Zenith Economic Quarterly

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Agric Transformation:

Tackling Nigeria's Food Import Dependency

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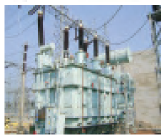

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Food Independence

In 1798 Thomas Robert Malthus predicted that short-term gains in living standards would inevitably be undermined as human population growth outstrips food production, and thereby driving living standards back toward subsistence. We were, he argued, condemned by the tendency of population to grow geometrically while food production would increase only arithmetically. At this time, the revered Malthus neither had Nigeria in mind nor did he envisage the debilitating impact on food production (or, indeed agriculture) that oil discovery and the resultant petro-dollar would have on the country.

Howbeit, Nigeria's population growth had since outstripped its food production, to the extent that a country that was hitherto a net exporter of a number of food items had in course of time turned a massive importer of such commodities. Ironically, successive governments in the country have always come up with one programme or the other to turn the situation around; but virtually all such efforts ended up as mere slogans and sing-songs, with little or no results to show. Against this backdrop, under the topic: "Agric Transformation: Tackling Nigeria's Food Import Dependency," we review the dismal state of the agric sector in the country, attempt a peep into the Agric Transformation Agenda (ATA) of the present administration and propose some way forward. One obvious point however, as our report indicates, is the uniqueness of the current approach to tackling the food import dependency challenge for, according to the ATA document: "the agricultural transformation plan is designed to industrialize the agricultural sector so that it becomes a business that can create jobs, export earnings and prosperity." This gives a lot of hope.

Howbeit, Nigeria's population growth had since outstripped its food production, to the extent that a country that was hitherto a net exporter of a number of food items had in course of time turned a massive importer of such commodities.

Incidentally, this agric transformation in the country is about to take place at a time when commodity export-dependent nations, especially those in Africa (including Nigeria), are gripped by the fear of the ripple effects of the worsening recession in Europe and other regions. The import of this for Nigeria as a largely mono-product economy that depends hugely on crude oil exports is, for now, unfathomable. But Nigeria is not the only nation in this 'dilemma boat.' Hence, our topic: "Recession Fears and Africa's Commodity Export: What Lies Ahead?" analyses the vulnerabilities and uncertainties that most African commodity export-dependent nations face as the Euro-zone, America, China and UK battle with various degrees of economic slowdown. The author notes that although "all commodities may not be as volatile in price as crude oil, but one feature that is common with virtually all of them is the regular, swift changes in their pricing."

"There are people in the world so hungry, that God cannot appear to them except in the form of bread."
– Mahatma Gandhi

Related to the issue of commodity price volatility is the concern for the burgeoning public debt profile of Nigeria in recent times, just close to a decade after the country exited the Paris Club debt debacle. Thus, in the topic: "Nigeria's Public Debt Profile: Current Trends and Concerns," the author explores the pros and cons of external and local debts as well as the makeup of the debt stock. He sums up that "one of the most plausible lines of action for the government is to set a debt ceiling and commence drastic reduction of the current debt level," adding that the proposed sinking fund for debt retirement is also a welcome development.

The piece on "Navigating the Electricity Governance Conundrum in Nigeria" analyses the chequered course of electricity sector in the country, up to the present effort at tackling the lingering challenges head-on. The author examines all hues of reforms in the sector, zeroing in on today's 'Power Sector Reform Act' and the 'Roadmap to Power Sector Reform' which he believes could take the country to 'Eldorado', if implemented effectively.

Our other masterpieces include a panoramic insight into the commodities and financial markets across the globe under the topic "The Rain in Spain…"; "Agenda for Development: Advance Free Fraud (2)"; "Economy: Figures, Ratings Sustain Optimism" as well as the usual 'Facts and Figures.'

Have a delightful reading, as always!

Marcel Okeke

from our mailbox

I am directed by the Honourable Minister of State for Defence, Erelu (Dr) Olusola Agbeja Obada to acknowledge as well as express her gratitude for the copy of your Zenith Economic Quarterly (ZEQ) sent to her.

The Honourable Minister is excited about the focus of this edition "option for sustainable development of Nigeria" which is an avenue to analyzing the economy for growth which is part of the Transformation Agenda of Government headed by President Goodluck Ebele Jonathan. More grease to your elbows.

Please accept the assurances and esteemed regards of the Honourable Minister of State for Defence.

Yours Faithfully,
Babatunji Omole
SA (HMOSD)
Ministry of Defence, Federal Republic of Nigeria

Compliments from Port Harcourt Chamber of Commerce, Industry, Mines and Agriculture (PHCCIMA)!

We are pleased to acknowledge the receipt of your interesting and educative Zenith Economic Quarterly (ZEQ) journal of January, 2012 edition.

We wish to express our President's gratitude and commendation for your quality publication of current business news critical to the Nigerian and global economies, and encourage you to attain greater heights.

We look forward to receiving future editions of the ZEQ journals.

Please, accept the assurance of the President and entire membership of PHCCIMA.

Yours faithfully,
For: PHCCIMA
Mr. Erastus Chukunda
Director General
Port Harcourt Chamber of Commerce, Industry, Mines and Agriculture

We wish to acknowledge with thanks receipt of your letter dated 30th March. 2012 forwarding a copy of the January 2012 edition on the above-mentioned subject.

We wish to express appreciation to your Organization for keeping the Embassy fully informed on issues regarding sustainable development of Nigeria, which is critical to Nigeria's economic transformation. Also, we would like to congratulate you on the achievements you have recorded so far on this important project.

The Nigerian Embassy in Brazil will continue to collaborate and work with your Organization in promoting bilateral trade and investment between Nigeria and Brazil. It is our hope that the volume of trade between our two countries will continue to grow for the mutual benefits of our people.

Kind regards.
Yours ever.
Chancery
Embassy of the Federal republic of Nigeria, Brasilia, Brazil

I am directed to acknowledge with thanks, receipt of the above mentioned Publication, which provides very vital information on global, as well as, Nigerian economy that would immensely assist the Mission in its quest to attract Investors to Nigeria.

Please accept the assurances of His Excellency's highest consideration.

Warm regards.

M. S. Isa
For: Ambassador
Embassy of the Federal Republic of Nigeria,
Zamalek, Cairo
Arab Republic of Egypt

I am directed to acknowledge with thanks receipt of the April 2012 edition of the Zenith Economic Quarterly (ZEQ) and to inform you that the journal will serve as a good reference material for promoting investments in Nigeria.

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

O. Olonijolu
For: High Commissioner
Nigeria High Commission
London

I have been directed by the Deputy President of the Senate, Sen. Ike Ekweremadu, CFR to acknowledge receipt of your complimentary copy of the April 2012 edition of the Zenith Economic Quarterly publication.

I am also to covey His Excellency's appreciation of your kind gesture and goodwill.

Thank you once again and please accept the assurance of His Excellency's best regards.

Ben Ogugua
Chief of Staff to the Deputy President of the Senate, Federal Republic of Nigeria

I acknowledge with thanks, receipt of complementary copy of your Zenith Economic Quarterly (ZEQ) for the month of April, 2012 Edition sent to the Economic Adviser/ Vice Chairman, State Planning Commission, Calabar.

Your economic analysis and policy recommendations are quiet impressive. It is a good reference material. Well done!

Thank you.
Ndem Ayara
Economic Adviser/Vice Chairman, Cross River State Planning Commission, Calabar.

I wish to acknowledge with thanks the receipt of one copy of your magazine Zenith Economic Quarterly (ZEQ), Vol. 8, No. 2 April, 2012, which you donated to the Library.

We appreciate your kind gesture. The publication shall no doubt be of immense use to both staff and students of the University.

Thank you.
Agbese, Florence
For: Librarian
University of Abuja, Nigeria

I am directed to acknowledge receipt of your letter dated 28th June, 2012 wherewith was attached a copy of the April, 2012 edition of the Zenith Economic Quarterly (ZEQ) on Cashless Economy: "Imperatives for Legal and Regulatory Framework".

The Mission wishes to express its profound gratitude to Zenith Bank PLC on such a constructive reference material and hopes that more sectors of the economy would be explored in future.

Please, accept the assurances of the Charge d' Affaires' highest esteem.

M.O. Clement
For: Charge d' Affaires (a.i)
Embassy of Nigeria
Rome, Italy

I am directed to acknowledge with many thanks your letter of 28th June, 2012 which you sent a copy of the April, 2012 edition of your above mentioned journal which focused On the "Cashless Economy: Imperatives for Legal and Regulatory" and an analysis of the Prospects of Nigerian Maritime Sector etc.

Importantly, the Mission found the journal very educative, informative, current and very relevant in the course of our numerous assignments outside Nigeria. We appreciate your kind gesture in providing the Embassy with the publications.

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

M.S. Ogundero (Mrs)
For: Ambassador
Embassy of the Federal Republic of Nigeria
Budapest, Hungary

I am directed to acknowledge with profound thanks, receipt of the Zenith Economic Quarterly (ZEQ) for the month of April, 2012 that the Embassy just received.

I am to add that the Embassy deeply appreciate the contents of the quarterly magazine as it would help our Mission in its investment drive in Thailand as well as in Myanmar our country of concurrent accreditation.

While thanking you once again, please accept the assurances of the Ambassador's highest regards.

Daniel Ayuba
For: Ambassador
Embassy of Nigeria
Bangkok, Thailand

PERISCOPE

Economy: Figures, Ratings Sustain Optimism

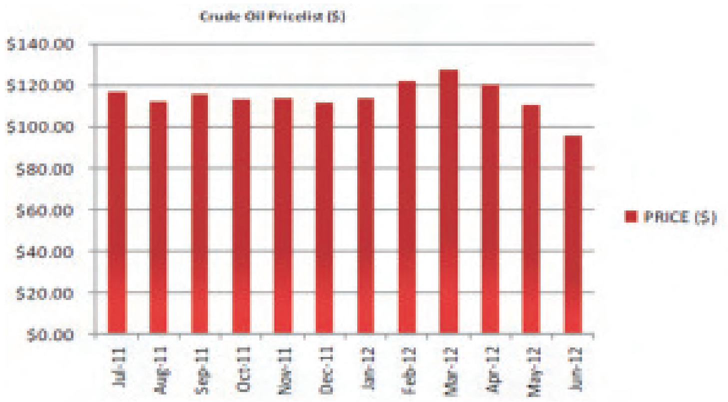
*By Marcel Okeke

The Nigerian economy was marked by mixed features during the first half 2012, starting with a huge loss in national output estimated at billions of Naira during the nation-wide strike in January. There were also some dampening effects of low crude oil demand from major trading partners notably the US, Euro-zone and China due to their subsisting domestic/regional economic challenges. Falling oil prices in the international market and weak aggregate domestic demand following rising prices across major segments of the Nigerian economy were also part of the features. All these were in the backdrop of the prevailing security concerns.

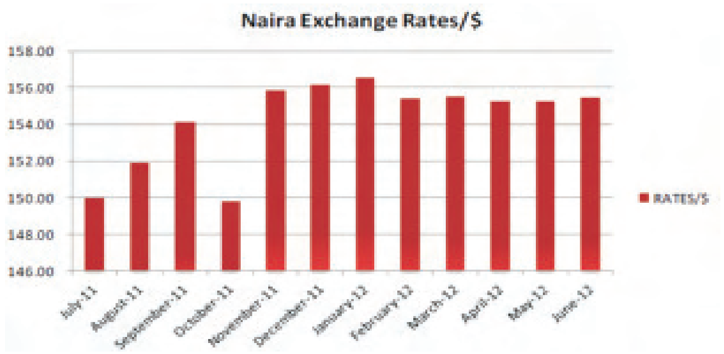
These notwithstanding, performance data and ratings on the economy during the half year-ended June 30, 2012 remain causes for optimism about the country's outlook for the rest of the year. Although budgetary projections or expectations for the period may not have been fully met, data from the National Bureau of Statistics (NBS) beat analysts' calculations in several ways. Inflation rate (as measured by consumer price index—CPI) for instance, almost remained flat at an average of 12.80 per cent. Specifically, the CPI which stood at 12.90 per cent in April dropped to 12.70 per cent in May and came back to 12.90 in June. It was at 12.60 in January. All these were however still above the 2012 budgetary benchmark of 9.50 per cent, but below the Central Bank of Nigeria (CBN's) mid year forecast of 14.5 per cent. But in its July 2012 meeting the Monetary Policy Committee (MPC) of the CBN noted that apart from the lag effects of the partial removal of petroleum subsidy in January other factors could still influence inflation. These, according to the MPC include borrowing by government to cover large fiscal deficits in the 2012 budget as well as the upward review of electricity tariffs and import duty on wheat and rice in July 2012.

In a similar vein, the revised Gross Domestic Product (GDP) growth rate projected by the National Bureau of Statistics (NBS) for the second quarter 2012 at 6.37 per cent was higher than first quarter level of 6.17 per cent, indicating improved growth in the economy. NBS had earlier forecast the GDP growth in the second quarter to be 5.34 per cent. Overall, GDP growth for 2012 was projected at 6.38 per cent, down from the realized growth rate of 7.74 per cent in 2011. The non-oil sector, according to the NBS, remained the major driver of GDP growth, recording 7.52 per cent increase in contrast to the oil sector which contracted by 0.24 per cent during the first half of the year.

The mixed performance of the economy was best reflected in the movement of prices of crude oil. While the price of the commodity in the international market rose steadily in the first three months of the year, it declined consistently in the second quarter of the year. Specifically, the average spot price of Nigeria's reference crude, the Bonny Light, came down from US$121.10 per barrel in the first quarter of 2012 to US$109.32 per barrel in the second quarter. Indeed, the



Source: OPEC, R & EIG



Source: CBN, R & EIG

http://upload.wikimedia.org/wikipedia/commons/4/43/Oil_rig_in_Gibraltar.JPG

Organization of Petroleum Exporting Countries (OPEC) average monthly basket price of crude oil opened the year at US$117.48 per barrel but rose to US$122.97 per barrel in March. It declined to US$118.18 per barrel and US$108.07 per barrel in April and May, respectively; and closed the half year 2012 at US$93.98 per barrel.

This pattern in oil price movement is attributable to a number of factors, including the massive liquidation of net-long speculative positions, heightened Euro-zone concerns, a weakening economic outlook, and a steady rise in global crude stocks. According to OPEC, the uncertainties facing Europe and the slowdown in the emerging economies led to a shift in market sentiments, and this has triggered a strong outflow of funds from paper oil market, further amplifying the recent downward trend in prices. However, for Nigeria, there was steady rise in oil production all through the second quarter, owing essentially to a ramp up in production from new fields and fewer disruptions in existing fields.

Without doubt, the scenario playing out in the international oil market which was dominated by almost consistent decline in the prices of the commodity in the later part of the second quarter , impacted on Nigeria's external reserves and the foreign exchange market. Specifically, Nigeria's foreign exchange reserves grew steadily in the first five months of the year, from US$34.63 billion in January to US$37.69 billion in May, a growth of about 8.84 per cent. The reserves however declined by 2.57 per cent in June to close the first half 2012 at US$36.72 billion. Obviously the increase in the reserves during the first five months reflected the generally favourable commodity prices and inflows of capital.

The mixed performance of the economy during the period under review reflected so much in the foreign exchange market where the average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally to N155.38/$ in June 2012, from a level of N156.32/$ in January. However, in both the inter-bank and parallel segments of the market, the Naira experienced some depreciation against the dollar. Thus, while the average exchange rate of the Nigerian currency in the inter-bank market in April was N157.66/$, it came to N159.65/$ in May and dropped to N162.50/$ in June—a total depreciation of about three per cent within the second quarter 2012. In the parallel market, the level of depreciation was about 3.5 per cent, from N159.00/$ in April to N164.50/$ in June.

Another striking feature of the Nigerian economy during the first half 2012 was consistence increase in its public debt stock. From US$5.667 billion in December 2011, the nation's external debt rose to US$5.912 billion in March 2012, and increased further to US$6.035 billion as at June 30, 2012. Similarly the domestic component of the debt which ended 2011 at N5.26 trillion rose to N5.967 trillion at the close of first quarter 2012; it shot up further to N6.152 trillion as at June 30, 2012. In dollar terms, the nation's total public debt at the end of the first half 2012 stood at US$45 billion. This translates to N7.094 trillion, according to the Debt Management Office (DMO) data for the period. Further breakdown by the DMO shows that the 36 states and the Federal Capital Territory (FCT) account for US$2.215 billion or 36.70 per cent of the external debt stock (US$6.036 billion) as at the close of the first half of the year. Four states—Lagos, Kaduna, Cross River and Ogun—top the states on the debt list, accounting for 8.58 per cent, 3.27 per cent, 1.81 per cent and 1.60 per cent respectively of the total debts of the states as at June 30, 2012.

Other features of the economy during the period under review include ongoing reforms in the banking, agric, capital market, aviation, power and a few other sectors. A number of international agencies including Standards & Poor's (S &P) and Ernst & Young (E & Y) have also raised confidence and optimism on the Nigerian economy through their assessments and reports. Specifically, at a time when the credit rating of many nations are being downgraded, S & P, the global rating agency, expressed confidence in the Nigerian economy by upgrading its outlook on the country's credit rating to positive (B+), from stable. The upgrade, according to the rating agency, is inspired by the restructuring undertaken by the Federal Government and the strengthening of the banking sector.

According to S & P, its new positive outlook means there is now at least a one-in-three likelihood of an upgrade if Nigeria's reform initiatives to support economic growth, build stronger buffers against Nigeria's dependence on petroleum revenue and reduce pressure on the exchange rate. Also, Ernst and Young, one of the world's largest professional service firms, in its quarterly Rapid-Growth Market Forecast (RGMF), released in April 2012, said that Nigeria remains one of the three fastest growing markets among the 25 leading rapid-growth markets.

Senior economic adviser to Ernst & Young's Rapid Growth Markets Forecast, Carl Astorri explained: "The RGMs are well placed to weather the major risks facing the global economy at the present time, given that they have the space to relax fiscal and monetary policy. This has already happened in some RGMs including in all of the BRICs. It is likely that there will be further easing of monetary policy in the months ahead, particularly if the global economy deteriorates further." On Nigeria, the senior partner, Transaction Advisory Services, Ernst & Young, Nigeria, 'Bisi Sanda said "if the government of Nigeria completes its privatization of the power sector assets in 2012, it will provide much required fresh breath to the much delayed stimulus to the manufacturing sector, including the reactivation of over 100 textile mills that closed down or relocated from Nigeria between 2000 and 2007. Power is an enabler in Nigeria," Sanda said.

Also worthy of note are some key strides in the agric sector during the first half 2012 namely the release of the Agricultural Transformation Agenda (ATA) and the inauguration of the Agricultural Transformation Implementation Council (ATIC) by President Goodluck Jonathan on May 14, 2012. The ATA sets a target of achieving an additional 20 million metric tons of food in the domestic food supply by 2015. It is also to create 3.5 million jobs, both farm and non-farm, over the next five years. Over all, the goal of ATA is "to turn Nigeria away from being a net food importing country to become a self-sufficient and food exporting country."

In specific terms, according to the President during the ATIC inauguration, ATA is targeted at increasing efficiency and profitability along the value-added chains of 12 selected key agricultural commodities, namely: cotton, cocoa, cassava, oil palm, maize, soya bean, onion, rice, livestock, fisheries, tomato and sorghum. In pursuit of these, the Federal Government has effected reforms in the fertilizer sector; it is no longer buying or selling the commodity. These are now in the hands of private sector operators. Several dams and irrigation infrastructure to allow farmers take advantage of double cropping and diversification into high value horticultural crops are already ongoing.

The Federal Government has also embarked on other steps in pursuit of the ATA, including the 'cassava flour bread' initiative under which bread and some confectionaries are being made with 40 per cent cassava flour. Further to this, tariff and levies on wheat flour, wheat grain and rice have been hiked. Indeed, effective July 1, 2012, wheat flour attract a levy of 65 per cent to bring the effective duty on that item to 100 per cent, while wheat grain attract a 15 per cent levy, bringing the effective duty to 20 per cent. Similarly, there is also a levy of 25 per cent on brown rice, bringing its total levy to 30 per cent. Furthermore, to encourage domestic rice production, a 40 per cent levy has been placed on imported polished rice, leading to an effective duty rate of 50 per cent. Also, effective December 31, 2012, all rice millers are to move towards domestic production and milling of rice, as the 50 per cent levy would be raised further to 100 per cent, and without option of waiver on rice and wheat importation.

The Federal government has also entered into collaboration with a number of state governments in pursuit of ATA through Growth Enhancement Support, GES programme. This initiative has also been used to flag off the Commercial Agricultural Credit Scheme, CACS, backed by the Central Bank of Nigeria.

The GES programme is a key component of the ATA which seeks to empower 20 million resource-poor farmers in the six geo-political zones of the country out of subsistence farming to self sufficiency and commercial farming.

The Government initiatives are also already attracting support and partner-

ship from reputable relevant global institutions including the World Bank and the International Fund for Agricultural Development (IFAD)—the two organizations which Presidents were also named as members of the ATIC. The World Bank through its assisted Commercial Agriculture Development Project (CADP) will be boosting ATA with US$300 million. According to the CADP Team Leader, Dr. Lucas Akapa, the World Bank is putting in additional US$150 million into the CADP and another US$130 million into the FADAMA Development Project (FDP).On their part, virtually all governments of the 36 states in the country are on with serious efforts to develop the agricultural sector. In Lagos State for instance, there is the Strategic Programme for Accelerated Agricultural Growth (SPAAG) aimed at stimulating agricultural production for all key staple food commodities using the value chain approach.

THE CAPITAL MARKET

The stock market started year 2012 on a very sluggish note due, in part, to the economic disruptions arising from the protests consequent upon the partial fuel subsidy removal early January. In the course of the first quarter, some gains were made but got lost due to uncertainty created by other developments in the local and global economy. Overall, the first half 2012 market performance was characterized by ups and downs and shifts in investors' confidence, liquidity variations and concerns about global economic recovery. Thus, The Nigerian Stock Exchange All-Share Index (ASI) and market capitalization closed the first trading week of the year at 20,725.30 points and N6.531 trillion respectively.

Within the first six months of the year however, the market returned to a mere 4.19 per cent growth in spite of the good financials turned in by many quoted companies in the second quarter, especially the deposit money banks. Market statistics show that the ASI surged from 20,652.47 points as end-March 2012 to 22,045.66 points in April, but declined to 21,599.57 points as at the end of June. Market capitalization however gained N362.706 billion at the end of first half 2012 at N6.895 trillion compared to N6.532 trillion as at the beginning of the year. The total volume and value traded for the first half of the year was 50.6 billion shares and N315.6 billion respectively. This is an increase of 13.7 percent in volume and a decrease of 11.9 per cent in value traded against last year's figures. Despite the increase in volume traded, the decline in value traded is indicative of the generally poor performance of share prices.

A number of other factors including the probe of the "near collapse" of the market by the National Assem-

Market Capitalization of Nigerian Banks as at 29th June, 2012

RANK	EQUITY NAME	MARKET CAPITALIZATION
1	GUARANTY TRUST BANK PLC.	441,467,688,390.00
2	ZENITH BANK PLC	431,707,789,557.50
3	FIRST BANK OF NIG. PLC	356,342,361,189.36
4	ACCESS BANK PLC.	148,544,752,098.71
5	U B A PLC	120,711,878,491.56
6	STANBIC IBTC BANK PLC	120,000,000,000.00
7	UNION BANK NIG.PLC.	63,170,558,136.83
8	FIRST CITY MONUMENT BANK	60,439,343,433.36
9	SKYE BANK PLC	38,071,683,866.88
10	FIDELITY BANK PLC	33,031,268,606.22
11	DIAMOND BANK PLC	31,121,772,675.75
12	STERLING BANK PLC.	18,844,637,319.60
14	UNITY BANK	16,837,788,042.50
15	WEMA BANK PLC	6,410,624,940.00

Source: NSE

bly, leadership tussle and changes at the Securities and Exchange Commission (SEC) and litigations over governing council membership and headship at the NSE also impacted the capital market during the first half of the year. There were other initiatives; one among which was the signing of a Memorandum of Understanding (MoU) between The NSE and Lotus Capital Limited to develop and manage the first index created to track the performance of Shari'ah compliant equities on the floor of the Nigerian Stock Exchange. The index has since been launched; bringing the variety of The NSE indices to seven. The NSE Lotus Islamic Index (NSE LII) was the first index the NSE developed with a local partner.

Although there were no Initial Public Offerings (IPOs) during the first half of 2012 in the market, few new listings took place. Austin Laz Plc was the first company to be listed, by introduction, in the Exchange in 2012. Its 1,079,860,000 ordinary shares of 50Kobo each at N2.00 came into the manufacturing sector. Fortis Microfinance Bank Plc also got listed by introduction with its 1,630,091,000 ordinary shares of 50 kobo each at N5.00 per share. The listing added N8.15 billion to the market capitalization of The Exchange.


http://www.litchfieldctenergytaskforce.org/Hydro%20Power.jpg

POWER AND ELECTRICITY

Some of the dominant issues in the power sector during the first half 2012 have been the effective 'privatization' of the Power Holding Company of Nigeria (PHCN), successful 'redeployment/reassignment' of its existing staff and the metering and billing challenges in the industry. The Metering Inquiry Committee set up by the Nigerian Electricity Regulatory Commission (NERC) had early in the year revealed in its report that less than 50 per cent of the registered customers in the nation's electricity sector are metered. The report said that out of the total number of customers with meters (2,893,701), about 701,385 or 24 per cent of the meters are faulty. According to report, the remaining registered customers without meters are therefore left at the mercy of the "estimated billing." It also revealed that over 50 per cent of Nigerian households do not have access to electricity from the national grid.

With this subsisting trend, NERC embarked on steps to attain a certain degree of metering as a condition precedent for the implementation of a new Multi-Year Tariff Order (MYTO) billing system. This new tariff regime (MYTO2) took off on June 1, 2012—allowing electricity consumers to pay fixed charges once a month irrespective of the number of times prepaid meter is charged. According to NERC document, existing customers that have not paid for meters no longer have to do so "as the cost of meters have been included in MYTO" while new customers will only pay standard connection fee with no additional charges for the meter.

Under the new tariff regime, the Federal Government is providing a subsidy of N50 billion in 2012 to support small residential customers, in addition to the 'cross subsidies' from large customers that is implicit in the tariff design.

On the privatization front, the Bureau of Public Enterprises (BPE) has been on with the efforts to 'off load' the 18 power generation, distribution and transmission companies—the products of the 'unbundling' of the PHCN. Earlier in the year, through a competitive bidding process conducted by the BPE, Manitoba Hydro International (a Canadian company) was awarded contract to manage the Transmission Company of Nigeria (TCN) – one of the successor PHCN companies. Manitoba which has assumed the operational control of the TCN is expected to transform the agency into a technically and financially efficient company during their three-year contract. Under the management of Manitoba, TCN is expected to effectively and reliably wheel power generated by generation companies to load centres.

BANKING AND FINANCE

The first half of 2012 could, to a large extent, be regarded as a period of rapid recovery and growth by the banking industry. This is evident in the robust first and second quarter financial/interim results posted by most of the deposit money banks. In deed, various local and foreign rating agencies have either maintained the status of Nigerian banks with a positive outlook or upgraded their rating status. Zenith Bank, First Bank, Access Bank and GTBank have been amongst the top picks for rating agencies. Through widespread and consistent reforms, many of the risks hitherto present in the system have been addressed: non-performing loans (NPL) ratio has substantially gone down to an average of about five per cent as at June 2012.

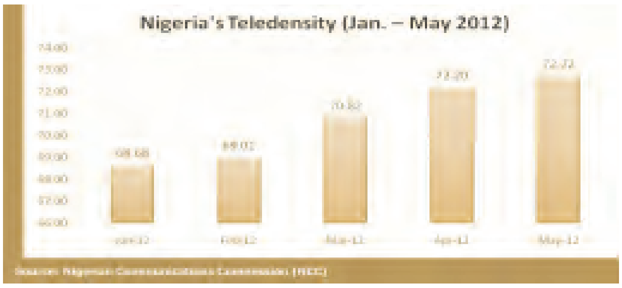
Each of the deposit money banks has been perfecting strategies on how best to adjust to the new banking model (that replaced universal banking) to separate core banking from other practices. Although the apex bank has granted an extension for the banks to submit the licenses given them under the universal banking model, it has not given a fresh deadline. Similarly, the implementation of the International Financial Reporting Standard (IFRS) as ordered by the CBN, has taken root, with all the banks reflecting the prescribed pattern in their first and second quarter un-audited accounts. Further to this, the Financial Reporting Council (former Nigerian Accounting Standards Board) in conjunction with the CBN has set up an academy to train and sharpen the skills of all operators in the financial services sector of the economy. All banks have also complied with the Nigeria Uniform Bank Account Number (NUBAN) which transition period lapsed on May 31, 2012.

