follow.' There is no doubt about it … the US sequester regime will remain a dominant global topic throughout 2013 and beyond.

Japan … sleeping with one eye open

Perhaps another ticking time-bomb that the world should be bothered about in 2013 is the impending fiscal crisis in Japan. With a debt burden now about 200% of GDP, a skyrocketing budget deficit, slowing export earnings, persistent deflation, stagnant economic growth and a rapidly aging population, Japan should be cause for serious global concern. In fact, Japan's fiscal condition could be said to be a lot messier than that of the United States.

Japanese authorities will have to adopt policy measures that would reduce their high debt and deficit profile, spur growth and address prolonged deflation. The rapidly aging population problem will require long term, sustainable measures, which could include some relaxation of its immigration laws to attract a younger workforce, while efforts should also be intensified to spur birthrate among its citizens. Shorter term measures would include flexible pension and working conditions that allow older citizens to work for as long as they can or wish to.

With a GDP size put at an estimated $5trillion, Japan is the third largest economy after the United States and China and requires expedited national and international steps to address its budding fiscal crisis. If not, we just might have another Greece situation on our hands, and perhaps at a larger scale. Japan constitutes about 8% of the global economy as against Greece's 0.5%. An economic crisis in Tokyo is one calamity that should not be allowed to happen.

'Euro zone' … for the third year running?!

For a crisis that first came to the fore in 2010, it is rather frustrating that the Euro zone crises sparked off in Greece has lingered for the third year running. Will the Euro zone debt challenges be finally put to rest this year, or will the bloc end up a failed economic experiment?

Will Euro zone leaders tackle the region's fiscal problems headlong this year or take on the reactive posture that the world had seen since the crisis first broke out in 2010?

If treated with laxity, the crisis will this year remain the big clog in the wheel of global progress it had been since 2010, and once again, developed and developing economies alike will remain at its mercy.

But while the Euro zone crisis has remained the most discussed in recent years, the fact remains that virtually all the advanced economies are in one form of deep fiscal hitch or the other at this point in history, and only a collaborative, global effort could save the situation. These issues again bring to the fore the need to strengthen global governance structures and tackle socio-economic challenges in the different regions as global rather than national issues.

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

Most Urgent Issues to Address in 2013

Source: World Economic Forum (GAP), forumblog.org; January 21, 2013 www.ng.airtel.com

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Agenda for TRANSFORMATION: *Petroleum Subsidy (2)*

By CHUKS NWAZE

In the last edition of this serial, we dwelt extensively on the vexed issue of petroleum subsidy and how Nigeria and Nigerians have been taken for a ride by a tiny but very powerful group of entrepreneurs popularly called oil marketers and their anti-government collaborators in several quarters. While we commend the government for taking decisive steps to halt further degeneration of the situation, there is no doubt, whatsoever, that all the issues involved should be identified to enable the adoption of a holistic approach to an enduring solution.

In this edition of the serial, we shall continue our analysis of how we got to where we are today in the downstream sector of the petroleum industry as well as proffer solutions on the way forward. We shall conclude this segment by discussing the related issue of oil price budget benchmark which is an inevitable fallout of our mono-product economy.

CONTRIVED DEMURRAGE

The Atlas Cove Jetty in Lagos, which was constructed in 1984, is the only facility through which imported petroleum products get to the Nigerian soil. But for inexplicable reasons which some critics have attributed to inefficiency and corruption, ships line up in a long queue waiting to discharge and in the process incur massive demurrage. Of course, this demurrage has become a major component in the

http://www.echarris.com/images/background_oil_and_gas.jpg

computation of the landing cost of imported products which is the basis for the pricing.

This constriction is obviously contrived and designed to sabotage the system and bleed public treasury; and is the handiwork of unscrupulous individuals against the good intentions of government to provide the greatest good for the greatest number.

Comment

We need to ponder over the following questions:

• All over the world, the concept of demurrage is incidental, but in this jurisdiction it has become a permanent feature in the product importation cost sheet. Why?

• Some people have suggested the establishment of another facility similar to the Atlas Cove to solve the problem of demurrage. Ab-initio, the Atlas Cove itself was an emergency facility. Why should a country that exports the eighth largest crude oil in the world be duplicating facilities for fuel importation?

PIPELINE VANDALIZATION

This is another inexplicable development in the existence of the Nigerian state: pipelines conveying petroleum products from one point to another are mindlessly damaged by the same people that the entire investment was designed to benefit.

Some people have suggested the establishment of another facility similar to the Atlas Cove to solve the problem of demurrage.

The NNPC has 21 depots in Nigeria and a network of about 5,000 pipelines that are linked with one another with the sole aim of providing petroleum products to communities in various states of the federation. However, most of the depots cannot function because the integrity of the pipes laid down to supply products to them have been severely compromised.

But who are the vandals? Basically, vandalism of public assets is an aspect of terrorism. Sadly, however, the alleged involvement of traditional rulers, village heads and security agents who sacrifice their primary responsibilities on the altar of bread and butter has not helped matters. They connive with other mal-adjusted members of the society to cut pipes and engage in oil bunkering, illegal refining and other criminal activities that are highly condemnable.

Comment

In order to underscore the seriousness of the problem, it is necessary to emphasize the fact that even if all the refineries in Nigeria become operational, the much expected transformation in the oil sector would forever remain a pipe-dream if there is no end to pipeline vandalism.

PETROLEUM SUBSIDY: TRAGEDIES GALORE

It is important to examine the collateral damages, especially the loss of human lives, occasioned by the continued retention and piecemeal removal of fuel subsidy in our country. A case in point is the latest increase in pump price from N65 to N97 per litre which was ushered in on January 1, 2012. Although there were allegations that opposition politicians seized and funded the protests for their own benefit, the fact remains that every case of subsidy removal has been greeted with public disapproval; the only difference on this particular occasion was the extent of anger and attendant bloodletting.

When in January, 2012 the pump price of PMS was increased from N65 to N140 per litre (before it was subsequently reduced to N97 per litre); the unprecedented public outcry was unexpected, to a very large extent. On that account, the cocktail of bloodshed and other tragedies nationwide included the following:

• An unarmed protester Ademola Aderinlo, 25, was said to have been shot dead by a policeman on Yaya Abatan Street in the Ogba area of Lagos. The policeman who was the DPO of Pen Cinema police station, riding in the company of some of his men in a patrol van, shot sporadically into the air and at the innocent boys who took advantage of the deserted streets to play football and catch some fun.

• Another victim of the security onslaught, one Victor Okafor, was reported to have given up the ghost two days after. Reports of the killings infuriated the protesters in Lagos and they started throwing invectives at the President, calling for his resignation.

• Also on Monday in Kano, the police allegedly killed two protesters at one of the protest rallies held in the city, while several others sustained various degrees of injuries.

• An unidentified man was knocked off his motorcycle by a bus and flung into a flame of burning tyres at Ketu bus stop in Lagos. According to eye witness accounts, the motorcyclist was hooked under the front wheel of the bus and as the driver drove on, the man suddenly fell into the bonfire in front of them on the highway. He was burnt to death on the sport as the fuel spilling from his tank sparked an inferno which consumed him and his motorcycle.

• Also on Tuesday 10th January

2012, what appeared to be religion-inspired attacks occurred in Benin-City where a mob reportedly killed five people.

• And on the same day in Yobe State, gunmen suspected to be members of Boko Haram militants shot dead eight people in a bar.

• On Wednesday January 11, 2012, a curfew was declared in Minna after rampaging youths torched cars and houses belonging to the Peoples Democratic Party, PDP stalwarts. The INEC head office in the state was also set ablaze while the policeman attached to it was killed.

• On Tuesday, January 3, 2012, policemen attached to the Special Anti-Robbery Squad (SARS) in Ilorin, Kwara State capital also reportedly mauled a student, one Muyideen Mustapha at the front of the main post office, during a peaceful protest.

• The mass protest of Wednesday, January11, 2012 also claimed a casualty in Osogbo, the Osun State capital with the death of a protester identified as Raheem Mojeed. He died after suffering machete cuts in an attack by a suspected political thug.

Comment

According to Charles **Dickens** "Crush humanity out of shape once more, under similar hammers, and it will twist itself into the same tortured forms. Sow the same seed of rapacious license and oppression over again, and it will surely yield the same fruit according to its kind."

It is logical, therefore, to deduce that t*his perpetual war is likely to continue until a holistic and enduring solution is applied to our downstream dilemma – and only the government can achieve this.*

http://cdn.theatlantic.com/static/infocus/nigeria011513/n01_RTR3CGUF.jpg

THE FUTURE DIRECTION

For how long shall we continue in this manner, with arbitrary and controversial price fixing that regularly generates strikes and inevitable bloodletting? It is clear enough that although Nigeria is amassing considerable revenue from crude oil from the international market which can be described as oil boom, at the domestic front the outlook is patently gloomy. But is the situation beyond redemption? Of course not! The way forward in my opinion includes the following:

POLITICAL WILL

Until recently, just like in other aspects of our national life, by far the greatest challenge to the realization of our objective in the petroleum industry was the apparent paucity of political will by the various arms of government, including the failure of the legislative arm to drive the reforms. For instance, despite all the positive expectations from the Petroleum Industry Bill (PIB), the Act has not seen the light of day even as we speak.

Comment

It is cheering news that the present government is painstakingly doing forensic investigation and reconciliation not only to separate the genuine from the dubious claims by the oil barons but also to arrest and prosecute members of the cabals and cartels that have brought the downstream sector of our petroleum industry to this sorry state through frauds and scams. With such punitive and deterrent actions, public opposition to the anticipated reforms, especially deregulation, will diminish substantially.

DEREGULATION OF DOWNSTREAM SECTOR

I have repeatedly stated that subsidy is a major rent-seeking incentive for some misguided public functionaries, their cronies and cut throat investors who prefer to cut corners in the name of importation in an effort to gain access to the government subsidy funds and

create a cartel enrichment which the government itself is working very hard to disband.

There is no doubt that the ultimate solution to our oil industry dilemma is full deregulation (i.e. removal of all manner of subsidy). As we earlier advised, Nigerians must brace up to this as a matter of necessity. The following scenario would immediately result from the removal of subsidy:

• Nigeria would actually pay only for what is consumed in Nigeria. If Petroleum Equalization Fund (PEF) and Bridging are removed completely from the equation – and this must be the case – prices nationwide can no longer be the same!

• Refineries will now be located in Nigeria based more on economic than on political considerations.

• High price, high volume would attract investment and eventually lead to low price, high volume. This is elementary supply economics.

• Efficiency and competitiveness within the marketing companies will, inevitably, improve. As usual, there will be initial hiccups such as retrenchment, etc, but in due course, the system will stabilize and Nigerians will be the better for it.

Comment

All the above is conditional on total withdrawal of subsidy, complete elimination of bridging allowances and dissolution of PEF. If any of those mechanisms are retained in the new system, the removal of subsidy would, no doubt, amount to an exercise in futility.

DEVELOPMENT OF REFINING CAPACITY

Is it true that our dear country, Nigeria, is the only oil producing nation in the world that imports refined products for its domestic use? It has also been said that we export what we need and import what we do not need. Well, the fact remains that we are not properly organized as a people and that explains this apparently bizarre scenario in the eighth largest oil exporting country in the universe.

Nigeria has four refineries: Port Harcourt Refinery1 (1973), Warri Refinery (1978), Kaduna Refinery (1980) and Port Harcourt Refinery2 (1984). Since 1984, no new refinery has been constructed in Nigeria.

Although these four refineries have a combined capacity of 450,000 barrels per day, which is far in excess of our domestic requirements, the Nigerian factor has made it practically impossible for even 25% of this capacity to be realized at any point in time. Why are these existing refineries not functioning satisfactorily to meet our domestic needs which would have made product importation unnecessary?

Why Are The Refineries Not Functioning?

The following reasons have been advanced:

(i) Lack of Technical Maintenance: Although huge amounts of money (usually in dollars) are regularly earmarked for turnaround maintenance, it is allegedly misappropriated by those charged with that responsibility. No wonder critics have argued that the amount supposedly spent on refinery maintenance in Nigeria is more than enough to construct brand new refineries in other parts of the world.

(ii) Lucrative Importation: It would seem, also, that because of the regime

http://dekokoblog.com.ng/wp-content/uploads/2012/07/oil-refinery32.jpg

of subsidy, product importation became 'hot cake'. In other words, it became a lot more profitable and convenient to import than refine.

(iii) Pipeline Vandalism: The activities of pipeline vandals severely disrupt the supply of crude to the various refineries. If crude does not enter the plant, there will be nothing to refine.

Although huge amounts of money (usually in dollars) are regularly earmarked for turn-around maintenance, it is allegedly misappropriated by those charged with that responsibility.

Comment

• It needs to be emphasized that the root cause of the challenge facing us today is the fact that we are importing petroleum products which we have the capacity to refine. According to Dr. Izielen Agbon, a Nigerian-born international oil expert based in the USA, 'it costs N34 per litre to refine crude oil locally'. After meticulous computation of other costs, he pegged the price of locally refined crude at N36.34 per litre. Although a lot more information is required to confirm this assertion, there is no doubt, whatsoever, that, as a minimum, we must develop the capacity to refine our crude for domestic consumption.

• And as a temporary measure, there are functional but idle refineries in Ghana, Senegal, Portugal, Angola, etc, just to mention a few. What stops Nigeria from taking its crude oil to these places, refine them under some arrangement and bring them back for local consumption? That will still be much cheaper than a wholesale importation of refined products from the international market at international price.

RESOLUTION OF POWER CRISES

It may not be generally appreciated that there is a strong nexus between the petroleum industry crises and the abysmal failure of our public electricity supply. The latter feeds the former. In other words, if the power sector can be stabilized to enable both large and small scale industries to function and for the rich to energize their homes without resorting to petrol or diesel, our current woes will, no doubt, be reduced fundamentally.

OIL PRICE BUDGET BENCHMARK: THE GREAT DEBATE

Background

Nigeria is a mono-product economy; in other words, the entire annual budget is usually predicated on the whims and caprices of only one product, i.e. crude oil. It is the export proceeds from

It may not be generally appreciated that there is a strong nexus between the petroleum industry crises and the abysmal failure of our public electricity supply.

this product that lubricates the economic, social and political engines of our dear country and dictates the pace of our economic growth. It also directs not only the tactical direction and outlook of economic policy but also our strategic aspirations as a sovereign state.

Obviously, there would have been no need for this debate if Nigeria were appropriately diversified. That would have enabled us to absorb the frequent shocks unleashed by the unpredictable vagaries in the oil industry at the international level without disrupting our revenue projections. The issue of the moment, therefore, is that whatever happens to the price of oil at the international market immediately affects the economy of Nigeria, whether positively or negatively. Of course, increases in the international price of crude are welcome. The problem is when there is an unpredictable decrease.

The Annual Budgeting Process

Inevitably, on annual basis, our economic managers routinely undertake what amounts to an informed prediction or forecast of the likely price of oil in the ensuing year, called the benchmark price, on the basis of which the revenue projections are made. Constitutionally, all the revenues accruing to the country are channeled into the fed-

http://blog.settleindenmark.com/wp-content/uploads/2012/08/power-grid.jpg eration account for distribution to the three tiers of government, i.e. federal, state and local government.

Although efforts are usually made to predict the future price of crude based on the current scenario it remains, at best, a forecast and anything can go wrong. In fact, a lot have gone wrong in the past. It is also alleged that this instability and uncertainty in revenue profile is often responsible for the abysmal budget implementation which is a regular source of friction between the executive and the legislature. We shall comment on the veracity of this viewpoint in the course of this document.

While transparency in the utilization of the excess crude revenue is a legitimate cause for concern, it is not a good enough reason to abandon the process; it simply suggests that a brighter searchlight should be beamed in that direction. The mere fact that a man does not make good use of his savings does not mean that he should no longer save.

The Crux of the Matter: Excess Crude Revenue

The concept of excess crude revenue is a recent development in our economic management framework. It is a system whereby oil revenues over and above the budgeted benchmark price are moved into a special account known as excess crude account, ostensibly for the rainy day. In other words, such 'windfalls' are kept out of the federation account.

