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Driving Wealth Creation Through Reforms

Zenith Economic Quarterly

C O N T E N T S

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Information Technology and Wealth Creation

Adam Smith's remarkable book 'An Inquiry into the Nature and Causes of the Wealth of Nations' published in 1776 changed mankind's understanding of the economic world perhaps in the same proportion as the nineteenth century discoveries of scientists like Isaac Newton and Albert Einstein changed man's understanding of the physical world. His examples remain just as dramatic today as they were then.

As human society progressed from the hunter-gathering, through agriculture, to industrial age, so did the mode of economic production. And then, scientific discoveries raised the stakes. With the advent of the information society and due to the accelerated globalization process of the last few decades, "***Information*" and "*Knowledge*"** have become the decisive factors in differentiating wealth creating capacities and thus, determination of a nation's ***competitiveness.***

Hitherto, wealth creation looked to 'resources beneath the feet' and to industrial production. Today, information technology, IT skills, 'resources in the brain' make the difference. Along with this has been the development of e-technology (e-awareness), e-industry (e-infrastructure) and e-society (e-readiness). And as economies become differentiated by these IT features – the often quoted 'digital divide'- wealth creating capacities manifestly differ, so do the wealth of nations!

> **Hitherto, wealth creation looked to 'resources beneath the feet' and to industrial production, today information technology, 'resources in the brain' make the difference. Along with this has been the development of e-technology (e-awareness), e-industry (e-infrastructure) and e-society (e-readiness).**

Different countries have pursued economic development from different perspectives with considerable success. Imagine the Japan of today and in the 1970s, or India's software development industry which thrives on major outsourcing from the USA market. Then Singapore and now China.

Unfortunately, less developed economies still continue to grapple with the burden of reviving their wealth creating capacities which are mostly natural resources and industrial-production indexed. On the other hand, developed economies have continued to widen the gap largely through innovations in information technology.

Nigeria's recent reform efforts have focused largely on bridging the many dimensions of this 'digital divide'- infrastructure issues – telecommunications, road, transport, power, and social infrastructure. Other areas include the public sector reform, privatization, the financial services sector – pensions, mortgage, public debts (local and external), insurance, capital market, banking sector and information and communications technology infrastructure backbone. As with all reform efforts, gestation period can be difficult to accommodate. Hopefully, Nigeria's current experience would be different – ask the local contractors who have just been paid, or the pensioner who is eagerly looking forward to collecting his cheque for the pension arrears in August, 2006.

This edition of the ZEQ focuses in a somewhat generic manner on 'Driving Wealth Creation through Reforms'. The overarching intent is a recognition of what effect the ongoing reforms has had and continues to have on the various sectors of the economy, especially the financial services sector.

The editorial contribution on the pensions scheme is to highlight the basis of the ongoing fundamental restructuring of the pensions system and its expected impact on the hitherto neglected pensioner whose efforts helped bake the pie years past. Marcel Okeke's periscope titled: 'Economy: coasting to destination' summarises significant half year developments in the economy that would positively impact wealth creation nationwide. Vincent Nwanma's article on the 'Capital Market as a Store of Value' demonstrates the role capital markets play in storing value and also in facilitating the expansion of productive capacities in a nation. Eunice Sampson's 'global watch' focuses on the global dimensions of the capital market and wealth creation.

Jim Ovia's piece on IT deployment exemplifies Nigerian banks' effort, in the midst of infrastructure constraints, at 'bridging the digital divide while adopting global best practices in service delivery. Muse's piece highlights the importance of regulation through supervision and control in the banking sector as a tool for ordered development.

The article by Toni Kan Onwordi draws attention to the widening scope and benefits of bilateral relations in Nigeria's search for growth in global trade. The focus this time is Nigeria-Canada relations. Following on our spotlight on the emergence of China as a global force, both politically and economically and its implications on trade with Nigeria, Yomi Makanjuola considers the linguistic implication of China's rise to prominence on the global stage.

Finally Alvaro Vargas' piece highlights how the disenfranchised can be engaged in wealth creation, while Shkolnikov presents an institutional reform approach to corporate social responsibility. As usual the 'facts and figures' segment presents an overview of the economic indicators in the quarter. We hope you find this an interesting reading.

Just to mention that we have included the balance sheet of Zenith Bank Plc as at June 30, 2006. A wonderful result indeed!