The cashless policy of the apex bank has also been taking roots, through the pilot phase—cashlite Lagos—which commenced early in January this year. 'Operation Cashless Lagos' has entailed deployment of automated teller machines (ATMs) and Point of Sale (POS) terminals both in bank locations and other strategic places across the country to facilitate all manner of payment for transactions, in place of cash. At the take-off of the pilot phase, it was projected that by end-June 2012, about 75,000 ATMs would have been deployed and put to use in the Lagos area. During the period under review, not only has this projection been surpassed, mobile banking has also been catching up in the industry. This development is being driven by the 'financial inclusion' policy of the CBN, which seeks to get banking services to hitherto 'unbanked' places all over the country.

The country stepped up its bid to increase the volume and number of cashless transactions late last year when the apex bank issued the first set of operating licenses for mobile banking services to about 12 companies. The number has since stood at over 15—with virtually all the deposit money banks partnering them to provide mobile money services. In furtherance of this, the CBN has also acquired a new fraud prevention and detection device to tackle fraud in the emerging electronic payment (e-payment) environment.

Alongside these initiatives, each the deposit money banks (DMBs) has been devising various growth and market-share expansion strategies. Those that embarked on some business combinations (mergers and acquisitions) have been handling their post-merger integration issues tenaciously. Thus, during the first half of the year, Access Bank has been integrating with the defunct Intercontinental Bank; Ecobank has been doing same with the former Oceanic Bank; FinBank has been melting into First City Monument Bank (FCMB), while the former Equitorial Trust Bank merged into Sterling Bank. Also, each of the banks, especially Zenith Bank, First Bank, GTBank and Access Bank has been churning out a variety of e-products in tune with the cashless economy drive.

The Asset Management Corpora-



tion of Nigeria (AMCON) effectively commenced the process of selling the three nationalized banks that it acquired last year. Keystone, Enterprise and Mainstreet banks were the defunct BankPHB, Springbank and Afribank, which were among the intervened banks.

One of the options AMCON is considering is to take these banks to the public, so that Nigerians can have a chance to invest in them. But according to the CEO of AMCON, Mustaffa Chike-Obi, other options are still being considered to arrive at who the ultimate investors would be. "In the expression of interest on these banks, I think over 20 different bodies – banks and other investors – have expressed interest. We have not got to the stage when we can consider those expressions of interest yet. The process to get there requires: AMCON appointing an adviser that will evaluate and determine the value of the banks, evaluate all the options available to AMCON," he said.

TELECOMMUNICATIONS

The telecommunications industry continues to do well even in the face of seemingly poor quality service for which the sector's regulator—the Nigerian Communications Commission (NCC) had penalized some of the GSM operators. The subsisting good health of the telecoms operators is reflected in the continued improvement in the tele-density (the number of telephone lines per 100 persons) of the country which rose from 68.68 in January to 72.72 in May this year. The sector has in deed become one of the major contributors to the nation's GDP since the liberalization of the industry over ten years ago. In the first quarter 2012, the sector recorded real GDP growth of 32.83 per cent and contributed 7.29 per cent to the country's GDP.

These strides notwithstanding, the sector has been dogged by poor service quality—a situation that became apparent since the expiration of the 'exclusivity period' in the industry that ended in 2006. Dropped calls, inability to make successful calls, inability to recharge, poor voice clarity, call diversion, delayed and or undelivered text messages are some of the challenges customers face. In the move to check the trend, the NCC had introduced some measures including the enforcement of Key Performance Indicators (KPIs) and the ban on telecom promos, among others. In May this year, the NCC imposed a combined fine of N1.17 billion on some of the GSM operators for performing below the KPI benchmarks in the months of March and April 2012.

In the efforts to keep improving service quality and delivery in the industry, the NCC making moves towards the actualization of Mobile Number Portability (MNP) in the country in the next few months. Indeed, the industry regulator has directed network operators to provide the service free to subscribers. Mobile Number Portability allows subscribers to migrate from one service provider to another and still retain their numbers. Section 6 (3) of Nigeria Mobile Number Portabilty, Business Rules & Port Order Processes dated March 2012 states, inter alia: "Neither recipient operators nor donor operators may make a charge to the customer for porting their number."

NCC issued the directive ahead of making MNP available to the public soon, after appointing a consortium of telecom firms to handle the service which at present excludes fixed wireless and fixed lines services.

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

Guidelines For Commercial Agriculture Credit Scheme (CACS)

FEDERAL MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT (FMA&RD)

1.0. Establishment of the Scheme

As part of its developmental role, the Central Bank of Nigeria (CBN) in collaboration with the Federal Ministry of Agriculture and Rural Development (FMA&RD) has established the Commercial Agriculture Credit Scheme, hereinafter referred to as CACS, for promoting commercial agricultural enterprises in Nigeria, which is a sub–component of the Federal Government of Nigeria Commercial Agriculture Development Programme (CADP). This Fund will complement other special initiatives of the Central Bank of Nigeria in providing concessionary funding for agriculture such as the Agricultural Credit Guarantee Scheme (ACGS) which is mostly for small scale farmers, Interest Draw-back scheme, Agricultural Credit Support Scheme, etc.

2.0 Funding

The scheme shall be financed from the proceeds of the N200billion seven (7) year bond raised by the Debt Management Office (DMO). The fund shall be made available to the participating bank(s) to finance commercial agricultural enterprises. In addition, each State Government could borrow up to N1.0billion for on-lending to farmers' cooperative societies and other areas of agricultural development provided such initiatives/interventions are line with the objectives of CACS.

3.0 Objectives of the Scheme

The objectives of the scheme are:

(i) To fast track development of the agricultural sector of the Nigerian economy by providing credit facilities to commercial agricultural enterprises at a single digit interest rate;

(ii) Enhance national food security by increasing food supply and effecting lower agricultural produce and product prices, thereby promoting low food inflation;

(iii) Reduce the cost of credit in agricultural production to enable farmers exploit the potentials of the sector; and

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

4.0 Governance of the Scheme

The Central Bank of Nigeria and the Federal Ministry of Agriculture and Water Resources shall collaborate to ensure the success of the Scheme through a Programme Steering Committee (PSC). The PSC shall be responsible for the overall administration of the Funds and Scheme while the day-to-day implementation of the Scheme shall lie with the Technical Implementation Committee (TIC). The TIC shall report to the PSC which is the highest policy organ of CACS.

(a) **PROGRAMME STEERING COMMITTEE (PSC)**
The composition of the PSC shall be as follows:
(i) Honourable Minister of FMA&WR or Rep - Chairman
(ii) Governor, CBN - Vice Chairman
(iii) Federal Ministry of Finance - Member
(v) Representative of commercial farmers - Member
(vii) Programme Coordinator (CADP) - Secretary

(b) **TECHNICAL IMPLEMENTATION COMMITTEE (TIC)**
The composition of the TIC shall be as follows:
(i) Director, Development Finance Department (DFD) CBN - Chairman

(ii) Head, Agric. Credit Support Division, DFD, (CBN) - Member

(iii) Programme Coordinator (CADP) - Secretary

The TIC shall regularly undertake verifications of CACS projects to ensure that banks operate in line with the objectives of the Scheme.

5.0 Target Agricultural Commodities and Value Chains

Key Agricultural commodities to be covered under the Scheme are:
(i) **PRODUCTION:**
- **Cash Crops:** Cotton, Oil Palm, Fruit Trees. Rubber, Sugar Cane, Jatropha Carcus and Cocoa.
- **Food Crops:** Rice, Wheat, Cassava, Maize/Soya, Beans/Millet, Tomatoes and Vegetables
- **Poultry:** Broilers and Eggs Production
- **Livestock:** Meat, Dairy and Piggery
- **Aquaculture:** Fingerlings and Catfish

(ii) PROCESSING: Feed mills Development, Threshing, Pulverisation and Other forms of transmutation for value addition.

(iii) STORAGE: Commodities, Agro-Chemicals and Warehousing

(iv) FARM INPUT SUPPLIES: Fertilizers, Seeds/Seedlings, Breeder Stock, Feeds, Farm equipments & Machineries.

(v) MARKETING: Agricultural commodities under the focal investment areas.

6.0 Definition of Commercial Agricultural Enterprise;

For the purpose of this Scheme, a commercial enterprise is any farm or agro-based enterprise with agricultural asset (excluding land) of not less than N100 million for an integrated farm with prospects of growing the assets to N250 million within the next three years and N50 million for non-integrated farms/agro-enterprise, except in the case of onlending to farmers' cooperative societies.

7.0 Eligibility for Participation in the Scheme

(A) Participating Bank (PB)
(i) The Central Bank of Nigeria has approved the participation of all deposit money banks under the Scheme. All participating banks are required to sponsor projects from any of the target areas indicated in the Guidelines and bear all the credit risk of the loans they will be granting.

(ii) The single obligor for any project from a participating bank under the Scheme shall be N2.0billion while for State Governments shall be N1.0billion.

(B) Borrower:
(i) **Corporate and Large Scale Commercial Farms/ Agro-Enterprises**
The borrower shall:
- Be a limited liability company with asset base of not less than N100 million and having the prospect to grow the net asset to N250 million in the next three years and complies with the provision of the Company and Allied Matters Act (1990)
- Have a clear business plan
- Provide up-to-date record on the business operation if any.
- Have out growers programme, where appropriate
- Satisfy all the requirements specified by its lending bank

(ii) Medium Scale Commercial Farms/Agro-Enterprises
To participate in the Scheme the borrower shall:
- Be a limited liability company with asset base of not less than N50million and having the prospect to grow the net asset to N150 million in the next three years and complies with the provision of the Company and Allied Matters Act (1990)
- Have a clear business plan
- Provide up-to-date record on the business operation
- Have out growers programme, where appropriate
- Satisfy all the requirements specified by its lending bank

(iii) **State Government /FCT**
To participate under the Scheme, the States shall;
- Submit an expression of interest
- Present an Irrevocable Standing Payment Order (ISPO) in favour of the participating bank, duly signed by the State Governor, Commissioner for Finance and the State Accountant General
- Adhere to the repayment agreement reached with the participating bank (PB), upon contravention; the CBN shall assist the PB to invoke the ISPO.
- Have appropriate/functional structures on ground or set up structures for the deployment of the funds, which must include existing, registered Cooperative

Societies/Unions. The cooperatives must be at least six (6) months old with proven track records of repayment

- Deploy CACS funds disbursed to farmers' cooperative societies and other areas of agricultural development provided such initiatives/interventions are line with the objectives of CACS.
- Satisfy all the requirements specified by the lending Bank

8.0 Modalities of the Scheme

(i) Agricultural credit from the participating banks shall be in the form of loans.
(ii) Interest on loan shall not exceed 9.0 per cent inclusive of all charges.

9.0 Acceptable Collateral

The security which may be offered to a participating bank for the purpose of any loan under the scheme may be one or more of the following:

(i) A charge on land in which the borrower holds a legal interest or a right to farm, or a charge on the land including fixed assets, crops or livestock.
(ii) A charge on the movable property of the borrower.
(iii) A life insurance policy, a promissory note or other negotiable security
(iv) Stocks and shares; and
(v) Any other collateral acceptable to the participating bank(s).

10.0 Loan Tenor

(i) Loans shall have a maximum tenor of seven years and/or working capital facility of one year with provision for roll over.

(ii) The Scheme allows for moratorium in the loan repayment schedule taking into consideration, the gestation period of the enterprise.

11.0 Limit of Liability under the Scheme

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

12.0 Procedure for Applying for the Loan

All applications for loans under the Scheme shall be made to the participating banks (PBs).
All applications under the Scheme shall be treated by PB's with due diligence.

13.0 Verification and Monitoring on Projects

All projects shall be verified by the TIC after drawdown to ensure that banks fully comply with the objectives of the Scheme. The Development Finance Department of the CBN and the CADP Secretariat of FMA&RD shall periodically monitor the projects funded under the Scheme, and report to the PSC.

14.0 Verification in Other Terms and Condition of CACS Loan

Participating banks shall be required to secure a written consent of the TIC and approval of the PSC before making alterations to the stipulated terms and conditions governing any ongoing CACS facility.

15.0 Infractions and Sanctions

PB(s)

(i) Diversion of funds by the PB(s) shall attract a penalty at the bank's average lending rate at the time of infraction. In addition, such PBs shall be barred from further participation under the scheme;
(ii) Non- rendition or false returns shall attract the penalty stipulated by BOFIA section 60;
(iii) Charging interest rate higher than prescribed shall attract the penalty stipulated by BOFIA section 60;
(iv) Any PB that fails to disburse the fund within 14 days of receipt to the borrower shall be charged a penalty interest rate of MPR+300 basis points for the period the fund was not disbursed;
(v) Any other breach of the guidelines as may be specified from time to time; and
(vi) Not withstanding the agreement between the PB and the project promoter, the CBN has the right to reject a request from any PB that contravenes any section of the Guidelines.

16.0 The Key Stakeholders of the Scheme are;

(i) Federal Government of Nigeria (FGN),
(ii) Central Bank of Nigeria (CBN),
(iii) Federal Ministry of Agriculture and Rural Development (FMA&RD),
(iv) Debt management Office (DMO),
(v) Participating Banks (PBs), and
(vi) Borrowers

17.0 Responsibilities of Stakeholders

For effective implementation of the scheme and for it to achieve the desired objectives, the responsibilities of the stakeholders shall include:

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

(b) **The CBN**
The Central Bank of Nigeria (CBN) shall:
(i) Specify the rate at which PBs lend to borrowers under the Scheme
(ii) Absorb the subsidy which may arise in the pricing of the loan to borrowers
(iii) Absorb all other incidental/administrative expenses
(iv) Select the participating banks under the scheme, with due considerations of the general ability of the banks
(v) Release funds to participating banks after confirmation of intent/readiness of banks to disburse funds
(vi) Receive and process the monthly returns made by the PBs in relation to their loans under the Scheme
(vii) Conduct spot audit on the PBs as well as monitor and evaluate the borrowers' enterprises in order to ascertain the performance of the Scheme
(viii) Retrieve funds when guidelines are not strictly adhered to by the participating banks
(ix) Prepare monthly reports to the National Economic Council (NEC), the TIC and PSC.
(x) Retrieve funds from the PBs at the expiration of the loan tenure.
(xi) Make provision for the N200billion bond repayment
(xii) Serve as the Chairman of TIC.

(c) **The Federal Ministry of Agriculture and Water Resources FMA&RD**
The FMA&RD shall:
(i) Participate in the monitoring and evaluation of the Scheme;
(ii) Undertake periodic review of the enterprises financed under the Scheme; and
(iii) Serve as the Secretary to TIC and PSC

(d) **The Federal Ministry of Finance (FMF)/ Debt Management Office (DMO)**
The FMF/DMO shall:
(ii) Issue the Bond on behalf of the FGN; and
(iii) Raise money from the market.

(e) **The Participating Banks**
The participating banks shall:
(i) Ensure due diligence is followed in the administration of credit facilities
(ii) Guarantee safety and purposeful application of funds for on-lending,
(iii) Bear 100 per cent credit risk
(iv) Lend funds under the Scheme at the specified rate
(v) Submit to the CBN, Letter of offer by the bank, Letter/Evidence of Acceptance by the state, Irrevocable Standing Payment Order (ISPO), List of State Cooperatives or Evidence of Intervention project, Disbursement schedule, Repayment schedule, the Credit Risk Management System (CRMS) report of the borrower; and
(vi) Render monthly returns under the Scheme to the CBN on the reporting format.

(f) **Borrower**
The borrower shall:
(i) Utilize the funds for the purpose for which it is granted
(ii) Insure the project being financed
(iii) Make the project records available for inspection and verification by the CBN, TIC and PBs;
(iv) Adhere strictly to the terms and conditions of the Scheme; and
(v) State Governments/FCT shall utilize the funds as specified by the CACS objectives.

18.0 Returns by Banks should be made to the address below:

Director,
Development Finance Department,
Central bank of Nigeria, Central Business district
Abuja. Tel: No.: +234 9 4623 8600
Fax No.: +234 9 4623 8655

19.0 Repayment or Discontinuation of a Credit Facility

Whenever a credit facility is discontinued, the PB shall advise the PSC immediately, giving particulars of the credit facility.

20.0 Disbursement of Fund

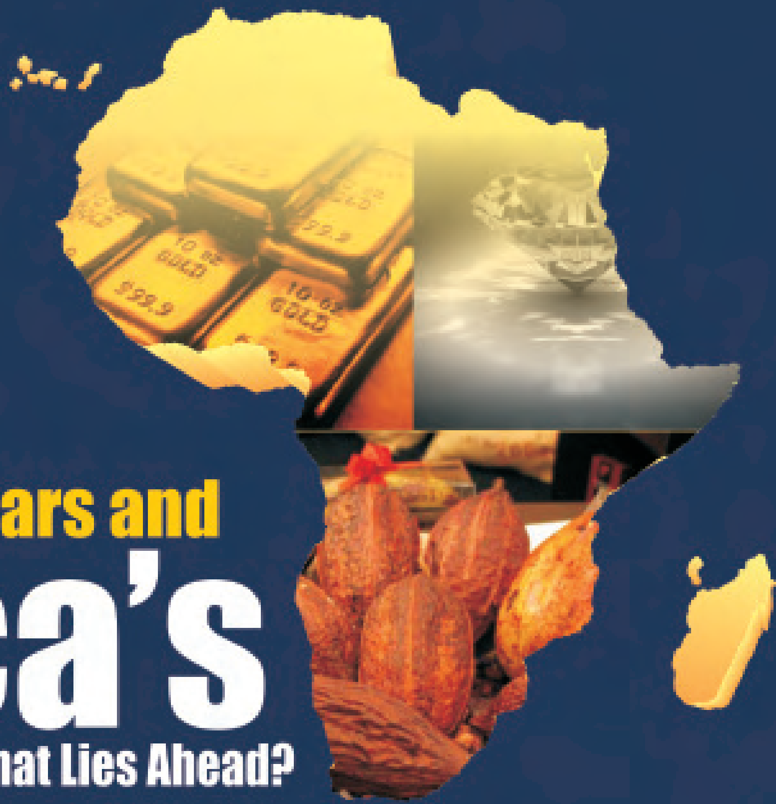
(i) PBs and borrowers should strictly adhere to agreed disbursement/repayment schedule. Any deviation from the schedule should be mutually agreed between the parties and the TIC informed accordingly.
(ii) Disbursement of funds must be in accordance with the due diligence of the Participating bank.

21.0 Amendments

This Guidelines is subject to review from time to time as may be deemed necessary by the Project Steering Committee

DEVELOPMENT FINANCE DEPARTMENT
CENTRAL BANK OF NIGERIA
ABUJA

OCTOBER 2010



Recession Fears and Africa's Commodity Export: What Lies Ahead?

By EUNICE SAMPSON

Africa's massive natural resource is indeed a great blessing; but one that has come with enormous challenges. Inarguably the most endowed continent in raw materials, most African countries depend on primary commodities for up to 70 percent of their total exports. This exposes them to the volatile price movements that characterize commodity markets, worst during periods of global economic recessions which unfortunately have become a five-yearly affair.

The irrepressible price volatility in global commodities market is often beyond the control of both the producers and consumers. Periods of price bubbles and false sense of abundance, followed swiftly by periods of price slumps and fiscal shocks – these have been the rollercoaster experiences of several commodity dependent economies. Unfortunately, by their nature, the scale and timing of commodity price movements are difficult to predict.

As another global recession looms, this time triggered mostly by the euro zone debt crisis, the direction of the commodity market remains largely uncertain. And in the face of this uncertainty, African economies are particularly vulnerable. Unpredictable, sharp price movements of these exports constitute a menace to policy makers in their quest for fiscal and monetary stability. The external environment is constantly being scanned; and major consuming nations watched keenly for signs of positive economic developments that would bode well for commodities demand and prices.

Worse still are the single commodity dependent countries that are left without safety nets anytime there is a crash in the price of their single export. These countries are the worst victims of the market dumping and production subsidy activities of advanced economies.

While some African countries have made good progress in breaking the single commodity export jinx, many are yet to attain the level of industrialization required to export finished products. Global commodities price volatility will therefore, for a long time remain a concern for Africa. So, as another global downturn looms, the question is; what does the future hold for African commodity export?

African Countries Dependent on Single Commodity Export

Percent share of

Country	Commodity	Gross national income	Total merchandise exports	Total agricultural exports
Malawi	Tobacco leaves	23.8	59	74
Sao Tome and Principe	Cocoa beans	16.9	69	97
Burundi	Coffee	7.2	75	83
Kenya	Tea	6.5	26	42
Guinea-Bissau	Cashew nuts	6.3	48	91
Chad	Cotton	5.7	37	71
Ethiopia	Coffee	5.4	62	69
Burkina Faso	Cotton	4.9	39	77

Sources: World Resources Institute; FAO

African Commodity Export Profile

While the African continent is saturated with tapped and untapped natural resources, oil is today its leading export commodity. In 1956, Nigeria's Niger Delta (Oloibiri, in today's Bayelsa State) became the first place oil was drilled in commercial quantity in Africa by the Anglo-Dutch company, Shell.

Crude oil has since remained Africa's biggest commodity export with the continent holding 9.6 percent of total global reserves. Five countries – Libya, Nigeria Angola, Algeria and Sudan control 90 percent of the continent's oil reserve. Libya and Nigeria control over 60 percent of this, and account for 3.3 and 2.8 percent respectively, of the global reserve, according to a recent African Development Bank report. The same report also estimates that Africa's reserve of crude oil rose from 53.3 billion barrels in 1980 to 117 billion barrels in 2005 and 127.7 billion barrels in 2009. New oil discoveries are still being made in the continent, with the latest in Ghana.

Africa is also a major exporter of gold, accounting for up to 30 percent of total global production of the precious metal. South Africa is the largest gold exporter in the continent and among the top three in the world. Ghana is the continent's second largest gold producer. Other major exporters include Zimbabwe, Tanzania, Mali, among others.

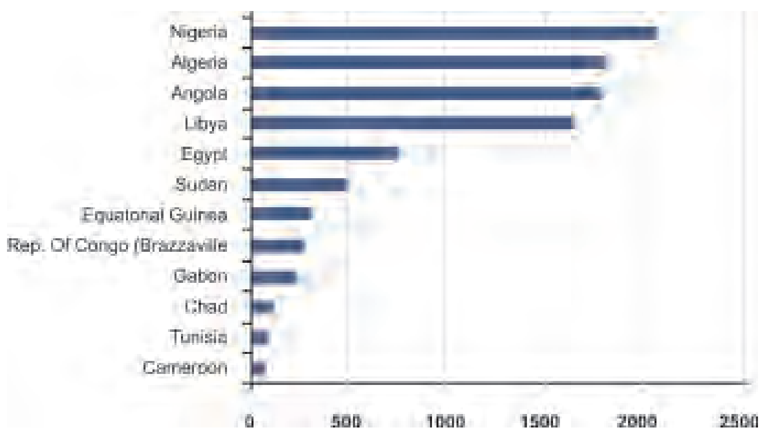
Diamond is another key commodity export from Africa. There are 10 major diamond producing nations in Africa, including Botswana, Democratic Republic of Congo, South Africa, Angola, Namibia and Ghana. Botswana is Africa's biggest producer in the global diamond industry valued at an estimated $158bn per annum.

Also, Cocoa is another commodity export where Africa excels. Ivory Coast, Ghana and Nigeria are the biggest exporters in the continent. Ivory Coast is the world's largest cocoa exporter, accounting for about 30-40 percent of the world market. The three West African countries above are ranked among the top five global producers and exporters of cocoa, a thriving commodity that has become treasured around the world especially for the manufacture of chocolate, pastries and other highly sought after consumables.

Uranium is yet another major export commodity from the continent, with Namibia and Niger Republic as the continent's biggest producers and occupying the 5th and 6th positions in the list of the world's biggest exporters, according to the World Nuclear Association.

So much controversy surrounds the management of proceeds from African natural resources. Agitations for resource control and more equitable distribution of earnings from commodity exports have resulted in civil wars and socio-political unrests.

Africa: Oil Production by Country, 2009 (thousand barrels per day)



Source: **African Development Bank**

AFRICAN COUNTRIES BY MAJOR COMMODITY EXPORTS			
Algeria	petroleum, natural gas, and petroleum products 97%	**Libya**	crude oil, refined petroleum products, natural gas, chemicals
Angola	crude oil, diamonds, refined petroleum products, coffee, sisal, fish and fish products, timber, cotton	**Madagascar**	coffee, vanilla, shellfish, sugar, cotton cloth, clothing, chromite, petroleum products
Benin	cotton, cashews, shea butter, textiles, palm products, seafood	**Malawi**	tobacco 53%, tea, sugar, cotton, coffee, peanuts, wood products, apparel
Botswana	diamonds, copper, nickel, soda ash, meat, textiles	**Mali**	cotton, gold, livestock
Burkina Faso	gold, cotton, livestock	**Mauritania**	iron ore, fish and fish products, gold, copper, petroleum
Burundi	coffee, tea, sugar, cotton, hides	**Mauritius**	clothing and textiles, sugar, cut flowers, molasses, fish
Cameroon	crude oil and petroleum products, lumber, cocoa beans, aluminum, coffee, cotton	**Morocco**	clothing and textiles, electric components, inorganic chemicals, transistors, crude minerals, fertilizers (including phosphates), petroleum products, citrus fruits, vegetables, fish
Cape Verde	fuel, shoes, garments, fish, hides	**Mozambique**	aluminum, prawns, cashews, cotton, sugar, citrus, timber; bulk electricity
Central African Republic	diamonds, timber, cotton, coffee, tobacco	**Namibia**	diamonds, copper, gold, zinc, lead, uranium; cattle, processed fish, karakul skins
Chad	oil, cattle, cotton, gum arabic	**Niger**	uranium ore, livestock, cowpeas, onions
Congo, Democratic Republic	diamonds, gold, copper, cobalt, wood products, crude oil, coffee	**Nigeria**	petroleum and petroleum products 95%, cocoa, rubber
Congo, (Republic)	petroleum, lumber, plywood, sugar, cocoa, coffee, diamonds	**Rwanda**	coffee, tea, hides, tin ore
Cote d'Ivoire	cocoa, coffee, timber, petroleum, cotton, bananas, pineapples, palm oil, fish	**Saint Helena**	fish (frozen, canned, and salt-dried skipjack, tuna), coffee, handicrafts
Djibouti	Re-exports, hides and skins, coffee (in transit)	**Sao Tome and Principe**	cocoa 80%, copra, coffee, palm oil
Egypt	crude oil and petroleum products, cotton, textiles, metal products, chemicals, processed food	**Senegal**	fish, groundnuts (peanuts), petroleum products, phosphates, cotton
Equatorial Guinea	petroleum products, timber	**Seychelles**	canned tuna, frozen fish, cinnamon bark, copra, petroleum products (re-exports)
Eritrea	livestock, sorghum, textiles, food, small manufactures	**Sierra Leone**	diamonds, rutile, cocoa, coffee, fish
Ethiopia	coffee, khat, gold, leather products, live animals, oilseeds	**South Africa**	gold, diamonds, platinum, other metals and minerals, machinery and equipment
Gabon	crude oil, timber, manganese, uranium	**Sudan**	oil and petroleum products, cotton, sesame, livestock, groundnuts, gum arabic, sugar
Gambia, The	peanut products, fish, cotton lint, palm kernels	**Swaziland**	soft drink concentrates, sugar, wood pulp, cotton yarn, refrigerators, citrus and canned fruit
Ghana	gold, cocoa, timber, tuna, bauxite, aluminum, manganese ore, diamonds, horticultural products	**Togo**	Re-exports, cotton, phosphates, coffee, cocoa
Guinea	bauxite, alumina, gold, diamonds, coffee, fish, agricultural products	**Tunisia**	clothing, semi-finished goods and textiles, agricultural products, mechanical goods, phosphates and chemicals, hydrocarbons, electrical equipment
Guinea-Bissau	fish, shrimp; cashew nuts, peanuts, palm kernels, sawn lumber	**Western Sahara**	phosphates 62%
Kenya	tea, horticultural products, coffee, petroleum products, fish, cement	**Zambia**	copper/cobalt 64%, cobalt, electricity; tobacco, flowers, cotton
Lesotho	manufactures 75% (clothing, footwear, road vehicles), wool and mohair, food and live animals	**Zimbabwe**	platinum, cotton, tobacco, gold, ferroalloys, textiles/clothing
Liberia	rubber, timber, iron, diamonds, cocoa, coffee		
Source: CIA			

These bloodsheds have earned Africa's vast natural wealth the derogatory description of 'natural resource curse'.