In the past, however, there have been considerable controversy surrounding the disbursement of such savings; the $12billion Gulf War oil windfall which was investigated by the late Pius Okigbo-led Commission of Inquiry in the mid-1980's is still fresh in our minds. Perhaps, it is this alleged lack of transparency in the management of the excess revenues in previous dispensations that fuels the agitation by other arms of government, including the National Assembly, that whatever comes in should be distributed to enable them drive their electoral promises and develop infrastructure at the grassroots and constituency levels.

The 2013 Appropriation Benchmark

For the 2013 budget, while the federal ministry of finance used a benchmark price of $75 per barrel as the basis for its own initial estimates, the House of Representatives insisted on $80 per barrel while the Senate felt comfortable with $78. Eventually, however, all the parties settled at **$79**. Now, based on the background explanation presented earlier, it is not difficult to appreciate the reasons for the apparent divergence of opinion between the executive and legislative arms of government on the issue.

Which Way to Go?

According to the National Assembly, more funds should be made available for infrastructural development as well as payment of domestic debts by increasing the benchmark price while the executive arm wants to save money for 'the rainy day' by freezing the portion of revenue above the benchmark if events turn favourably at the international oil market.

However, the following reasons are pertinent, amongst others:

- Nigeria has no other tangible source of export revenue (the non- oil export sector has not been developed) to cushion the effects of unexpected developments in the international oil market. It would, therefore, be foolhardy to spend all that we get from oil.
- The reasons for the poor implementation of capital budgets has nothing, whatsoever, to do with inadequate revenue. It is a well-known fact that hundreds of billions of naira unspent funds are returned to the national treasury at the end of every year by the various ministries, departments and agencies. The reasons for inadequate budget implementation must be located within the realms of lack of executive and technical capacity as well as the contrived bottlenecks in bureaucracy and due process.
- While transparency in the utilization of the excess crude revenue is a legitimate cause for concern, it is not a good enough reason to abandon the process; it simply suggests that a

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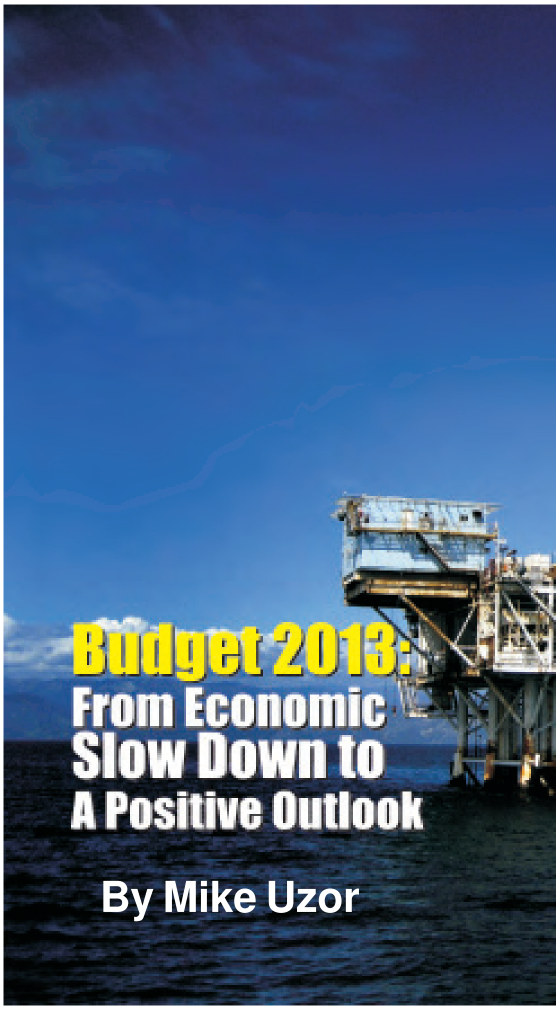
brighter searchlight should be beamed in that direction. The mere fact that a man does not make good use of his savings does not mean that he should no longer save. It should also be noted that even if the entire revenue is disbursed, it has not been proven that other arms of government are better managers of resources than the federal government.

• Our ability to save has some bearing on our perception in the comity of nations. Surely, the international community, including rating agencies, will hardly take us serious if we do not have a definite savings culture. What prospects has a man who consumes all the income he earns?

Recommendation

While we appreciate the concern of the esteemed legislators as earlier mentioned, there is an urgent need to identify and confront, through the oversight function, the actual reasons why capital budgets are not being implemented even when funds are available. Whatever time and energy that is spent in this direction will, no doubt, yield the desired dividends. The need to save by inputting a conservative oil price budget benchmark is a different matter altogether and this initiative should be encouraged. However, verified, reconciled and authenticated domestic debts and obligations should be honoured in a non-inflationary manner.

(* Chuks Nwaze is the Managing Consultant / CEO, Control & Survelliance Associates Ltd).



Budget 2013: From Economic Slow Down to A Positive Outlook

By Mike Uzor

The 2013 federal government budget reflects a background of an uncertain global economic environment that seemingly threatens the rapid advancement of the Nigerian economy. But some internal challenges that jolted the economy in 2012 appear to exert even more direct influence on the wellbeing of the country than the much feared global economic downturn. This realization should inform the direction of economic policy making in 2013.

Despite the gloom over the global economy in 2012, the external sector faired quite well in terms of crude oil price and export revenue. The much fret about possible crude oil price collapse and the woeful consequences on the fiscal regime did not materialize. Yet, the same fears have been carried forward into the current fiscal year.

A favorable excess crude oil receipts enabled government to build up its stock of external reserve from $32.9 billion at the beginning of last year to over $43.85 billion at the end of the year. As at June, excess crude oil account held a balance of close to $7.0 billion with a yearend target of $10.0 billion.

The raising of the crude oil benchmark from $72/barrel to $79/barrel reflects the greater stability and merited optimism about the external front in 2013. It is therefore important that government and regulatory authorities play down on external sector fears this year. This will enable us to focus more on fashioning policies that will dismantle the internal challenges that have tended to destabilise the growth forces of the economy.

Concerns about the prospects for further global economic decline appear to have been given more than its reasonable weight in shaping the 2013 budget. The President informed that the budget was designed against the backdrop of lower than forecast recovery of the global economy. But the new optimism arising from the slight improvement projected for the global economy this year does not appear to have flickered through the budget.

In 2012, the much talked about fears about a possible oil price collapse turned out unfounded; and I expect this to be the same story in 2013. Such fears have hindered the success of previous budgets in the country. Policy makers seem to give up on our budgets long before they are implemented as they focus nervously on developments in the external sector.

There seems to be so much focus on the external front that we are unable to address the internal problems hindering economic performance. Official commentaries on the global economic woes seem to presume that our fortunes here as a nation must depend on what other nations of the world do or fail to do. Is Nigeria really so dependent on developments in the global economy that we have to keep waiting for global outcomes before taking positive economic steps?

While we have to keep an eye on global economic developments, it is quite apparent that the inability to steer the economy towards accelerated growth isn't going to be blamed on global economic fears for yet another year. Economic growth rate had to be revised down to 6.77% for 2012, not on account of global economic uncertainty, but due to declining domestic output in the key sectors of agriculture and petroleum. After all, crude oil price remained favorable virtually all through 2012! Despite this fact, the full year estimated GDP growth of 6.61% failed to match even the downwardly revised projection.

High growth potential

Real GDP growth rate for 2013 is projected at 6.5%, meaning a deceleration of the economy for the fourth year running. The nation's economy is known for its inability to create jobs even while it is growing at a rapid rate. And so what the job situation in the country will be as the economy continues to slow down can only be imagined.

If the economy could achieve the estimated growth of 6.61% in 2012

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A favorable excess crude oil receipts enabled government to build up its stock of external reserve from $32.9 billion at the beginning of last year to over $43.85 billion at the end of the year. As at June, excess crude oil account held a balance of close to $7.0 billion with a yearend target of $10.0 billion.

despite some major internal shocks during the year, it is definitely capable of stronger growth in fiscal year 2013. The internal shocks experienced last year include the huge economic losses arising from the general strike action against the removal of fuel [PMS] subsidy early in the year as well as the pass-through inflationary effects of the eventual partial repeal.

There was also an upward review of electricity tariff in the course of the year. There was an upward review of import tariff of some major food items such as wheat and flour and then the floods that swept off farm lands across the nation. Security challenges that dislocated some farming communities also had depressive effects on economic growth. These adverse developments, which hindered economic performance in 2012, aren't expected to reoccur in the current year, especially as government is expected to be more strategic in addressing the security situation.

Inflation has also not manifested at the out-of-control rate that was generally anticipated for 2012. The outlook for 2013 indicates likely moderation of inflation rate. At 12% at the end of 2012, inflation rate is below the 13.05% projected by the National Bureau of Statistics [NBS] and nowhere close to the over 14% forecast by the Central Bank.

The authorities can do better by not fretting too much about the global economic recession and rising inflation this year. Instead, they should be more focused on propping up the growth functions of the economy. This year offers a good opportunity for Nigeria to take decisive steps that will accelerate growth despite the foreseeable challenges.

Government precisely needs to address the lingering effects of the internal shocks on the economy. It needs to ensure greater stability and then capitalise on its achievements in 2012 to prop up the nation's economy towards a more robust growth.

The projected real GDP growth of 6.5% in the 2013 budget looks quite conservative and an upward review is possible in the course of the year. The projection is a further mark down on the estimated GDP growth rate of 6.61% recorded last year. The GDP growth rate in 2012 is itself a slowdown by 0.84% from the growth rate achieved in 2011.

Real GDP growth rate had accelerated from 6.17% in the first quarter of 2012 to 6.28% in the second. The accelerating trend continued from 6.48% in the third quarter to 7.09% in the fourth. The accelerating economic growth momentum in 2012 appears sustainable in 2013 if the right steps are taken to reinforce this encouraging trend, going forward.

The NBS' forecast of 7.67% growth in GDP for 2013 appears more realistic. An accelerated growth in GDP should be expected in the light of the reasonable progress being made in five core areas of the economy. These include fiscal consolidation, the improving ratio of capital spending and improvement in electricity supply. Others are government direct intervention in the agricultural sector and elsewhere and the likely improvement in bank lending to the private sector in the current year.

Positive signals

With the policy of fiscal consolidation, government's faulty expenditure structure is being reversed albeit too slowly. The trimming of non-productive spending and the improvement on capital expenditure can be expected to raise the nation's economic capacity and impact favourably on domestic output. The build up of the external reserve and the strong inflow of foreign portfolio investment will expectedly stabilise the naira exchange rate while a cut down on internal borrowing could hopefully reopen credit windows to the business sector.

It is very likely that a further significant build up of the stock of foreign reserve will happen in 2013. The favorable impact of that on the external sector and high interest rates is expected to sustain and further improve inflow of foreign investment capital.

In the light of the above scenario, it can be expected that the exchange value of the naira should appreciate rather than depreciate. The basis for the depreciated value of the naira to N160 to the dollar in the planning of the 2013 budget is therefore questionable. In a year in which the crude oil price and oil revenue are expected to grow, the excess crude oil account will rise and the external reserve could approach its previous peak. The exchange value of the naira should also be improving and not declining, as envisaged in the budget.

There are high hopes that government will be able to build on the achievements recorded on electricity power supply in 2012. Some improvements are reported on gas supplies to thermal power plants and water levels at hydro stations. Completion of some major gas pipelines this year could lead to increased electricity generation, enabling President Goodluck Jonathan to deliver on his promise on the provision of stable electric power supply to the nation.

Budget challenges

While there seems to be some improvement in electricity generation – a most critical factor for improved economic output – monetary policy remains rather cautious. The Central Bank has left the benchmark interest rate unchanged at 12% in the expectation that inflation rate will remain in the double digit region. A downward review of interest rates could have reinforced the low cost effect of improving electricity supply and consequently work out favourably on inflation rate.

The early passage of the appropriation bill signals the possibility of an improvement in the level of implementation this year. The Presidency however isn't comfortable with the raising of the crude oil price benchmark from the $75 per barrel it proposed to the $79 per barrel approved by the National Assembly. That, plus the increase with about N63billion in aggregate expenditure, has the potential to extend the expansionary effects of the budget, with implications for inflation rate.

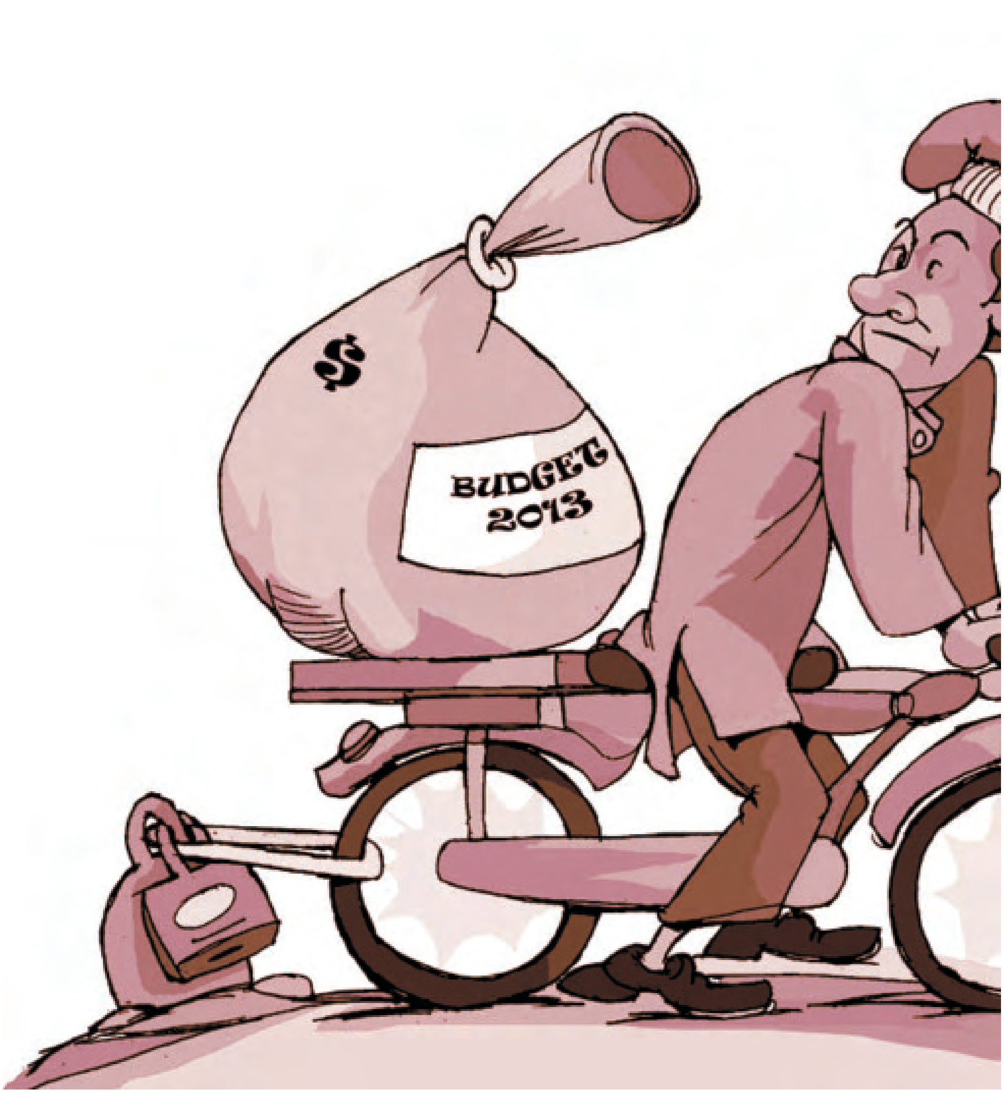
Slow growth in the key sectors of the economy - agriculture and petroleum remains a source of concern. We have entered fiscal 2013 with a major deficit from the agricultural sector. Security problems and the flood disaster that occurred last year could cause a further slowdown in the sector in the current year. The effects of the massive destruction of farm lands on food supplies could become fully manifest in 2013.

We can see food scarcity looming and the possibility of food driven inflation as a major challenge this year. It could be said that the budget has not tidied that end satisfactorily. The President has done well to direct the ministry of agriculture to put in place a food recovery plan. He needs to go further to specify the targets that the ministry must accomplish.

The problem on hand calls for no less than a presidential task force firmly charged to deliver defined results on target. We don't have to wait until we are knee deep into the impending food crisis before the government embarks upon effective measures to address the problem.

Food is identified to be the main driver of headline inflation in 2012. Food inflation picked up in the latter part of the year due to shortages from domestic supplies. The floods have therefore added a new factor to the problem of rising food prices in the country.