Chris 'E Onyemenam

Economy: Coasting to DESTINATION

*** By Marcel Okeke**

During the second quarter 2006 and, in fact, all through the first half of the year, reforms continued to make telling impacts on all segments of the Nigerian economy. Specifically, the period was marked by the consummation of the Paris Club debt exit deal, high and rising oil prices, improved fiscal and monetary management, among others—all leading to macroeconomic stability and significantly reduced risks.

Apparently, as a result of this cheering trend, Nigeria was de-listed from the Non-co-operative Countries and Territories (NCCTs) list of the Financial Action Task Force (FATF)—a global anti-money laundering body. This came after Nigeria had enacted a number of laws and established various commissions to enforce sanctions against money laundering and corruption. Nigeria was placed in FATF's list of NCCT in June 2001. Also, during the period under review, about ten Nigerian banks either sealed partnership deals with reputable global financial institutions to manage the country's external reserves or were in the process of doing so. Nine banks in the country, the largest number ever, also made *The Financial Times* Best 1000 Global Banks ranking for 2006.

EXTERNAL DEBT/FOREIGN RESERVES

During the second quarter 2006, Nigeria finally exited its indebtedness to the Paris Club, following the approval of its Policy Support Instrument (PSI) by the International Monetary Fund (IMF); it made the final tranche payment of $4.6 billion to the Club. With this development, Nigeria's external debt stock which stood at about $35 billion mid-2005 dropped to only $4.847 billion as at end-June 2006. All together, the Paris Club debt exit deal saw $18 billion, representing 60 per cent of the ($30 billion) debt forgiven and the remaining $12.4 billion bought back.

Following the debt exit deal, the Federal Government has approved external borrowing ceilings of $3 billion for 2006, $1.5 billion and $2 billion for 2007 and 2008 respectively. This is to forestall frivolous external borrowings at the federal and state levels. In fact, a committee headed by the Finance Minister has been set up to scrutinize all proposals of federal ministries and agencies for foreign borrowings in 2006, in other to institutionalize the co-ordination of their borrowing activities. In addition to all these, the Federal Government also during the quarter under review, had set in motion, machinery for the settlement of its debt to the London Club as well as other multilateral agencies. Towards this end, the Federal Government has invited proposals from reputable financial advisory services firms to help determine a number of suitable options. As at end-June 2006, Nigeria's indebtedness to the London Club stood at about $1.4 billion.

While the Federal Government was taking these steps to free the country completely from the pangs of foreign debt, the nation's foreign reserves continued to grow in leaps and bounds, driven mainly by the fortuitous and consistent rise in the prices of crude oil in the international market. Thus, Nigeria's gross external reserves which stood at $28.28 billion as at end-December 2005, rose to $36.06 billion by the close of first quarter 2006. Despite the significant draw-down from the reserves for the last tranche payment in the Paris Club debt exit deal in April, the reserves hit $36.63 billion by the close of the second quarter 2006.The stock of external reserves is expected to increase even further in the months ahead as Nigeria pays off/buys back her remaining chunk of foreign debt.

Nigerian banks in partnership with foreign banks

	Nigerian Banks	Foreign Partners	Origin
1.	Zenith Bank	JP Morgan Chase	US
2.	First Bank	HSBC	UK
3.	Access Bank	FMO	Netherlands
4.	GTB	Morgan Stanley	US
5.	Union Bank	Merril Lynch	US
6.	IBTC	Credit Suisse	US
7.	INTERCONTINENTAL BANK	BNP Paribas	France
8.	BANK PHB	Fortis Group	Belgium
9.	Oceanic Bank	Commerz Bank AG	German
10.	Diamond Bank	CAIML	UK

Source: R, EI&FEG

FINANCE/BANKING

Developments in the banking and finance sector in the second quarter 2006 were driven mainly by the fallouts of the first phase of banking industry consolidation which ended in December 2005. These include the processes of acquisition/disposal or liquidation of the 14 banks that could not meet the December 2005 re-capitalization deadline, implementation of some monetary management policies as well as the nurturing of the bond market. The re-capitalization efforts of some insurance companies also impacted activities, especially in the capital market, during the quarter. The Central Bank of Nigeria finally implemented the long-awaited enhanced Financial Analysis and Surveillance System (e-FASS), which enables it monitor daily transactions in all the 25 banks in Nigeria.

Frantic efforts by some banks to secure partnerships with reputable global financial institutions preparatory to partaking in the management of the nation's foreign reserves intensified during the quarter. By end-June 2006, no less than 10 banks in the country had consummated strategic alliances with such global banks. The list includes Zenith Bank, First Bank, Access Bank, Guaranty Trust Bank, Union Bank, IBTC-Chartered Bank. Others are Intercontinental Bank, Bank PHB, Oceanic Bank, Diamond Bank and First City Monument Bank.