However, several African economies are making progress in changing this unpleasant perception with some significant improvements in the management of these resources. In the last decade, a good number of them have leveraged on this natural capital to achieve strong, uninterrupted growth, resilient in the face of severe global recessions. Improving production capacities at home and favourable prices of their commodities in global markets have helped commodities exporters to build much needed socio-economic infrastructure and nurture their bourgeoning democratic processes. Though they are also often set back by price slumps, some of them are now better placed to translate their robust export earnings to strong economic growth.

While questions persist on how far Africa's improving economic fortune has helped in poverty alleviation, the continent at least now has greater economic prospects. For those that succeed in entrenching visionary, transparent and purposeful leadership, strong economic advancement sustained over the last decade could signal the beginning of greater things to come.

The Fate of Commodity Exports: Key Determinants

Commodities exports are highly susceptible to sharp changes in demand and supply. Spiky price changes remain a constant feature since the market is hardly in control of far reaching socio-economic and political developments in the producing and consuming nations. Real or perceived changes in demand and supply sources could lead to sudden rise or fall in commodity prices. Threats of unrests in the Middle East, which supplies up to 30 percent of global crude oil; or prospects of an economic slowdown in the US, China and Europe for example which are the major crude oil consumers, could exert dramatic upward or downward pressure on the price of crude oil. The same is true for most other commodity exports and interestingly, the timing or scale of these influential market factors are ever difficult to predict.

In July 2011, *Consensus Economics*, a leading macroeconomic analysis firm carried out a survey ('Factors Affecting Commodity Prices') which asked experts to compare and rate the differing degrees of sensitivity with which the prices of different commodities respond to a range of influences at every point in time in the global market. The rating was on a scale of 0 -10, with 0 indicating 'no influence' and 10 signifying 'very strong influence'. The outcome of the survey, tabulated below, summarizes some of the key factors that determine the price of key commodities in the global market.

In this survey, most of the respondents identified 'Demand/business cycle' as an influential factor in the prices of several commodities, with rating averaging about 6.8 out of 10 in total. For aluminum, copper, steel and palladium, respondents ranked this particular determinant 8 out of 10.

The influence of 'Government trade policies,' was

downplayed by the outcome of the survey, averaging a meager 1.8 for all commodities, and an indication that this has one of the least influences on the price movements of commodities in an increasingly globalised market.

On the other hand, the influence of 'investment funds' was rated as a critical factor, but only mostly for precious metals, where it got a rating of 9 out of 10 for silver and 6.7 for gold.

The outcome of the survey also shows that the highest determining factor for crude oil price movement is 'supply/production constraints', where an average score of 6.3 was recorded. A good example is the Arab Spring. In early 2011, investors became concerned about supply disruptions following unrests in Libya, Egypt and Tunisia as public uprising broke out in efforts to unseat the countries' dictators. Oil prices rose above $100 a barrel in early March, reaching its peak of $113 a barrel in late April. The Arab Spring was perhaps one of the most significant crude oil price determinants in 2011, worsened by fears of a spread to neigbouring crude oil powerhouses in the Middle East.

Perhaps one of the most significant findings of the survey is that different factors determine different commodities pricing at different points in time. This further raises the issue of t h e unpredictability of the commodities market.

The survey outcome aside, other critical factors that shape price changes include the health of the global economy – growth prospects, the state of the financial services sector, liquidity, inflation, wages, disposable income, employment, among others. Commodity prices are most likely to experience a slump during periods of recessions and a boom during periods of significant growth and economic prosperity among the biggest consumers.

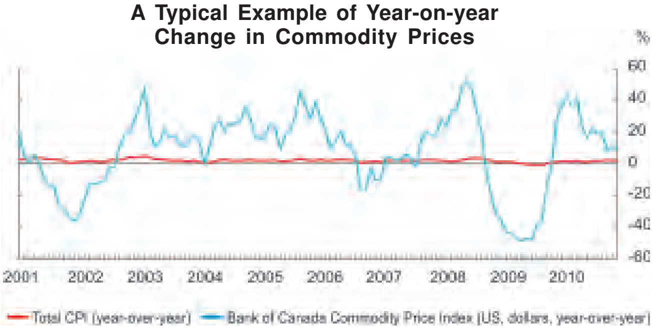
A rather unusual deviation from this 'norm' was during the Great Recession (2007-2009) when crude oil prices hit an all-time record

Factors Affecting Commodities' Prices (on a scale of 0-10)

	Dem and/ Business Cycle	Supply/ Production Constraints	Government Trade Policies	FX Linkages/ US Dollar Value	Investment Funds
Crude Oil	6.0	6.3	1.7	3.0	2.7
Natural Gas	6.0	5.5	2.0	2.0	2.5
Coal	7.7	7.7	2.0	3.3	1.3
Uranium	7.0	2.0	0.0	0.0	0.0
Aluminium	8.0	5.1	2.3	5.6	3.9
Alumina	7.0	5.5	2.3	2.5	1.5
Copper	8.0	8.0	1.7	4.5	6.0
Nickel	7.7	5.7	1.2	6.0	4.0
Lead	7.4	6.8	2.8	4.0	3.2
Zinc	6.8	5.8	1.0	4.0	3.4
Tin	6.8	8.5	4.8	3.8	3.8
Steel	7.5	5.7	3.7	3.3	1.0
Iron Ore	7.3	7.5	4.3	4.0	1.3
Gold	5.0	3.3	0.7	5.7	6.7
Silver	4.0	2.0	1.0	5.5	9.0
Platinum	6.7	7.0	1.7	3.7	4.7
Paladium	8.0	7.0	2.3	3.7	4.3

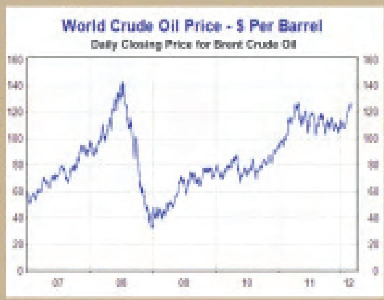
Source: Energy & Metals Consensus Forecasts, July 2011

A Typical Example of Year-on-year Change in Commodity Prices



Source: www.bankofcanada.ca

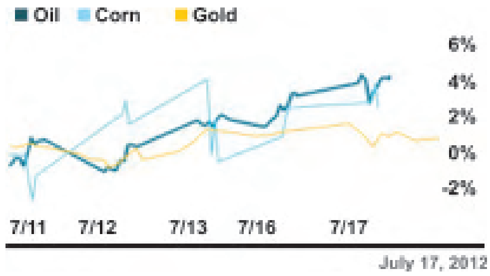
Sources: tutor2u.net; Reuters



Sources: tutor2u.net; Reuters

Sources: tutor2u.net; Reuters

Volatile Global Commodity Prices (July 17, 2012)



Source: Reuters

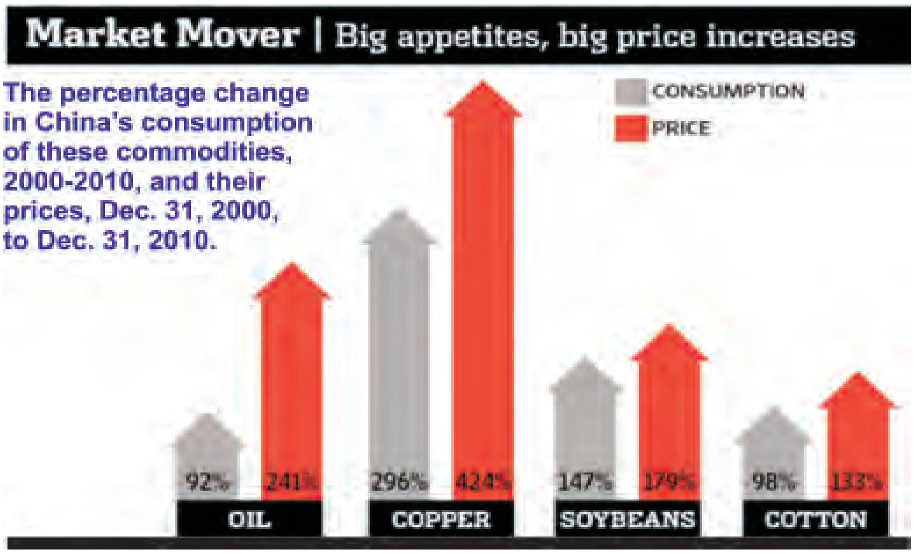
high of $145 per barrel on July 3, 2008, at the very peak of the recession. This followed unprecedented socio-political and labour unrests in major exporting countries including Iraq, Iran, Venezuela, Mexico and Nigeria, coupled with the activities of market speculators and a dramatic decline in supplies from non-OPEC member countries. Some analysts opine that this 'rare' development was one of the factors that deepened the recession. However, in December 2008, barely 6 months later, crude oil prices fell below US$38 a barrel as relative peace returned to these oil majors and as worries about a deteriorating US economy hit the market, marking one of the worst instances of commodity price volatility in history.

The role of commodities cartel cannot also be ruled out. The case of the Organization of Petroleum Exporting Countries, OPEC is particularly note worthy. The cartel has over the decades managed to influence to varying degrees supply trends, by cutting production when the market seems saturated and increasing supplies when demand increases. When the price of crude oil falls within a certain threshold deemed unattractive for investors, the cartel which supplies up to 40 percent of global crude oil tries to reduce supply to spur price increase. One of the ways it does this is to cancel some production investment projects in efforts to rein in excess production. Though not always successful in its price control measures, the 12-member OPEC has had significant impact on global prices of crude oil.

Perhaps one of the factors that work in favour of most commodities is the lack of viable substitutes. Energy and agricultural commodities are particularly vital in the manufacturing and industrialization processes – a livewire for developed and emerging economies. Major economies have been kept on their toes in the last two decades in efforts to develop a viable, sustainable substitute to oil. If this ever works, then some level of solution would have been found to crude oil price volatility, at least, the upward price swings. But this prospect also has its setbacks – first is the issue of sustainability and second, the high cost of research and development which could prove even more costly in real terms. Bio-fuel technology is already generating public outcry around the world for its negative impact on food availability and costs, since much of the raw materials so far used in bio-fuel technology are food staples.

Commodity Export: What Lies Ahead?

The global economy is currently dealing with the euro zone debt crisis and fears of a contagion; a slowdown in key economies outside the euro zone and of course, the new one – fears about a major economic deceleration in China. From its customary double digit growth record sustained in the last decade, China advanced by 9.2 percent at year end 2011; slowed to 8.5 percent in first quarter 2012 and further down to 7.5 percent in the second quarter. China now



Source: www.online.wsj.com

expects year end 2012 growth of around 7.5 percent, its weakest growth in about five years.

Highly export dependent, the Chinese economy has been hit by troubles in the euro zone, the US and others, which has dampened exports and investment inflows. The country is also struggling with a bust in its hitherto bubbling property market.

For the net exporters, while the prices of some of the most essential commodities, especially agricultural and energy products have remained relatively favourable since the euro zone debt crisis, the magic has not been due to a strengthening in demand but to production and supply fears and the activities of speculators. These 'satisfactory' price levels (at around $100 per barrel) explain, for example, why OPEC has left crude oil production figures unchanged since the beginning of the year.

But for how long will the 'satisfactory' price levels of these and other commodities be sustained, given the slowing economic fortunes in China? For commodity export dependent countries, any bad news from their biggest market, China, is indeed bad news.

Experts opine that China will be the main determining factor of future of commodity demand and prices; first, for the size of the economy which is now the second largest after the United States; and for its stage of socio-economic development which creates strong demand for commodities. Also, the sheer size of its population – about 1.3 billion people with a rapidly growing middle class makes it the key consumption market to watch.

A report published in The Wall Street Journal ("As China Goes, So Go Commodities" by Liam Pleven; December 14, 2011) places the direction of global commodities demand and prices at the doorsteps of China: "You want to know where the global commodities markets are heading in the coming years? Then it's probably best that you remember a single word: China"

According to the report, no single factor is likely to have a more far-reaching impact on commodities markets over the next few years than the direction of the Chinese economy. If China maintains its traditional full speed growth, demand for and prices of commodities will remain bullish. If the current marginal slowdown is sustained, say at between 7-9 percent, commodities will also experience relative market stability. But if the Chinese economy experiences a hard landing, say, to the region of 4- 5 percent, so will the commodities market. Particularly vulnerable are commodities highly consumed by China, including crude oil, copper, steel, coal, among others.

A more likely scenario in the view of most experts is a moderation in the economic expansion of China, rather than a hard landing, which is good news for commodity exporters.

Another good news for African commodity exporters is that several other '*Chinas*' are in the offing. Emerging markets such as India, Brazil, Indonesia, Russia and Turkey have the potential, like China, to boost global demand for commodities in the coming years.

Other potential factors that could determine the future of commodity market include the outlook for technological evolutions, including bio-fuel technology; developments in financial markets; new investments in commodities production; exchange rates dynamics (especially in relation to the US dollar); growth in global population, employment, wages and urbanization; developments in major commodity export zones; natural factors including climate change and its impacts, among others.

Tackling Future Commodity Price Shocks

According to reports by the African Development Bank, the commodities price boom of 2008 was a major boost to Africa's current account position with earnings from key exports exceeding outflows for imports by a whopping USD 319 billion that year. But the dramatic drop in prices that followed a year later (2009) wiped out much of these gains, with earnings from the continent's energy export alone falling by USD133 billion.

The nature of commodities subjects them to the mercy of natural and man-made factors that economic models cannot easily explain away. Within second quarter 2012 alone (March to June 2012) crude oil prices shed a whopping 30 percent. Also, within a decade spanning 1999 to 2008, crude oil prices rose from $10 per barrel to about $145 per barrel, before falling to below $40 per barrel within another six month period. All commodities may not be as volatile in price as crude oil; but one feature that is common with virtually all of them is the regular, swift changes in their pricing.

For the non-oil, non-agricultural commodities where demand in the global market is much more elastic, a report released by the Business Monitor International (BMI; UK; August 10, 2012) predicts that hard times may await African exporters if the euro zone crisis deepens further. This is because demand for and prices of these commodities could experience a sharp decline. According to the report, the 10 countries most vulnerable are those that sell more than a third of their commodity exports to the euro zone. They include Tunisia, Congo (Republic), Equatorial Guinea, Algeria, Ghana, Côte d'Ivoire, Morocco, Mozambique, Cameroon, and Mauritius. The commodities that would be hardest hit include industrial metals such as iron, bauxite, and copper, food products, and diamonds. Also, should the crisis worsen, countries with stronger balance of payments positions would weather the storm a lot better. In addition, countries with larger domestic markets and those that are relatively isolated from the global system would fair better in handling the commodity price shock than those that are highly externally dependent.

Commodity exporters therefore need to put strategies in place to guard against or manage price and demand fluctuations when ever they occur.

'Saving for the rainy day' remains one of the options at the disposal of African commodity net exporters. Accumulating assets in commodity stabilization funds during periods of price boom would help absorb price shocks when they occur. Some African countries now have Sovereign Wealth Funds where the excess proceeds from the difference between benchmarked commodity price and actual are set aside to cushion the effect of future price slumps. An African Development Bank report ("Managing Commodity Price Volatility in Africa"; September 2011) discloses that only about four African countries absorbed the sudden decrease in energy exports in 2009 relatively well – Nigeria, Algeria, Angola,

http://www.johnharveyphoto.com/Life/05_2008/VictoriaChinaTownGateLg.jpg

Africa: Dangerous Dependence (on the Eurozone)

Country	Exports (% GDP)	Eurozone (% Exports)	Eurozone Exports (%GDP)
Tunisia	37.90	70.28	26.64
Congo (Republic)	109.40	22.41	24.52
Equatorial Guinea	47.00	39.55	18.59
Algeria	38.30	41.63	15.94
Ghana	32.70	44.71	14.62
Côte d'Ivoire	42.40	34.42	14.59
Morocco	21.50	49.42	10.62
Mozambique	23.90	43.08	10.30
Cameroon	19.70	49.53	9.76
Mauritius	23.50	40.95	9.62
Madagascar	14.50	39.10	5.67
Uganda	13.90	25.40	3.53
Egypt	11.30	29.48	3.33
Ethiopia	7.40	32.85	2.43
Central African Republic	5.10	43.47	2.22

Source: BMI

and Libya – the main reason being the healthy sovereign wealth and foreign exchange reserve positions they maintained immediately prior to the price crash.

Also, there is the need for structural buffers that protect the economies from changing market conditions. Several African economies do not have in place a commodity price risk management mechanisms, leaving them perpetually at the mercy of global price upset.

Fiscal prudence and efficient management of natural resources and earnings from commodity exports remain another issue to address. African countries have had to struggle with the now proverbial 'resource curse'. Mismanagement of abundant natural resources not only exposes affected economies to periodic fiscal shock, it also provokes public discontent, civil wars and socio-political unrests. Decades of exploitation of abundant natural resources in some of these countries are yet to impact the lives of the ordinary citizen. Rising poverty and unemployment is still rife.

The development of a robust democratic structure and a governance system that is grassroots-based would go a long way in ensuring a peaceful and conducive atmosphere for the harnessing of Africa's natural resources.

The age-long gene of overreliance on single commodity export should also be broken. Diversification of sources of foreign earnings is another way of tackling the recurrence of commodity price volatility.

Importantly, African countries should intensify efforts to boost regional trade within the continent since much of their woes in the commodities market arise due to influences from the advanced economies. An increased trade volume between African countries would hedge some of the uncertainties in the global market. A new World Bank report published on February 7, 2012 captioned "*De-Fragmenting Africa: Deepening Regional Trade Integration*" shows how the continent is losing out on billions of dollars in potential trade earnings annually owing to high trade barriers between neighboring countries. The report also confirms that it is easier for Africa to trade with the rest of the world than with itself.

Food for Thought?

There is a common misconception that the African continent cannot catch up with the pace of economic development in other parts of the world with its current dependence on agricultural and industrial commodities. But this is a sheer delusion. Africa can in fact leverage on its abundant natural wealth and huge potential in agriculture to overtake some of today's most prosperous regions – and in just few decades.

In May 2011, Citi Economist, William Buiter identified 10 economies that will experience the fastest growth in the next 40 years. An African country – Nigeria topped the list, followed by India, Iraq, Bangladesh, Vietnam, Philippines, Mongolia, Indonesia, Sri Lanka and Egypt. The report predicts that by 2050, Nigeria with a GDP of about US$9.5 trillion and with a year on year growth rate of 8.5 percent will be the 6th largest economy in the world.

Five African countries also made the list of the 10 fastest growing economies in the world in 2011: Ghana (20.1%); Liberia (9%); Angola (8.2%); Ethiopia (7.6%); Mozambique (7.5%); all driven by commodity export boom.

The outlook is promising for African commodity exporters that are able to manage their resources sustainably to create wealth, generate employment and empower their citizenry while also creating an enabling business environment that is attractive to local and foreign investors.

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

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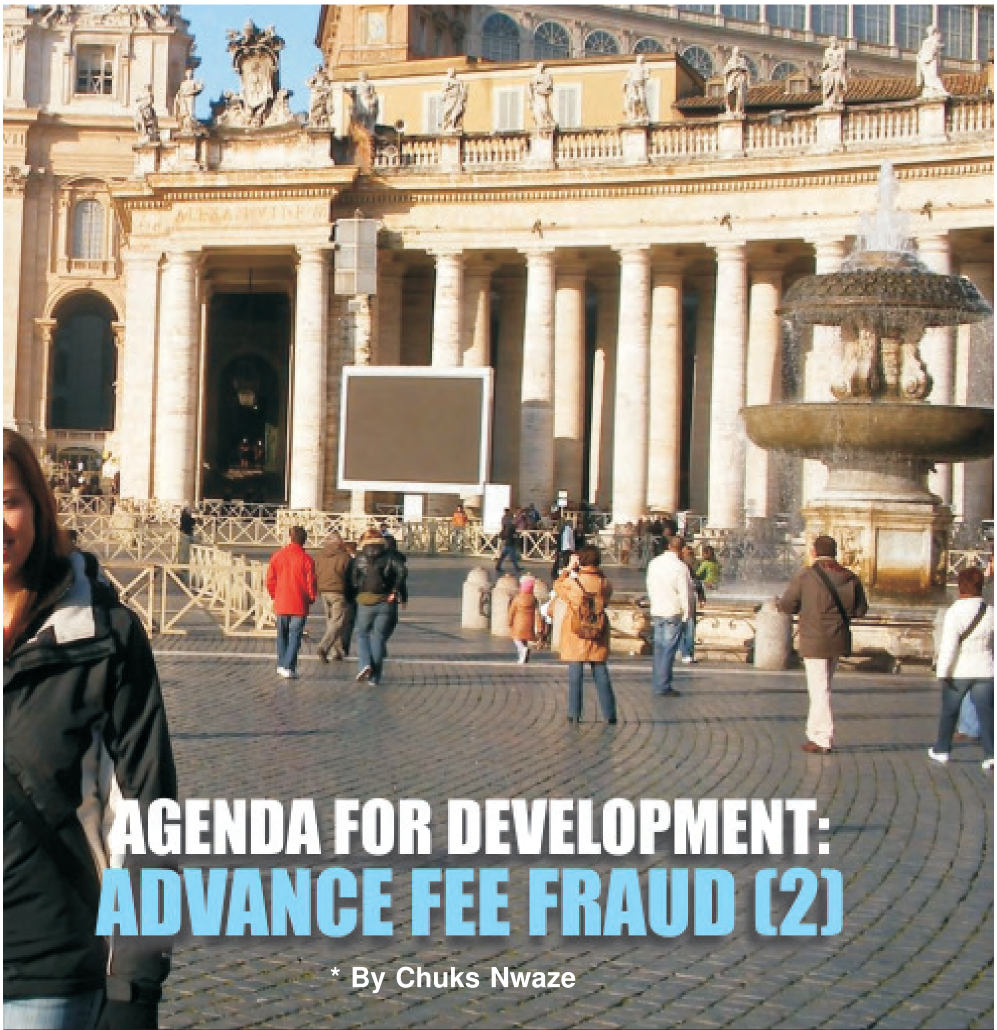
Slow
Internet?



AGENDA FOR DEVELOPMENT: ADVANCE FEE FRAUD (2)

* By Chuks Nwaze

... outside Nigeria, every Nigerian has become a suspect, even without a remote prospect of any trial whatsoever! It is that serious.

In the last edition of this serial, which has been appropriately re-christened *'Agenda For Development'*, we tried to draw attention to the very devastating image injury being meted out to our dear country through the instrumentality of unscrupulous Nigerians who want to get rich quick without going through the mill. These are the "Yahoo Boys" who are involved in Advance Fee Fraud, alias "419". At the international level, the vast majority of Nigerians, who are honest and transparent both in words and in deeds, have suffered and have continued to suffer undeserved stigma and credibility damage as they are daily subjected to security surveillance and scrutiny around the globe.

In other words, outside Nigeria, every Nigerian has become a suspect, even without a remote prospect of any trial whatsoever! It is that serious. Curiously, this international stigmatization is apparently not diminished by the fact that foreign nationals enter into these dubious transactions with their two eyes wide open, as a result of which they get their fingers burnt, hence they are no less guilty than the alleged initiators.

Having extensively ex-rayed the enabling environment, motivating factors, operational modalities and mind-bending schemes employed by these conmen in the previous edition, we shall now turn our attention to this international perspective. Here, we shall look at the success rate, contemporary developments, international cooperation as well as the commendable response by the government of Nigeria to the challenge posed by Advance Fee Fraudsters.

(A) SCAMMING AND ITS INTERNATIONAL CONSEQUENCES

(i) SUCCESS RATE

Although empirical and verifiable data on the actual success rate recorded by con artists is not readily available, it is generally agreed that experienced '419' scammers get one or two replies for every one thousand messages or letters from which some thousands of dollars are made, if successfully executed. It is obvious that the business would not have continued to thrive if the people involved in it are not getting reasonable returns on their investment.

• A good example which is often cited is that of Nelson Sakaguchi, a director of the Brazilian bank Banco Noroeste who is alleged to have transferred hundreds of millions of US dollars to Nigerian scammers. This was arguably the third biggest haul in banking history after Nick Leesons 'exploits' at Barings Bank and the scandalous looting of the Central Bank of Iraq on the heels of the US invasion.

• There was also the case of one Janella Spears who was successfully scammed in 2008 by a Nigerian con artist and she transferred $400,000. Against the advice of her family, law enforcement agents as well as bank staff, she fell for an e-mail that informed her about inherited money from her lost grandfather. Apparently, the scammers had done their research well because she, indeed, had a grandfather whose description and initials marched the ones on the e-mail.

(ii) **KIDNAPPING OF VICTIMS**

In the process of being scammed, some victims have also been kidnapped and this is part of the collateral risks they are exposed to, in addition to the fundamental uncertainty inherent in their dubious ambition of attempting to reap where they have not sown. Examples include the following:

• In July 2001, Joseph Raca, a former mayor of Northampton in England was kidnapped by scammers in Johannesburg in South Africa. Raca was released when the captors became nervous.

• A Romanian, Danut Tetrescu, who went from Bucharest to Johannesburg to meet with con men, was kidnapped in 1999 and held for $ 500,000.

• Scammers kidnapped a Swedish businessman in Lome, Togo for $500,000 from 2nd to 12th June, 1996. There was intense negotiation between Swedish police and the kidnappers before the victim was released.

• A wealthy Japanese businessman, Osamai Hitomi, was also lured to Johannesburg in South Africa in a scam deal and kidnapped on September 26, 2008. Seven of the scammers were subsequently arrested after they took him to Alberton, South of Johannesburg and demanded a $5 million ransom from his family.

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• Kenth Sadaaki Suzuki, a Swedish was on 23 September, 2008 lured to South Africa by a notorious scam syndicate and kidnapped. After being robbed of all his belongings, a ransom of € 20,000 was still demanded from his family. This same syndicate was linked to the kidnapping of three Americans; some of the members were arrested in another operation.

(iii) **DEATH / MURDER OR PHYSICAL HARM**

Con artists, their collaborators and even innocent citizens have had to pay the supreme price for the crime. Some victims too, have gone the same

http://www.kwantlen.ca/__shared/assets/japan14576.JPG way for their greed and gullibility. Apart from victims who travel to Nigeria in vain in their bid to trace their money, others who are unable to cope with the loss have committed suicide.

• Jiri Pasovsky, a scam victim from the Czech Republic, shot and killed Michael Lakara Wayid, a staff of the Nigerian Embassy in Prague in 2003 after the Nigerian Consul- General declined to refund the sum of $600,000 which Pasovsky paid to a Nigerian scammer.

• A Senior Technician at Anglia Polytechnic University in England, Leslie Fountain, set himself ablaze and died in November, 2003, after falling victim to a scam.

• An American living in South Africa hanged himself in Togo after being defrauded by a Ghanaian '419' con man in 2006.

• In 2007, a Chinese student at the University of Nottingham, killed herself when she became aware that she had been defrauded through a lottery scam.

• According to United States Department of State Bureau of International Narcotic and Law Enforcement Affairs, between 1994 and April 1997, '419' scammers murdered a total of 15 people, including an American who was killed in Nigeria in June, 1995 after being lured by a '419' scam.

• In September 1999, Kjsetil Moe, a Norwegian businessman was initially reported missing but subsequently killed after a 'deal' with Nigerian scammers in South Africa.

• In December, 2004, one George Makronalli, a Greck national was also killed in South Africa when the syndicate discovered that his family declined to pay the ransom requested.

(iv) PSYCHOLOGICAL AND EMOTIONAL CONSEQUENCES

It is yet unclear the extent of chemistry or level of bonding that exists between con men and their victims which makes it possible for the victim to continue to contact the scammer even when he has been shown ample evidence that he is being defrauded. It is obvious, however, that the victim is usually drawn so deeply into an intricate web of deception that his trust in what the con man is telling him practically overrides everything else.