Other factors driving the high food inflation are the declining agricultural

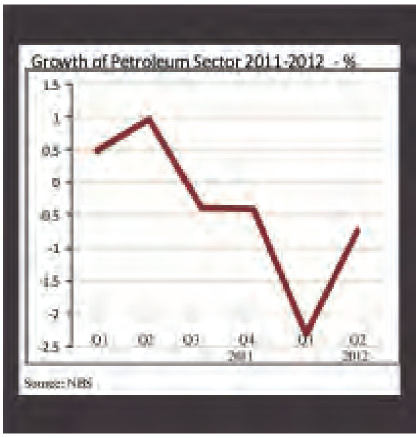


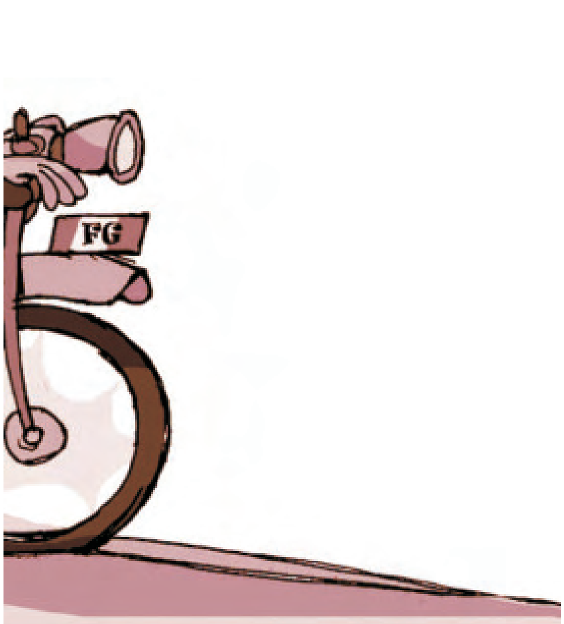
production at home, rapidly growing dependence on food imports and the rising global food prices. A fundamental approach to fighting inflation in 2013 should therefore involve steps and actions aimed at addressing these underlying factors ahead of time.

Fears for 2013

What I fear about 2013 is not the global economic uncertainty but the internal fund management uncertainty. What is standing boldly on the way of the economic development of the nation is corruption in both high and low places. Nigeria's economic challenges cannot be blamed on the crisis in the euro zone nor are its fiscal challenges the result of America's growing self sufficiency in oil production. The fundamental issue is that funds voted for developmental projects mostly do not get down to the actual work they are earmarked for.

Where corruption has gotten to the point that we have to set up probe panels to probe the probe panels, one would expect the decision makers to take more drastic steps towards curbing the menace from this year onward. If these decisive steps are not taken, we can expect that the problem will assume a more serious dimension in the years ahead. This would frustrate the whole essence of the increase in capital expenditure this year and the optimism of Nigerians for enhanced socioeconomic development.





Faulty structures

The President is consistent in his efforts to correct the faulty budget structure where recurrent expenditure has been crowding out capital spending. In the current year he expects recurrent expenditure to decline by about 2.8% to stand at 68.7% of aggregate expenditure. On the other hand, capital expenditure will improve by the same margin to come to 31.3% of expenditure.

This is in line with public expectations. But the progress is quite slow. The structural problem in the budget is an indication that there is little or no progress in new capacity building in the economy. And this explains why economic development continues to be elusive for the nation. Being the major spender in the economy, government's budget structure has driven the rest of the economy towards the same pattern of living – from hand to mouth.

Changing the spending pattern in favour of capital votes is a prerequisite to a more robust economic development. This means that as long as the restructuring is not achieved, adequate capacity building cannot be expected in the economy. That is why I am not comfortable with the slow progress in cutting recurrent expenditure. If it takes so long to get the budget structure right, how long will it take to commence the real economic transformation plan?

However, it is interesting however to note that some progress is being made at all in this direction. One can only hope that the trend, no matter how slow, is sustained. But it is not sufficient to show figures indicating improvement in the nation's capacity building. It is important to ensure that increasing figures of government spending translates to concrete achievements in terms of the quality of public service.

The objective of the budget is not accomplished by the changing relationship between recurrent and capital expenditures. If more funds are being channeled into capital projects, will there be enough developmental strides to show for it?

Scratching the surface

Besides the modest progress towards correcting the budget imbalance, I have some doubts about how far govern-

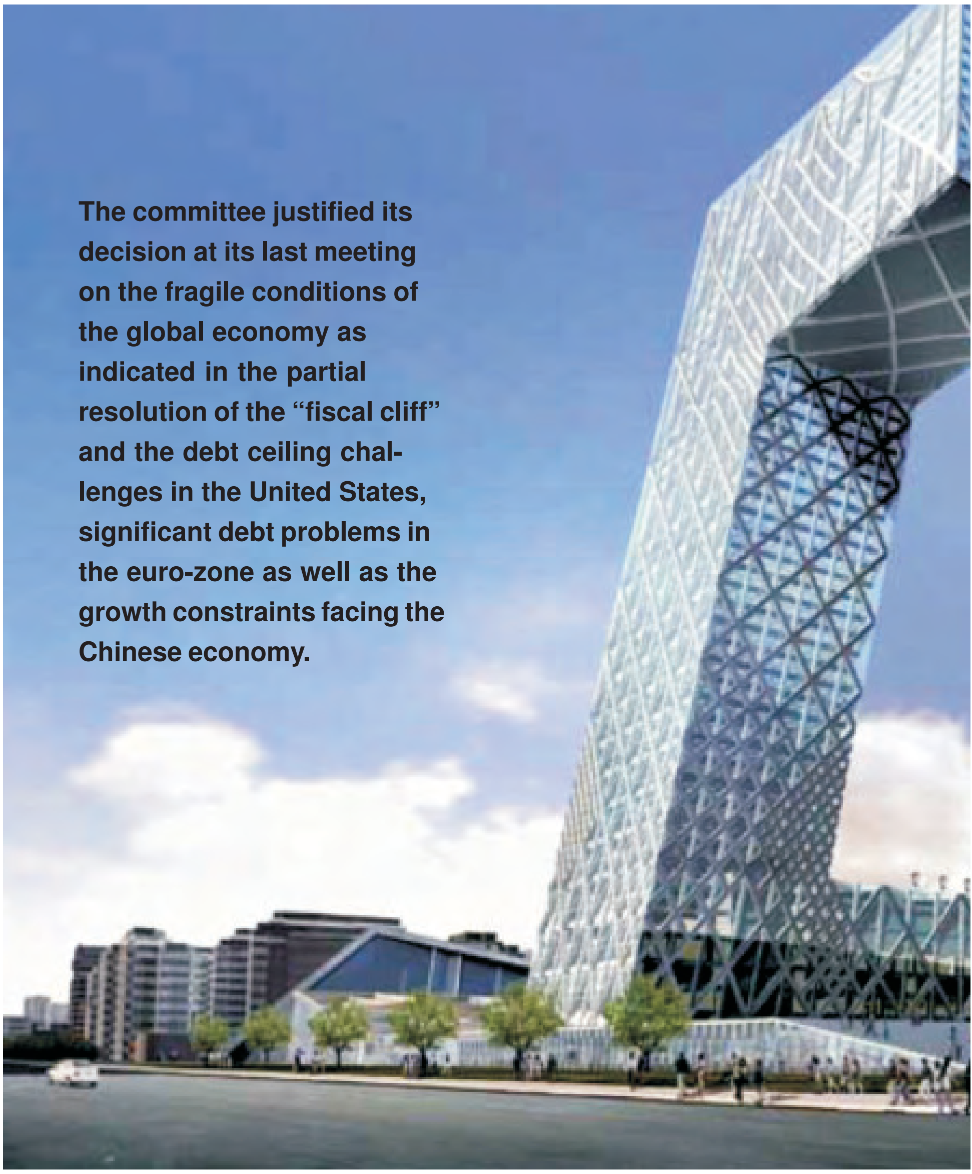
2013 Budget Highlights

Budget Item	N trillion
Federal Government Aggregate Expenditure	4.987
Non-debt Recurrent Expenditure	2.385
Capital Expenditure	1.621
Debt Service Provision	0.592
Statutory Transfers	0.388
Crude Oil Production Benchmark	2.53 mbd
Crude Oil Price Benchmark	$79/barrel
GDP Growth Rate	6.5%
Exchange Rate	N160/dollar
Share of Capital Expenditure	31.3%
Share of Recurrent Expenditure	68.7%
Capital Allocation to Works	0.168
Capital Allocation to Power Sector	0.73

ment can go in this direction without a major overhaul of the government machinery. For example, what do we do about our administrative structure that is heavily over bloated?

It seems to me that we are failing to decode the real message of the global economic uncertainty – it is about time we learn to *cut our coat according to our size*. While we are weary of the problems in the global economy, we seem unmindful of the need to be more cautious in our unsustainable government structure and its negative impact on our fiscal position.

If government is going to usher in economic prosperity in this nation, it has to first of all change the faulty budget structure we have in place. Because the expenditure structure isn't right, that is why we have had to take on fiscal consolidation while running a huge fiscal deficit at the same time. At this rate, some drastic budgetary reforms have to be undertaken to avert a major fiscal catastrophe in the near future.



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The committee justified its decision at its last meeting on the fragile conditions of the global economy as indicated in the partial resolution of the "fiscal cliff" and the debt ceiling challenges in the United States, significant debt problems in the euro-zone as well as the growth constraints facing the Chinese economy.

Monetary policy caution

Another major challenge currently confronting the nation is that Banks' credit isn't sufficiently available for both producers and consumers of goods and services.

A low interest rate regime is the recommended global best practice in the current effort to move national economies out of the prevailing global economic recession. Since 2011, the Central Bank of Nigeria has kept interest rates high for reasons of government fiscal excesses and the accompanying high domestic inflation. Some progress has been made however and more can be accomplished this year in putting government's fiscal house in order.

Monetary policy remains restrictive when it should be used to stimulate production and employment, especially in the private sector. Monetary policy has been narrowed down to fighting inflation alone, in an effort to address the challenge of bloated government spending. As a result, fighting inflation has received priority over stimulating aggregate demand through the use of monetary policy.

The over dependence on monetary policy in containing inflation comes with a cost to the economy – and that cost is really high. This cost includes the rising number of business closures, job losses as well as the resulting security implications for the nation.

At its meeting on January 21 2013, the Monetary Policy Committee [MPC] of the Central Bank left monetary policy rate unchanged against the anticipation of a downward review by the private sector. The indication is that interest rate policy isn't going to be available at least early enough this year as a stimulatory tool for domestic economic activities. Increased access to bank credit at low cost could have brightened the hopes for a stronger economic growth this year.

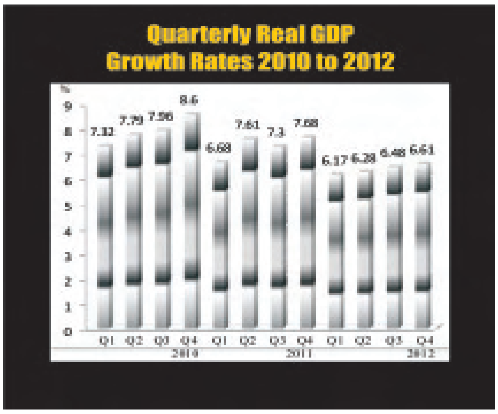
MPC appreciates that the outlook for inflation in the current year is favourable though it still sees the potential for fresh inflationary pressures. The committee considers government spending in the year high enough to undermine the favourable inflation rate expectation.

In addition, the higher crude oil price benchmark of $79 per barrel used in planning the 2013 budget is seen by the MPC as putting even more pressure on the inflationary expectations.

Again, the MPC's decision also shows that the uncertainty in the global economy is having an overriding influence on domestic economic policies. The committee justified its decision at its last meeting on the fragile conditions of the global economy as indicated in the partial resolution of

Prices and Output in 2012			
Inflation Rate	Nov 2012	Dec 2012	Change
Headline inflation rate [y-o-y]	12.3%	12.0%	-0.3%
Food inflation [y-o-y]	11.6%	10.2%	-1.4
Food Inflation [m-o-m]	0.7%	1.0%	+0.3%
Inflation rate target	9.0% [2011]	9.5% [2012]	+0.5
Output Growth	**Q4 2011**	**Q4 2012**	
GDP	7.68%	6.61%	-1.07%
GDP Projection	6.85%	6.77%	-0.08%
Non-oil Output	9.07%	8.23%	-0.08%
GDP Growth	Q3 2012 6.48%	Q4 2012 7.09%	+0.61

Source: NBS



the "fiscal cliff" and the debt ceiling challenges in the United States, significant debt problems in the euro-zone as well as the growth constraints facing the Chinese economy.

The decision to maintain the current monetary policy stance reflects mainly the caution on the part of the Central Bank to avoid instability in the system in view of conflicting price signals. The caution may be appreciated in order to avoid moving interest rates down too hastily, only to later face a situation where the bank will be compelled to reverse the move.

However, conflicting signals in key economic indicators that have informed the caution on interest rates even need the low interest rate policy itself to be corrected. In effect, the developments for which MPC has decided to monitor in the economy before deciding whether or not to reduce interest rates could as well have been influenced by the low interest rate policy that is delayed. The implication is that the outcome isn't likely to provide the desired environment for low interest rates eventually.

But considering the conflicting signals in key economic indicators, a slight reduction in the monetary policy rate should have been made to give a boost to the productive sector of the economy. As things currently stand, it is feared that private sector operators will scale down new projects and put off expansion plans. Inability to move in the direction of lower interest rate at the next meeting of the MPC in March could be even more disappointing.

Capacity building

If we are to build bigger economic capacity for the nation, the present government expenditure structure has to change drastically. A bigger economic capacity for the future also demands that the present monetary policy stance should change from fighting inflation to stimulating production in the private sector. That change cannot happen unless and until government stops spending so much on current consumption and begins to spend on building long-term production capacity.

Budget numbers reveal the revenue-expenditure problem of government. Inclusive of debt servicing, recurrent expenditure represents about 75% of total federal government revenue. If you add statutory transfers, non-development spending claims about 85% of total revenue. The effect of the increase in the oil price benchmark is a reduction in fiscal deficit; but a good part of the capital expenditure vote of N1.62 trillion will still have to be borrowed.

Can we expect an economic expansion strong enough to create jobs for the many idle hands in 2013? This is doubtful because the expenditure structure at the federal level has shaped the spending structure in the rest of the economy. Paying bills and servicing debts are what everyone seems to have been doing for some years now. The same applies to the private sector where the survival game has taken hold since the financial crisis in 2008.

Interest rates will need to come down reasonably in order to propel new business formations and expansions in the private sector. Perhaps government's proposed domestic debt management strategy might lead to some favourable changes in the credit markets this year.

Government plans to commence paying off its domestic debts rather than rolling them over, with the objective of curbing its rising debt profile. Repayment of maturing debt obligations and limiting new borrowing can be expected to reduce the crowding out effect of government borrowing on the private sector and pave the way for improved credit deliveries to the real sector of the economy.

The Central Bank reports that credit to the government sector contracted in the last four months of last year in reflection of some improvements in fiscal conduct. This is a long overdue development and we hope that the development will be sustained in all of 2013.

Reduced government borrowing and therefore spending will have a supportive effect on monetary policy. I believe the Central Bank is waiting to see if there could be less of inflationary government spending this year before it can adopt less stringent monetary policies. That does not suggest in any way that the apex bank cannot proactively use monetary policy to spur domestic output and consumption.

The main reason for jerking up interest rates in 2011 was to discourage government excessive borrowing, which goes largely into nonproductive spending. If government lives up to the promise of towing the line of debt reduction, the benign impact of that on inflation rate can be expected to lead to a reversal of the current interest rate policy, to the benefit of private sector operators. At what point this could happen, whether in the course of this year or beyond, nobody can tell precisely.

The move towards cutting government borrowing is however one of two steps that are needed at the same time. The second leg is the equal reduction in recurrent expenditure; otherwise, the move will not be sustained beyond the immediate term. Since borrowing is usually used to fund capital projects, a corresponding sharp reduction in recurrent spending needs to happen if progress is to be sustained in addressing the nation's infrastructure deficit.

Government is well appreciated for its direct involvement in job creation. In view of the high level of joblessness in the economy, such a direct involvement is warranted. It is however expected that creating the enabling environment for expansion and job creation in the private sector should be a better option for government in 2013.