But while the alliances were being forged between a number of local banks and their foreign counterparts, the CBN in June issued a guideline, detailing the stature and standards the partnering banks must attain. Highlights of these include that the foreign partner must have a minimum track record of five years in the provision of custodial and/asset management services as well as have A-ratings by reputable international rating agencies. The bank must have also secured custodian/asset management approval by relevant off-shore regulatory authorities, among others.

During the quarter under review, *The Banker Magazine,* an arm of the *Financial Times Group,* made public, the result of its survey which showed that nine Nigerian banks numbered among the world's top 1000 banks in 2006. The ranking was based on Tier 1 Capital of banks as defined by Basel's Bank for International Settlement (BIS). Tier 1 capital includes common stock, disclosed reserves and retained earnings and in the case of consolidated accounts, minority interests in the equity of subsidiaries that are less than wholly owned. The following banks in Nigeria made the 2006 list in the order of their ranking: First Bank of Nigeria Plc (784), Union Bank of Nigeria Plc (797), Zenith Bank Plc (857), IBTC-Chartered Bank (863), Intercontinental Bank Plc (877), Spring Bank Plc (888), Guaranty Trust

CBN Guidelines for Foreign Reserve Management

	Foreign Bank (Custodian)	**Foreign Bank** (Asset Managers)	**Local Banks** (to manage a portion of reserve)
1.	Has a minimum long and short term ratings of AA - and AA+, respectively, in the case of a custodian, or A and A+, respectively in the case of asset manager by any two international rating agencies of Standard & Poor's, Fitch and Moody's	Must have "foreign bank + subsidiary/branch in Nigeria + partnership with local banks.	a minimum of $1 billion shareholders' funds
2.	Has minimum track record of five years in the provision of custodian and/or asset management services;	In respect of asset management and deposit mandate, "foreign bank + no branch in Nigeria + partnership with local bank."	A branch/subsidiary in OECD country whose currency is convertible
3.	Maintain at least a subsidiary in any of the OCED countries where the currency is freely convertible;	For deposit placement and asset management mandate, "foreign bank + no branch + no branch in Nigeria + no partnership with local bank."	A credit rating by two of the three international rating agencies- Standard and Poor, Moody's and Fitch
4.	Custody/asset management approval by relevant off -shore regulatory authority.	For asset management mandate, "asset manager (not a bank) + no branch in Nigeria + no partnership with local bank"	
5.	Must enter into a strategic alliance in form of a partnership but preferably a Joint Venture arrangement with at least one local bank in order to develop internal capacity in asset management (investment strategy, currency/risk management, savings & retirement plans, technical support, etc)		
6.	The joint venture should include incorporation of a company either in Nigeria or OECD countries and the memorandum should spell out clearly the responsibility of each partner and the joint responsibility		

Source: R, EI&FEG

Bank Plc (918), First Inland Bank Plc (975) and Oceanic Bank Plc (995).

Further to the microfinance policy introduced by the CBN in December 2005, the apex bank during the quarter under review, gave approval-in-principle to about seven NGOs that wished to set up Microfinance Institutions. Licenses would however be issued to these organizations after they have fully met all the operational requirements which include a minimum capital base of N20 million. Each of them must also produce an institutional assessment report, based on the works of a reputable, CBN-certified rating agency as well as a detailed feasibility report and a five-year business plan, among others. To date, about 75, out of the 759 community banks have met the N20 million capital base requirement for MFIs.

In pursuit of its tight monetary management stance, the Central Bank of Nigeria during the quarter, adjusted upwards, the Minimum Rediscount Rate (MRR) by 100 basis points—from 13 per cent to 14 per cent. The MRR is the nominal anchor of all interest rates in the economy; and so, the latest measure portends upward review of interest rates in the market. The MRR was last reviewed by the CBN in February 2005, when it was cut from 15 per cent to 13 per cent. Consequently, banks' maximum lending rate had officially remained at the MRR plus 4 percent (i.e. 17 per cent). With the latest adjustment in MRR, the maximum lending rate moves to 18 per cent.