Eventually, and inevitably, the scales fell off his eyes and he is back to the land of reality, by which time he must have lost a considerable sum of hard-earned or borrowed money. More importantly, he would also have lost the ability to trust any human being and this results in all kinds of psychological or emotional problems.

According to the *419-Eater Website* "Although there is no serious physical injury, many victims of the con men, speak of their betrayal as the psychological equivalence of rape". Inevitably, what follows is an overwhelming feeling of self- blame, guilt and shame, especially if the lost money was borrowed. The poor public opinion in which scam mails and their victims are held, also magnifies the depression and low esteem that the victims suffer.

(B) ADVANCE FEE FRAUD: CONTEMPORARY DEVELOPMENTS

• Prior to 2003, the scourge of Advance Fee Fraud was, indeed, hydra-headed. In fact, the operational structure had defied understanding, partly because it was not really a structure at all, but more of a loose affiliation of freelance criminals who larch in and out of different scams in response to opportunities.

• Hence, it was difficult to deal with by the security agencies. According to Kojo Bedu-Addo, senior Africa analyst at the London- based Control Risks Group, the need to screen potential partners is increasing the cost of doing business with Nigeria. ***"There is no guarantee even if you do have an official company or government letterhead that you are dealing with the right people. Only face to face contact and due diligence will prevent outright fraud***". In effect, foreign companies wanting to do business in Nigeria have to be assisted by Nigerian embassies and missions abroad who must conduct back- to-back investigation to be able to give proper guidance.

• Some of the scammers were often arrested but later released for want of evidence; prosecution was an up- hill task. In fact, according to the special fraud unit of the Nigerian police, only 22 convictions between 1993 and 2001(a period of eight years) were related to 419 offences.

• Con artists are one step ahead at all times to ensure that their lucrative vocation does not suffer any fundamental set back. For instance, when entry restrictions were being imposed on certain categories of travelers from Nigeria by foreign countries due to their notorious reputation, scammers quickly reorganized and started forging or fraudulently obtaining South African Passports. South Africa is an ideal base for international scams due to the first class infrastructure and sophisticated airlines which are at par with the rest of the world. Hence, security agencies came to terms with the sudden realization that the 'South African' fraudsters could actually be Nigerians using South African passports, contrary to their false claims when apprehended.

• Since it is not easy to obtain South African identity documents, con artists have also devised some ingenious ways of getting around it, one of which is to marry a local woman, sometimes without her knowledge, by bribing appropriate officials in the local marriage registry to process the documents in absentia. Hence, there are several instances of genuine couples applying for marriage license who discover, to their own bewilderment, that the bribe is already registered as married to a Nigerian whom she neither knew nor met. There are no official figures confirming whether or not fraudsters have been arrested in this regard.

• There is also the "CHAPS" frauds i.e. clearing housing automated payment system which involves the theft of confidential company information. According to security detectives, "the gangs are systematically stealing company mail from rubbish bins, post rooms and mail sorting offices in order to obtain some confidential information. The grand objective is to identify a company's account number, sort code and signatures. Armed with these, they can send a money transfer mandate to the bank manager requesting him to make a large payment to a number of offshore accounts (owned by the gang leader) which is immediately withdrawn.

• United States Postal Inspectors are busy intercepting scam letters on a weekly basis. According to Frank Umoski, United States Operations Manager at the JFK facility, eight out of ten bags of mail received from Nigeria contains fraudulent letters.

• In July, 1997, about 5 million letters were returned undelivered to Nigeria by a dozen nations, including US, UK, France, Germany etc, for fraudulent or non- existent franking (i.e. postmarking at place of origin). The Nigerian authorities confirmed that they examined the letters and found that most of them were scam mails.

• At a March 2000 burning in Lagos, officials of NIPOST said that out of 150 bags of scam letters, 77% of them were shipped back to Nigeria by the German government. However, subsequent investigations revealed that most of them were not actually posted in Nigeria but through Tanzania, Johannesburg, Cote d'Ivoire and Madrid, Spain.

• The Secret Service, which operates the Joint Task Force on West African Fraud, receives about 100 calls and 300 – 500 pieces of correspondence per day from potential victims and has established liaisons with the Departments of Justice and State and with the Government of Nigeria.

• Also according to the United States Secret Service, an estimated amount of US $5 billion has been stolen from victims throughout the world between 1989 and 2003. In fact, by 1997, the US Secret Service had accumulated a data base of up to 60,000 confirmed '419' phone numbers out of the approximately 400,000 phone lines connected in Nigeria as at that date.

(C) ARRESTS, PROSECUTION & INTERNATIONAL COOPERATION

It can never be over-emphasized that the level of success achieved so far in the global war against cyber crime has been made possible through international co-operation. In other words, fraudsters have nowhere to hide as there is an unmistakable understanding by the entire human race that the scourge should be fought with every available arsenal. The following are samples:

• An official of the U.S. Federal Bureau of Investigation (FBI) in charge of economic crimes, Mr. Gary

Dagan declared a few years ago that the scammers have given Nigeria a bad reputation. He also added what was obvious on a close scrutiny of scam mails: that most of the letters targeting victims have a similar format, usually insisting on confidentiality and preying on people's sense of greed or sympathy.

• Also, Mr. Jonathan Rusch, an official of the U.S Department of Justice revealed that e-mails sent out by '419' scammers from Nigeria increase by 900% within a short time and that the U.S has developed tools to investigate and prosecute the crime, including the use of statutes dealing with mails, wire, fax and phone fraud. In addition to the establishment of an office in Lagos for information sharing and trailing of criminals, the U.S

Amsterdam, Netherlands

http://www.nationalcapitals.net/wp-content/uploads/2011/12/amsterdam-netherlands-sssascasc.jpg

Justice Department also uses undercover operations to identify those behind these nefarious activities.

It is on record that through international cooperation, collaboration and sharing of intelligence, the following arrests and convictions were made possible in recent times.

1. Edna Fiedler, 44 of Olympia, Washington, on 25th June, 2008 pleaded guilty in a Tacoma Court and was sentenced to 2 years imprisonment and 5 years of probation in a $ 1million Nigerian internet cheque scam. She had conspired to commit bank, wire and mail fraud against U.S nationals through the internet and by having an accomplice ship to her, cloned cheques and money orders from Lagos, Nigeria. At the time of arrest, Fielder had already moved out $609,000 counterfeit cheques and money orders and was getting ready to send additional $1.1million worth of the same materials.

The Amsterdam Police, Netherlands, had in October 2006, launched Operation Apollo to combat Internet Scams run by West African nations, specifically Nigerians.

2. The U.S Postal Service recently intercepted counterfeit cheques, lottery tickets and over-payment transfer instruments with a face value of $2.1billion. Although investigation did not conclusively confirm its origin, but a major African country was strongly suspected.

3. Agents from Spain's technological investigation squad, in March, 2009, arrested 23 people who were accused of defrauding 150 people in both the United States and Europe. It was alleged that the suspects, many of whom were Nigerians, sent out 20,000 scam e-mails per day and were in possession of a list of e-mail addresses of 55,000 potential victims.

4. The Amsterdam Police, Netherlands, had in October 2006, launched Operation Apollo to combat Internet Scams run by West African nations, specifically Nigerians.

In the process, eighty suspects mostly from Nigeria were arrested and a long list of e-mail addresses and other cloned documents were also seized from their homes. Nine months later, 111 African nationals were arrested for being in the Nettherlands illegally. Although they were suspected to be on a fraudulent mission, a direct link with the e-mail scams was yet to be fully established.

5. Again in Amsterdam, in 2004, 52 suspects were apprehended after a comprehensive raid following a tip-off by an Internet Service Provider(ISP) that there was unusual increase in e-mail traffic. They were, however, subsequently released for lack of evidence.

6. Nick Marinellis of Sydney, Australia, was in November 2004, prosecuted and sentenced to 4 -5 years imprisonment for sending Nigerian scam mails. There was incontrovertible evidence to that effect.

(D) ADVANCE FEE FRAUD: THE NIGERIAN GOVERNMENT RESPONSE

(i) LETHARGY?

Expectedly, as a result of the nefarious activities of these unholy 'ambassadors', Nigeria and Nigerians have received tremendous bashing in the court of international community. Our very low ranking by Transparency International (TI) is well known and this creates the impression that it is actually corruption that breeds frauds and scams at all levels, including the pervasive poverty in the land of plenty. There are indications that advance fee fraud grosses hundreds of millions of dollars annually, and the losses are continuing to escalate to the extent that criminals are apparently better funded than the law enforcement agencies.

There was also the serious allegation of organic lethargy within the ranks of the security agencies, especially the Nigerian Police which has failed to check criminal activities in the country because corruption has been ingrained in many of its officers, such that they would not consider rendering a service without obtaining benefit for themselves. As the party continues, Nigerian criminal groups are actively involved in heroine distribution to the United States and Europe, cocaine smuggling and trafficking world- wide, banking, insurance, welfare entitlement, advance fee fraud, illegal immigration, counterfeit document fraud and money laundering.

Our very low ranking by Transparency International (TI) is well known and this creates the impression that it is actually corruption that breeds frauds and scams at all levels...

http://en.wikipedia.org/wiki/File:Transparency_International_Berlin.jpg

(ii) RENEWAL OF 'HOSTILITIES'

It is tempting to conclude that the government of Nigeria is not serious about tackling the problems of advance fee fraud or even that government officials are playing dubious roles in the drama. Well, in 2003, apparently in response to Nigeria's low rating by the global anti-corruption watchdog Transparency International (TI), coupled with the adverse international image and publicity, the federal government, through the then Vice-President, Atiku Abubakar, took up the gauntlet and announced to the whole world that it was '***renewing its war'*** against advance fee fraud, money laundering and trafficking in narcotics and humans.

In fairness to the Federal Government, the war was actually not new; it was only being reinvigorated in response to global outrage. The Advance Fee Fraud and Other Related Offences Decree of 1993 which prohibits any conduct carried out within and outside Nigeria, which resulted in any person or organization being defrauded, has been in existence. The Act has even been amended to provide that offenders can be tried in absentia, convicted and punished whenever they return to Nigeria. It also provides for severe penalties of up to10 years imprisonment without an option of fine.

But the big question remains: how many culprits were actually apprehended, prosecuted and convicted within Nigeria on account of this law.

It would seem that most of the Nigerians being arrested were outside Nigeria, courtesy of international cooperation and collaboration.

Why was this so? The *"Skeptics Journalist 1998"* provides the following answer "Authorities in Nigeria have been slow to take action and for many years, nothing was done. Nigeria has a reputation for criminals being able to avoid convictions through bribery and rumours abounded of official connivance in the scams".

http://thekalakutareport.files.wordpress.com/2011/11/scan0009.jpg

(iii) **PATTERN OF GOVERNMENT RESPONSE**

This time around, although the Nigerian Government blamed the growing problems on mass unemployment, extended family system, a-get- rich-quick syndrome and especially, the greed of foreigners. The following actions were swiftly taken.

• The Central Bank of Nigeria (CBN) absolved itself of any blame or responsibilities for the bogus and shady deals transacted with criminal intentions against those misguided foreign nationals who, in the quest to make easy money at the expense of Nigeria, are defrauded. It warned present and potential recipients of fraudulent letters and scam e-mails on bogus and non-existent deals, that there are no excess contract payments trapped in its vaults. The CBN vowed to henceforth penalize any bank that is found to have been instrumental to any successful advance fee fraud.

• Security agencies were mandated to invest in technological training for its investigative personnel in view of the predictable upsurge in computer -related offences, more so as the proliferation of cyber cafés in Lagos and other major cities has provided soft landing for digital fraudsters among Nigeria's teaming army of bright, young but unemployed graduates.

This time around, although the Nigerian Government blamed the growing problems on mass unemployment, extended family system, a-get-rich-quick syndrome and especially, the greed of foreigners, the following actions were swiftly taken.

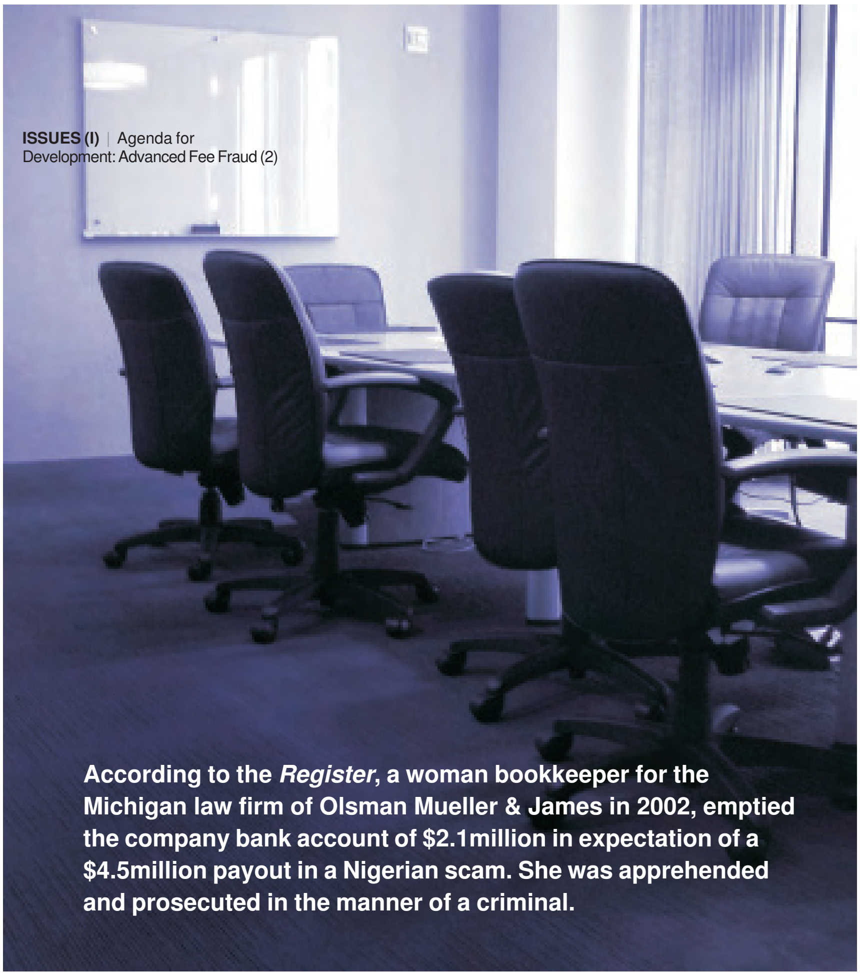
• As the vast majority of fraudulent communication was carried out through facilities hosted by private telephone operators, the National Assembly, the ministry of communication and the National Communications Commission (**NCC**) were prevailed upon to review existing regulations in this regard.

• Most importantly, in 2003, the Federal Government of Nigeria established the Economic and Financial Crimes Commission (EFCC) to prosecute the war on advance fee fraud and other financial crimes. Surely, this marked a turning point as a couple of success stories, including large scale convictions and recoveries started making the airwaves in Nigeria.

• In October, 2009, the Federal Government of Nigeria launched "Operation Eagle Claw", a joint effort with Microsoft to uproot Nigerian '419' Scammers. In the process, security agencies were able to shut down 800 scam websites and many more fraudulent outlets. Even the cyber-cafés were no longer safe for the fraudsters as law enforcement agencies and EFCC operatives were let loose on them.

Comment

These were commendable initiatives on the part of government, but, as usual, the Nigerian spirit has triumphed. Con artists are aware that tough times do



According to the *Register*, a woman bookkeeper for the Michigan law firm of Olsman Mueller & James in 2002, emptied the company bank account of $2.1million in expectation of a $4.5million payout in a Nigerian scam. She was apprehended and prosecuted in the manner of a criminal.

not last, only tough people do. They went underground, temporarily, but have since resurfaced to re-engineer their lucrative business. Apparently, they were also aware that the onslaught would not be sustained as that is not in our character.

(E) ADVANCE FEE FRAUD: VICTIMS AS CRIMINALS

On the face of it, it is inconceivable how a victim of an advance fee fraud who ordinarily should deserve sympathy, could graduate to the level of being labeled a criminal. Well, this has to do with how the victim sourced the fund to pay the advance fees. If the money does not belong to him, then he must have stolen or borrowed what he could not repay. Either way, a crime has been committed. Other crimes include: credit card fraud, cheque kitting and embezzlement.

Examples of victims-turned criminals are as follows:

• According to the *Register*, a woman bookkeeper for the Michigan law firm of Olsman Mueller & James in 2002, emptied the company bank account of $2.1million in expectation of a $4.5million payout in a Nigerian scam. She was apprehended and prosecuted in the manner of a criminal.

• In a case dubbed the *Perfect Mark* in a headline by the New Yorker, John W. Worley, a Massachussets psychotherapist, fell for a Nigerian scam and was convicted for taking money under false pretences.

• George Weiner, a German businessman was sentenced to four years in jail for fraud in 2008. He had promised to save the handball club *Tusem Essen* from financial crisis with the non-existent fund that turned out to be an advance fee fraud. Apart from his lost personal money, Weiner also caused the club manager to pay his hard earned $31,000 to the scammers. When the fictitious money did not come, the club was relegated to the third division and also lost its license.

• Also, according to the *Register*, Robert Andrew Street, a Melbourne-based financial adviser stripped his clients over AU $1million which he advanced to the con artists in the hope of getting US $65million payout. *Although he was a victim, he was subsequently investigated and prosecuted in his own capacity as a con man.*

• According to the office of the Attorney-General in Michigan, Former Alcona County (Michigan) Treasurer, Thomas A. Katona was sentenced to 9 – 14 years in a Nigerian scam case for his embezzlement of more than U.S $1.2 million in county funds which he needed to enable him pay an advance fee. This amount was about 25% of the county's budget for 2006.

• *The Informants* (by Kurt Eichenwald) has it that one Mark Mhitacre defrauded Archer Daniels Midland (ADM), a food products manufacturer for which he was president and embezzled US $9 million while also acting as informant for the FBI in a price fixing deal that ADM was involved in. His illegal efforts in trying to raise funds to pay for a windfall organized by a Nigerian scam syndicate cost him his immunity in the scandal.

(F) LEGISLATION AND OTHER FRAUD-RELATED OFFENCES

There are elaborate provisions in the ***Advance Fee Fraud And Other Related Offences Act (2005)*** for offences related to *Advance Fee Fraud,* though with lesser penalties on conviction, in respect of the following:

- Production of currency note by washing
- Money doubling
- Unauthorized printing of naira notes
- Use of premises for fraudulent purposes
- Receipt of fraudulent documents by victim to constitute attempted fraud.
- Possession of fraudulent letter to constitute attempted fraud.

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

http://www1.usaid.gov/stories/images/ss_nga_rice_b.jpg

Agric Transformation: Tackling Nigeria's Food Import Dependency

* By Oluwaseun E. Olaoye

"The majority of parents in Nigeria (58%) say that their children complain about not having enough food to eat". This is one of the highlights of the results from a survey conducted by "Save the Children", an international NGO in December 2011. Millions of Nigerians have for decades struggled with the challenge of food insecurity; but recent policy thrusts from the Nigerian government show a strong resolve to reverse the very unpleasant trend.

In the 1950s and 1960s, Nigeria was self sufficient in food production and was indeed a net exporter of food to other countries especially within the African continent. Things changed dramatically for the worse following the global economic crisis that hit developing countries beginning from the late 1970s. The agricultural sector suffered neglect especially following the advent of crude oil exploration in Nigeria. Massive influx of the petro-dollar became a 'disincentive' for investment in large scale, commercialised farming which before the discovery of oil was the country's economic mainstay.

But more than 60 percent of Nigeria's working population still depends on agriculture, albeit, low scale, which contributes about 40 percent of GDP and 60 percent of non-oil exports. Before now, Nigeria was a major exporter of cocoa, groundnuts, cotton, palm oil, palm kernel and rubber. In recent times, both the volume and the range of agricultural imports have declined sharply. Today, Nigeria no longer produces sufficient food for the country's large and rapidly growing population. Import dependency has become the order of the day with billions of Naira leaving the country's coffers daily for this purpose.

Nigeria is ranked 11th in the world in terms of arable land but ranked 116th out of 138 farming nations owing to over dependence on crude oil and rising revenue from the country's petroleum sector.

Today, the country cannot meet the patterns of its domestic food demand as a result of the neglect of agriculture. Nigeria continues to import staple food to meet the demand of its growing population. In 2011, the country imported about 3 million metric tonnes of rice valued at N468bn (about 20% of Sub-Saharan Africa's total rice imports); and over N600bn of wheat to the detriment of its domestic agricultural development and food security strategy. Nigeria today is ranked as the world's second largest importer of rice, after the Philippines.

Nigeria's attempts to boost domestic rice production have not always been successful. In 2003, the government launched an ambitious programme to raise local rice production to 6mn tonnes by the end of 2007. However, it failed to achieve the target, a failure attributed to frequent changes in agricultural policies. The dependence on imported foods has hampered the productivity level of the local farmer; displacing local production and creating rising unemployment. Nigeria's food imports now grow at an unsustainable rate of about 11 per cent annually.

Constraints to Nigeria's Agriculture Growth and Development

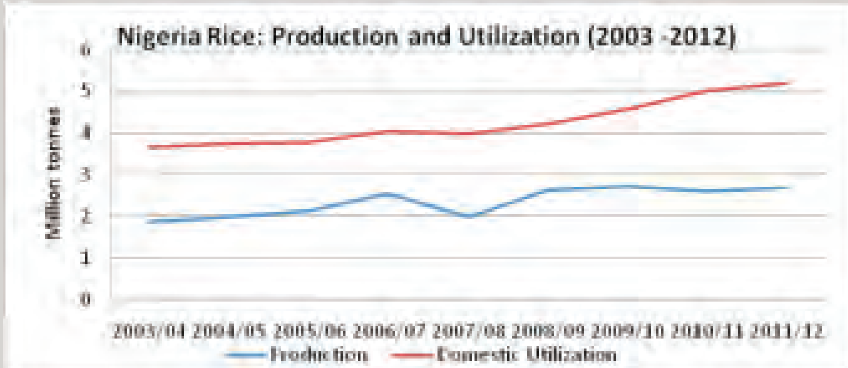
At the Second Ordinary Assembly of the African Union in Maputo (Mozambique) on 2nd July 2003, African Heads of State and Government endorsed the "Maputo Declaration on Agriculture and Food Security in Africa" (Assembly/AU/Decl. 7(II)). The Declaration contained several important decisions regarding agriculture, but prominent among them was the "Commitment to the allocation of at least 10 percent of national budgetary resources to agriculture and rural development policy implementation within five years". Meanwhile, nine years on, just eight countries in the continent, excluding Nigeria have fulfilled this promise.

Although agriculture contribute about 40 percent to the Nigeria's GDP, provides employment and a means of livelihood for more than 60 percent of the productively engaged population, the sector received only 3 percent and 1.66 percent of budgetary allocation in 2011 and 2012 respectively. Also, only about 5 percent of Nigerian farmers have access to modern seeds, while the nation uses 13 kilogrammes (Kg) of fertiliser per hectare, as against the global average of 100Kg per hectare or 400Kg per hect-

NIGERIA - Rice, Milled equivalent at a glance (Million tonnes)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Production	1.750	1.870	2.000	2.140	2.540	2.000	2.630	2.730	2.610	2.700
Domestic Availability	4.660	4.670	4.370	4.410	4.650	4.420	4.800	5.060	5.500	5.680
Domestic Utilization	3.300	3.670	3.750	3.800	4.040	4.000	4.220	4.580	5.030	5.200
Exports (NMY)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Imports (NMY)	1.440	1.360	1.770	1.600	1.550	1.800	2.000	2.000	2.550	2.450

Source: AMIS (Agricultural Market Information System)



Source: AMIS

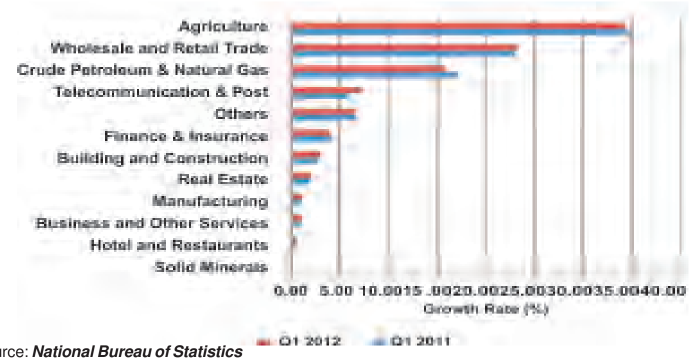
Source: National Bureau of Statistics (NBS) are in China. National farm yield has also dropped to an all-time low of one tonne per hectare as against the global average of five tonnes; while the storage system has practically broken down to the chagrin of the toiling farmers and the nation's economy.

Only a meagre percent of bank loans go to agriculture, yet, this is a sector that employs about 60 per cent of the population. Under-funding in this regard is central to the problem of food production and food insecurity in the country. The loss of food sovereignty and dependence on importation makes the country susceptible to fluctuations in the global food market. For instance, agriculture output grew at its weakest rate in seven years in Q1-2012, increasing by only 4.15 percent year-on-year.

The connections among dwindling food production capacity, rising food prices, and dependency on food importation are nowhere more clearly demonstrated in recent times than in the Sahel food crisis, which also affects many of the 11 northern states of Nigeria situated in the Sahel belt. According to the National Emergencies Management Agency (NEMA), about 30 percent of the population (about 15 million people) in the northern region are food insecure. Other research findings also establish a strong correlation between hunger and the rising trends in poverty in Nigeria. Furthermore, poverty and hunger are perpetual urban phenomena, largely due to rapidly shrinking employment opportunities and high costs of living. Compounding the problem is the years of inconsistencies in government's policy formulation and implementation strategies.

Another factor contributing to Nigeria's growing dependence on food imports has been the preference among middle-class Nigerians for imported agricultural produce. For instance, rice from Thailand and India is often perceived to be of superior quality when compared with domestically produced rice. Though the government applies import levies as a way of countering this

Sectoral Contribution to Nigeria's GDP (%): Q1 2011 and Q1 2012



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

2011 and Q1 2012 Real Gross Domestic Product (Constant 1990): Sectoral Contribution (%)

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Total	Q1 2012
Agriculture	35.14	41.59	43.64	39.49	40.21	34.47
Solid Mineral	0.3	0.38	0.4	0.34	0.36	0.32
Crude Oil & Natural Gases	17.18	14.84	14.27	13.54	14.78	15.8
Manufacturing	1.13	3.91	3.51	7.07	4.16	1.12
Telecommunication & Post	5.83	5.96	5.46	5.67	5.71	7.29
Finance & Insurance	4.17	4.04	2.98	2.92	3.45	4.07
Wholesale and Retail Trade	22.92	16.75	18.29	19.87	19.36	23.39
Building and Construction	2.82	2.09	1.61	1.99	2.08	3.01
Hotel and Restaurants	0.66	0.53	0.5	0.45	0.52	0.63
Real Estate	1.97	1.94	1.67	1.64	1.78	2.03
Business and Other Services	1.05	1.07	0.82	0.81	0.92	1.07
Others	6.83	6.91	6.84	6.22	6.67	6.74

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

problem, preference for, and incidences of high importation of food staples remain.

Other major challenges include low productivity, low level private sector investment, lack of competitiveness, shortage of skilled manpower, low investment in research and development, poor development of value chain and storage, low value addition, poor regulatory environment, poor quality of agricultural products, poor state of physical infrastructure, policy instability and inconsistency, low level of technology, paucity and poor flow of information.

http://news.msu.edu/media/photo/2009/10/4d2826d3-37e9-4041-8f5e-6c427ced9277.jpg

Recent Measures to bridge Food Demand/ Supply Gaps

The Transformation Agenda of President Goodluck Jonathan which draws inspiration from the country's Vision 20:2020 places agriculture as its main pillar. Beyond food sufficiency, "the agricultural transformation plan is designed to industrialise the agricultural sector so that it becomes a business that can create jobs, export earnings and prosperity", according to the country's Minister for Agriculture, Dr Akinwumi Adesina. Some of the key objectives of the initiative are to significantly reduce food imports especially rice and wheat, to add 20 million metric ton of food to domestic supply, boost export earnings from agricultural produce and create 3.5 million jobs in the sector. The Transformation Agenda envisages a Gross Domestic Product (GDP) growth rate of 11.7% translating to N428.6billion and N73.2 trillion for real and nominal GDP respectively; and in all of this, agriculture is projected to play a pivotal role.