With the stagnant situation in the private sector, government's sole effort in job creation isn't going to get far in addressing the bad situation we already have at hands. The budget needs to incorporate efforts designed to reopen credit and capital market windows to the private sector to drive output, employment and consumption.

Government is quite commended for its decision to support capital market operators through its policy of forbearance. This is going to go a long way towards restoring the ability of traders to keep the secondary arm of the market active once again. The development coming at a time of improved corporate earnings outlook in 2012, is likely to sustain the recovery trend in the stock market.

However the primary market arm of the market isn't yet getting the desired attention. Many listed companies still lack sufficient capacity for full recovery and an improvement in profitability following the crisis in 2008. This has been compounded by their inability to access new money through the market.

A comprehensive agenda to revive the primary arm of the capital market and restore its development funding capacity has been lacking. The main problem of inability of listed companies to raise fresh capital to revive ailing businesses should now be addressed.

Companies need to rebuild their operating capacities to resume the ultimate business of building wealth for shareholders. In view of the limited credit accommodation by banks and the lingering high interest rates, it is imperative that policymakers take decisive steps to reopen the primary offer window in the capital market. As long as we keep ignoring this problem, losses in output and employment will continue in the private sector.

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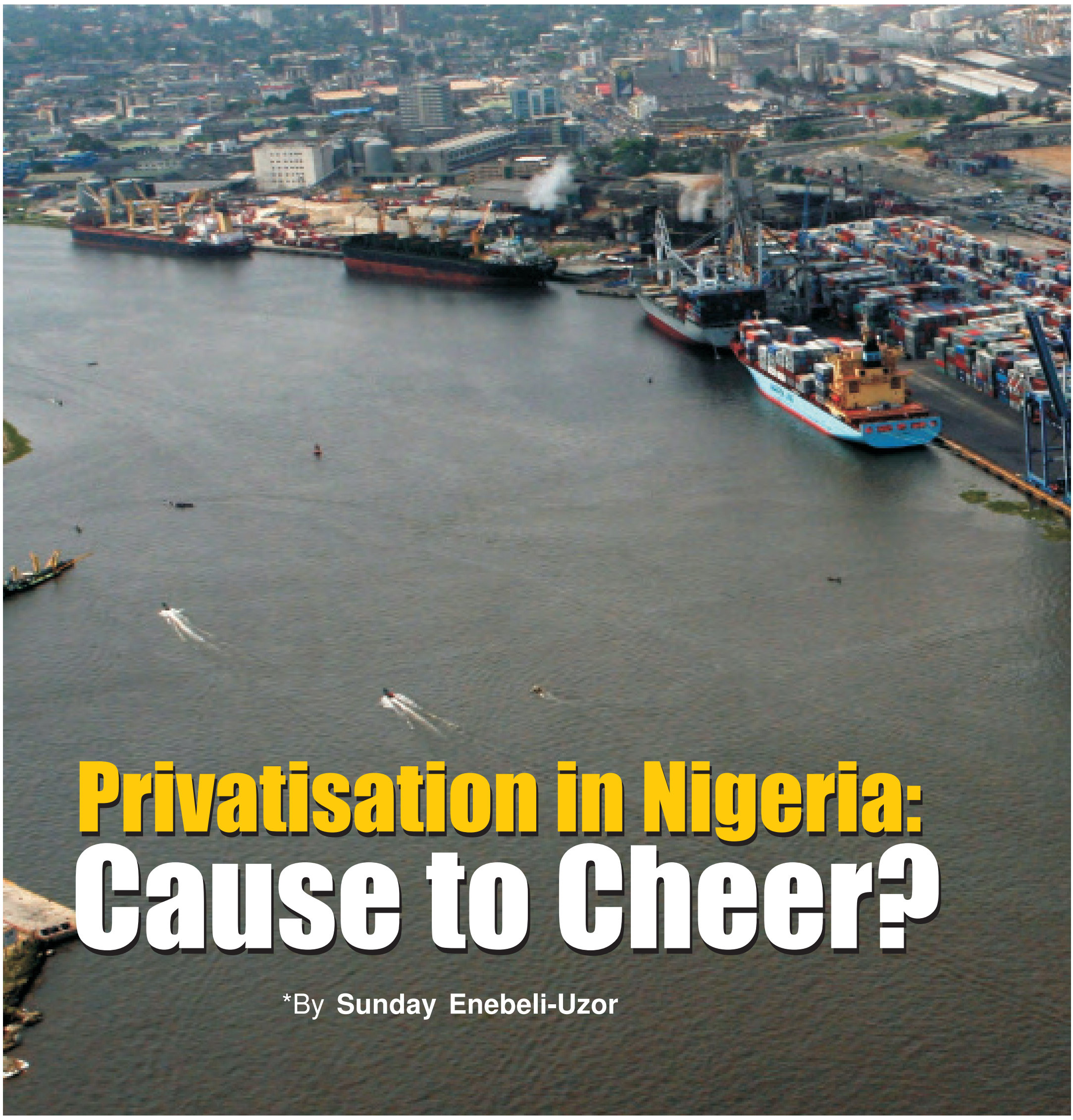

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Privatisation in Nigeria: Cause to Cheer?

*By **Sunday Enebeli-Uzor**

Privatisation orthodoxy gained pre-eminence in developing countries in the 1980s and 1990s following its success stories in western industrialised countries in restructuring their economies from public to private sector driven.

The dismal performance of State Owned Enterprises (SOEs) in Nigeria necessitated the adoption of privatisation as a component of the nation's economic policy toolkit for themost part of the past three decades. Privatisation orthodoxy gained preeminence in developing countries in the 1980s and 1990s following its success stories in western industrialised countries in restructuring their economies from public to private sector driven. Also, the ascendancy of neo-liberalism sequel to the collapse of the Soviet Union and the end of the 'cold war' eliminated political and economic ideologies that hitherto hindered market-oriented reforms, thus triggering a movement towards divestitures, marketisation and privatisation paradigm. The monumental inefficiencies of SOEs also prompted multilateral financial institutions to insist on privatisation as part of the conditionality for sovereign debt restructuring and granting of further financial aids to developing countries in the 1980s and 1990s. Ever since Nigeria was caught in the frenzy of privatisation as part of a broader process of structural reform and economic liberalisation, the experience has been contentious.

The reasons usually adduced for the poor performance of SOEs somewhat have a universal pattern and Nigeria is no exception. These reasons include among others: disillusionment with the generally poor performance of state owned enterprises; technological changes in sectors such as telecom-

munications and electricity generation that have rendered monopolistic provision of certain goods and services obsolete; globalisation of financial markets and the need to free up companies from the constraints of state ownership in order to effectively access these markets; ideological shifts regarding the appropriate role of the state (government) in the economy; and the need for a massive overhaul of the economic system.

Privatisation has been an issue of continuous debate in different socio-economic milieu and can sometimes be fuzzy. It is one of the most politically contested reforms. Privatisation is a concept as well as a process. As a concept it is a means of transferring ownership and sometimes control of a business, an enterprise, an agency, a sector or public enterprise from the public sector to the private sector. Some transfers will involve the introduction of private entry, often by the abolition of monopolies or barriers to entry and the introduction of competition. In a narrow sense, privatisation implies permanent transfer of control from the public sector to the private sector. Broadly however, privatisation involves all forms of Public-Private Partnership (PPP) where measures are adopted for the transfer from the public sector to the private sector of activities exercised until then by a public authority. Some of these measures include: sub-contracting, management contracts, lease and concessions. As a process, privatisation describes the sequencing of transactions and the methods of sale of public assets.

Privatisation could either be absolute or partial. In absolute privatisation, ownership and management are completely transferred to the private sector, while partial privatisation entails co-ownership and management between the government and the private sector. Partial privatisation is in essence a management approach which enables both the government and the private sector to participate in the management of the privatised entity. Privatisation could also be policy-driven or demand-driven depending on the prevailing circumstances that necessitated its adoption. It is policy-driven when the shift from public to private is a deliberate government decision, and it is demand-driven when the shift from public to private is due to the choices and actions of individuals or firms when a government is unwilling or unable to provide certain goods and services for which the government has absolute control to provide.

The Case for Privatisation

The prevalent normative economic argument in support of privatisation derives largely from laissez-faire free-market economics and the invisible hand of demand/supply in regulating the market. In essence, government has no business in business. This economic dogma emphasises limited government role in the economy, greater private sector involvement, and free market as preconditions for greater efficiency and increased government revenue. Evidence however suggests that beyond the economic efficiency thesis of the free market argument, there are myriads of other ulterior reasons bordering on politics, ideology, and regime survival that are usually behind the economic justifications for the adoption of privatisation. For instance, whilst the popular political perspective for privatisation often touted is to reduce government overload and eliminate inefficiencies, the process often culminates in the transfer of public assets and businesses to political cronies thereby exacerbating the gap between the "haves" and the "have-nots" in the society. This however does not detract from the need to depoliticise decision making in industries.

The adoption of privatisation as an economic paradigm also stems from the ideological pressure to shift the boundary between the public and the private in favour of the latter; and the notion that public industries and services limit the choice of consumers due to the monopoly of public enterprises. Another reason for privatisation is the need to reduce public sector borrowing and the resultant crowding out effect on the real sector of the economy. Most government enterprises run on deficit financing which aggravates public debt burden with debt overhang issues. Privatisation is therefore embarked on to free government resources and channel same to meet the developmental objectives of the economy.

Rationale for Privatisation in Nigeria

In Nigeria however, the rationale for privatisation are largely due to the lack/failure of corporate governance in state owned enterprises resulting in poor performance and humongous debt burden. SOEs in Nigeria are characterised by monumental waste and inefficiency. According to the Bureau of Public Enterprises (BPE), there is virtually no state owned enterprise in Nigeria that functions well. While they were created to alleviate the shortcomings of the private sector and spearhead development, many of them have stifled entrepreneurial development and fostered economic stagnation. Public enterprises have served as platforms for the patronage and promotion of political objectives, and consequently suffer from operational in-

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Organizational Factors Affecting Public- and Private-Enterprises' Ability to Act Innovatively, Manage Human Resources, and Increase Productivity

	State-Owned Enterprises	Private Enterprises
General Characteristics	- Embedded in government - Goals influenced by national politics - Objectives diverse or not well articulated - Boundaries vague - Accountable to state	- Embedded in market - Owned by private investors - Clear profit maximization goals - Accountable to shareholders or private owners
Innovative Orientation	-Political and bureaucratic restrictions on innovation -Weak incentives to deviate from standard operating procedures -Civil service protected managerial positions -Organizational and technological changes driven by state budget resources -Able to survive as "loss makers" because of soft budget constraints -Fixed pay salary ranges -Limited interaction with external environment -Low levels of technological change	-Market opportunities provide freedom to innovate -Financial incentives for managerial risk-taking -Managers' employment depends on profitability -Salaries supplemented by opportunities for ownership stake -Extensive interaction with external environment -Potentially high levels of technological change
Human Resource	-Formalization and standardization in hiring	-Firm determines rules of recruitment
Management	-System-wide rules for promotion and removal -Limited ability to reward unique roles or performers -Limited incentives to use technology to increase labor productivity -Managerial behavior driven by civil service rules -Difficult to remove or reassign employees	- Differentiated pay rates - Promotion and removal determined by performance - Strong ability to reward unique roles and performers - Strong incentives to enhance labor productivity with technology - Behavior driven by incentives and firm strategy - Easy to remove or reassign employees
Productivity and Work Effort	-Difficult to provide feedback on performance -Limited freedom to design jobs -Limited control over group norms -Standardized pay and limited opportunities for extra rewards for effort	- Freedom to set goals and provide employee feedback - Flexibility to design jobs - Strong control over group norms -Strong work motivation driven by uncertain job security and opportunity for financial rewards

terference by civil servants and political appointees.

Prior to the crash of oil prices in the early 1980s, the Nigerian economy during the 1970s had metamorphosed from a predominantly agrarian economy into a petro-dollar economy with all the symptoms of the infamous "Dutch disease". The collapse of crude oil prices in the international commodities market and the consequent sharp decline in petroleum output, the latter resulting from the reduction of Nigeria's OPEC quota, brought to the forefront the precarious nature of the country's economic and financial positions. The country was ill prepared for any shock to its income stream. In a bid therefore to ameliorate the dwindling economic fortunes of the country such as high unemployment rate, declining growth, rising inflation, high incidence of poverty, unfavourable balance of payment conditions, excruciating debt burden, and unsustainable fiscal deficits, the government embarked on a Structural Adjustment Programme (SAP) in 1986 to overhaul the nation's economic architecture.

The broad objectives of SAP were, to: restructure and diversify the productive base of the economy so as to reduce dependency on the oil sector and imports; achieve fiscal and balance of payments viability over the medium term; and promote non-inflationary economic growth. The process leading to the adoption of SAP involved extensive debate when it was obvious that short-run economic stabilisation measures were not sufficient in addressing the dire economic situation at the time. The government had three policy options namely to: maintain the status quo, that is, a continuation of the short-term austerity measures; accept the International Monetary Fund (IMF) Structural Adjustment Facility including its conditionality; and reject the IMF Structural Adjustment Facility but adopt a home-grown modified variant of the traditional structural adjustment package. There was a consensus opinion on the adoption of the last option. Consequently, a comprehensive Structural Adjustment Programme (SAP) was adopted, heralding a paradigm shift to a private sector led economy through the privatisation and commercialisation of state owned enterprises.

According to the National Council on Privatisation (NCP), the objectives of the privatisation programme in Nigeria are: to restructure and rationalise the public sector in order to lessen the dominance of unproductive investments in the sector; to re-orientate the enterprises for privatisation and towards a new horizon of performance improvement, viability and overall efficiency; to raise funds for financing socio-economic developments in such areas as health, education and infrastructure; to ensure positive returns on public sector investments in commercialised enterprises, through more efficient management; to check the present absolute dependence on the treasury for funding by otherwise commercially oriented parastatals and so, encourage their approach to the Nigerian Capital Market to meet their funding requirements; to initiate the process of gradual cession to the private sector of such public enterprises which are better operated by the private sector; to create more jobs, acquire new knowledge and technology and expose the country to international competition. From the foregoing, the main thrusts of the privatisation programme include the following: opening up the nation's economy to global market forces; attracting more investments; fostering economic growth; attaining macroeconomic stability; building a broader tax base system; delimiting the role of government in the economy; reducing the country's fiscal deficits, public sector borrowing, subsidies, and subventions to unprofitable state owned enterprises.

Privatisation Process/ Timeline in Nigeria

Prior to the adoption of privatisation in Nigeria, there has been a persistent

http://dilemmaxdotnet.files.wordpress.com/2012/06/lagos-international-airport.jpg call for the government to divest its interest in certain businesses. For instance, there were thirteen investigative inquiries into the activities of the Nigerian Railway Corporation (NRC) between 1960 and 1965. A deficit of ₦7million was discovered and the World Bank described the finances of NRC as disastrous. State owned enterprises in Nigeria were perpetually loss making enterprises requiring direct budgetary transfers and relying on sovereign guarantee to access loans to finance their operations. Following the adoption of SAP in 1986, the Privatisation and Commercialisation Decree No. 25 was promulgated in 1988, establishing the Technical Committee on Privatisation and Commercialisation (TCPC) as the initial implementation secretariat of the privatisation policy. The entire structural adjustment programme was originally planned to have an implementation period of two years but was extended. However, regime survival and political squabbles did not allow for conscientious implementation of the privatisation policy as political exigencies overrode economic rationalities.

The TCPC submitted its final report in 1993 and recommended the establishment of the Bureau of Public Enterprises (BPE) to continue the privatisation process. The recommendation was accepted and the Bureau of Public Enterprises Decree No. 78 of 1993 was promulgated. The Decree repealed the TCPC Decree and transferred its function to the BPE while the members of the TCPC metamorphosed into the Management Board of the Bureau of Public Enterprises. The Public Enterprises (Privatisation and Commercialisation) Decree was promulgated in 1998 to further the process of privatisation in the country. The Decree later became the Public Enterprises (Privatisation and Commercialisation) Act of 1999 following the return of democratic rule in 1999.

The Public Enterprises (Privatisation and Commercialisation) Act of 1999 created the National Council on Privatisation (NCP) as the apex body charged with the overall responsibility of formulating and approving policies on privatisation and commercialisation. The Act also established the Bureau of Public Enterprises (BPE) charged with the overall responsibility of implementing the Nigerian policy on privatisation and commercialisation. The Act empowered the BPE to explore new modalities for privatisation such as encouraging core investors, and promoting foreign investment in the privatisation programme. Till date, privatisation in Nigeria has manifested in several variants. These include: public offer for sale of shares of affected enterprises through the Nigerian Stock Exchange (NSE); private placement of shares of affected enterprises; sale of assets where the affected enterprise cannot be sold either by public offer of shares or by private placement of shares; management buyout; deferred public offer; public-private partnership initiative, and concessioning.

The Disappointing Experience of Privatisation in Nigeria

Nigeria like most countries has also had its share of disappointing experience with privatisation as some privatised SOEs have woefully failed to get off the ground. In some instances, there has been a complete failure of the privatisation process itself notably the Nigerian Telecommunications Limited (NITEL). The case of NITEL appears to be the Achilles' heel of privatisation in the country as all efforts to privatise it has failed. Efforts to transform the hitherto telecom monopoly from a state owned enterprise to a profitable private enterprise began in 2001. The consortium – International London Limited that won the first bid could not pay for it. A management contract with Pentascope left NITEL with more debts and diminished assets. Successive attempts to sell the company to bidders like

Orascom of Egypt, New Generation Consortium and Transcorp have similarly failed. The National Council on Privatisation (NCP) is said to be considering "guided liquidation" as a way of navigating the quandary that NITEL privatisation has become.

It has also been argued that the privatisation process has resulted in massive loss of jobs. For example, the privatised companies in the steel sector that used to employ up to 20,000 workers, now have less than 4,000 in its total workforce. This has worsened the unemployment situation in the country. It is also believed that there have been colossal losses of economic returns to the Nigerian economy from the privatisation exercise as government assets and businesses are alleged to have been sold for paltry sums. It is estimated that Nigeria spent over $100billion to establish state owned enterprises but have so far realised far less as gross earnings from the exercise. Allegations of asset stripping by the new owners of privatised SOEs has become a serious concern as this in essence borders on brazen pillage of the country's patrimony. Some privatised SOEs have become moribund again, with depleted assets according to the national assembly public hearing on privatisation.

Success Stories of Privatisation in Nigeria

In spite of the daunting challenges of privatisation, Nigeria has witnessed some modest achievements notably the concessioning of its ports. Piqued by the comatose state of the nation's port infrastructure, the federal government commissioned a diagnostic study of the maritime industry in 2001 in an effort to reposition it for privatisation. The study recommended the implementation of a landlord model of port management, accompanied by a number of interrelated institutional reforms. Under the landlord model, the government would be responsible for port planning, regulatory functions, and ownership of port-related land and basic infrastructure while the private sector would in turn be responsible for port operations and services. This would include terminal operations, cargo handling, warehousing, and delivery. The private sector would also be responsible for financing and implementing investments and maintenance for port superstructure and equipment, and for staffing and training of personnel to meet all of these responsibilities.

Following the adoption of the recommendations of the study, the government over a two-year period, beginning in late 2004, implemented one of the most ambitious port concessioning programmes ever attempted. Till date, the National Council on Privatisation (NCP) and the Bureau of Public Enterprises (BPE) have approved over 26 concessions and long term operating leases of ports ranging from 10 to 25 years. As a consequence, there is improved efficiency in port operations in the country as some of the nation's ports now operate for 24 hours and efforts are ongoing to attain 48 hours period for the clearance of goods on arrival at Nigerian ports.

Another celebrated success story of privatisation in Nigeria is the Murtala Muhammed Airport Terminal Two (MMA2) Public-Private Partnership (PPP) initiative. The MMA2 privatisation is a Build-Operate-Transfer (BOT) arrangement between the Federal Government and Bi-Courtney Limited. The MMA2 was concessioned to Bi-Courtney in 2003 by the Federal Government of Nigeria to design, build and operate the Murtala Muhammed Airport, Lagos Domestic Terminal and ancillary facilities. The arrangement completely transferred all development and operating risks to the private sector operator, and improved the aesthetics of the airport. The airport offers better services than those still operated by the government. The suc-

http://farm4.static.flickr.com/3017/2781519575_fb9185c172_b.jpg cess of the MMA2 justifies the belief that the private sector is better at managing and maintaining infrastructure.

Another success story, albeit in the making, is the privatisation of electricity infrastructure in the country. To address the twin issues of poor operation and financial performance, the federal government decided to undertake a reform of the power sector to remove the National Electric Power Authority's (NEPA) monopoly and encourage private sector participation. Hitherto, NEPA was a state owned enterprise responsible for power generation, transmission and distribution. Consequently, government established the Power Holding Company of Nigeria (PHCN – the initial holding company) and subsequently unbundled it into eighteen (18) successor companies. The specific objectives of the power sector reform include: the transfer of management and financing of successor companies' operations to the organised private sector; the establishment of an independent and effective regulatory commission to oversee and monitor the industry; and focusing the government on policy formulation and long-term development of the power industry.

Government has signed transaction and industry agreements with the successor companies to PHCN, formally marking the final take off of a critical phase of the power sector reform. Similarly, the federal government has expressed its readiness to give a schedule of delegated authority to Manitoba Hydro, to take over the management of the Transmission Company of Nigeria (TCN). According to the contract terms, Manitoba Hydro is expected to take up the staffing and management of key departments of TCN such as the Systems Operations (SO), Transmission Service Provider (TSP), National Control Centre (NCC) and Market Operations (MO). It is believed that the privatisation of the power sector within the broader framework of the *Roadmap* for *Power Sector* Reform will significantly improve power generation, transmission, and distribution in the country.

To date, over 122 state owned enterprises have been successfully privatised and a good number of them are better positioned to efficiently provide services that they were established to provide. According to the BPE, evidence indicates that more than 70 percent of privatised state owned enterprises are performing relatively well. Some of these include: Ikoyi Hotel, African Petroleum, National Oil and Unipetrol which are all running efficiently as private businesses. However, there are some of the privatised SOEs (which some believe are in the majority) that have not performed optimally, thereby defeating the purpose of the privatisation exercise. These failureshave become the subject of several inquiries by the national assembly into the activities of the Bureau of Public Enterprises (BPE) and the National Council on Privatisation (NCP) in recent times.

Going Forward: Renewed Vigour and Political Will Required

The challenges and disappointments of privatisation notwithstanding, there is overwhelming evidence that it remains the best economic policy option in transforming inept and loss making state owned enterprises into profitable enterprises. If Nigeria is to achieve the broad objectives of creation of a market economy, attraction of private sector investment/foreign direct investment, efficiency, and competitiveness, there is need to conscientiously privatise SOEs. Privatisation should not be an end in itself, but a process that would allow some level of government oversight of privatised SOEs to avoid unwholesome activities that are inimical to the privatised entity and the overall economy. As a check measure, government could opt for partial privatisation and retain some interest in privatised entities to represent the interest of the society and avoid unhealthy activities in the privatised SOEs, such as asset stripping.

The need to depoliticise privatisation cannot be overemphasised. When state owned enterprises are privatised and there is semblance of cronyism, there is bound to be doubt about the transparency of the privatisation process. In developing countries however, it is difficult to obliterate traits of patronage in privatisation. What is essential therefore is the capacity and willingness of the new owners of privatised SOEs to transform them into profitable enterprises for the benefit of the economy. Government should also set timeline for the listing of privatised SOEs on the nation's bourse to enable interested members of the general public to own equity in the nation's patrimony. These require sufficient political will and the government should pursue the remaining privatisation process with renewed vigour to a logical conclusion for the greater good of the economy.

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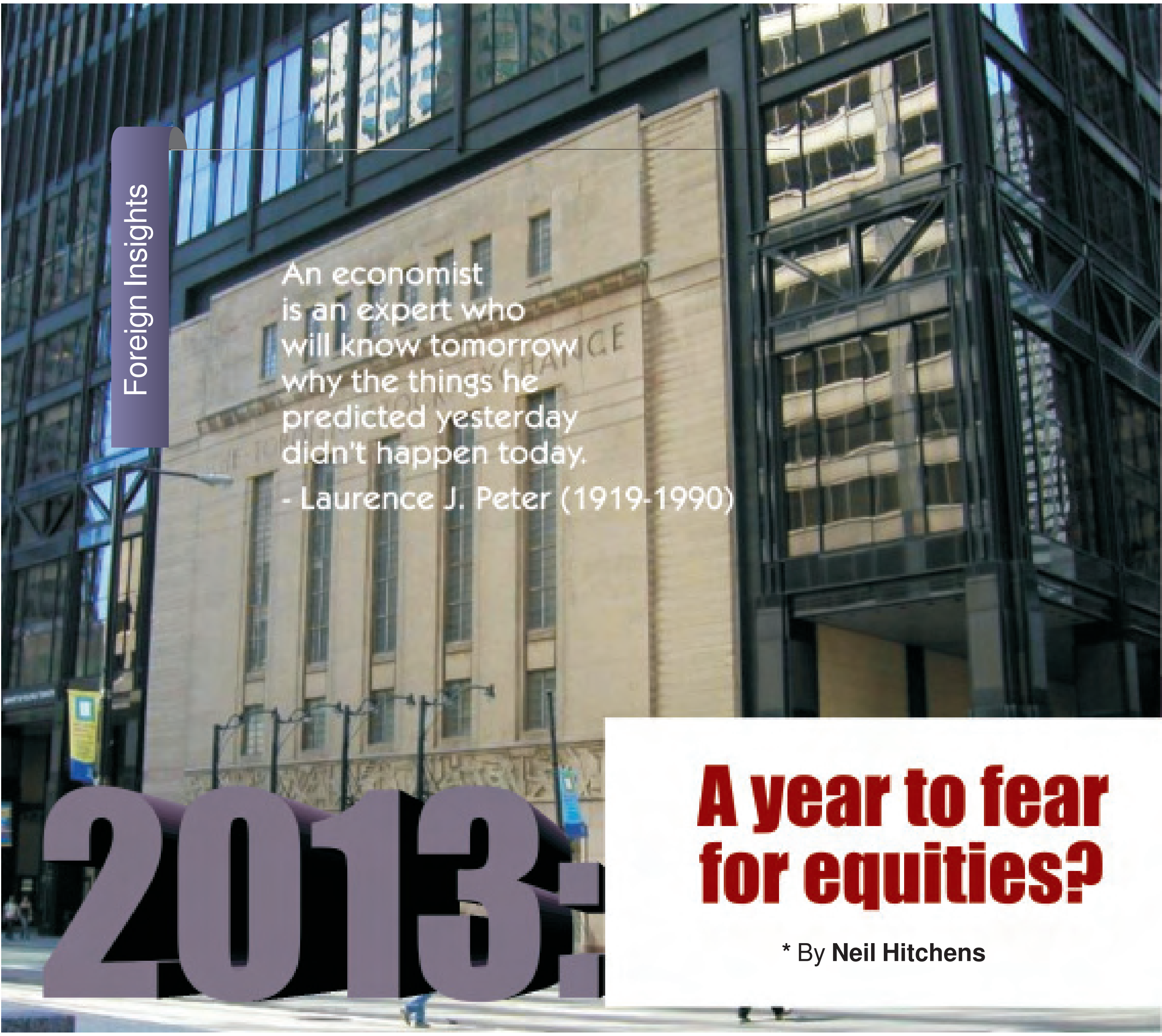


An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today.

- Laurence J. Peter (1919-1990)

2013: A year to fear for equities?

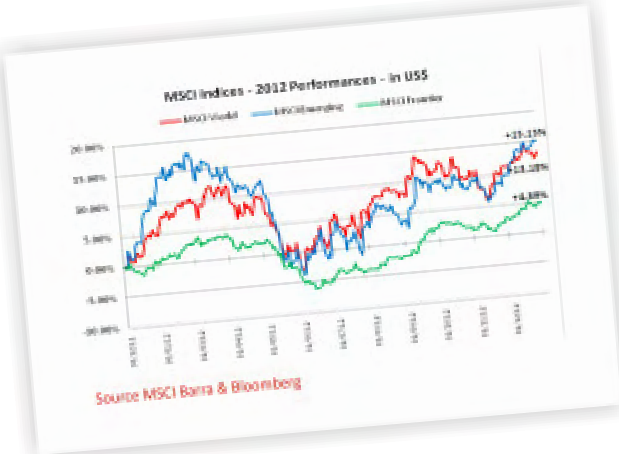
* By **Neil Hitchens**

Laurence J. Peter (quote above), was a Canadian who became famous for his 'Peter Principle' which stated that in any organisation where promotion is based on achievement, success and merit, that staff will eventually be promoted beyond their level of ability.

The principle is commonly phrased, "employees tend to rise to their level of incompetence."

Many investors will currently be scratching their heads and wondering where it all went right in 2012 and whether markets have, indeed, risen to levels which are beyond the current capacity of their participants.

While we positively stated at the beginning of 2012 our confidence in the overall total return for the year and expected direction of equity markets, the results and final performance figures for the



major markets were, we will readily admit, higher than we had dared to hope for in the current global nervousness.

A return of anything more than 10% a year for broader based indices usually worries me. To see the MSCI World index move +13.18% would normally make me nervous. However as stated earlier, we are seeing the first signs of a growing indication that certain key areas of the global economy are starting to move ahead after four years of stagnation.

As always, such a move does tend to hide some shocking results as well as some unexpectedly good ones.

The best and worst performing markets within the MSCI World Index for 2012 were:

Top 5 Markets		Bottom 5 Markets	
Belgium	+36.08%	Israel	-6.97%
Denmark	+25.59%	Spain	-3.28%
Germany	+27.20%	Greece	-0.83%
Singapore	+26.39%	Portugal	-0.70%
Hong Kong	+24.44%	Ireland	+3.83%

Admittedly, the two best performing markets, Belgium and Denmark, each have a smaller overall capitalisation when compared to Germany, the third best market and as such, inflows have a greater relative impact. Both have 'suffered' from the winners' mentality – the more an index rises the more money goes in to boost the market further, which in turn boosts additional inflows. Definitely not a virtuous circle but in smaller capitalised indices a warning sign for the coming year here.

The Belgian market was boosted by some spectacular performances from the likes of KBC Groep, the nearly bankrupt bank which was +168.73%, Ageas, the life insurer, +85.13% and Solvay, the chemicals conglomerate, +71.77%

In Denmark, the Copenhagen Fondsbørse again had some rather bizarre market leaders: Pandora A/s, the jeweller, +130.56% headed the list followed by GN Store Nord A/s, wireless telecomssupplier, +69.08% and Coloplast B, the healthcare provider, +67.37%.

In reality, none of the companies could seriously have figured as strong or conviction buys on any analysts list at the beginning of 2012.

Germany, though, as we have noted previously is definitely acting in its expected role – as the economic powerhouse of Northern Europe.

As such to see the Dax as the third best performing index for 2102 is not a total surprise and many of its component stocks would definitely have been picked as potential performers for the past year. Indeed even from a personal observation in the 3rd quarter of 2012 about the enormous numbers of lorries travelling along the autobahn network of Western Germany (noted during the course of driving from Calais to Malmo and back) showed both the enormous levels of exports being produced and transshipped the length and breadth of the country.

Here the best performing stocks are both not a total surprise as well as overall, fairly well know names. Best performer was Continental Tyres, +82.12%, followed by the slightly less well-known Lanxess, a speciality chemicals producer, +65.67% and in third place was the world-renowned airline Lufthansa, +55.04%. Those that missed the cut are again recognized names but all go to show the incredible export led-story that is the German economy. SAP, the software giant, +49.69%, Volkswagen, +48.73% and Bayer Chemicals, +45.53% still have a long way to go before their success story is likely to wane.

On the downside, the worst performing 'Developed' markets were easy to predict.

Israel, not on everyone's stock picking agenda, has had some fairly well publicised local problems and as such, we would normally have a zero weighting here except in the most exceptional circumstances.

However, the gruesome foursome that follows Israel could have been picked at the beginning of 2012 with some certainty to not only disappoint but also underperform.

Spain, Greece, Portugal and Ireland are not only the

worst main performers, they will continue to be at or close to the bottom of our stock picks for some time to come. Rather, they will be actively avoided until there is some genuine appearance of local solutions filtering into the home economies.

They manifest all the worst qualities of the Eurozone problem.