Similarly, the National Economic Management Team set up by the President had also identified and selected Agriculture as its main beacon for employment generation and poverty reduction and had accordingly through the Federal Ministry of Agriculture articulated a programme for implementation called the Agriculture Transformation Agenda (ATA). Through this initiative, agriculture is expected to contribute about 36% of the expected GDP growth rate going forward. Consequently, budgets 2013 – 2015 are expected to reflect this growing importance placed on agricultural development.

According to the Transformation Agenda, policies and objectives for developing the Agriculture sector include:

- Secure food and feed needs of the nation
- Enhance generation of national and social wealth through greater export and import substitution
- Enhance capacity for value addition leading to industrialization and employment opportunity
- Efficient exploitation and utilization of available agricultural resources
- Enhance development and dissemination of appropriate and efficient technology for rapid adoption
- Self-sufficiency in rice production
- Self-sufficiency in fertilizer production

The policies are built on on-going development programmes in the sector such as Special Programme for Food Security, FADAMA II Programme, Fertilizer Revolving Fund, Presidential Initiative on Cassava, Rice, Vegetable Oil, Tree Crops and Livestock, as well as many other existing initiatives. Worthy of note is that the new Transformation Agenda is designed to leverage on existing agricultural policies in the spirit of continuity in government programmes.

As part of ongoing reforms, the government has increased both the levy and duty on wheat and rice, effective July 1st 2012 and imposed a 100% import duty on wheat flour; 20% on wheat grain, 30% on husked brown rice and 50% on polished rice. Other fiscal policy measures to be implemented at various times during the year 2012 include zero duty on agricultural machinery and equipment; zero duty on power sector equipment and machinery; prohibition of cassava flour importation and zero duty on cassava flour processing equipment.

The rationale behind these policy moves is to expand domestic production of the staples, which would serve to generate employment, while the extra levy is intended to put further strain on the importation of the commodities and protect the local producers. While the current trade policy reforms are designed to allow for a certain level of protection of the agriculture sector, it nonetheless has to be measured

Increased Duty for Imported Product

Food Items	Initial Import Duty	New levy	Total Import Duty
Wheat Flour	35%	65%	100%
Wheat Grain	5%	15%	20%
Brown Rice	5%	25%	30%
Imported Polished Rice	10%	40%	50%

Source: Budget Office (Nigeria)

Agriculture Transformation Agenda (ATA): Key Programmes and Projects

Sub-sector	Transformation Agenda
Livestock	▪ Intensification and diversification of research in livestock ▪ Breeding to ensure availability of improved seed stock ▪ Dairy development ▪ Grazing reserve development ▪ Ensuring improved animal public health ▪ Pest Control Services ▪ Development of the value chain ▪ Overall quality control
Crops	▪ Implementation of agriculture cadastre programme in 36 states and FCT ▪ Clearing of 240,000 hectares of land in collaboration with 36 states and FCT ▪ Production of 62500 Metric Tons (MT) of Certified Seeds ▪ Production of 275 MT breeders ▪ Production of 508 MT Foundation Seed ▪ Establishment of agricultural seed centres across the 36 states & FCT ▪ Silos Construction and Completion ▪ Implementing Community Warehousing programmes aimed at achieving 700,000 MT to store excess farm harvests. ▪ Generation and rehabilitation of Old Cocoa and Oil Palm Plantations ▪ Value chain development for diverse crops
Fisheries	▪ Establishment of 120 fish farm estates across the geo-political zones ▪ Construction of ornamental fish development centres ▪ Fish seed and feed certification and standardization ▪ Shrimps farm development ▪ Establishment of feed mills ▪ Increasing local fish seed production from 5 million to 4 billion annually.
Research/ Development	▪ Strengthening the Agricultural Research Council of Nigeria ▪ Establishment of additional research institute

against the World Trade Organization (WTO) and Common External Tariff (CET) arrangements; and also the tenets of a consistent, transparent, certain and predictable policy.

The theory of comparative advantage, according to David Ricardo, argues in favour of free trade among countries as long as each country focuses on the activities where it has a relative productivity advantage. Some economists argue that tariffs and import quotas reduce general economic welfare, while others argue in its favour. Critics argue that productivity and growth rates of industrialized economies have been halved during the years of liberalized global commerce, compared with the period when trade was more regulated.

These policy moves may seem protectionist but the government has limited options in the short-run to correct the current anomaly. These protectionist policies will also help the government generate savings and increase its revenues from domestic taxes. The downside of these policy actions is the risk of increased smuggling activities as the demand outstrips supply in the short-run and the cost of importing these products increases due to the levy hike ultimately affecting supply. In addition, a porous border and lack of adequate monitoring could further fuel the importation of these affected items.

At the states and local government levels, several agricultural initiatives are also ongoing. Delta State for example, has in efforts to boost agricultural productivity and enhance food availability in the state introduced the **Delta State Task Force on Communal Farming (Tfcf); Youth Empowerment through Agriculture (Yeta) Programme; Farmers Support Programme, among others.**

Ekiti State this year launched the Youth Commercial Agriculture Development (YCAD) programme aimed at repositioning the state as the food basket of the South-West and creating employment for at least 20,000 youths in the sector. The state is also partnering with local banks to provide credit facilities to farmers in order to boost food production and create wealth.

Benue State has also taken steps to improve its agriculture, a sector that has been its traditional economic mainstay earning it the nickname of 'the food basket of the nation'. Some of the State's recent initiatives include encouraging the setting up of farmers' co-operatives to enhance easy access to bank loans, agricultural machinery, chemicals and consultancy services from experts. Aside from the provision of improved seedlings and livestock breeds to farmers, the state government has also made efforts to open up access roads to rural areas to ease movements of farmers and their produce. The setting up of the Taraku Mills Limited and Agro-millers has helped to ensure that farmers get improved returns on their commodities. The state has also set up the Commodities Exchange Board and the Benue Tractor Hiring Agency (BENTHA), all in efforts to boost farming output, alleviate poverty and create more jobs in the sector.

Recently, the Kwara State government launched the Kwara Agriculture Master plan (Policy; KAMP). The five year plan maps out a phased implementation of a highly productive and sustainable agriculture programme with emphasis on increasing output and enhancing the profitability of large, medium and small scale farmers. The plan is also targeted at developing human and institutional capacity, improving food security and creating job opportunities.

The Central Bank of Nigeria in collaboration with the Federal Ministry of Agriculture has also launched several agricultural development initiatives in recent times, much of which are targeted at providing public sector funding and credit guarantees to diverse categories of farmers. The apex bank has also launched initiatives that encourage commercial banks to in-

http://www.thesolutionsjournal.com/sites/default/files/Fea_Binswanger_Figure2.jpg crease loans advances to farmers. Some of such initiatives include the Commercial Agriculture Credit Scheme (CACS) launched in 2009 to provide finance for the country's agricultural value chain (production, processing, storage and marketing). Others include the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending [NIRSAL].

While these policies and objectives are laudable, their effectiveness will however depend amongst other factors on commitment and political will, resource allocation, implementation and management. These are pertinent concerns given Nigeria's antecedents in the implementation of policies and programmes. Prominent among the possible threats that could hinder the realization of these laudable policy objectives include low agricultural productivity, continued reliance on rudimentary tools and cultural practices, weak linkage to agro-industrial sector and inadequate funding.

Agricultural Market Price Risks Control: Option to Harness Nigeria's Import Potential

For many agricultural producers, prices of their commodities are often times unpredictable and uncertain, resulting in less-than-optimal production and investment decisions. The reasons for the high volatility in the agricultural commodities market are not far-fetched. First, agricultural output varies from period to period, highly dependent on the influences of natural forces such as weather conditions and pests. Second, demand elasticity is relatively small with respect to price; and supply elasticity is low, at least in the short run. In order to get supply and demand back into balance after a supply shock, prices have to vary rather strongly, especially if stocks are low.

Third, because production takes considerable time in agriculture, supply cannot respond much to price changes in the short term, though it can do so much more once the production cycle is completed. The resulting lagged supply response to price changes can cause cyclical adjustments that add an extra degree of variability to the markets concerned. Also, business cycle fluctuations in the demand for agricultural non-food commodities, from rapidly growing emerging economies also contribute to increased volatility. This volatility also attracts speculators to the commodities markets who hope to benefit from favourable price movements.

With the introduction of agricultural commodity derivatives policy, however, farmers and other market participants can 'hedge' against these uncertainties by locking in the price of their produce today for delivery at an agreed future date, thus making it easier for them to plan ahead with more ease, and of course with less uncertainty. This way, continuity in production is ensured, and this helps to attract more farmers into products that are traded via derivatives.

Derivatives are instruments whose values are derived from the value of an underlying asset, reference rate or index, and they exist as both exchange-traded and privately traded contracts. As with any Exchange, the agricultural derivatives market recognises the importance of adding value to those who either participate directly or who refer to the market as a benchmark for

pricing. For example, the Johannesburg Stock Exchange's Agricultural Products Market is used by the cash market in South Africa to determine the fair value of grains. Hence, as derivatives transactions in the agricultural sector in Nigeria gain traction through the planned resuscitation of the Abuja Commodities Exchange, it is expected that the Exchange will take a cue from the South Africa's largely successful model hinged on transparency and strong regulatory and legal framework.

Way Forward

Numerous studies have shown that investing in agriculture is twice as effective in reducing poverty as investing in other sectors because it offers a pathway to food security, economic well-being and social stability for millions of people. In Nigeria, where about 60 percent of the working population is employed in agriculture, developing the agricultural sector takes on a special significance. But development cannot be imposed from outside; it can only succeed when it is driven by the country itself and implemented by its citizens.

Nigeria's agricultural sector must be transformed into a business that works for small and commercial farmers; unlocks the wealth and allows the nation to diversify its income and meet the growing food demand of the country's population. The National Agency for Small Scale Agriculture Development [NASSAD] must endeavour to develop and harmonize its agricultural policies with other agencies active in promoting food production in the country. The body must strengthen its capacity to participate in trade negotiations, meet market access requirements for world trade and build strategic alliances to expand domestic and foreign direct investments in agriculture.

The growth in the agricultural sector can also be accelerated by increasing the market access through improved rural infrastructure, trade-related interventions and by raising the capacities of private entrepreneurs (including commercial and small-holder farmers) to meet the increasingly complex quality and logistic requirements of markets. There is also the need for the creation of a regulatory and policy framework to facilitate the emergence of regional economic spaces that will spur the expansion of regional trade and cross-country investments. There is need for targeted interventions to increase efficiency and profitability along the value-added chains of key agricultural commodities, namely: cotton, cocoa, cassava, oil-palm, maize, soyabean, onion, rice, livestock, fisheries, tomato and sorghum.

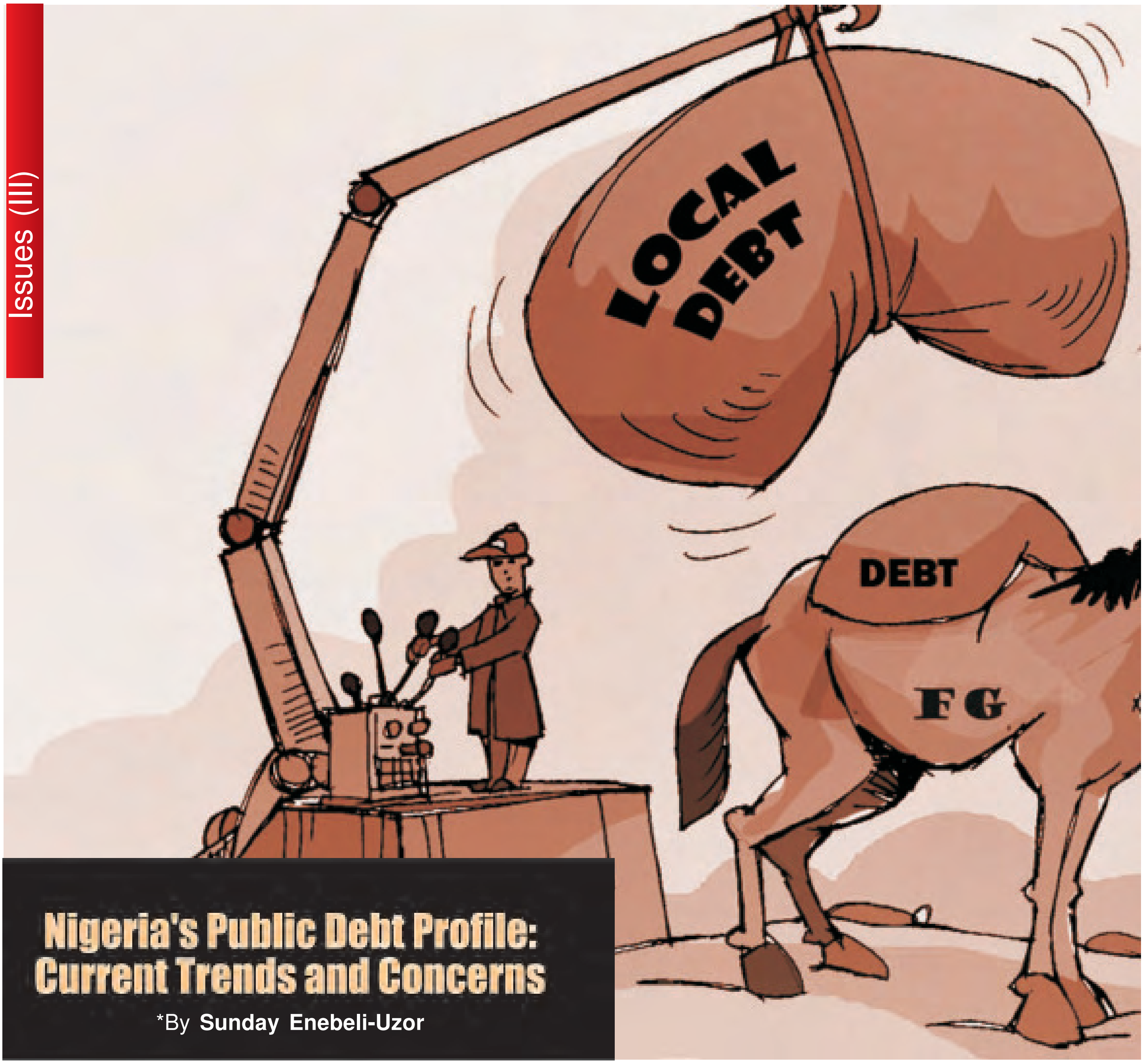
While efforts to develop the agricultural sector has gathered momentum in recent years, especially through increased funding and other measures, it is also important that the government invests sufficiently in agro-related, science and technology based research. But it is equally important that researchers look beyond the laboratory. Scientists must understand the environment where their discoveries will be used, and the needs of the people who live there. Equally important, Nigeria should not rely exclusively on research work embarked on in developed countries in efforts to address pertinent issues in its economy. No one is in a better position than Nigerians themselves to understand the peculiarities in the condition of the Nigerian environment.

More research in science and technology will need to be directed towards climate change adaptation and mitigation. Poor rural people are often the most vulnerable to the effects of climate change. Many live on ecologically fragile land and yet depend solely on agriculture, livestock, fisheries and forestry. Climate change is already having an impact on agriculture in many parts of the African continent, leading to crop failures, livestock deaths and higher economic losses. Agricultural research can ensure that the smallholder, the fisherman, the pastoralist, the forest dweller and the herder have the means to adapt to climate change. Research should ensure that poor rural people, whose lives and livelihoods depend on the earth's productive capacity, have the means to produce more, and more efficiently too.

Researchers must develop innovative and climate-resilient solutions, such as seeds that are more tolerant to drought or to floods, and make sure they are available to resource-poor farmers. It is not always the most advanced technology that reaps the greatest rewards. Sometimes, the best way to grow food is to go back to the basics, building a rock dam to stabilize soil and collect water runoff, or constructing cisterns to collect rain water. This is particularly true in dry land areas, where soils are inherently poor.

Not only does investment in rural development contribute to food security, it can also help stem the flood of immigrants to cities and provide career opportunities for young people in the rural areas. Young people are the life-blood of their communities; and when they are forced to leave their homes in search of jobs their villages are left to decay while they constitute a big strain to their destination cities. But when they can make a good living at home, their energy and creativity can be channeled into reviving their local communities. Vibrant rural areas can also ensure a dynamic flow of economic benefits between rural and urban areas so that nations have balanced, deep-rooted and sustained development. Therefore, it is imperative to create vibrant rural economies that offer attractive opportunities for the young.

(* Seun E. Olaoye is an Analyst, Zenith Economic Quarterly)



Nigeria's Public Debt Profile: Current Trends and Concerns

*By **Sunday Enebeli-Uzor**

Owing apparently to the ongoing sovereign-debt crisis in Europe, there is now growing unease about Nigeria's rising public debt profile totalling ₦7.09trillion as at end June 2012. The consternation is quite understandable considering Nigeria's experience with sovereign-debt and the fact that the country exited a debt debacle less than a decade ago with much euphoria. The probable adverse consequences of external debt servicing obligations, the crowding out effect of government borrowing on the economy, the inflationary pressures that are concomitant with excessive domestic borrowing, debt illusion, and generational inequity of debt burden are some of the major cause for concern at this point.

Proponents of government borrowing however believe that domestic borrowing is healthy for the economy as government debt provides a benchmark for the issuance of private sector securitised debt such as corporate bonds. The ongoing debt debacle in Europe in the aftermath of the global economic crisis has reinvigorated the recurring debate on the economic effects of government debt on the

economy, the permissible level of public debt, and risks to debt sustainability in Nigeria.

Countries ordinarily borrow to fund critical infrastructural projects to accelerate economic growth especially when domestic financial resources are scant and need to be augmented. Governments may also borrow to run expansionary fiscal policies with the goal of stimulating economic activities, spurring economic growth, and reducing unemployment. Conventional economic theory proposes that reasonable levels of borrowing promote economic growth through factor accumulation and productivity growth under certain circumstances. Proponents of this view believe that government borrowing can help stimulate the economy during a downturn or fund long-term investment projects that increase economic output in the future. Borrowing is also seen as the quickest way for government to meet huge expenditure outlay whether recurrent or capital. Resorting to borrowing is also perceived as a second-best alternative to money creation to finance government activities. The alluring justifications for borrowing notwithstanding, the caveat however is that government must be prudent in the utilisation of funds from debt instruments.

Sovereign debt comes at a cost to the economy because debt is a contract, and the holder is obliged to fulfill the stated obligations along with accruing interest. Excessive debt dampens economic growth by encumbering investment and productivity growth. Arguments against government's rising domestic debt in Nigeria essentially revolve around the crowding out effect of government borrowing on the economy. There is anxiety that government's continuous dominant role in the domestic debt market is crowding out private sector investment as the government is competing with the private sector for private savings. This argument is somewhat supported by economic empirics. Adherents of this view believe that government's participation in the domestic debt market should be minimal because extensive domestic borrowing could have severe implications on the economy.

External debt requires servicing and a huge debt profile involves enormous foreign exchange to meet debt servicing obligations. This depletes a country's foreign exchange reserves and increases the risk of default while also exposing the economy to external vagaries. When a country's risk of default is high, its creditworthiness is eroded and ultimately the country's credit rating goes down. Low credit rating increases the cost of borrowing for the government and businesses thus reducing access to external sources of capital for businesses. Aside from the quantifiable impacts of a poor credit rating, the perception of a country as a high risk investment destination is a serious disincentive to foreign investors. At the extreme, excessive debt could lead to austere economic measures with attendant political instability as has recently been witnessed in some European countries.

Composition of Nigeria's Public Debt

According to the Debt Management Office (DMO), Nigeria's sovereign debt stock as at June 30, 2012 was ₦7.09trillion ($45.49billion), comprising ₦6.15trillion ($39.46billion) domestic debt and ₦941.20billion ($6.04billion) external debt. Details of the external debt stock show that multilat-

Nigeria's Domestic Debt Stock by Instruments as at 31st March, 2012 (Amounts in Naira)

INSTRUMENT	AMOUNT	%
FEDERAL GOVERNMENT BONDS	3,714,553,859,000.00	60.37
NIGERIAN TREASURY BILLS	2,084,590,382,000.00	33.88
TREASURY BONDS	353,730,500,000.00	5.75
TOTAL	6,152,874,741,000.00	100.00

Source: Debt Management Office (DMO)

eral financial institutions account for 82.02 percent of the country's total debt profile with the International Development Association (IDA), a member of the World Bank Group, accounting for $4.33million. Another member of the World Bank Group, the International Fund for Agricultural Development (IFAD), is owed $77.58million. The external debt stock also consists of $41.40mullion owed the African Development Bank (AfDB), while the African Development Fund (ADF) is owed $385.57million. The country also owes the European Development Fund (EDF) $102.24million while $14.52million is owed the Islamic Development Bank (IDB). Nigeria also owes the Arab Bank for Economic Development in Africa (ABEDA) $1.02million.

Non-Paris Club debt represents 9.69 percent of the external debt stock, comprising bilateral loans of $507.76million, and commercial loans totalling $77.24million. Nigeria's $500million Eurobond from the International Capital Market accounts for 8.28 percent of the external debt stock. According to the DMO, Federal Government of Nigeria (FGN) bonds stood at ₦3.71trillion (60.37 percent of domestic debt) as at June 30 2012. Nigerian Treasury Bills is valued at ₦2.08trillion or 33.88 percent, while Treasury Bonds account for ₦353.73billion or 5.75 percent. Nigeria's public debt is disproportionately skewed – 87 percent is domestic debt, while external debt makes up the remaining 13 percent. The country's budget deficit and the need to fund the budget have necessitated issuance of domestic debt instruments with attendant huge debt servicing obligations. For instance, the 2012 Appropriation Act set aside ₦560billion (11.7 percent of total budget) for debt servicing while providing for a deficit of ₦1.11trillion.

Non-Paris Club debt represents 9.69 percent of the external debt stock, comprising bilateral loans of $507.76million, and commercial loans totalling $77.24million.

Nigeria's External Debt Stock as at 30th June, 2012 in millions of USD

Category	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage 5
MULTILATERAL					
World Bank Group					
IDA	4,328.34	0.00	0.00	4,328.34	
IFAD	77.58	0.00	0.00	77.58	
African Development Bank Group					
ADB	41.40	0.00	0.00	41.40	
ADF	385.57	0.00	0.00	385.57	
ABEDA	1.02	0.00	0.00	1.02	
EDF	102.24	0.00	0.00	102.24	
IDB	14.52	0.00	0.00	14.52	
SUB-TOTAL	4,950.66	-	-	4,950.66	82.02%
NON - PARIS					
BILATERAL	507.76	0.00	0.00	507.76	
COMMERCIAL	77.24	0.00	0.00	77.24	
SUB TOTAL	585.00			585.00	9.69%
ICM					
EURO-BOND	500.00	0.00	0.00	500.00	8.28%
GRAND TOTAL	6,035.66	0.00	0.00	6,035.66	100.00%

Source: Debt Management Office (DMO)

States' Debt Profile

The combined external debt profile of the 36 States and the Federal Capital Territory (FCT) as at June 30, 2012 was $2.21billion, representing 36.70 percent of the country's external debt. Lagos ranks top as the most indebted state with $517.68million representing 8.58 percent of the country's external debt. Kaduna and Cross River states rank second and third with $197.16million (3.27 percent) and $109.36million (1.81 percent) respectively. Ogun and Oyo complete the top five most indebted states with $96.29million (1.60 percent) and $78.88million (1.31 percent) respectively. Borno is the least indebted state in the country with $12.73million representing 0.21 percent of the country's external debt. Delta and Plateau are the second and third least indebted states with $15.78million (0.26 percent) and $20.19million (0.33 percent) respectively. The domestic debt positions of the 36 states and the Federal Capital Territory (FCT) is due to be released in the fourth quarter of the year after the reconstruction of states' debt profile.

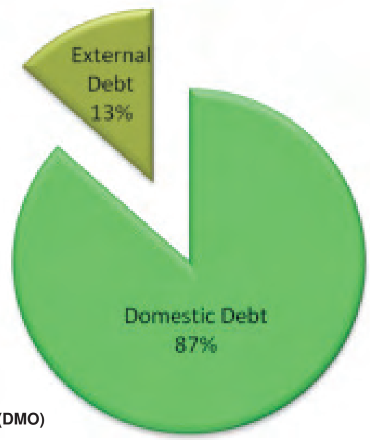
Nigeria's Debt Sustainability Analysis

The country's rising debt profile notwithstanding, the Debt Management Office (DMO) has persistently insisted that the nation's total public debt is still within the sustainability threshold and that Nigeria is one of the least indebted countries among comparator countries. In its recent annual Debt Sustainability Analysis (DSA), the DMO says that Nigeria's total debt stock/Gross Domestic product (GDP) ratio stands at 17.45 percent, well below the international standard threshold of 40 percent for Nigeria's peer group, and still below the self-imposed conservative threshold of 25 percent. The DSA report shows that the overall result indicates that Nigeria's debt outlook remains robust and the country is at a low risk of debt distress. The report says that under the baseline scenario, the country's total public debts remain sustainable, as all the available debt burden indicators based on the International Monetary Fund/World Bank Debt Sustainability Framework (DSF), fell below the recommended international thresholds. The DSA employs macroeconomic indicators and debt data to assess the country's debt sustainability in relation to global thresholds.

In a simulated pessimistic scenario, the analysis proceeds from the premise that the fiscal position of the government will be weak. In the absence of an appropriate fiscal policy response to a prolonged oil price shock, government spending is expected to deplete the foreign reserves. As a result, the country's public debt-to-GDP ratio will be 17 percent and 9.9 percent in 2012 and 2013, respectively and thereafter, drop to 0.9 percent in 2030. The total debt service-to-revenue ratio is estimated to fluctuate substantially to 32.9 percent by 2021, and then drop steadily by more than half to 14.5 percent up to 2030. The breaching of the 30 percent global benchmark in the early years of the projection period is due to the current account deficit occasioned by the impact of low oil prices on federal revenue coupled with the delay in developing other sources of revenue. These notwithstanding, the outcome of the pessimistic scenario shows that Nigeria's debt profile remains sustainable.

In the simulated optimistic scenario, the Debt Sustainability Analysis (DSA) shows that Nigeria could borrow up to $9.5billion in 2012 and still remain within sustainable limits. The DMO based its argument on the premise that a debt stock of $57.4billion would amount to 20 percent of projected nominal GDP of $277billion in 2012. At this level, Nigeria's debt will be five percent below the Country-Specific Debt/GDP threshold of 25 percent set for 2010 to 2014, and below the global threshold of 40 percent of GDP. The ambitious simulations where however based on certain assumptions which include high and steady oil price; robust GDP growth rate; single digit inflation rate; and low budget deficit. The module of Country-Specific threshold versus available borrowing space yielded a more realistic borrowing estimate of $2.25billion in 2012.

Structure of Nigeria's Public Debt



Source: Debt Management Office (DMO)

Nigeria's Public Debt Stock as at 30 June, 2012

Debt Category	Amount Outstanding in USD	Amount Outstanding in NGN
External Debt Stock	6,035.66	941,200.82
Domestic Debt Stock	39,456.68	6,152,874.74
Total	45,492.34	7,094,075.56

Source: Debt Management Office (DMO)

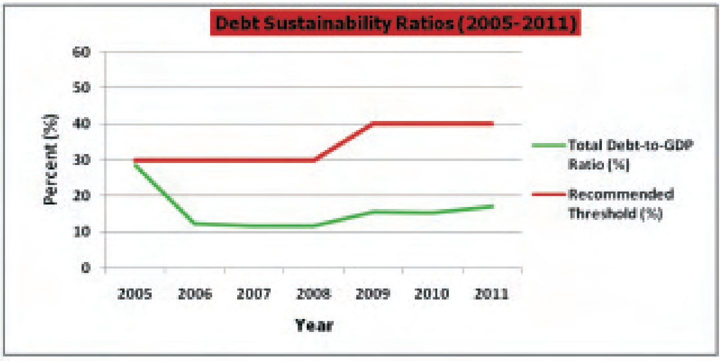
Wither the Fiscal Responsibility Act?

In a bid to forestall a reentry into excessive debt and ensure prudent management of the nation's resources, long-term macroeconomic stability, greater accountability and transparency in fiscal operations and debt sustainability, the Nigerian government enacted the Fiscal Responsibility Act (FRA) in 2007. The FRA is perhaps the most fundamental reform in the country's financial management after exiting the Paris Club debt debacle in 2005. The Act created the Fiscal Responsibility Commission with the mandate to actualise fiscal responsibility through effective monitoring of all relevant agencies to ensure prudent resource management and long-term macroeconomic stability within a medium-term fiscal policy framework.