According to the leaders in Europe the 'little local difficulty' – namely the Euro crisis – has been fully resolved.

In some parallel universe, maybe!

The realists amongst us will know that everything has merely been swept under the carpet and the problems in the four worst economies continue to grow. It is only because the real spectre at the feast – Cyprus – does not readily feature in any index conglomeration, that these four other lame duck indices look relatively good.

Cyprus lost -60.48% in 2012 and was the worst performing market globally. Forget the problems that Greece has been through, Cyprus's problems are multiply worse.

It is here that we believe that the Euro could actually start to unravel in 2013.

As we frequently highlight to clients, being index specific has its merits. Slavishly following an index basket without putting any thought into it will always lead to disappointment and underperformance.

To choose your country weightings based on thought and research will always bear better fruit even in a rampantly bullish equity scenario such as that we are currently seeing.

Those readers who were also quite surprised that we decided to leave Japan to one side from the end of the first half of 2012 should note the following performances:

MSCI World Index	+13.18%	MSCI Pacific Index	+10.97%
MSCI Pacific ex-Japan	+19.40%	MSCI Japan	+5.76%

As we said previously, Japan is on a one-way mission to equity oblivion.

It is the only developed country, which already has a shrinking population.

In ten years its stock market has not moved.

It closed December 2012 at 10,395.20 and ended 2001 at 10,542.60 a net decline measured in its local currency, the Yen, of -1.40% before adjusting for inflation. This is in sharp contrast to just about everywhere else.

During the same period – admittedly the worst postwar investment period – other indices managed to eke out some slightly better performances:

Dax	+47.52%	Dow Jones	+30.76%
S&P 500	+24.22%	FTSE 100	+13.04%

As such, some comment was raised at the time as to the questionability, in effect, of dropping one of the key indices in any larger basket. We outlined our thoughts then and repeat them above. Until and unless the Japanese grasp the nettle of an ever increasing deficit, and ever shrinking population, and an ever more equity averse younger generation then the only interest in buying the vast majority of Japanese equities will either be from index trackers or from the increasinglyquestionable equity cross-holding schemes practiced by most quoted companies. We note then as we note now that there are going to be far better investment opportunities over the near and medium term in Asia away from Japan.

Emerging and Frontier Markets – of growing interest

Away from the clustered returns from the MSCI World index, returns in both Emerging and Frontier markets continue to interest. Indeed many of the Emerging market components, as their equity culture matures, are showing more signs of behaving like Developed Markets.

A total return from the Emerging Markets Index of +15.15% shows the higher returns associated with the higher risks in this sector.

The top and bottom 5 markets were:

Top 5 Markets		Bottom 5 Markets	
Turkey	+60.53%	Morocco	-16.47%
Egypt	+44.49%	Brazil	-6.49%
Philippines	+43.86%	Czech Republic	-3.10%
Poland	+32.07%	Indonesia	+2.41%
Colombia	+31.55%	Chile	+5.59%

For any investor to have had even a full Index Weighting in any of these countries shows either an enormous amount of good luck or they were deliberately following a specific market investment programme.

In the Frontier Marketsector – where investors flirt continuously not only with the possibility of some dire performances in illiquid markets but the added component of the likelihood of losing their investment money altogether, the overall net return of only +4.89% was, we will admit disappointing.

The top and bottom 5 markets were:

Top 5 Markets		Bottom 5 Markets	
Nigeria	+47.39%	Ukraine	-49.20%
Kenya	+22.72%	Argentina	-38.86%
Estonia	+16.94%	Bulgaria	-33.77%
Zimbabwe	+15.25%	Jamaica	-19.20%
Kazakhstan	+12.13%	Bangladesh	-12.22%

As so many of this year's worst performers have featured in the past as prior year's best, all I will emphasise is the need to have rigid stops in place and when the signal flashes 'Sell' have no hesitation in getting out.

Apart from the rather welcome sight of Nigeria as the best performing market in 2012, I would wager good odds that no reader will have had money invested in all the next four best performing markets.

If you did, please tell me and not only will I buy you lunch if you come to London but I will also ask you for the secrets of your success as none of these four other markets have anything other than momentary interest to most investors.

We leave the best performing market on earth until last – Venezuela!

For the uninitiated, it looked as if 2012 was the year of all years for the Caracas exchange.

Starting the year at 117,036.13, it finished 2012 at 471,437.06 – a rise of +302.81%!

Even adjusted for inflation and currency variations, which roughly halved the overall performance, which still leaves you with a 150%+ rise.

So? Was Venezuela the 'best' stock market in 2012?

If by best you mean the best performing one then, yes, this is correct.

If on the other hand you mean the Venezuelan stock market has the best coverage in the world then you are much mistaken here.

If, again, do you mean the best or most liquid market in the world then again you are very wrong.

Daily liquidity here averages $500,000.

In contrast, the average daily traded value of the S&P 500 index, using the primary exchange trading data only is some $25.55 billion or some 5.1 million percent more than Venezuela.

In fact, there were many days in 2012 in which no stocks traded in Caracas.

None.

Zero.

On 105 days, fewer than 10,000 shares were traded, some of them priced at less than One Bolivar (the local currency) – at the official exchange rate, less than 25 US Cents, at the black market rates only about 5<ˆ.

So why did the market balloon in 2012?

It is a mixture of factors:

1 - Banks in Venezuela pay out enormous dividends as they make money handover fist but have relatively little to spend it on; such is the state control of the command based economy. Dividend yields more than outstrip local inflation so bank shares are very popular.

2 - Strict foreign exchange controls – once you get your

http://www.agenciadepasajes.com/wp-content/uploads/2011/01/Caracas-1.jpg

money in you cannot get it out. If you have money in Venezuela, it is better to invest in something equity linked.

3 – There are only 16 shares in the index, three of which do not trade.

4 – The political scene is unlikely to change making new equity issuance unlikely.

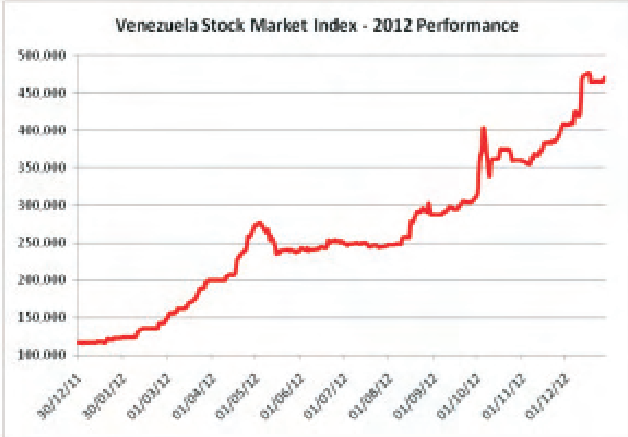
5 – There is inflation in the offing, which will benefit equities with a high proportion of their earning from overseas.

6 – The illness of Chavez played a big part in the rally. The longer he lingers the more likelihood there is of a crash.

7 – It is a locals-only market in any case. Unless you are a Venezuelan citizen, you cannot normally trade.

In short, there is not a liquid market there under any yardstick. Therefore, while it went up ‘the most’ in 2012 it is also the most illiquid, rigged and vulnerable stock market around.

No doubt, it is an index, which index followers have to track irrespective of the merits or otherwise.



Source Bloomberg

Commodities – Softs far from soft in 2012

The drought that hit the United States during the summer, even now, continues to squeeze crop prices. Around 64% of the contiguous U.S. was in drought at one stage, the highest recorded levels since 1956. Despite rain fall in September, crop yields were decimated and the impact of this is spread rapidly away from a purely agricultural ‘softs’ predicament, to have a direct impact on other areas of the agricultural industry such as ethanol production and the livestock sector.

The current U.S. ethanol directive – the Renewable Fuel Standard - requiring that a minimum of 9% of corn-based ethanol production be added to petroleum/gasoline is a measure that probably should be reviewed or suspended, given the continued squeeze on crop prices. Many consumers are growing angry, believing that the US ethanol policy itself has led to higher corn prices, tightening supplies and increasing volatility.

Corn rose at one stage well over 60%, peaking at 838 cents a bushel and still managed to close 2012 at 698.25<ˆ. Such a move has led to a significant rise in the costs of animal feedstuffs with a consequent roll-through of inflationary pressures down the chain of food production.

Similar but not such extreme moves were also seen in Oats, the bedrock of any porridge, which peaked at a rise of over 40%. Even with the Southern hemisphere harvest, Oats closed 2012 at 347.50<ˆ still +21.40% higher. Soybeans, while not as agriculturally in the spotlight are nonetheless a mainstay of many agricultural based processes and after a near 35% surge again closed the year well over 10% higher at a year-end price of 1,409.50<ˆ.

However, looking into 2013 there are few significant signs of any major changes – just yet.

Despite a small recent pullback in prices, they do need to move higher again in the first quarter of 2013 to slow demand for limited supplies.A jump in prices will encourage farmers to increase production which in turn could quite possibly result in a larger acreage being planted in the spring for all cereals – this in turn could result in a weaker 2103 if, and it is a very big if, acreage planted is harvested in full and yields are at a higher than expected level.

Recent analyst predictions of CBOT corn prices to average $7.90 a bushel in the first quarter and then fall 24 % to $6 during the U.S. harvest in the fourth quarter are of interest. They also predict Soybean prices are expected to average $14.75 in the first quarter before sliding almost 12 % to $13 in the fourth quarter 2013. CBOT wheat prices are forecast to rise to $9.10 in the first quarter of 2013 and then fall 23 % to $7 by the fourth quarter.

Nevertheless, these analysts are the same analysts that managed to underestimate prices by as much as 30% due to the unforeseen impact of the drought in the United States, which accounts for one-third of global corn exports.A year ago, forecasts for corn prices at the end of 2012 averaged $6.10, wheat prices would average $5.95, and soybean prices would average $12.51.

How wrong they were. There is a distinct possibility given the recent climate extremes seen in Australia, combined with recent observations about lower than average sunspot activity (which can indicate a cooling climate in the short-term) that the harvest in September 2013 could be significantly lower than predicted.

Oil – a quiet 2012; will 2013 be more interesting?

Crude finished 2013 almost where it began. Brent ended the year at $111.11, a net change of only +3.47%. West Texas (WTI) has a slightly softer year ending at $91.82, -7.09%

The spread or gap between the prices of Brent and WTI has widened this year, in part due to a reweighting within the global oil indices that favours Brent over Texas, but also due to the increasing production now coming out of the Texas basin on the back of technological enhancements in production and recovery of crude.

Oil and associated petro-carbon production in the US is increasing daily as new or improved production techniques enable energy essentials to be extracted faster and cheaper than almost at any time in recent history.

The US now finds itself rapidly approaching a situation where it is almost free of dependence on imported energy and is in a position to overtake Saudi Arabia as the world's largest producer [though, we must emphasise, not exporter] of oil. Even if the price of WTI drops 30% from current

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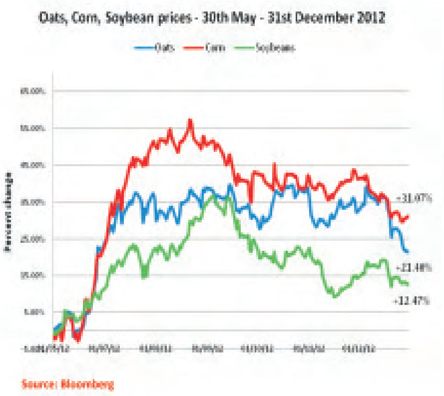
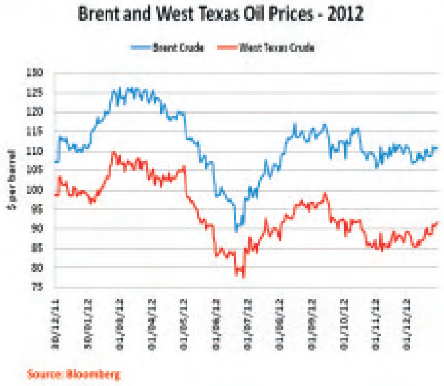
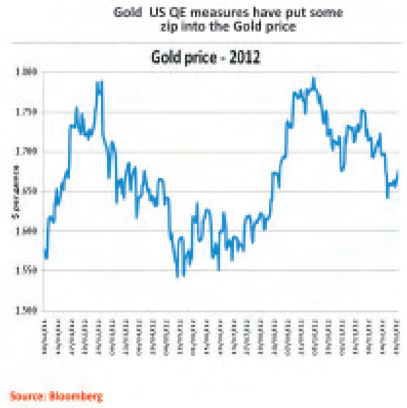






levels, oil companies will still be able to boost their domestic production as new technology comes into play in the ability to extract even more crude than was thought possible even 10 years ago from shale.

The near term direction of the price of oil is a difficult question at present given the various bullish scenarios outlined for the 2012 price that never quite managed to materialise. Talk to any room of analysts and you are likely to get very different forecasts - from bearish, to mildly bullish, to the end of the world scenario.

Forecasts may differ, but there is one constant regarding crude: oil remains the lifeblood of the global economy, and certainly the U.S. economy. Other energy forms have weakened oils overall dominance - natural gas, nuclear and renewables - but investors and consumers should be fully aware that, unless there is some amazing technological breakthrough, oil will remain the dominant fuel for at least this decade.

Normally high oil prices would lead to bad things for the U.S. and global economies; low oil prices, the reverse.

Given the current WTI price of roughly $90, crude is not cheap today, and is ridiculously high compared to its 150-year average price (1861-2011) of about $25 per barrel (expressed in 2013 US Dollars). So everyone should really be worrying about why prices are high at present and where are they going over the next five years.

Prices are not just calculated via a simple supply and demand equation. If it were, oil would be selling for $50 or even $40 per barrel, not $90. Despite increased demand from emerging market economies, primarily China, we have seen no sustained disruption in oil's supply since the First Gulf War when the Kuwaiti oil wells were deliberately set on fire.

The answer to sustained high prices remains, as we have posited previously, geopolitical risk. On-going civil unrest in the Middle East (Syria, Egypt) near major oil producing nations has placed a fairly significant risk premium, adding roughly $10-15 per barrel to oil's price.

Add the above to the possibility of supply disruptions in Venezuela. Throw in resurgent terrorist activity in West Central Africa (Algeria, Mali). Combine this further with U.S. /E.U. sanctions imposed on Iran over its nuclear program, and the result is an oil price that has been bid-up substantially - far above where oil would be trading if solely supply and demand factors ruled the day.

Second - and this may surprise some many – oil is not just energy, it is also a liquid and easily tradable alternative investment - something that has not been missed by the hedge fund community. Frustrated by 5+years of inadequate index derived returns, hedge funds have bid-up the price of commodities, and one of their favourite commodities is….oil.

For as long as hedge funds believe the likely rate of return from oil futures (and other commodities) is substantially greater than the rate of return from stocks or bonds then these investors will continue to pour money into oil futures - and the price of oil will remain well above where supply/ factors would place it.

So, is there any good news on the horizon for oil consumers?

It seems there now is - Natural Gas.

In particular, we throw the spotlight on that somewhat controversial flow of gas from the new hydraulic fracturing or "fracking" technology.

The technological advances made in the past few years has allowed fracked gas to become a comparatively cheap, abundant source of energy in the United States, and major, new supply additions are possible in Europe, Russia, and the Middle East.

In North America, the natural gas future closed 2012 at $3.351 per million BTUs (British Thermal Units) – which means it sold for the oil equivalent of $19.41 per barrel or about 25% the price of oil for the same amount of energy delivered. While fracking is not totally proven yet (there are some extreme doubts about its environmental credentials). But if those approved fracking sites continue to produce at current rates in the United States, natural gas will continue to displace oil in factories, home heating, and displace coal (not a green fuel) in electric power generation.

Natural gas is also being seen more and more in transportation as cars and larger vehicles are now being converted to run off liquefied gas. In other words, natural gas will decrease U.S. oil consumption, and in the process take some pressure off global oil demand.

Combine this with the enhanced US extraction technology for crude and the net result is that the world's spare capacity or "safety cushion" for oil is expected to roughly double - to 5-7 million barrels per day in 2017 - a safety cushion size the world has not seen since before 2003.

Nevertheless, the good news is not quite ready to be reflected in a lower overall price. We still flag the extreme likelihood of the Middle East flaring up during 2013 and as such today's $90 WTI could easily become tomorrow's $190 a barrel.