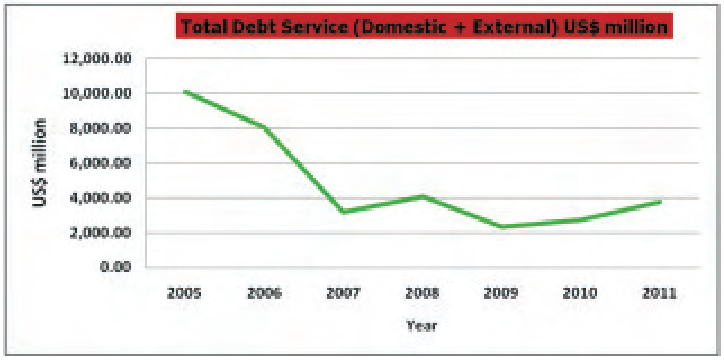
The Fiscal Responsibility Act also stipulates that the Federal Government, with the approval of the National Assembly (NASS), shall set limits on the consolidated debts of the Federal, State and Local Governments. Furthermore, the Act prohibits the Central Bank of Nigeria (CBN) from lending to the federal government while commercial banks are not to lend to any state government that has exceeded the limit of its approved consolidated debt unless and until such excess has been addressed. It also stipulates that government fiscal deficit shall not exceed three percent of estimated Gross Domestic product (GDP). The Act mandates the Debt Management Office (DMO) to maintain a comprehensive, reliable and current electronic database of internal and external public debts, and guarantee public access to the information.

In spite of the good intentions of the Fiscal Responsibility Act (FRA), there are concerns that the Act has not achieved its purpose due to a number of reasons. Firstly, the Act did not stipulate sanctions for non-compliance or violation of its provisions. It only mandates the Fiscal Responsibility Commission to investigate any violation of the Act and forward a report of the investigation to the Attorney-General of the Federation for possible prosecution. Another major constraint of the Act is its lack of jurisdiction over states and local government areas. Whereas these two tiers of government are fiscally autonomous and are not constitutionally bound by the FRA, the 36 states and the Federal Capital Territory (FCT) account for 36.70 percent of the country's total external debt stock as at June 30 2012, and also a substantial proportion of domestic debt still being computed by the Debt Management Office.

In the absence of a legal framework to coerce the other tiers of government to either enact a Fiscal Responsibility Act or abide by the dictates of the Fiscal Responsibility Commission, the federal government merely relies on persuasion. This has not been effective as the debt profile of states have continued to soar. Against this backdrop, a more holistic approach to the nation's fiscal management perhaps through a constitutional amendment would be more appropriate, to curb the skyrocketing of sub-national governments' debt. The Fiscal Responsibility Act (FRA) also deserves urgent amendment to close its current lacuna and strengthen the Fiscal Responsibility Commission to enforce its provisions to the letter.



Source: Debt Management Office (DMO)



Source: Debt Management Office (DMO)

http://spynewsng.com/wp-content/uploads/2011/06/Ewherido37.jpg

Going Forward: A Sinking Fund to the Rescue

Recent events in the European area have no doubt exacerbated concerns about Nigeria's rising debt profile. This fear is borne out of the need to avert a reentry into another debt crisis less than a decade after exiting the Paris and London Clubs debt trap with fanfare. Whilst government has been consistent in reassuring that the nation's debt profile is reasonable and sustainable when aggregated against Gross

States and Federal Government's External Debt Stock as at 30th June, 2012 (in US Dollars)

S/No	States and FGN	Multilateral	Non-Paris Club and EuroBond	Total	Percentage of Total
1	Abia	32,675,176.21		32,675,176.21	0.54%
2	Adamawa	29,183,118.88		29,183,118.88	0.48%
3	Akwa Ibom	61,198,851.08		61,198,851.08	1.01%
4	Anambra	25,370,842.92		25,370,842.92	0.42%
5	Bauchi	63,029,387.53		63,029,387.53	1.04%
6	Bayelsa	27,897,951.97		27,897,951.97	0.46%
7	Benue	26,501,393.41		26,501,393.41	0.44%
8	Borno	12,726,028.94		12,726,028.94	0.21%
9	Cross River	109,361,503.40		109,361,503.40	1.81%
10	Delta	15,784,110.18		15,784,110.18	0.26%
11	Ebonyi	41,060,946.56		41,060,946.56	0.68%
12	Edo	41,408,440.51		41,408,440.51	0.69%
13	Ekiti	34,071,754.18		34,071,754.18	0.56%
14	Enugu	47,788,769.57		47,788,769.57	0.79%
15	Gombe	29,572,867.39		29,572,867.39	0.49%
16	Imo	50,573,894.60		50,573,894.60	0.84%
17	Jigawa	28,720,760.08		28,720,760.08	0.48%
18	Kaduna	197,155,525.70		197,155,525.70	3.27%
19	Kano	59,400,227.35		59,400,227.35	0.98%
20	Katsina	74,147,092.48		74,147,092.48	1.23%
21	Kebbi	47,132,689.04		47,132,689.04	0.78%
22	Kogi	33,976,282.09		33,976,282.09	0.56%
23	Kwara	43,798,143.98		43,798,143.98	0.73%
24	Lagos	517,677,672.08		517,677,672.08	8.58%
25	Nassarawa	36,547,616.18		36,547,616.18	0.61%
26	Niger	28,178,180.28		28,178,180.28	0.47%
27	Ogun	96,285,547.62		96,285,547.62	1.60%
28	Ondo	52,255,534.39		52,255,534.39	0.87%
29	Osun	61,744,688.96		61,744,688.96	1.02%
30	Oyo	78,878,401.14		78,878,401.14	1.31%
31	Plateau	20,190,627.64		20,190,627.64	0.33%
32	Rivers	34,301,764.07		34,301,764.07	0.57%
33	Sokoto	40,419,413.12		40,419,413.12	0.67%
34	Taraba	20,681,517.70		20,681,517.70	0.34%
35	Yobe	31,111,004.88		31,111,004.88	0.52%
36	Zamfara	26,329,659.46		26,329,659.46	0.44%
37	FCT	37,671,245.54		37,671,245.54	0.62%
	Sub-Total	2,214,808,631.11		2,214,808,631.11	36.70%
	FGN	2,735,849,677.79	1,084,999,279.40	3,820,848,957.19	63.30%
	Total	4,950,658,308.90	1,084,999,279.40	6,035,657,588.30	100.00%

Note:

a) The above figures exclude arrears that only become obvious by the end of the year

b) Debt Stock can only be computed bi-annually after aggregating half year deductions at FAAC, when the 1st scheduled payments due in respect of all loans must have been made

c) Attempt to report in-between the period stated in (b) above, will result in inaccurate data (over-payments/under-payments)

d) FGN debt stock includes Non-Paris Club debt and the $500m EuroBond

Domestic Product (GDP), the need to cautiously watch the debt profile cannot be overemphasised. More deserving of closer attention is the domestic debt component because of its possible direct impact on the private sector. The high interest rates of government bonds have made them one of the most attractive investment outlets. Also, the consistent issuance of government bonds has been attributed to the slow pace of bond issuance by the private sector and the prevailing lull in the capital market. The active participation of government in the money market has diverted domestic savings away from the capital market to the money market. This is especially so because of the risk averseness of most investors who now prefer to invest in government bonds.

The government on its part has promised to decelerate the rate of accumulation of domestic debt by breaking the trajectory of borrowing to avert a dire situation. To this end, the Federal Government has decided to scale down domestic borrowing to fund its budget. From ₦852.27billion in 2011, domestic borrowing is expected to decline to ₦744.44billion in 2012, and further down to ₦633.85billion in 2013. Another critical issue deserving of government's attention is the need to shore up the nation's foreign reserves to serve as a buffer in the event of unexpected slide in the nation's income stream. A robust foreign reserve will shield the economy from sudden revenue shock that may exacerbate future borrowing costs. These measures notwithstanding, one of the most plausible courses of action for the government is to set a debt ceiling and commence drastic reduction of the current debt level. The proposed sinking fund for debt retirement is therefore a welcome development.

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

Foreign Insights

"The Rain in Spain…"

('My Fair Lady' – Lerner & Lowe 1956)

* By **Neil Hitchens**

Spanish rain is meant to stay mainly in the plain – however, like so many Hispanic fallacies, Iberian precipitation falls mainly in the Northern Mountains. The same errors of judgement are now being discovered about the true nature of the state of the Spanish economy.

A year ago, as the Greek disaster was unfolding, it was stated categorically that there was nothing 'that could not easily be fixed' with the fourth largest European economy and that investors had little to be worried about. The 10-yearbond was just nudging above 5% and the Ibex, the main Spanish equity index, was around the 10,000 level.

A year on and the equity markets have just revisited a multi-year low of 5,956.30 (a -40% drop) and the 10-year government yield has also just come off a post-Euro high of 7.62% and is lurking around the 7% level as we speak. What exactly happened?

While the suspicion was always there that things were bad, the speed of recent events surprised everyone. It is a typical 'tale of the tape' - a boxing metaphor that says no matter what you think the combatants may look like as they get into the ring, the only true measurements of their vital statistics comes from the post-fight official measurements.

Irrespective of what the politicians have been trying to say or do, the truth is out there in plain sight for all to see. If you take the time to study all the economic statistics you will see that market participants' worst fears came to a head far faster than they had expected.

Source: Bloomberg

The Spanish foreign minister, José Manuel García-Margallo, did something very unusual for a politician. He publicly and most definitely 'on the record' admitted that the Spanish economy was in a crisis of 'huge proportions'. "Officially" unemployment now stands at post Franco era high of 24.6%, or 5.7 million people – the reality is that it is actually higher than this. In four of the country's autonomous regions the jobless rate is over 30% and across the country 52% of under-25s are out of work, leaving 1.72m households without a single member with employment.Unemployment is now the focus of intense debate in the country as policymakers worry about the effects of a collapse in consumer spending, a drop in tax receipts and spiralling bad debts.

S&P (Standard & Poor's), the ratings agency, expects the Spanish economy to shrink by 1.5% this year and 0.5% in 2013 with no net new jobs being created before 2015.Fernando Jiménez Latorre, the secretary of state for the economy, did reply to this saying he did not expect unemployment to rise above 25% this year, complaining that S&P had not taken into account all of the adjustments the government had made, such as capping the budgets of the regional governments. Its analysis was "short term" he said.

Spanish banks remain both the problem and the solution. Spanish banks have long been suspected of disguising billions of euros of bad debts on their books after a property price collapse wiped more than 60% off the value of homes in some areas.

Spanish banks remain both the problem and the solution. Spanish banks have long been suspected of disguising billions of euros of bad debts on their books after a property price collapse wiped more than 60% off the value of homes in some areas. Many families have maintained mortgage payments during the crisis, but a steep rise in unemployment has sent the number of bad loans soaring. Despite a further round of bank rescues after three rounds of forced consolidations,nothing has been able to draw a line under the problem. Recently the exact nature of the problems began to seep out when it was announced that Spain's highly devolved regional governments have combined debts, officially, of €140 billion of which €35 billion matures this year. This massive debt and the ensuing inability to pay the interest has been exacerbated by the economic collapse.

It is not as if the warning signs about profligate regional spending were not apparent. Lavish spending on 'White Elephant' projects are everywhere to see – and you really do not have to look too hard. A prime example is the airport at Ciudad Real, south of Madrid, a project funded by the local savings bank, the Caja Castilla La Mancha, for purely political reasons. The end result is that the longest runway in Spain now echoes only to the sounds of the local wildlife – the airport was shut 40 months after opening and in its last months of life had one flight a day....and they thought Don Quixote, La Mancha's most famous fictional inhabitant was mad to tilt just at windmills! This white elephant is not unique, there is a whole herd spread over the Iberian Peninsula.

Between now and mid-2015, a mere 150 weeks away, Spain's funding needs are estimated to be around €542 billion which rather

makes the combined lending power of the EFSF (European Financial Stability Facility) and the ESM (European Stability Mechanism) at only €500 billion by mid-2014 look slightly short of the mark.

It must be noted that the total firepower of these two institutions is meant to be for the entire Euro Zone: Portugal, Greece and Ireland have not suddenly disappeared from the equation. Markets immediately realised that the numbers simply do not add up. Despite Mario Draghi, the President of the European Central Bank, blithely saying, "the Euro will survive" and that "the ECB will do anything to ensure this", the pressures keep building. Spanish 10 Year yields remain firmly stuck above 7% and rates elsewhere tell a similarly dismal tale. Irish and Italian 10 Year government bonds currently stand above 6%, Portugal 10 Year yields are nearly 11% and the Greek 10 Year bonds are above 25% (yet again!). In comparison, the 10 Year German Bund stands at 1.32%, France 2.01% Finland, 1.41% and even the usually much maligned Belgium 10 Year bond yields 2.46%.

A possible solution does not lie with the Spanish themselves, but with, mainly, the German taxpayer and voter. A full-blown bailout of Spain, once considered 'impossible', is still that – impossible but for reasons other than 'unimaginable'. Northern European taxpayers would oppose this on many fronts especially when confronted with the unpalatable truth that their Teutonic thrift would be spent on rescuing the South of Europe that historically has a [perceived] laxer work ethic. The Germans are already worrying that they are being asked to pay too much and even the merest hint that the country could lose its coveted AAA status has already caused some serious heartache about what more should be done. On top of this the Dutch and Finns, normally ones never to complain about anything, are starting to get angry about the Spanish never quite coming clean about the real extent of the economic disaster that is unfolding.

Time, though, is not on the side of the ECB. The blueprint for growth is tied up in necessary structural reforms, which take time to put to work. Even if there was an instantly agreed upon solution, the delay in any implementation would be enormous given the referenda that would need to be held ahead of any constitutional reform in any country – three years is an absolute minimum for any change to be forthcoming. There is little sign currently of any near term political consensus. The new government in France is already signalling that it differs from Germany on what changes need to be made. In Greece, despite a second fairly unconvincing election producing a coalition government out of necessity, voters are drifting from the centre to the left. In Italy, Mario Monti is proving to be the best Italian Prime minister in decades – but he is unelected, increasingly unpopular (mainly because he is for once telling the Italians some rather unappetising and unpalatable truths about the way their country has gone) and is consequently increasingly unable to pass the necessary reforms this great country needs.

Outside of the Euro, the effects of the current dire situation are proving contagious. In the UK the latest GDP figures showing an unexpected -0.7% fall just adds to the pressure to 'get it right'. There is no doubt that much, though not all, of the UKs problems are to do with the continuing troubles that start 25 miles East of Dover. The news trickling out (in the Italian language press only, it would seem) that several *Italian* regions may

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well be in a similar financial situation to their Spanish counterparts really gives little hope.

Sicily, one of the largest of the 20 regional seats of power, has estimated debts of €5.3 billion, though the governor Raffaele Lombardo claims that it is owed much of this by Rome. This however cannot hide the fact that Sicily has run a very extravagant budget over the past decade and has nearly five times as many public employees as the more rigidly and efficiently run region of Lombardy, which itself has twice the population of Sicily. It is fairly obvious that not only are Sicily's debts going to end up being substantially higher than this first estimate, but certainly at least 5 other regions have similar levels of indebtedness.

However, as in life, where there are losers there are also winners – some of them in unexpected areas.

To cap a horrendous quarter for Spain , Standard & Poor's downgraded Spain's credit status by not one, but two notches, to BBB+ saying that it was concerned the situation was worsening and rising defaults on loans and mortgages could quickly undermine the banking sector. Spain now has a worse credit rating than countries such as Aruba, Poland and Botswana who are all rated 'A-' and is now on a par with Italy, Ireland and Kazakhstan..

Almost as a footnote, the news that there were downgrades in the ratings of 16 Spanish banks by between one and three notches was practically ignored. The fact that one of the recipients of the downgrade was Santander [SAM:SM], which has a UK presence via its ownership of what was called the Abbey National building society, was either disregarded or the news went unheeded. However, given the fragile recovery of the UK banking sector and continued strength of the London and South Eastern property market after the Northern Rock fiasco, such news should have been more widely noted given the contagion potential.

However, as in life, where there are losers there are also winners – some of them in unexpected areas.Probably the biggest beneficiaries, in the short term, have been Germany and Switzerland.

Despite Germany being 'part of the problem' in that it is a core part of the Euro and Switzerland, trying to defy market logic by bravely pegging its currency to the Euro at a much defended level of 1.20, both countries share the same much vaunted and well-deserved reputation for Germanic thrift and fiscal responsibility and this has paid off handsomely both in the past and at present.

As mentioned previously, German Government bond ('Bund') rates are at their lowest levels in living memory because of a staggeringly large inflow on the back of both their dual safe haven and AAA status, an inflow that is becoming almost embarrassing. Sub 1 year German rates are actually negative – a trait usually only associated with Switzerland. The rest of the German yield curve is similarly low and flat: 5-year rates are at 0.35%, 10 years at 1.21% and the 30-year/long bond rate of only 1.75% is a very big warning sign about the pent up problems within the Euro. Switzerland is also enjoying record low levels of bond interest – being the safe haven of choice even for Germans – the yield curve is negative up to the 5 year mark and even a 30 year rate of only 0.90% is still extremely attractive, having fallen in the past year from 2.20%.

For the moment then, Germanic rates at such low levels have managed to steal the limelight away from that 'usual' low yield haven – Japan. Japan has its own unique problems with an ageing population but it still has one big factor in its favour – the Yen is not the Euro.

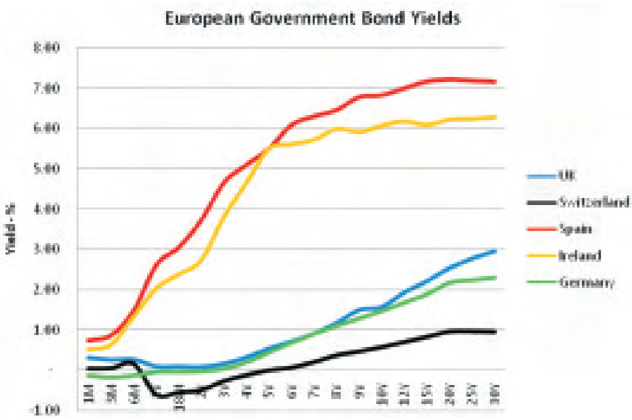
The Euro/Yen rate recently fell below 100 – a pertinent indication of the enormity of the 'Get out of the Euro at any cost' mentality adopted by some market traders around the world.

That said it is interesting to note that Japanese/German 30 year rates have finally crossed with German (In Blue on the chart) rates now lower than Japanese (Red) for the first time this century.

But….and there is always a 'but' with such analogies, such a rate conjunction is unlikely to remain 'as is' when the seemingly inevitable happens and Greece along with Spain and the rest of the expected suspects are eventually ejected from the Euro.

As a major part of the hoarding of Euros has been via German bonds, the first reaction of anyone wanting to raise cash, post-apocalypse, would be to sell these self-same bonds. Any government issued bonds of any of the expelled countries would not only have been redenominated they would have seen their prices, initially at least, collapse

The Parliament building, Germany



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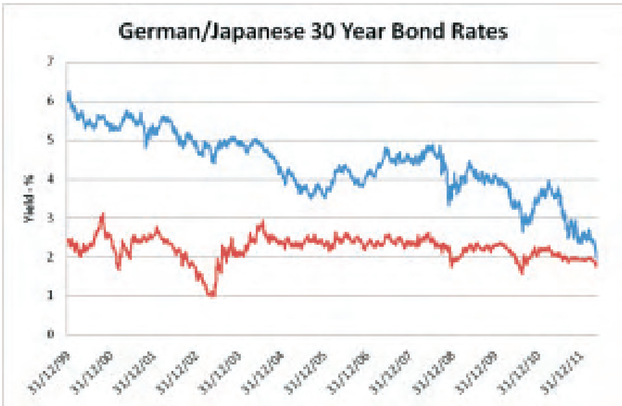

Source: **Bloomberg**

– always assuming there is a market in them in the first place – New Drachma bonds anyone?

The surprise 'winner' in this virtuous European triumvirate has, rather unexpectedly, been the UK. Like Switzerland (also Sweden and Denmark), it has the actual advantage of its own long established currency and has no plans to join the Euro – a situation that is very unlikely to change. However, even by the most generous of financial measures, it cannot honestly be stated that the UK economy is in as robust a shape as Germany. Yet given the enormity of the capital flight from Southern Europe we find ourselves in the slightly quirky situation with UK Gilts yielding below 3% along the length of the curve.

Commodities: A long hot summer sparks inflationary warning signals.

The long hot summer predicted for Europe has turned into a mild, wet and windy one. The real problem with the heat has been seen in North America where the US Midwest drought appears to be worsening week by week.

About 53% of the main corn-growing areas are already showing moderate to extreme drought conditions and the risk of further crop damage increases as temperatures reach record highs. US Corn (Maize) futures have risen from a recent low of 505.25 cents a bushel (56 Pounds weight) to over 800 cents - +60%; Soybeans this year have moved from 1,160 cents to 1,750 cents, +51%; Wheat from 635.25 cents to over 900 cents, +42% and barley from 183.5 cents to over 240 cents, +31%.

The higher price of feed is now having a direct impact on livestock prices. That bell weather and well-known contract, "Lean Hogs" has ranged recently between 79.35 cents and 107.45 cents, +35%.

Many other agricultural commodities have been similarly affected, from Sugar to Palm Oil. Even that great staple, butter, has moved from 136.25 cents to 174 cents, +28%; this move is not per se because of the rise in feed

The surprise 'winner' in this virtuous European triumvirate has, rather unexpectedly, been the UK. Like Switzerland (also Sweden and Denmark), it has the actual advantage of its own long established currency and has no plans to join the Euro – a situation that is very unlikely to change.

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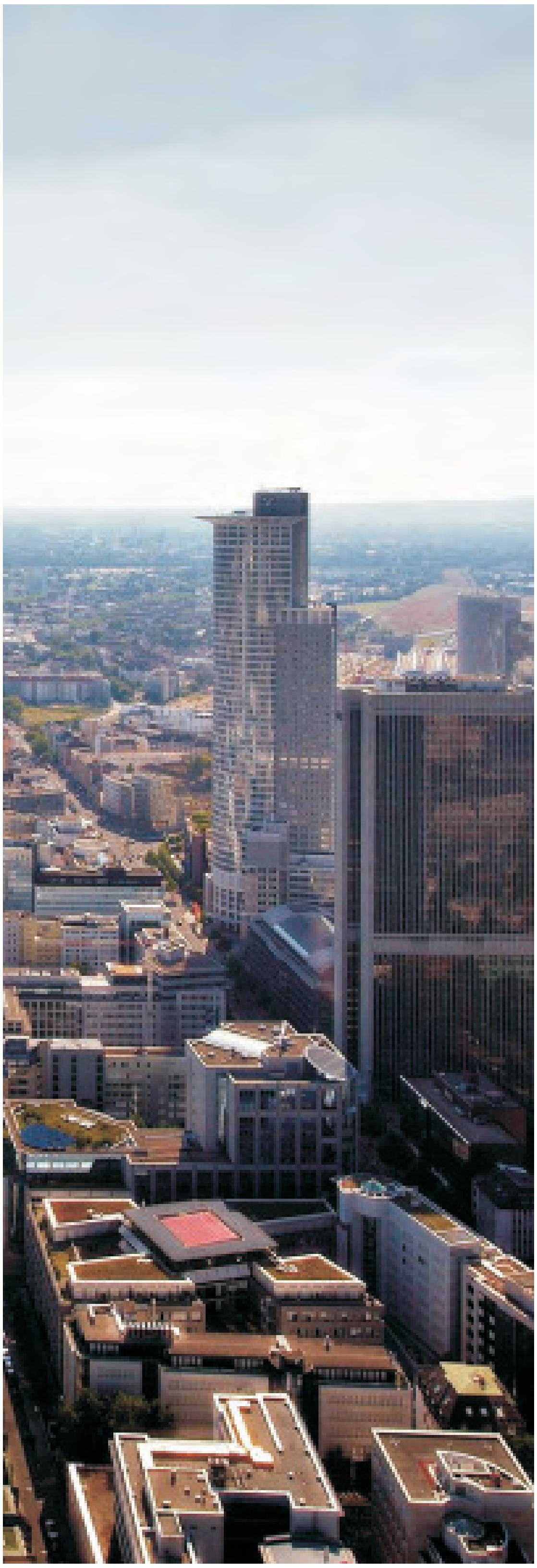


prices but because farmers now cannot afford to keep cattle and have sent many of them for slaughter. This in turn restricts the overall supply of milk (itself having risen 25% in 3 months) the constituent part of butter.

While there is no apparent short-term respite from the drought the inflationary impacts are starting to worry economists. Farmers are really feeling the pinch and in an election year, they are a segment of the US voter base that it pays to keep on your side.

Oil has been a sporadic beneficiary of the economic turmoil in Europe. Brent has recently retreated from highs of $125 to return to its recent 12 month average of $105. West Texas has followed a similar path coming off a high of $110 to settle at it recent $ $93 average. Oil is very dependent on economic activity. China has recently seen a somewhat contrived slowing of real GDP from +8.1% in Q1 2012 to +7.6% in Q2, which affected prices in June. Activity levels in Europe continue to be buffeted by problems in the South. If there are no signs of growth in the largest European economies, oil suffers. However as soon as eve a glimpse of growth is perceived, oil pops up again.

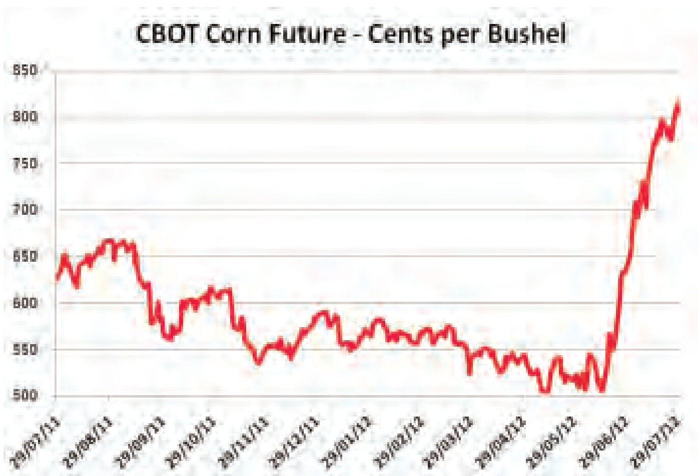
Gasoline demand in the US continues to be weak. Recent measures show continuing slow declines with consistent week on week drops. Again, this is partly due to a lower level of US economic activity but it is also an engineering influenced move as the US auto industry continues to produce even more and more efficient vehicles in tandem with a slow but steady uptake of hybrid cars.

News at the end of this reporting period that the US Energy Department raised its 2012 crude price projection for the first time in 2 quarters is on the back of definite signs of future global fuel consumption increase.

One small upside to the great heat wave is that electricity consumption in the US has increased, as people tend to up usage of air-conditioning, which due to the drought conditions means electricity output cannot be met from hydroelectric units but from oil fired power stations.

Like some somnambulant iceberg, gold has remained in an enigmatic holding pattern for some months now since its Euro and Arab Spring inspired gyrations last year.

The real driver of the gold price for the rest of the year and into 2013 and beyond will be the development within the continuing global financial crisis. The levels of debt piled up by Western governments, combined with those in some sectors of the corporate world are, basically, still not sustainable. There is one scenario to get rid of this burden and that is disciplined deleveraging, i.e. reduction of corporate and Sovereign debts. The alternative, happily pursued over the past years, is to create more debt. To continue with this latter approach will lead



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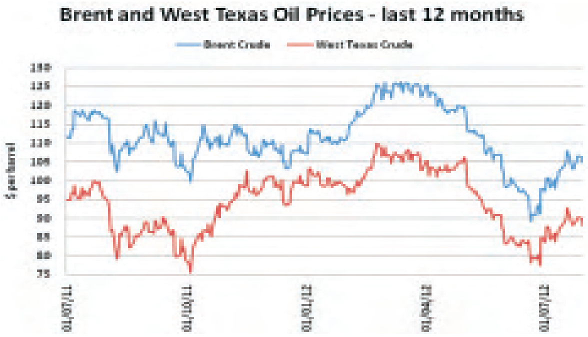

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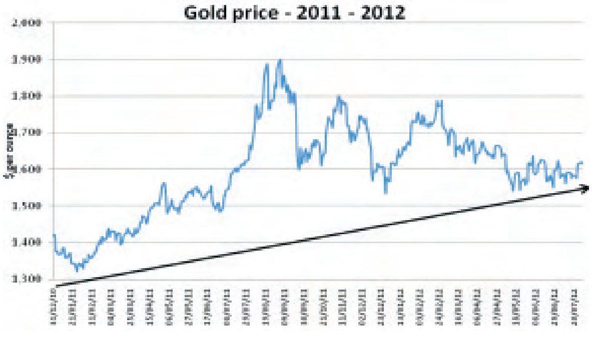


Source: **Bloomberg**

to inflation levels significantly above the inflation rates we saw during the last decade in Western currencies.