However, any supply disruption will probably be limited and you will need to be a quick trader to participate in this brief but significant rally before prices fall back to 'more normal' levels.

Gold has yet another year of net/net advance. It started the year at $1,576.38 an ounce and ranged between a high of $1,792.18 on 4th October and a low of $1,542.55 on 16th May, ending 2012 at $1,676.23 a net increase of 6.33%.

The overarching driver of the gold price for 2013,will be the development of global financial crisis. Debt piled up by Western governments is not sustainable. To eliminate this overhang there has to be disciplined deleveraging, i.e. reduction of debts. The alternative is to create more debt. This is where we can see inflation levels rise significantly.

Either way, both a deleveraging, which will probably be long and painful and may result in yet another 'lost decade', or a reduction of the real debt pressures by means of higher inflation are good indications that gold will retain its attraction as either an attractive insurance asset or a continuing store of value. Geopolitical risks, e.g. in relation to Iran, will support this position of gold as a 'safe haven' further.

For the fourth quarter of 2013, analysts surveyed by Bloomberg forecast a level of $1,925 per ounce of gold, some +14% higher than the year-end 2012 price. Within this survey, sample forecasts ranged from a high of $2,550 to a low of $1,840. Even the *lowest* forecast still indicates an expected minimum +9.77% increase for the year.

The diversity of analysts' predictions mirrors the uncertainties in the global markets. Gold though has the ability to perform well in both inflationary (increasing public debt levels) and deflationary (decreasing debt) scenarios and of course performs positively in times of crisis.

Until the global financial problems are truly resolved, we can expect several more years of uncertainty, which might only properly end towards the end of the current decade or maybe the early 2020s.

Therefore, for the near future a moderate allocation to gold will remain crucial for many investors and could enhance the positive trend of the gold price in 2013 and beyond. Portfolio diversification, i.e. the allocation of funds to different asset classes and investments, should remain an imperative for safety-orientated investors over the coming years.

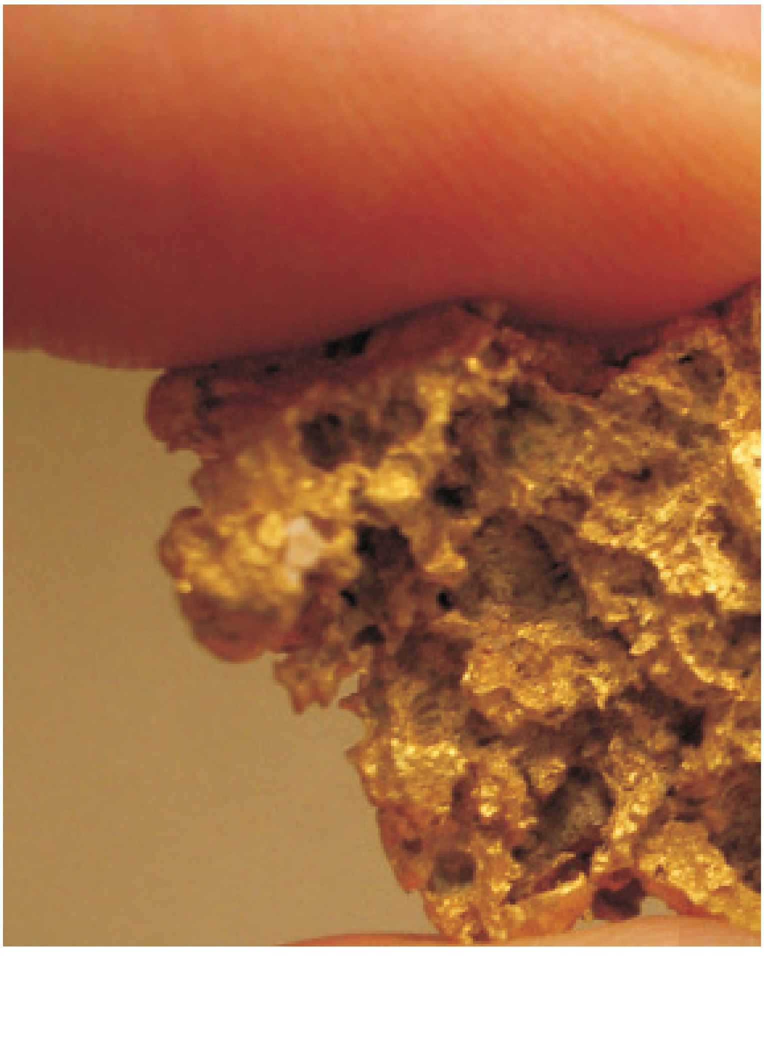
2013 and beyond – Equities, Bonds or Commodities?

As observed before only the most foolhardy, or brave, investor has all his eggs in one basket, or one asset class.

While certainly the first half of 2012 was one where bonds were probably the safest area to be in, the resurgence of equities in the second half of the year has certainly made us re-assess our positioning.

The case for equities is growing more compelling but again - as we have warned before – you need to have a careful and skilful guide for this.

Any equity exposure should not be based merely on



http://www.romania-insider.com/wp-content/uploads/2010/06/gold-mine.jpg slavishly and unthinkingly following the MSCI World Index and its underlying mix of sub-index components. By looking carefully at both what has recently happened and the chances of a particular outcome occurring in the next 12 months you have to consider the unambiguous growth story coming out of the US and China and treat with extreme caution the Eurozone and UK economic stories. Certainly within Europe the difference in the economic health of those states in the Northern zone as opposed to those in the South or indeed far West bears far closer examination than is currently being applied.

While we never make any absolute recommendation, the merits of being over index-weighted in the US, China and Germany against under or even nil weights in Greece, Spain, Portugal,Ireland and the UK are valid comparisons to highlight.

As for bonds, we seriously question how much further the current long bull market can last, especially in the light of the concrete evidence that the US is again powering the nascent global recovery.

Rates at the short end of the US Treasury yield curve of 0.15% or less make any new investment there almost meaningless in its effectiveness. Better then to have cash available for individual investment opportunities as they arise or perhaps it is time to start adding to existing, but country specific, equity positions. However we do caution that the 'January effect' where new money is put to work in global equities from the 1st January tends to skew the results for the first 4 or 5 weeks of the year.

It is probably better to wait for the inevitable pullback in prices that usually comes in February before putting your money to work in the equity markets.

As for commodities – gold remains a firm favourite with investors and we have no reason to differ from this stance.

Longer term there is also some compelling numbers to consider for those of a more 'buy and hold' mentality.We have taken a good look at the longer-term trend for the US markets. The same logic can be applied to many other countries.

At the end of 2012, the Dow Jones Index closed 13,104.14, the S&P 500 Index at 1,426.19.

The past few years have not been exactly the best for either index but the long-term growth rate of the Dow even with the recent hiatus stands a very healthy +4.9693%. This is the average from the close in 1904 at 69.91 to the 2012 close. The equivalent (and meaningful) series for the S&P 500 dates back to 1957 and the average annual return is a healthier +6.7142% - here performance has not been dampened by either the Great Crash of 1929 or previous sharp market corrections such as the Panics of 1907, 1910-11, the Great War or indeed World War 2.

What if we factor in these growth rates for the next 5, 10, 15, 20 and 25 years? The results are interesting.

Dow Jones Index

Close on December 31st 2012 13,104.14
Assumption 4.9693% Average Annual Growth
Minimum indicative index level after

- 5 Years 16,700.14
- 10 Years 21,282.94
- 15 Years 27,123.33
- 20 Years 34,566.43
- 25 Years 44,052.04

Standard & Poor's 500 Index

Close on December 31st 2012 1,426.19
Assumption 6.7142% Average Annual Growth
Minimum indicative index level after

- 5 Years 1,847.77
- 10 Years 2,354.83
- 15 Years 3,001.04
- 20 Years 3,824.58
- 25 Years 4,874.10

These are, I must stress, just indications of where mathematics believes the trends indicate possible closing levels.

If you increase the compound growth rates to take into account the end of the current global recessionary period, the 25 year rates for the Dow at 7% indicate a potential closing value of 71,12184.

If you just go wild and project an average 9% growth rate,you end up with 112,998.06.

That will do nicely!

(* Neil Hitchens is a Senior Relationship Manager, Head of Investment Managment, Zenith Bank (UK).

Recent 'Credit Crunch': Impacts on Banks' Strategy and Liquidity Management

By **Gabriel Okenwa**

The global financial crisis started in July 2008 and spread like "wild fire" all over the world. After initial dithering by researchers and policy makers about its root cause(s), a consensus emerged that, indeed, the prime mortgage lending market in the US had triggered what seemed to be the 21st century version of "The Great Depression" of the 1930s(Lin, 2008; Soludo,2009).

The role of derivatives market came under immense scrutiny as the major causative agent of the crises. Ambitious investment bankers, and Wall Street financial whiz kids, leveraging on the prolonged prosperity in the US under President Clinton and

The bubble burst when economic slowdown in the United States triggered a global recession that eroded sustained growth and by implication the income levels of consumers which undermined mortgage backed loans as housing prices crashed especially in the United States.

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the phenomenal growth in income and consumer spending, felt that the mortgage market in the US could actually be repackaged for the global investment audience on a sustainable basis. Unfortunately, it backfired.

The bubble burst when economic slowdown in the United States triggered a global recession that eroded sustained growth and by implication the income levels of consumers which undermined mortgage backed loans as housing prices crashed especially in the United States. Experts feared that financial-crises led global recessions die hard and are more diffused than other species, especially in the era of globalization. These fears were not misplaced as events later demonstrated.

Bank Liquidity Crises: A Conceptual Overview

Banks exist to take deposits from customers and provide credit to those who require them for various reasons. The function of financial intermediation connotes that banks develop strategies to ensure that there is a healthy balance between deposits and credit creation. When banks have fewer deposits than the amount of cash that customers demand at any given time, it creates scarcity that can erode the confidence of depositors leading to panic and possible banks runs. Moore (2009) notes that " banks need to hold liquid assets to meet the cash requirement of its customers….if the institution does not have the resources to satisfy its customer demands, then it either has to borrow on the inter-bank market or the central bank". The implication of the inability of banks to meet their customers' demands is that there might be systemic failure of confidence that can lead to bank runs.

Bordo et al (2001) provides two explanations that can lead to liquidity runs on banks; these are: first, liquidity runs can be due to mob psychology or panic, such that if there is an expectation of financial crises and people

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feel that their deposits in the banks are at risk, they reinforce the crises by engaging in huge panic withdrawals from the bank. Second, financial crises are a function of business cycle fluctuations in economic activity. Such fluctuations results from shocks to economic fundamentals. When recession hits an economy, it naturally impacts on asset prices which most often, fall. In such circumstances, borrowers will have problems repaying their loans and in addition depositors will move to cut their losses by withdrawing their deposits, leading to bank runs. In other words, banks are caught in between the illiquidity of their assets (loans) and the liquidity of their liabilities (deposits) and then runs the risk of becoming insolvent (Fadare, 2011).

Implication of the Liquidity crises on Credit Creation

Financial crises lead to liquidity crunch in banks in a number of ways which we have elaborated upon in the previous sections. However, the specific ways in which the global financial crises hamstrung credit creation in the banking system are discussed below.

a. A situation whereby there is sustained foreign exchange outflow in the economy as investors in both the banking system and capital markets divest their resources can create liquidity crises for the banking industry. The immediate implication of such a situation is that banks' ability to create credit is hampered because withdrawals outpace deposits and the capital base of banks is eroded as a result.

b. Depression of the capital market and drop in the quality of part of the credit extended by banks for trading in the stock market (Banks experience liquidity pressures as loans are not fully serviced or repaid) means that margin loans advanced by banks to the capital market investors makes further credit creation near impossible.

c. Greater loan-loss provisioning both due to capital market pressures and decline in economic growth activi-

ties means that part of the resources available for banks to create credit are used to make provisions for anticipated loan losses thus making it difficult for banks to increase their credit creation in the circumstance.

d. Potential exchange rate risks on foreign loan lines due to depreciation of the exchange rates means that banks that had transactions in foreign exchange had to pay more, thus depleting the available resources for credit creation

e. Liquidity pressures pushed up domestic interest rates which made borrowing more costly and reduced the amount of money demand in the system. Higher interest rates also introduced systemic problems in growing the economy out of recession.

Global credit crunch and re-pricing of risks push up interest rates on lines of banks balance sheet in response to the crises and higher provisioning, leading to lower profitability

Policy Strategies Adopted to Tackle the Credit Crunch and management of liquidity: Nigeria example

Monetary Policy Strategies

The monetary policy rate was reduced from 10.25 percent to 9.27 percent which made credit to banks from the Central bank cheaper. Lower overnight borrowing rates from the Central bank is expected to impact on the lending rates to bank customers. The other strategy adopted for dealing with bank liquidity challenges was the reduction in liquidity ratio of banks from 40 percent to 30 percent. A lower liquidity ratio implies that banks will retain lower percentage of their total deposits in liquid assets while others will be available for lending to the public. This will ultimately ease the credit crunch facing the banking public.

Cash reserve requirements were also cut down from 4 percent to 2 percent of total bank deposits. Reduction in cash reserve requirements means that less cash will be reserved as a policy tool to reduce money in circulation. Less cash reserve requirements connotes higher available cash for loan creation within the banking public. The Central bank injected 650 billion naira to re-capitalize highly exposed banks in the capital market whose balance sheets indicated negative capital because of the huge stock of non- performing loans incurred before, during and after the financial crises. The stimulus package helped restore the confidence of the public and the bank to begin to make loans thereby reducing the impact of the credit crunch in the banking system.

Fiscal Policy Strategies

There have been fiscal responses to ease the credit crunch in the banking system as a result of the financial crises. Some of the fiscal measures include, guaranteeing of interbank lending by the fiscal authorities to encourage banks to seek overnight facilities among themselves to boost their credit

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http://www.skyscrapercity.com/showthread.php?t=1487076

creation capabilities. Other strategies include the upward review of the bench mark price for international oil prices from 65 dollars to 70 dollars in the 2009 budget. Since then there have been further reviews of the oil prices to ensure adequate supply of money to ease the credit crunch. To stabilize the foreign exchange

Market, financial authorities approved the sale of securities through the two way quote to further stabilize the foreign exchange market.

Introduction of Asset Management Company of Nigeria (AMCON) Bonds

Another strategic way to ease the credit crunch in the financial market is the establishment of the

Asset Management Company of Nigeria (AMCON) to acquire the non performing loans from banks and translate them into bonds which the banks can liquidate to increase their capital base. Over 1.8 trillion naira has been realized by banks which has eased their ability to create more credit in the system.

Recommendations

It is advisable that banks consider adopting a more strategic approach to mitigate the impact of the credit crunch in their business models. For instance, there is need for banks to increase their drive for increased deposits through aggressive marketing strategies. Deposit rates should be made to reflect the market equilibrium interest rates to attract deposits into banks. There is also need for banks to reappraise their credit rating of their potential customers with the introduction of credit bureaus to assess the legibility of credit requests and to ensure that risky credits are not made in view of the impact of non-performing loans in the financial crises. There may be need for banks to diversify their investment portfolios from the traditional investment interests to ensure that business concerns that have prospects for growth gain from credit disbursements from the banks. The essence of these recommendations is to ensure that banks' liquidity is managed efficiently and effectively to avert a repeat of the experience of the immediate past financial crises on the banking system.

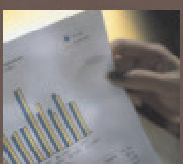
Conclusion

This article reviewed the impact of the financial crisis in the banking sector of the Nigerian economy and its consequences for liquidity management. Several policy measures were introduced to mitigate the impact of the credit crunch on the banking system. The Central bank of Nigeria and fiscal authorities enunciated some policy measures to ensure that there is adequate liquidity in the banking system to sustain credit creation which suffered as a result of the financial crises. The paper also proffered some recommendations on how to mitigate the impact of the liquidity crises on the ability of banks to create credit in the banking system.

Credit risk is part of the realities in a free market economy. As noted, if the risk is not well managed, it surely would lead to credit crisis with consequences for the strategies banks adopt as well as the liquidity of banks. The impulse towards risk taking can cause banks to disregard danger signals and run with THE crowds and bet on bubbles, taking on too many debts in the process. Liquidity crisis constrain banks from creating money with debilitating negative impact on the economy.