While we still see gold either as an attractive insurance asset or as store of value for many conservative investors, both a deleveraging, which will probably be long and painful ('another lost decade'), or a reduction of the real debt pressures by means of higher inflation will potentially preserve gold's allure. Add into this heady mix Geopolitical risks, e.g. in relation to Iran and this will support this position of gold as a 'safe haven' further.

During the 2nd quarter of 2012 analysts surveyed by Bloomberg end of 2011 forecasted a level of US dollars 1,950 per ounce of gold.BNP Paribas estimated in December 2012 gold to average $1,775 per ounce in 2012 and then $2,150 per ounce in 2013. On the other hand, Thomson Reuters GFMS expects the peak of the gold price to be at the end of 2012 or beginning of 2013 and there then to get a gradual decline 2013 on as the global economy splutters into life. Interestingly, the CEO of the largest US gold mining company Newmont Mining estimates that the price of gold in 2013 may increase to $2,550.

Recently new updates have been even more telling - Goldman Sachs updated its forecast on the gold price $1,940by or before mid-2013. Barclays Capital (in the news recently for all of the worst reasons) expects a gold price of US$ 1,790 in the fourth quarter of 2012, while Morgan Stanley now predicts gold prices to be about $2,000.- during that same quarter.

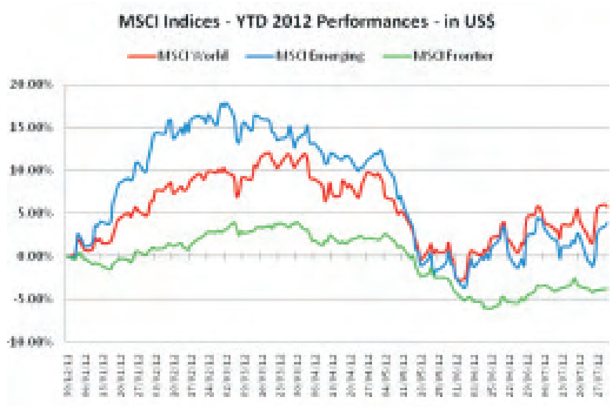
The diversity of analyst predictions with regard to the gold price in 2013 and the following years mirrors the uncertainties in the global markets – but uncertainty is good for gold markets. An interesting fact about gold is that it often performs well in deflationary scenarios (for instance driven by global debt reductions) but also in scenarios with higher than usual inflation rates (which could potentially occur as public debt level increases further).Gold thus has the perverse ability to perform positively in times of economic uncertainties as well as in acute crises. Unfortunately, the global financial problems are far from resolved. Some credible commentators expect several more years of uncertainty and painful deleveraging, which could end only when we are approaching the next decade. So for the moment while we have a small, measured weighting within our investment models we are confident that the worse it gets out there eventually the better gold will perform and we have it as a HOLD for the moment but with a note to move to a HIGHER weighting soon. A moderate allocation to gold will therefore in the near future remain the imperative for many investors and could result in a far more positive trend of the gold price 2013 and beyond. Portfolio diversification, i.e. the spread of monies to different asset classes and investments, should remain an imperative for safety-orientated investors over the coming years.

Equities – a summer lull but a 'Fall' rise?

Equities adopted their normal (Northern Hemisphere) summer holding pattern earlier than usual this year. After starting the year with hope triumphing, yet again, over experience, the MSCI World Index (in US$) raced ahead to a first quarter rise of some 11%. Almost immediately there was an economic reality check in the form of yet another Euro crisis which turn those gains into -13% losses by the end of May to give a net negative return for the year at that stage of roughly -3%. Over the past few months though some sanity has returned to markets with an +8% rise from the lows to even out the rise for the year to a net gain of +5% overall – roughly at our comfort level of between a ½% and ¾% average monthly return.

Again, in being the major component of any global index, the returns for the US markets almost mirror the overall index return. The Dow [Jones] at +6% was always going to slightly underperform the more diverse S&P 500, +9.68%. Yet as we keep telling our clients, now, nor any time is the right moment to ignore the US. It is growing, albeit slower than expected, but growing it is, at between 1.5% and 2.0%. Yes, again as we have pointed out, it is slightly different this time round – as it is every time the US comes out of a recessionary period, and job creation is lagging previous measures and the unemployment rate is stubbornly stuck above 8% but recent measures of personal expenditure and consumption are ticking upwards.

Industrial production is also managing to quietly impress by its measured rises and is now +4.7% from a year ago. The only problem that still cannot seemingly get started is housing. Home sales remain stuck in reverse and mortgage applications are barely showing any net upturn. House prices as measured by the Case-Schiller House price index return a disappointing -0.7% for the past 12 months



Source: **Bloomberg**

The three US stocks we noted to clients at the beginning of the year have performed exactly as we had hoped, or dared to hope. I must, though, stress the dangers of a small, undiversified single equity approach in any portfolio. While we do include a proportionately limited exposure to single stocks within some of our investment portfolios they are rigidly enforced and are suitable only for those clients that have specifically been screened and approved and are those that are additionally deemed to have a higher than average tolerance of risk . While returns have been 'interesting' they have overall been quietly satisfactory – but I must stress that any individual stocks mentioned here are not by themselves an endorsement of any particular position.

Apple – RIC Code AAPL: US – so far has been just so consistently good, despite the death of founder Steve Jobs. This is a truly innovative company with a very loyal customer base. 2012 has seen already a new iPad, widely triumphed, but also a new Operating system for its computers (not so widely noticed). Expectation is building already about the much-mooted release of the iPhone5 (rumoured to be a matter of weeks away) as well as hints about a new TV format. As such we have seen the price rise this year from $405 to above $600 a +50% return for 2012 which is about to be enhanced further by the first payment of a dividend at an expected $2.65.

However our two other stocks, picked to fail, have done so in spectacular style.

Research in Motion (RIMM:US) the maker of the Blackberry handset has been beset by problems all year – the major one of which is that the Blackberry isn't as flexible as other handsets, or so the public perception goes . As such to see the share price sink from a high of $32.55 to a current low of $6.775, a -79.19% decline, has not been exactly a surprise to us. While not advocating complete and utter bankruptcy, for now, the company is certainly extremely vulnerable and could well be the subject of a hostile bid at some stage merely because certain parts of its technological asset base, like batteries, is something other handset makers would love to acquire.

Our other 'dead duck' stock was Eastman Kodak, the onetime film and camera maker that evolved into a printer company. Since its bankruptcy filing the share has been delisted from all major exchanges, as we had predicted, as is now more of a zombie stock. At a current share price of $0.20 it is stuck in corporate life support for the moment until the inevitable assisted exchange death is applied. How are the nightly fallen!

Away from the success of the US markets, Southern Europe overall has been an equity disaster area for reasons that are well documented.

Spain is currently down -21% for the year, after a recent rally on the 'hope' that "something" will be sorted out and there have been equally dismal performances from Greece, Italy and Portugal.

Northern European bourses though have been the beneficiaries of a flight of capital from the South. So far, 2012 has been an amazing year for Germany, +14% for the DAX Index, where engineering firms such as Volkswagen or RWE have had a strong year. Strong performances have also been seen in Scandinavia with Denmark, +24%, Sweden 8%, and Norway, +10% all reaping the benefits of being outside the Euro.

We do, though, remain nervous about **any** European equity exposure, except in those companies or sectors that are not majority dependent on Europe for their revenues. Despite the current Summer lull in economic scare stories, we know that all particiapnts in the Euro experiment are merely biding their time, recharging their batteries and waiting for everyone to return to their desks in September before the fighting continues.

For the moment Europe is at best a neutral position with certain areas a definite **avoid**.

Away from Europe and North America, Asian markets have been quietly annoying, disappointing, exciting, and profitable. In Japan, the Nikkei index continues to show a long-term lower trend despite recently gravitating between 8,500 and 9,000. However, a return of 1% for the year so far neither excites nor interests. As noted previously Japan, for the moment, is not an area to have an "at index" weighting when there are better Asian opportunities out there. The Nikkei continues to show no net move whatsoever over the past 10 years.

If you are looking for Chinese exposure, while the Shanghai market, -1% YTD, is now fully open for external investment better overall returns will be had from the Hong Kong, Hang Seng Index, +9% YTD, due to both its greater maturity, tighter listing rules and better market transparency. That is not to say that Shanghai can be ignored – it definitely remains 'one to watch'.

In India, which we tipped to perform better than China, our predictions have been realised. The BSE Sensex 30 is up 12% YTD and the near term financial problems, even with the recent infrastructure outages, seem to have been resolved by the replacement at cabinet level of the old Treasury team.

For investors with more of an emerging markets bias there are some up and coming areas that are starting to interest us, though we may not yet be in a position to commit funds for some time.

Saudi Arabia is starting to open up its equity markets to non-Saudi investors, with the usual proviso that only small stakes may be taken in any listed entity. Vietnam has also re-launched it Hanoi equity market after a break of 40 years and there is considerable interest building there, despite its low market capitalisation. Even Myanmar (Burma), recently removed from the list of pariah states, is sending out feelers to investors interested in investing locally and wishes to put the Yangon (Rangoon) Exchange back into public consciousness for the first time in living memory.

Myanmar may be a step too far at present for all but the bravest or most foolhardy. But it is indicative of the emerging realisation that local, smaller economies can only prosper with a quasi-capitalistic approach to raising capital.

Gondola, Venice, Italy

http://upload.wikimedia.org/wikipedia/commons/3/38/Gondola-Venice-Italy.jpg

US Business and Politics – are we there yet?

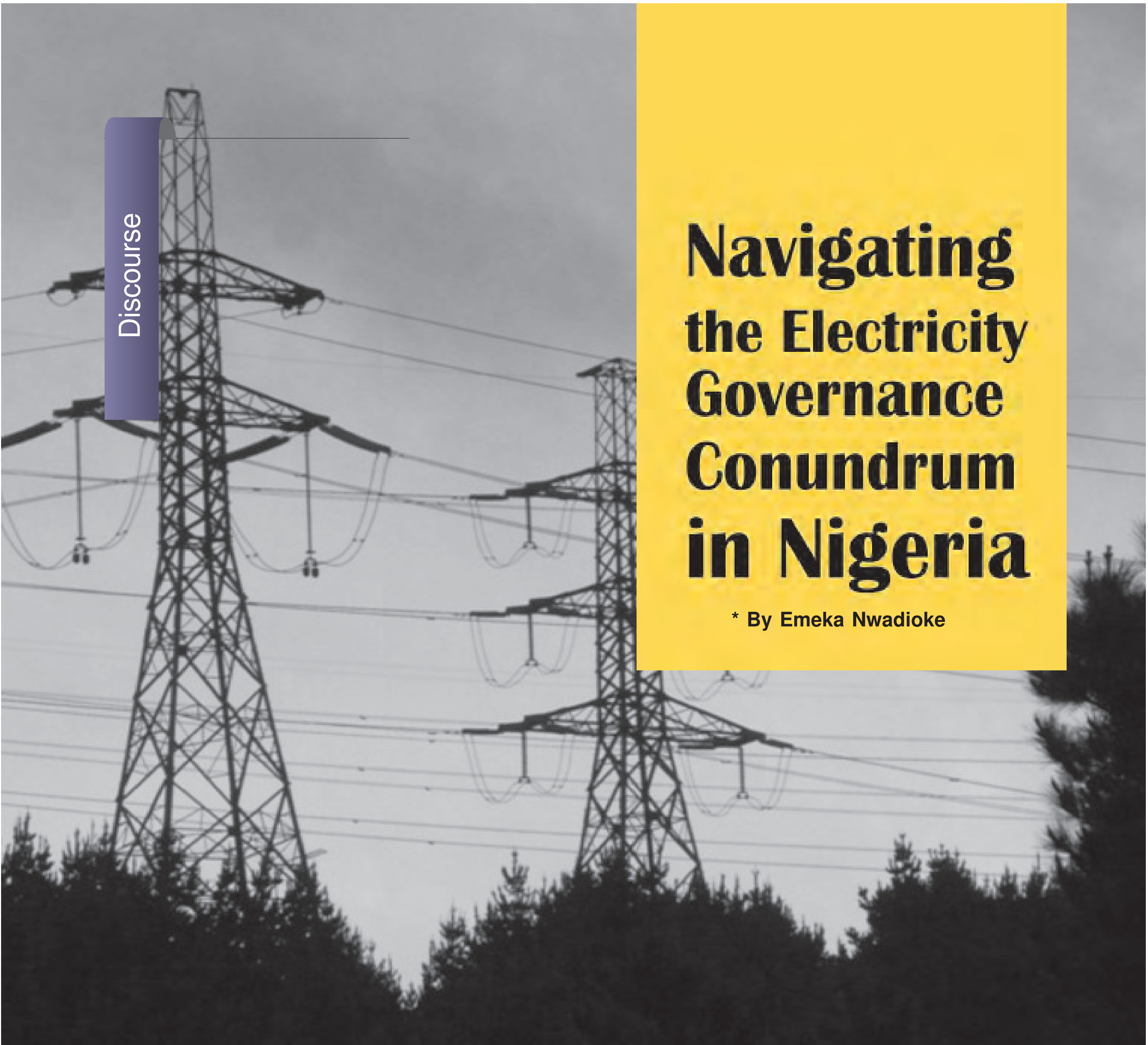
One small matter that will be of immense interest to investors for the reminder of 2012 is the upcoming US Presidential Election. Already the quadrennial mudslinging has begun earlier than usual, something though that is in itself of little actual consequence. Sad to say the result itself is unlikely to move markets that much. If incumbent Obama wins, then he will be faced with the continuing impasse of having the Republican dominated legislature blocking his more controversial bulls.

If Mitt Romney wins, he will have the same opposition but from the subset "Tea Party faction" within his own party who are keen for larger, sharper and deeper cuts to 'Big Government', faster than is both advisable or warranted.

US equities are more mature than this and will probably ignore the result in part unless there is a landslide one way or another. Certainly, the amounts about to be spent on this contest are staggeringly large with a final combined bill for both sides of well over US$ 1 billion making election bills in all other democracies pale into insignificance.

However, we are prepared to state that even now the result is statistically too close to call!

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



Navigating the Electricity Governance Conundrum in Nigeria

* By Emeka Nwadioke

The precarious state of Nigeria's power sector is perhaps captured by the extreme fluctuations in electricity generation. For one thing, no two days deliver the same energy to the national grid. This perhaps explains why Nigerians are more accustomed to darkness than a lit night skyline. It is also a pointer to the deep concerns by stakeholders on the power crisis and the pressing need to ensure that ongoing power sector reforms do not go the way of past efforts.

It has been observed that epileptic, irregular and insufficient power supply limits income-generating opportunities of the informal sector, leads to increase in the cost of doing business for both informal and formal sectors, compromises the operations of security agencies, and paralyzes power-dependent social activities. Power is required to fuel the machinery of socio-economic transformation and development; without regular and sufficient supply of power, rapid economic growth and sustainable development would remain a mirage. The ever-increasing demand for energy for industrial, agricultural, transport, commercial and domestic uses owing to increasing human numbers, urbanization and increased industrialization has not been matched by the sluggish growth in power supply.

NIGERIA'S POWER SECTOR: A DIAGNOSTIC REVIEW

Nigeria's power supply trend is at best erratic. Instructively, commercial electricity is generated mainly from hydropower, steam plants and gas turbines. The installed capacity for electricity generation, which is 98% owned by the Federal Government, increased by a factor of 6 over the period 1968 to 1991 and by 1991, stood at 5,881.6MW. No major addition to generating capacity was experienced over the subsequent decade. Over the years, the availability varied from about 27% to 60% of installed capacity, while transmission and distribution losses accounted for about 28% of electricity generated. In December 2001, the available generating capacity stood at 4,000MW, but this soon dropped to 2,600MW within the first quarter of 2002. As at the end of July 2010, the total actual (on-grid) power generation capacity stood at 4,612MW, of which the thermal plants accounted for 3,382MW and the hydro plants accounted for 1,230 MW. However, not all of this actual capacity can be used full-time throughout the year for several reasons, among which is that the average annual generation from the three Hydro plants (Kainji, Jebba, and Shiroro) is capped at 950MW per annum given the available year-round water flow. Accordingly, the peak generation hovered around 3,804MW. At the beginning of the current year, energy supply has again plummeted, averaging a meagre 3,500 MW for a population in excess of 150 million. It later peaked again at about 4000MW in early August, bringing hopes that the recent reforms in the power sector May have started to yield fruits.

Expectedly, the annual consumption of electricity has been increasing very rapidly over the last three decades, rising from 1,273 GWh in 1970 to 13,700 GWh in 2001. This however represents a suppressed demand caused by inaccessibility to the national grid and inadequacy of electricity supply. The huge gap in electricity supply has inevitably led to the unwholesome culture of self-generation. Self-generation of electricity (from diesel and petrol generators) is conservatively estimated at a minimum of 6,000 MW i.e. more than twice the average output from the grid in 2009. The Central Bank of Nigeria estimates that Nigerians spend $13 billion on generators, diesel and fuel to provide electricity in homes and industries. The paradox in this state of affairs becomes more disconcerting when it is realized that Nigeria requires only about $10 billion annually to fund the entire electricity supply chain. Moreover, more than half of the population (and the vast majority of Nigeria's poor) have no connection whatsoever to the national grid.

It is however not surprising that Nigeria's per capita electricity consumption is amongst the lowest in the world, far lower than many other African countries. It is merely 7% of Brazil's and 3% of South Africa's. Brazil has 100,000MW of grid-based generating capacity for a population of 201 million people while South Africa has 40,000MW for its 50 million people. It has been noted that there is a strong correlation between per capita energy consumption and economic growth/ industrialization.

The Federal Government-owned electricity system now comprises three hydro and seven thermal generating stations with a total installed capacity of about 6,852MW. Each entity has been incorporated as a single-asset generating company; a radial transmission grid (330kV and 132kV), owned and managed by the Transmission Company of Nigeria, with the responsibility of undertaking the system operation and market settlement functions respectively; and 11 distribution companies (33kV and below) that undertake the wires, sales, billing, collection and customer care functions within their area of geographical monopoly.

	Triphase domestic usage	
Country	**US cents/KWh**	**N/KWh**
LIBERIA	34.00	51.00
MALI	29.57	44.36
BURKINA FASO	25.48	38.22
SENEGAL	17.74	26.61
GAMBIA	16.68	25.02
COTE D'IVOIRE	16.51	24.77
MEDIAN	16.43	24.64
BENIN	16.34	24.51
TOGO	15.55	23.33
NIGER	11.23	16.85
GHANA	10.32	15.48
GUINEA	8.70	13.05

	Commercial usage	
Country	**US cents/KWh**	**N/KWh**
LIBERIA	34.00	51.00
MALI	30.57	45.86
BURKINA FASO	25.30	37.95
SENEGAL	24.91	37.37
GAMBIA	24.17	36.26
COTE D'IVOIRE	19.10	28.65
MEDIAN	18.73	28.10
TOGO	18.36	27.54
BENIN	16.00	24.00
GHANA	14.61	21.92
NIGER	13.54	20.31
GUINEA	12.40	18.60

Source: "Comparative study of electricity tariffs used in Africa - December 2009", conducted by the General Secretariat of UPDEA (Union of Producers, Transporters and Distributors of Electric Power in Africa)

A POST-MORTEM ON POWER AND PROBLEMS

Several challenges impinge on government's capacity to deliver power to end-users. Aside from poor planning and official corruption, other problems that beset Nigeria's electricity supply industry include the absence of a sustained and deliberately deployed long term power development strategy, under-exploitation of the abundant energy endowments, and the poor implementation of reforms. Limited access to infrastructure, low connection rates, inadequate power generation capacity, inefficient usage of capacity, lack of capital for investment, ineffective regulation, and high technical losses and vandalism also affect stable electricity supply. Others are insufficient transmission and distribution facilities, inefficient use of electricity by consumers, inappropriate industry and market structure, and unclear delineation of roles and responsibilities.

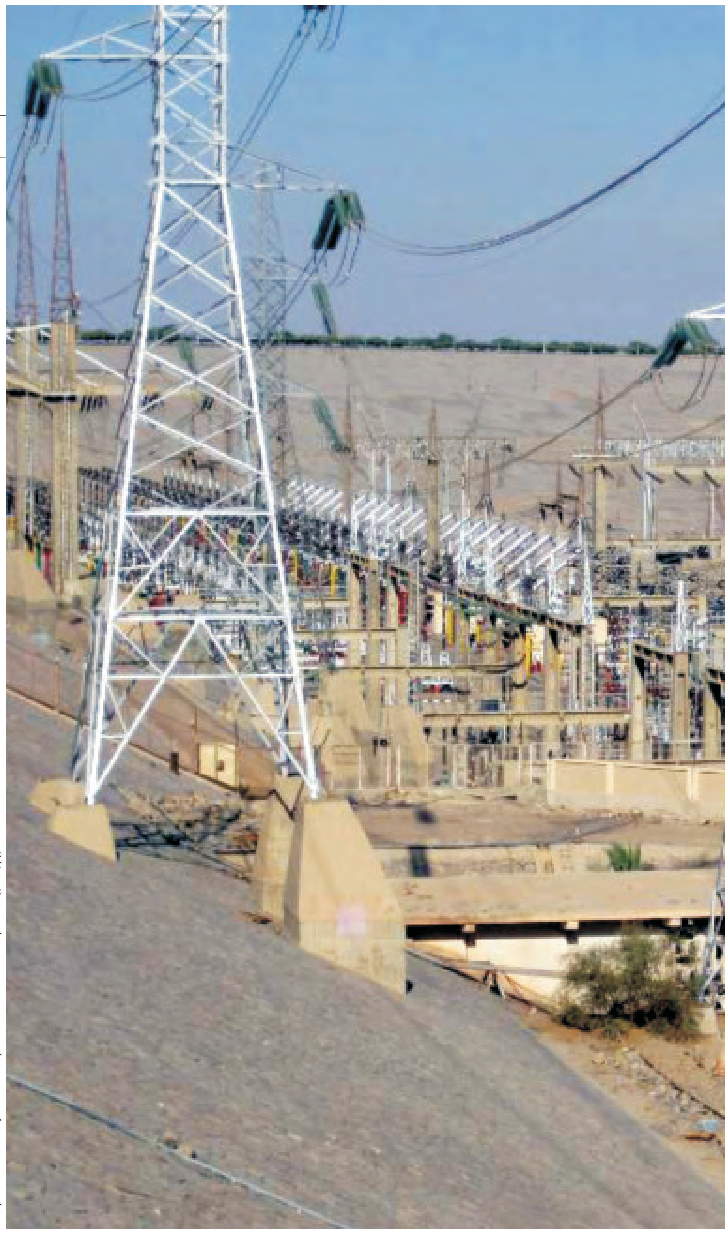
A seemingly high level of policy mismatch has further compounded the power conundrum. For example, while licences were granted to investors to build independent power plants, the maintenance of low tariffs remained a huge disincentive, thus stalling investments in new generation capacity and necessary upgrades to the transmission and distribution networks. While it is said that Nigeria has one of the lowest retail electricity tariffs globally at N8.5/kWh (per kilowatt/hour), this policy mismatch has in real terms created one of the highest electricity prices in the world. While the crisis adds about 40 per cent to the cost of goods, the poor pay about N80/kWh on candles and kerosene; manufacturers pay in excess of N60/kWh on diesel or LPFO generation, while everyone else pays around N50-70/kWh on self-generation.

The history of power supply in Nigeria dates back to 1896 when electricity was first produced in Lagos, 15 years after its introduction in England. In 1946, the Nigerian Government Electricity Undertaking was established, ultimately transmuting into the National Electrical Power Authority (NEPA) in 1972.

A LEGACY OF STACCATO REFORMS

The history of power supply in Nigeria dates back to 1896 when electricity was first produced in Lagos, 15 years after its introduction in England. In 1946, the Nigerian Government Electricity Undertaking was established, ultimately transmuting into the National Electrical Power Authority (**NEPA**) in 1972. That NEPA has at best been wobbly in its performance is glaring. Also, past efforts at putting the Nigeria Electricity Supply Industry (NESI) on a path of redemption and growth had met with ill-digested plans, insufficient political will, corruption and a multiplicity of controversies.

Attempts at revamping the sector began essentially in 1988 with the commercialization of the now defunct National Electric Power Authority (NEPA) and the upward review of tariffs. These efforts did not wrought the desired impact. The infrastructure rehabilitation and expansion programmes commenced in 1999 have equally yielded little fruit. The National Council on Privatisation (NCP) in September 2000 constituted the Electric Power Reform Implementation Committee (EPIC) to undertake a comprehensive study of the electric power industry and produce a blueprint for reforms. One of the key outcomes of EPIC was the preparation of a draft National Electric Power Policy (NEPP) in March 2001 which was approved by government in September 2001. The policy document made far-reaching recommendations that would lead to the total transformation of the sector. It recommended the establishment of the Nigerian Electricity Regulatory Commission (NERC), the privatisation of the sector, a market trading design and new rules, codes and processes. These recommendations were captured in the resulting National Electric Power Policy and the Electric

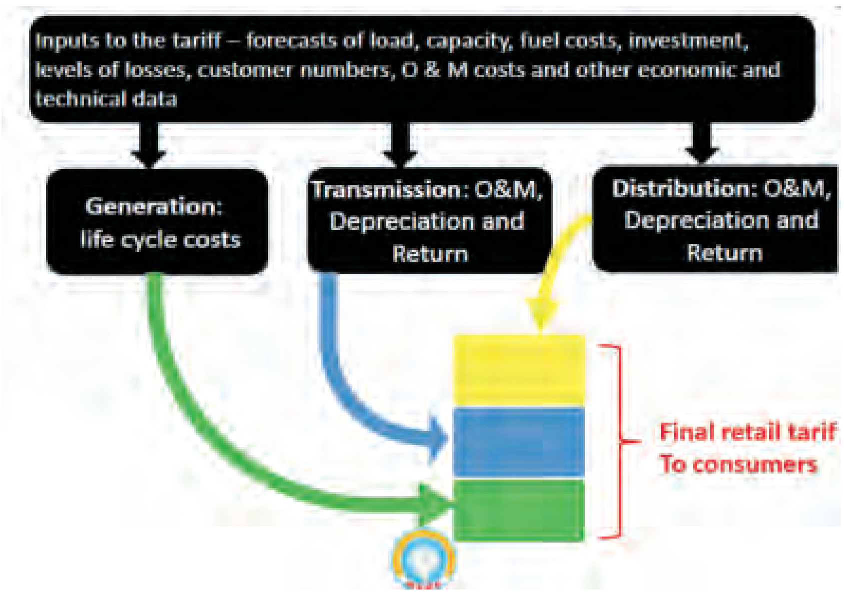

http://co2insanity.files.wordpress.com/2010/10/power-grid.jpg

Power Sector Reform (EPSR) Act 2005, the latter providing the legal framework for the reform. Generally, efforts at mainstreaming the private sector in Nigeria's drive for energy security, efficiency and sufficiency also saw the advent of Emergency Power Producers (EPPs), Independent Power Producers (IPPs), Private Power Producers (PPPs), and Build Operate and Transfer (BOTs) initiatives.

The Obasanjo Administration also embarked on an ambitious – if poorly planned and executed – reform programme under the National Integrated Power Project (NIPP). The government initiated seven new power projects located in various states in the Niger Delta (four new plants were later added). The projects were designed to add at least 10,000MW of electricity to the national grid by December 2007. The programme soon walked into funding and gas crises as well as corruption brouhaha. The inconclusive probe by the National Assembly of the programme is yet a testament to the deep-seated challenges in the power sector. The capital investment programme reportedly gulped $15 billion, with little or nothing to show for the investment thus far.