(*Gabriel Okenwa, Ph.D, MON is a staff of Zenith Bank Plc.)

Facts & Figures



Ibrahim Abubakar

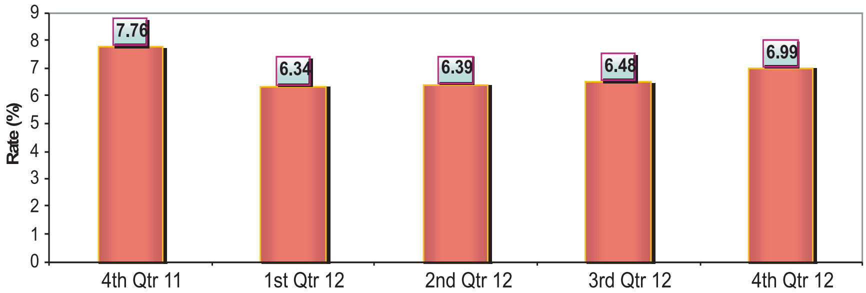
MACROECONOMIC ENVIRONMENT

In 2012, the Nigerian economy experienced its fastest growth during the fourth quarter, with Gross Domestic Product (GDP) advancing at the fastest pace since fourth quarter 2011. The foreign exchange reserves witnessed major improvements, driven mainly by higher oil and gas proceeds. The nation's currency, the naira, remained steady against other major world currencies. The Monetary Policy Rate remained steady all through the year. However, inflation ticked up, showing a mixed trend. In the capital market, the bulls consolidated their gains. Crude oil prices were mostly steady but with some upward and downward movements.

GROSS DOMESTIC PRODUCT

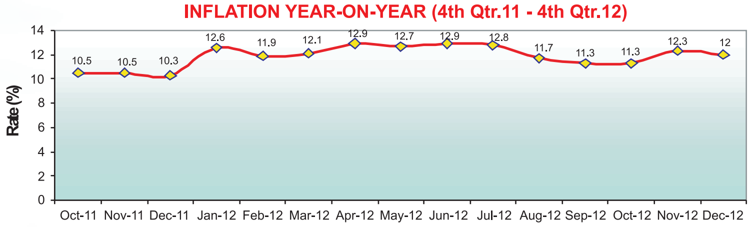
Gross Domestic Product (GDP) in the fourth quarter was estimated at 6.99 percent, a marked improvement when compared to the preceding quarter. Yearend GDP growth estimate by the National Bureau of Statistics, NBS is 6.58 percent. The non-oil sector was the main driver of growth. Despite the loss of 5.7 million animals and nearly 2 million hectares of crop land caused by recent flooding, increased cereal production in August-September 2012 allowed agriculture to continue its dominance as the major contributor to GDP. For the oil sector, the benefits of the Amnesty deal with the Niger Delta militants continue to push crude oil production in the right direction, with output jumping 11 percent between November and December. The outlook for 2013 remains favourable with real GDP forecast to follow a steady growth pattern at 6.75 percent.

GDP GROWTH RATE (4th. Qtr.11 - 4th Qtr.12)



Source: National Bureau of Statistics

INFLATION YEAR-ON-YEAR (4th Qtr.11 - 4th Qtr.12)

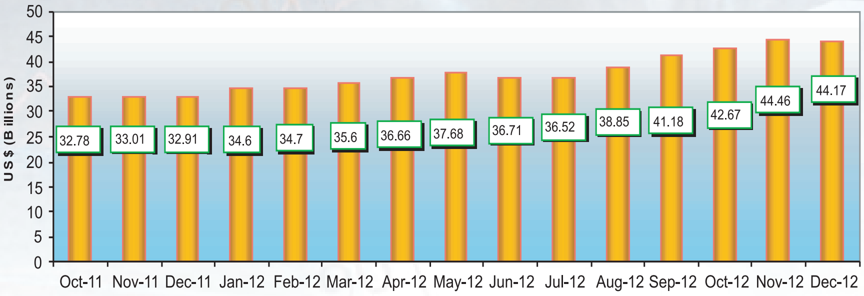


Source: National Bureau of Statistics

INFLATION

The Year-on-Year inflation remained stubbornly high in fourth quarter 2012, pushed mainly by rising food prices. The headline inflation rate ended the quarter at 12 percent in December. Inflationary pressures resurfaced earlier in October due to difficulty in moving food products to markets across the country as a result of the recent flood, coupled with short supply of food staples due to the Muslim holiday during that period. However, inflation eased in December due to moderations in the prices of some staples such as millet, maize, irrigated rice, cow peas, cassava and yams, the first food price easing in five months. But core inflation shot up, reversing its downtrend since July. The increase in core inflation was as result of higher cost of housing, electricity, gas, fuels (kerosene, firewood and charcoal), rent prices and air transport fares. In the months ahead, inflationary risk remains a threat; however, the authorities are of the opinion that the pass-through effects of imported food inflation to domestic prices will be subdued by the relative stability of the naira exchange rate.

Foreign Exchange Reserves (Oct.11 - Dec.12)



Source: Central Bank of Nigeria

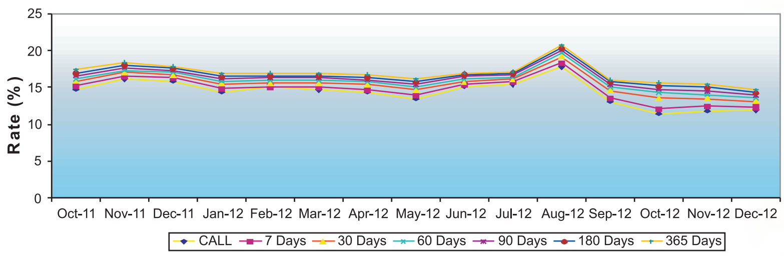
EXTERNAL RESERVES

The nation's external reserve climbed to its highest levels in more than three and half years in fourth quarter 2012, driven mainly by proceeds from crude oil and gas exports. External reserves recorded impressive gains during the year, expanding by about $11.26billion to $44.17billion. It climbed steadily in October and quickened its pace in November owing in part to a reduction in the funding of the official twice-weekly foreign exchange auction as well as huge inflow of foreign portfolio investments. With major leakages plugged, the upsurge continued into December, with about $3billion gained during the quarter. The foreign reserves level could finance over 9 months of imports. In the short to medium term, the authorities project improvements in the stock of external reserves, resulting from higher crude oil prices and output.

INTEREST RATE

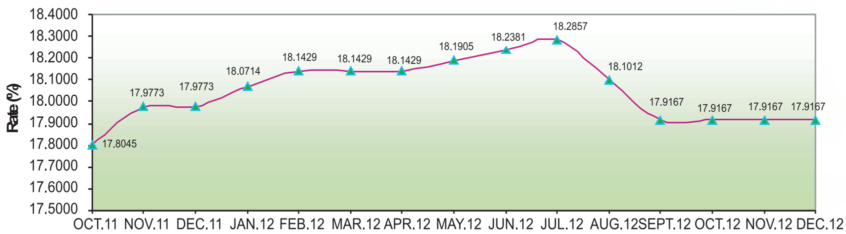
In line with expectations, the Monetary Policy Committee left its benchmark rate unchanged in its November 19th and 20th, 2012 meeting. It was the seventh consecutive hold since the Monetary Policy Rate (MPR) was raised by 275 basis points from 9.25 percent to 12.0 per cent in October 2011, in response to identifiable inflationary pressures.

MONTHLY AVERAGE NIBOR (4th Qtr.2011 Qtr. - 4th Qtr.2012)



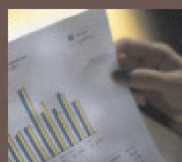
Source: Financial Markets Dealers Association of Nigeria (FMDA)

AVERAGE PRIME LENDING RATE (4th Qtr .11 - 4th Qtr.12)

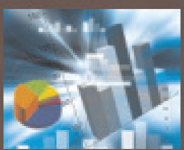


Source: Financial Markets Dealers Association of Nigeria (FMDA)

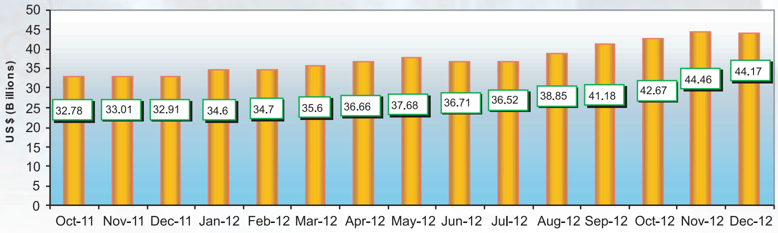
The average interbank rate witnessed significant swings in the fourth quarter 2012. Volatility was higher on shorter term tenors due to mop up operations by the CBN. For instance, rates on the call and 7 Days tenors hit as high as 14.83 percent and 15.12 percent, respectively in December; and as low as 10.25 percent and 10.75 percent in October. Rates eased in December due to the N569billion inflows from the Statutory Revenue Allocation and Special release of N144billion to States and Local





Foreign Exchange Reserves (Oct.11 - Dec.12)



Source: Financial Markets Dealers Association of Nigeria (FMDA)

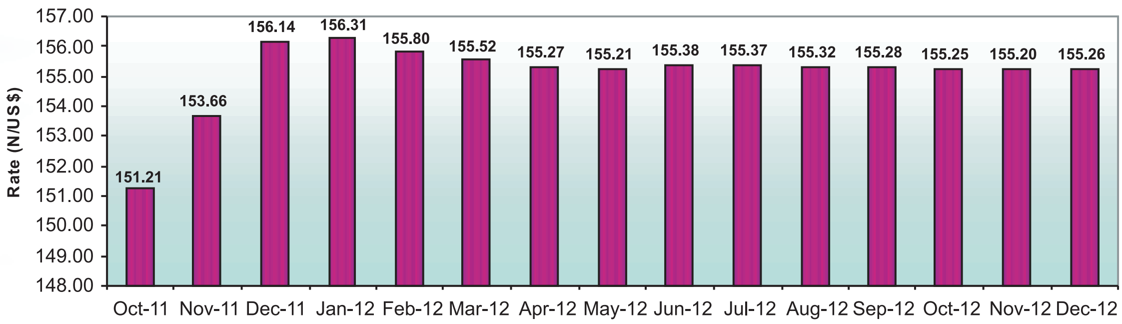
Governments.

In terms of cost of borrowing, the average Prime Lending Rate (PLR) remained relatively stable during the period, hovering around 17.91 percent as at end December 2012. Returns on the average deposit rate went up slightly across most investment horizons, with volatility higher on the overnight, 30 Days and 365 tenors.

EXCHANGE RATE

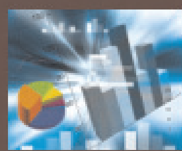
The nation's currency, the naira, finished the fourth quarter with very little movements, holding up against major world currencies. It remained mostly within the CBN's target, at around N155/US$. The naira fared better against the dollar, thanks to a run of positive news and economic data. Earlier in October, the naira found itself supported by stronger-than-expected demand by foreign investors channeling funds into government securities as well as adequate dollar sales from the oil majors. The smooth ride was however briefly interrupted by importers mopping up dollar liquidity in November. Speculative activities were nevertheless curbed due to measures put into place by the CBN, which prevented Deposit Money Banks from accessing its lending window (Standing Lending Facility and Repo) and WDAs simultaneously. Demand was matched on several occasions at the CBN's twice weekly auction. It offered about $3.21billion and sold $3.12billion during the period. Owing to clarity of expectations, the premium between the official and interbank also narrowed to 0.04 per cent as at end December 2012, compared to 1.3 per cent in September. In the months ahead, the naira is projected to remain on a firm platform due to expectations of higher crude oil prices in the international market.

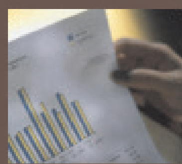
MONTHLY AVERAGE EXCHANGE RATE (N/US$)



Source: Central Bank of Nigeria

Facts & Figures

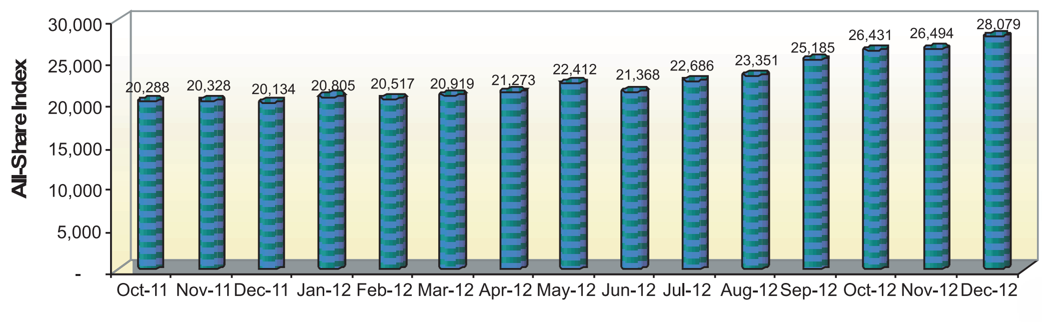




CAPITAL MARKET

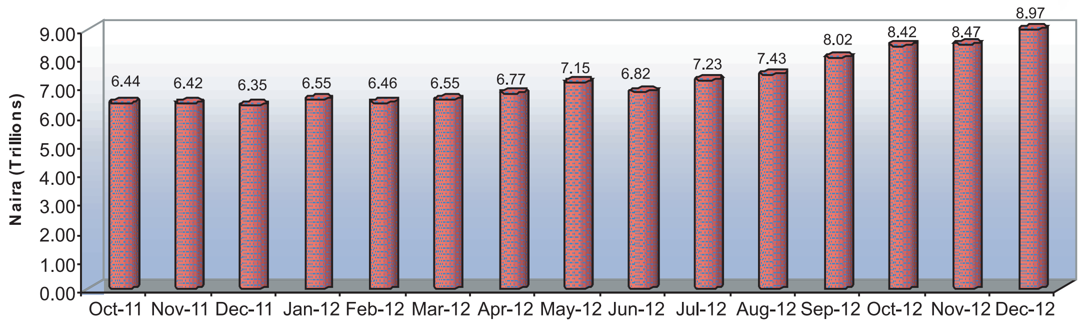
It was a surprisingly good year for stocks as the capital market wrapped up fourth quarter 2012 on a strong note. The fourth quarter ended with major market indicators on a 34 month high as the All Share Index (ASI) and market capitalization finished solidly at 28,078.80 and N8.97trillion, respectively, from 26,011.63 and N8.28trillion in the preceding quarter. The mood in the market was strongly positive as a number of stocks performed above expectations during the quarter. Not only did the market indicators go up but volatility declined, thanks in part to new market markers initiative. With the sentiments remaining high, bargain hunters flocked back to the market. However, some investors remained cautiously optimistic, adopting a 'hold' strategy. On the positive side, market making pushed the ASI up 10.66 percent since its introduction in mid September. Market sentiment climbed higher as a number of quoted companies such as Guinness Nigeria; Total Nigeria; Nestle Nigeria; CAP Plc paid impressive dividends of N8.00; N3.00; N1.50k and N1.25, respectively. In the international capital market, eyes were firmly fixed on Nigeria and other frontier markets' Eurobonds as they outperform benchmark yields.

ALL SHARE INDEX (ASI) (4th Qtr.11 - 4th Qtr.12)



Source: Nigerian Stock Exchange

CAPITALISATION NSE MARKET CAPITALISATION (4th Qtr.11 - 4th Qtr.12)



Source: Nigerian Stock Exchange

OIL

Crude oil prices settled into a fairly well-defined range in the fourth quarter of 2012, finishing largely unchanged from the 2011 levels. Oil prices posted a loss of $1.28, or 1.1 percent, after gaining nearly 15 percent in the previous quarter. Despite modest gains, oil prices have been unsettled in 2012, peaking at $114 a barrel in May and tumbling about 30 percent in June. Nigeria's brand of crude oil, bonny light, has traded in a band of $106-$116 per barrel. Industry analysts attribute the volatile trend to geopolitical concerns in the Middle East; concerns about the United States going over the 'fiscal cliff' and the euro area potentially slipping back into a recession. In its 162nd meeting in Vienna, Austria, on 12 December 2012, OPEC members agreed to maintain the current production level of 30.0 million barrels per day, citing demand uncertainties.

Oil Prices: Monthly Average Price Movements (4th Qtr.11 - 4th Qtr.12)