THE POWER OF A ROADMAP

After a three-year lull, the Jonathan Administration attempted to revive the power reform process. On August 26 2010, President Goodluck Jonathan launched the "***Roadmap to Power Sector Reform***" aimed at fast-tracking the implementation of the Electric Power Sector Reform (EPSR) Act. The enabling legislation essentially seeks to remove legal, commercial and regulatory obstacles to private sector participation and investment in Nigeria's power sector. It also contains a plan for identifying and implementing rehabilitation and other projects that will significantly enhance the ability of the system to generate and deliver power



from the middle of 2011. The roadmap details government's strategy towards transforming Nigeria's power sector into a "dynamic, fast-growing industry." Developed by the Presidential Task Force on Power (PTFP), it is the outcome of the work of the Presidential Action Committee on Power (PACP) which is chaired by the President. The task force also provides monitoring to ensure effective implementation of the plan and drives synergy between the MDAs responsible for implementing various aspects of power reform.

Jonathan declared at the power roadmap launch that "the fight to achieve sufficient power supply in Nigeria is indeed a war for economic development." According to him, "The availability of reliable electric power to the homes and businesses of our citizens has been one item in our national life that we have approached with so much hope and yet experienced so much frustration over the past decades."

The ***Roadmap to Power Sector Reform*** is designed as the cure-all for all that ails Nigeria's electricity supply industry. The key objects of the power reform are the transfer of management and financing of key operations to the organised private sector; establishment of an independent and effective regulatory commission to oversee the industry, and saddling the government essentially with policy formulation and long-term development of the industry.

Government's strategy on the divestiture by the National Council on Privatisation (NCP) of the 18 PHCN successor companies is hinged on resolving each of the specific obstacles to private sector investment in the power sector. The strategy adopted by the Bureau of Public Enterprises (BPE) in regard to the hydro power generating plants is to grant concessions for the operation of Kainji, Jebba and Shiroro power plants for periods of not less than 25 years. This approach is principally predicated on the magnitude of the capital requirements and water rights issues. The latter revolves around the apparent incongruity of allowing private ownership of domestic and international water courses on which the hydro plants depend. Some of the plants also depend on waters which flow into Nigeria from other countries, thus making their management a subject of inter-state relationships.

In line with the Power Roadmap, the PHCN successor thermal generating plants will be privatised through a sale of a minimum 51% equity to core investors. Such investors must demonstrate the technical and financial ability to operate and expand each plant. Government is however mindful that a monopoly or oligopoly of market power in the generation sector is not acquired through these divestitures. Instead, it envisages "unrestricted market entry" of competent operators not only via privatisation but directly through licensing new IPPs; the competitive bulk procurement of electricity by the Bulk Trader, and the bilateral contracting of electricity between generating and distributing companies – all overseen by a fully-empowered independent sector regulator (NERC) through the Multi Year Tariff Order (MYTO) mechanism. These vehicles are designed as "key guarantors" that electricity will be generated into the grid on a competitive, commercial and consumer-oriented basis. On the other hand, when completed, the NIPP plants will be managed under Operation and Maintenance (O & M) contracts now being prepared by the Niger Delta Power Holding Company (NDPHC), the parent company of these plants. The mode and strategy for their subsequent divestiture will then be communicated once the plants have been commissioned.

Given that the national grid is not one that can be readily opened up to competition due to national security considerations, the Transmission Company of Nigeria (TCN) is to be handed over to a credible private sector company under a five-year management contract. Manitoba Hydro of Canada was adjudged winner of the bid process for TCN. The management company will oversee the successful commercialisation of the national grid by managing the huge and complex programme of requisite construction and rehabilitation work. The PACP has also approved the establishment of a Transmission Network Development Fund to drive timely provision of long-term and cost-effective financing for grid stability and expansion. This Fund (regulated by the Securities and Exchange Commission) is to be established as an infrastructure fund that will garner long-term financing from the private and public sectors solely for the purpose of investing in TCN's high-voltage transmission grid construction projects and will be repaid directly from the Transmission Use of System (TUOS) charges that are levied at economic rates by TCN for wheeling electricity between generators and distributors, eligible customers and other licensed end-users.

On the other hand, the 11 successor distribution companies are to be privatised, based on a core investor sale of a minimum of fifty-one (51) percent of the government's equity in the companies. This stems from the recognition that the commercial viability of the distribution sector, being the provider of an overwhelm-

ing proportion of industry revenues, is the foundation of market stability and growth. The preferred distribution sale methodology is modelled along the Aggregate Technical, Commercial and Collection (ATC&C) loss reduction model, an approach that emphasizes the reduction of technical and commercial losses and increased efficiency of collections. The bidders are also expected to submit investment proposals on their strategies for meeting the efficiency targets that will be specified in the Requests for Proposals.

ELECTRICITY TARRIFS: BETWEEN THE CART AND THE HORSE

Government is resolved to initiate a cost-reflective tariff structure which "promotes the financial health of companies in the power sector" and secures the financial viability of distribution companies and the entire sector. Section 76 of the ***Electric Power Section Reform Act*** empowers NERC to regulate electric power tariffs using defined methodologies. Accordingly, the NERC established a 15-year tariff path with limited minor reviews each year in the light of changes in a limited number of parameters (such as inflation and gas prices) and major reviews every 5 years. The Multi Year Tariff Order (MYTO) model also incorporates a lifeline tariff specifically for urban poor and rural dwellers, and the constitution of a Power Consumer Assistance Fund through which the system of lifeline tariffs will be administered. NERC issued MYTO 1 effective July 1, 2008 till 30 June 2013. The government however deferred the new tariff structure through a total N177.95 billion subsidy for the three-year transition period. Apparently wary of investors' reluctance to plough funds into the sector, the government further moved to incentivize the process by bringing forward the review period by one year and increasing electricity tariffs. The new tariff regime came into effect on June 1, 2012 towards defraying the actual costs of generating, transmitting and distributing electricity. The Residential Class 1 (the rural and urban poor) will not be charged any fixed charge and will pay N4 per KWH while individually metered consumers (Residential Class 2) pay a fixed N500 monthly charge and energy charge of N12.87/kWh. The highest industrial consumer is to pay N24.87/kwh. However, critics have countered that the new tariff only made consumers to pay more for non-available power, even as excessive billing has been recorded in the Lagos area and acknowledged by NERC.

http://sweetcrudereports.com/wp-content/uploads/2011/10/Power_Transformer.jpg

A ROADMAP TO NIRVANA?

The power sector reforms are geared towards increased access to electricity services; improved efficiency, affordability, reliability and quality of services, and increased private sector investment to stimulate economic growth. The power roadmap remains one of the most comprehensive and ambitious power sector reform programmes in Nigeria. However, its ability to wrought meaningful progress is an entirely different matter. It will obviously task the will-power of its promoters.

The NIPP projects comprise both gas-fired power plants and transmission lines. When completed, the NIPP projects will add nearly 5,000 MW to the country's generating capacity. Even then, it will not be uhuru. The NIPP's contribution, when realized, will still remain a drop in the ocean when juxtaposed against the 40,000 MW generating target by 2020. This modest target will require investments in power generating capacity alone of at least

USD$ 3.5 billion per annum for the next 10 years. Substantial investments will also have to be made in the other parts of the supply chain (i.e. the fuel-to-power infrastructure and the power transmission and distribution networks). A total of $10 billion per annum represents a conservative estimate of the funding requirement on the whole supply chain to reach this modest target of 40,000 MW by 2020. In fact, according to NERC, by 2017 the power sector will require an average of $20 billion investments per annum to hit 7,500MW capacity, excluding domestic gas investments. Again, the grimness of the power crisis is captured by the fact that even if the new 40,000 MW target were to be met, Nigeria's power capacity per head of population in 2020 would still be less than a quarter of what South Africa currently enjoys. To say that Nigeria's power sector crisis is akin to a national albatross is to state the obvious.

However, by December 2013, total power generation capacity of the existing PHCN power stations is expected to increase, bringing the total capacity to just under 4,500 MW; an addition of 4,775 MW from the NIPP plants; and a substantial (3,300 MW) increase in power generation capacity from IPPs by end-2013. Accordingly, the medium term expectation is that about 14,000 MW of power generation capacity will be available by December 2013. On transmission, government's target is to raise transmission capacity from 330kv to 700kv. An investment of $3.5 billion has been made for a 700kv project that would enable power generation companies to transmit more than 6000MW of electricity. Manitoba Hydro will however be responsible for significant investments in the expansion, reliability and stability of the network infrastructure. The immediate distribution target is to increase the capability of the distribution network by 20%, reduce aggregate technical and non-technical distribution losses, and secure a noticeable increase in the average number of hours of electricity supplied to consumers.

Some milestones have been recorded under the Roadmap. For example, an enabling legal and regulatory environment has been created through the signing of the Electric Power Sector Reform Act on 11th March, 2005 and the establishment of NERC on 31st October, 2005 to support competitive markets in electricity. Following alleged malfeasance, its top executives were dismissed and handed over to the Economic and Financial Crimes Commission (EFCC) for prosecution while a new set of managers were empanelled. A new Director-General was also appointed for the BPE, all designed to reassure investors and other stakeholders.

The much vilified NEPA has transmuted into PHCN, even as the latter has been unbundled into 18 units comprising six power generating companies (GENCOs), 11 distribution companies (DISCOs), and an independent transmission company. These successor companies are already being privatized, with government at pains to reassure stakeholders that the entire process is devoid of undue influence and interference. A Rural Electrification Agency has been set up to cater for the energy needs of the rural areas. Meanwhile, the NERC has attempted to lure investors into the industry through a cost-reflective tariff regime, notwithstanding concerns by some stakeholders.

In line with the policy thrust aimed at ensuring Open access to transmission and distribution wires and the ability to trade power between buyers and sellers in an open market, the Nigerian Bulk Electricity Trading Company PLC has been incorporated and will be funded to negotiate appropriate power purchase agreements (PPAs) with successor generating companies and existing IPPs as well as with potential new entrants into the power generating market.


Kainji Dam, Niger State, Nigeria

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The World Bank Partial Risk Guarantee (PRG) will provide credit support to the Bulk Trader as it enters into the PPAs. This is to assist in mitigating critical government, commercial and regulatory risks that the private sector would be reluctant to assume in the course of the privatization of the power sector. The bulk trader will cease to exist when the DISCOs have gained credit-worthiness to purchase power on their own. Similar World Bank Guarantees are also being put in place for existing and proposed gas supply agreements through the Nigerian Electricity and Gas Improvement Programme (NEGIP). Applications have been forwarded by the BPE to the World Bank in respect of some Independent Power Project (IPPs). The Nigerian Electricity Liability Management Company (NELMCO) has also been established to assume the non-operating assets and liabilities of the privatised government assets, ensuring that the new managers of former state assets are not encumbered by unresolved liabilities.

Only recently, the NERC deregulated electricity generation and distribution, paving the way for states and local councils to generate and distribute electricity within their areas. The deregulation came via two new regulations issued by the Nigerian Electricity Regulatory Commission (NERC) - the NERC Regulation on Embedded Generation 2012 and the NERC Regulation for Independent Electricity Distribution. The implication is that states and local councils with enough financial capability can take advantage of the regulations to provide adequate power for their constituents. A Labour Committee chaired by Labour Minister Chukwuemeka Wogu has been set up by the Presidential Action Committee on Power to ensure that the government fully honours all obligations to PHCN workers before new investors assume control of the legacy companies, though NELMCO will be legally obliged to settle any outstanding liabilities. N200 billion has been slated for payment of emoluments.

CONCLUSION

Many stakeholders are agreed that privatization of the power sector - a growing trend in most jurisdictions - is the way to go. The power sector reform programme is aimed to open up the electricity supply sector to massive injection of private sector funds by incentivizing the industry through a potpourri of initiatives, chiefly the privatization of the sector, enthronement of strong legal and regulatory regime, and adoption of cost-reflective pricing. Aside from enabling government to channel scarce resources to other socio-economic services, the move will stem corruption and waste while ensuring efficiency through appropriate corporate governance and market-driven outcomes. While some milestones have been recorded as envisaged under the ***Electric Power Sector Reform Act*** and the ***Roadmap to Power Sector Reform***, it is trite that the journey towards stable and sustainable power supply in Nigeria has merely begun.

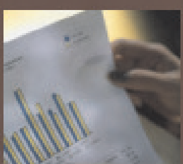
For one thing, several NIPP projects are yet uncompleted while poor planning has kept the completed projects on their knees due to lack of gas to power the plants. Timelines have been missed and are now being revised. Some of the special purpose vehicles set up to tackle key issues in the unbundling process are yet to effectively take off. While new tariffs have been issued to leap frog investment in the power sector, disquiet persists among end-users. Government's plan to generate 75% of the nation's electricity from natural gas with its deposit of 184 trillion cubic feet may also be jeopardized by a poor pricing regime. Capacity building is critical for optimizing the NIPP projects, even as the government must speedily and effectively resolve all lingering labour issues emanating from the unbundling process, if only to reassure investors. Alternative sources of power supply must be explored while renewable energy options must form a critical part of the reform agenda.

Government envisages that carrying through the power reforms will spur the kind of growth that saw the telecommunications industry shoot up from less than 500,000 lines to over 70 million. Jonathan has declared that "The work of building a prosperous Nigeria cannot be done if our factories continue to run on generators." It remains to be seen whether the requisite political will could be deployed to drive through the reforms.

*(*__Emeka Nwadioke__, a former banker, is the Lead Partner at Emeka Nwadioke & Co., a full service law firm practising out of Lagos.)*







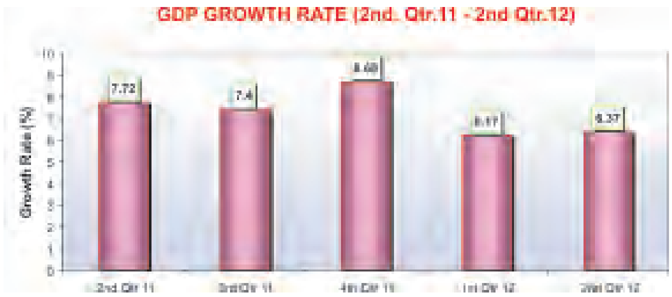

Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

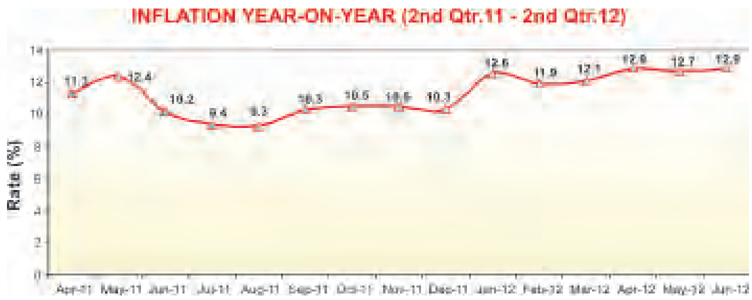
The Nigerian economy recorded a strong performance in the second quarter of 2012 despite some setbacks in the domestic and global economic environment. Some of the key indicators witnessed remarkable improvements while others experienced a lull. Gross Domestic Product (GDP), for instance grew at a faster rate than in the preceding quarter. External reserves rebounded to healthier levels. The nation's currency, the naira, remained steady against other major currencies. In the capital market, stock prices bounced back to recover some of their earlier losses. The Monetary Policy Rate remained steady all through the quarter. However, inflation figure edged up slightly, remaining way above policy makers' single digit target. Crude oil prices in the international market plummeted, in line with slowing global economic growth.

GROSS DOMESTIC PRODUCT

Growth in Gross Domestic Product (GDP) in the second quarter was estimated at 6.37 percent, higher than the 6.17 percent recorded in the preceding quarter. Real GDP growth continued to be driven by the non-oil sector of the economy. Despite being a pre-farming period in most regions of the country, timely arrival of rains in the far North, as well as intensive weeding and fertilizer applications in the southern parts ensured that agriculture continued its dominance as major contributor of GDP. For the oil sector, benefits of the Amnesty Deal with Niger Delta militants continue to yield the desired results, with oil output jumping 29.9 percent between May and June. Real GDP growth in 2012 is projected at 6.38 percent, slightly higher than the 7.74 percent recorded in 2011.



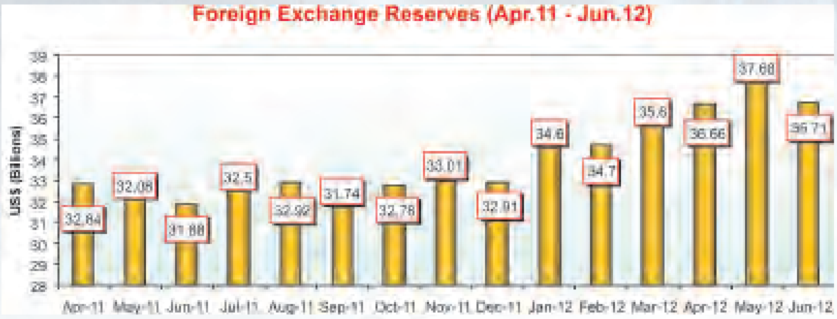
Source: National Bureau of Statistics



Source: National Bureau of Statistics

INFLATION

The Year-on-Year inflation rate notched up slightly during second quarter 2011, showing a mixed trend but with relative stability maintained. The headline inflation rate ended the quarter at 12.9 percent in June. Inflationary pressures had resurfaced earlier in April due to soaring prices of some food items like bread, cereals, meat, fish, vegetables, potatoes, yam and other tubers. However, the upward movement in prices moderated in May due to relatively weaker liquidity in the economy. Despite this slowdown, higher prices of clothing, education materials, transportation, electricity, gas and other items resurfaced in June. Core inflation was also up slightly in May and June despite easing in April. Inflationary risk remains a threat in the months ahead due to the recent upward review in electricity tariffs; import duty on wheat and rice as well as the anticipated capital releases from the 2012 budget.

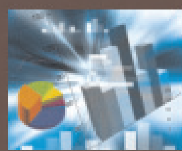
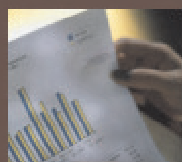


Source: Central Bank of Nigeria

EXTERNAL RESERVES

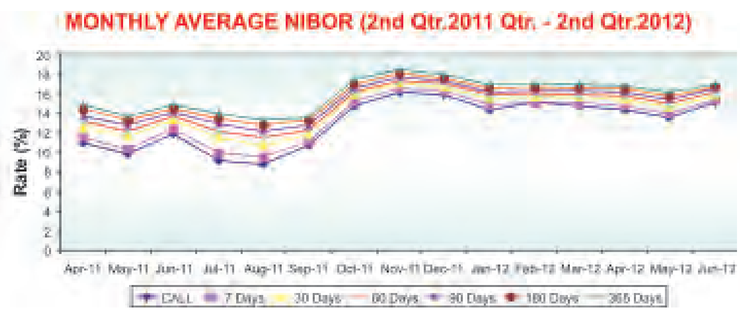
The nation's external reserves continued to swell during the second quarter 2012 despite a bearish phase in crude oil prices in the international markets. External reserves bounced back strongly to a 21 month high of $37billion within the quarter, recovering about $2billion during the period despite continuous withdrawals. The buildup was due to inflows of capital in response to the removal of restrictions on repatriation, favourable crude oil prices and relative calm in the currency market. Leakages however remain as the stock of external reserves plunged back to $36.7billion as at end June 2012, capable of financing about 8 months worth of imports. In the short to medium term, the authorities project improvements in the stock of external reserves as a result of higher crude oil prices and output.



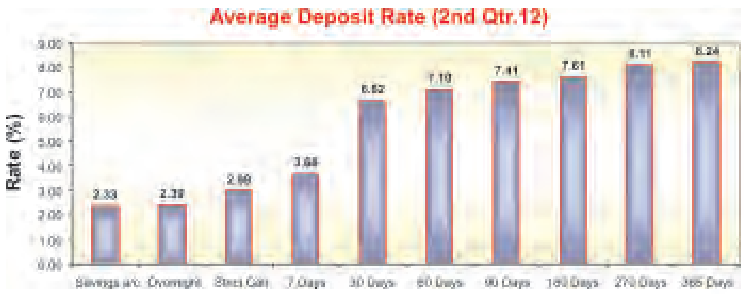





INTEREST RATE

In line with market expectations, the CBN maintained its accommodative stance and kept its benchmark rate unchanged for the fourth time running in its May 21st and 22nd Monetary Policy Committee meeting. The Monetary Policy Rate (MPR) was kept at 12 percent, its levels since the 275 basis points hike in October 2011 in efforts to hold back inflation.

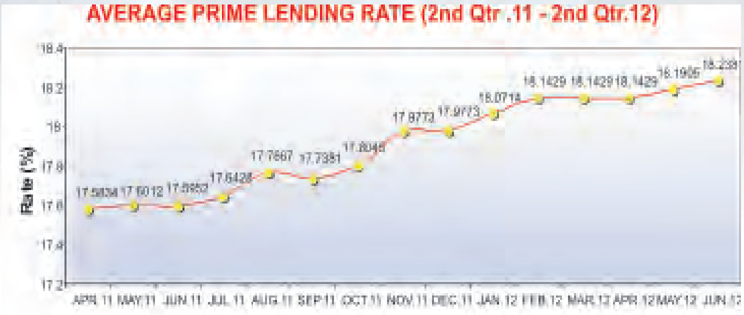


Source: Financial Markets Dealers Association of Nigeria (FMDA)



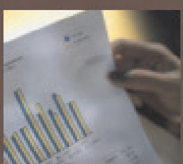
Source: Financial Markets Dealers Association of Nigeria (FMDA)

The average interbank rate witnessed some volatility in the second quarter of 2012. Volatility was higher on shorter term tenors due to aggressive mop up activities by the CBN. For instance, rates on the call and 7 Days tenors hit as high as 15.46 percent and 15.79 percent, respectively, in April and as low as 10.63 percent and 11.66 percent in May. Rates eased in May due to N626billion inflows from Statutory Revenue Allocation and maturing Treasuring Bills of N130billion. However, rates shot back up in June due to liquidity squeeze.

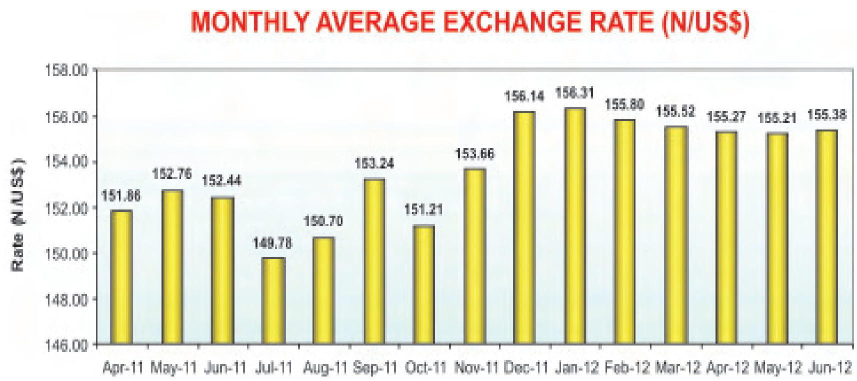


Source: Financial Markets Dealers Association of Nigeria (FMDA)

The average Prime Lending Rate (PLR) remained relatively stable during the period, hovering around 18 percent and a reflection of the risk premium banks are prepared to lend at. Returns on the average deposit rate went up slightly across most investment horizons, with volatility higher on the overnight, 60 Days and 180 Days tenors.



EXCHANGE RATE

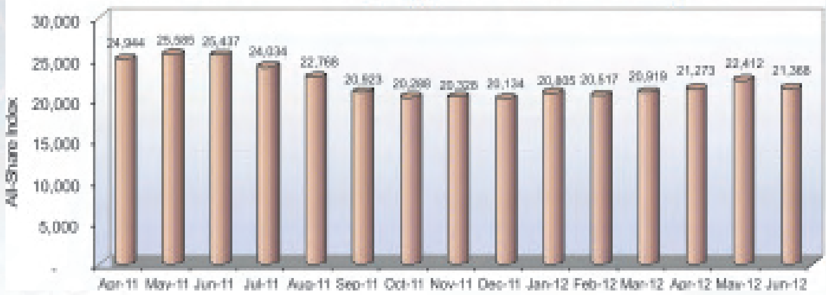


Source: Central Bank of Nigeria

The nation's currency, the naira finished virtually flat in second quarter 2012, remaining fairly stable against other major currencies. It finished the period at about N155.94/US$.The naira witnessed volatile movements against the US dollar, hitting a three and half month low in the interbank market in June. Earlier in May, the nation's currency was hit with severe turbulence with pressure coming from the downstream oil marketers; importers of finished goods and foreign investors repatriating dividends abroad. Pressure eased however due to foreign investors pouring funds into government securities, combined with sales from the oil majors. The CBN bridged the remaining shortages in its twice weekly auction by offering $5.4billion and selling $5.3billion during the period. By matching demand on several occasions, the CBN relaxed some restrictions on the use of foreign exchange by allowing funds from the official market to be used to negotiate unconfirmed letters of credit. The premium however widened between the official and interbank market from 1 percent as at end March 2012 to 4 percent in June. In the months ahead, the naira is projected to firm up in the short to medium term due to expected higher crude oil prices in the international market.

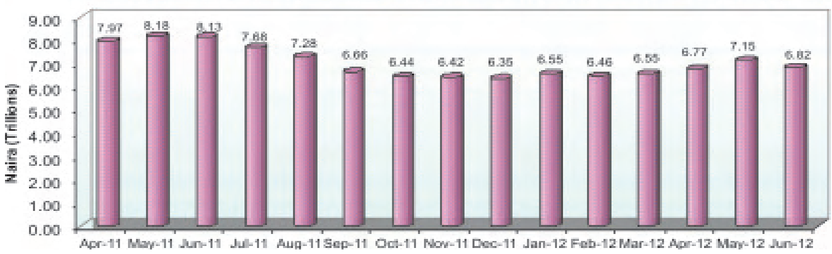
CAPITAL MARKET

ALL SHARE INDEX (ASI) (2nd Qtr.11 - 2nd Qtr.12)



Source: Nigerian Stock Exchange

CAPITALISATION NSE MARKET CAPITALISATION (2nd Qtr.11 - 2nd Qtr.12)



Source: Nigerian Stock Exchange

The capital market got off to a flying start in the second quarter of 2012, finishing higher despite giving back most of its gains in the latter half. It was a brighter end for the market as the All-Share Index (ASI) and market capitalization finished at 21,599.57 and N6.89trillion, respectively from 20,652.47 and N6.54trillion in the previous quarter. But volatilities remained. After posting solid gains in April, the market struggled to make some headway in June as investors dumped risky assets amid growing worries about the House of Representatives committee's investigation into the activities of the Securities and Exchange Commission (SEC). On the positive side, the NSE signed a partnership agreement with NASDAQ OMX as part of its plans to revamp its trading platform. Confidence was further boosted with Dangote Flour Mills and Tiger Brands announcing possible business collaboration. Market sentiments remained high as a number of quoted companies such as Mobil; Total; Dangote Cement; MRS; First Bank; Berger Paints and UAC paid impressive dividends of N5.00; N7.00; N1.25; 75kobo; 80kobo; 70kobo and 60kobo, respectively. Fundamentals remained strong as the NSE readmitted one of the rescued banks on the daily official listings following a reorganisation in its share capital. In the international capital market, investors remained enthusiastic about Nigeria's Eurobond due to renewed concerns about Sovereign Debt in the Eurozone.

Facts & Figures

OIL & GAS

Crude oil prices failed to live up to its initial promise, giving up some gains in the second quarter 2012. Oil prices have fallen more than 20 percent from their peak in May, dipping to $78 a barrel in June. It was a roller coaster ride for oil prices, hitting $114 a barrel in May and tumbling about 30 percent to an eight month low in June. Nigeria's brand of crude oil, bonny light, lost about $37 per barrel in price, trading within a band of $127-$90 per barrel. Industry analysts attribute the price reversal to worries that the rest of Europe would follow Spain and the UK into recession. The slowdown in the world's powerhouse economies – US and China; quick return of Libyan crude to the market as well as the diplomatic progress being made over access to Iran's nuclear facilities were other factors that dragged down oil prices. In their 13th International Oil Summit in Paris, France, OPEC attributed the downturn to imbalances in the market with supply outstripping demand by more than 1 million barrels a day on average. Crude oil price are nevertheless expected to remain bullish in 2012, hovering around $100 a barrel.

Oil Prices: Monthly Average Price Movements (2nd Qtr.11 - 2nd Qtr.12)