The foreign exchange market liberalization effort of the CBN continued to take shape during the period under review, with many banks opening their Bureaux de Change (BDCs) windows/outlets as part of their financial products. In furtherance of this, the CBN not only sold $50 million to the BDCs weekly, but also authorized banks to sell forex cash directly to them at exchange rates determined by the inter-bank forex market. This, among other measures, accounted for the significant narrowing of the premium between the Naira exchange rate in the official/inter-bank and parallel markets—leading to the virtual disappearance of the gap in the first week of July 2006. That week, the national currency exchanged at N129 to $1 and N128.6 to $1 at the 'black' and official markets respectively.

In the capital market, the second quarter saw the official release of the results of Zenith Bank's jumbo public offer for subscription which closed March 20. Although the three billion shares at N16.90 per share offer was to raise N50.7 billion, it ended up recording a 105.78 per cent subscription level and raking in N53.63 billion. Overall, portfolio re-alignments arising from the banking sector consolidation boosted trading on the Nigerian Stock Exchange (NSE) during the first half of the year, with transactions in bank shares standing at 9.13 billion units valued at N93.6 billion. In volume terms, this amounted to 74.1 per cent of the total volume traded.

The Securities and Exchange Commission (SEC) had on March 20, ordered the de-listing of acquired and merged banks from the official list of the NSE – with April 18, 2006 as deadline. Consequently, by end-June 2006, the following banks had been dropped from the official list of the NSE: African Express Bank, Gulf Bank, Hallmark Bank, Liberty Bank Savannah Bank and Trade Bank. Others include Cooperative Development Bank, Lion Bank, IMB International Bank, Inland Bank and First Atlantic Bank. For the insurance companies, negotiations for a number of mergers and acquisitions were still ongoing during the quarter; other operators engaged in hybrid offers to raise funds in the capital market, to beat the February 2007 re-capitalization deadline set for the industry.

Activities in the bond segment of the capital market remained upbeat all through the quarter under review—with the first phase of the issuance of the 3rd FGN bonds which began in January to raise a total of N155 billion closing in June 2006.

• *A coal miner in action*

Schedule for the Issuance of the 3rd FGN Bond (Jan—June 2006)

MONTH	AMOUNT ON OFFER	TENOR	OPENING DATE	CLOSING DATE
JANUARY	N25 BILLION	3 YEAR	JAN 23, 2006	JAN 25, 2006
FEBRUARY	N10 BILLION	3 YEAR	FEB 20, 2006	FEB 22, 2006
FEBRUARY	N20 BILLION	5 YEAR	FEB 20, 2006	FEB 22, 2006
MARCH	N10 BILLION	3 YEAR	MAR 27, 2006	MAR 29, 2006
MARCH	N20 BILLION	5 YEAR	MAR 27, 2006	MAR 29, 2006
APRIL	N10 BILLION	3 YEAR	APR 24, 2006	APR 26, 2006
APRIL	N20 BILLION	5 YEAR	APR 24, 2006	APR 26, 2006
MAY	N20 BILLION	5 YEAR	MAY 22, 2006	MAY 24, 2006
JUNE	N20 BILLION	7 YEAR	JUN 26, 2006	JUN 28, 2006

Source: Debt Management Office, Abuja

In its determination to develop the bond market, the Debt Management Office (DMO), after a rigorous selection process, gave approval to 15 financial institutions comprising 10 banks and 5 discount houses to perform the function of Primary Dealers/Market Makers (PDMM) in the FGN Bonds. These PDMMs have since been inaugurated and commenced operations. On its part, the Nigerian Stock Exchange (NSE) carried out an investment road show in Atlanta, Georgia, US, during which it invited Americans and Nigerians in Diaspora to take advantage of the ongoing reforms in Nigeria to invest in the country.

OIL & SOLID MINERALS

The 2006 mini licensing round for oil and gas blocs took place during the quarter under review, and recorded about 12 bidders—mainly multinational oil exploration and production companies. The blocs put on offer included nine oil prospecting leases (OPLs), being 50 per cent of the blocs relinquished by the operators of the 1993 and 1998 production sharing contracts (PSCs) in adherence to existing regulations. Four other OPLs from the 2005 bid round, whose winners defaulted, were also on offer. In pursuit of the local content initiative, the technical committee on the licensing round ensured that Local Content Vehicles (LCVs) were attached to the oil blocs.

Organizations that participated in the bid round include the Chinese National Petroleum Corporation (CNPC), ONGC of India, BG-Sahara, Cleanwaters Consortium, Ni-Delta United Oil Company and ONGC Mittal. Others were Global Steel Holding, INC Natural Resources Exploration, Transnational Corporation, NAOC/Lotus, ONGC Videsh, and CPC/Starcrest Energy. A gross earning of about $20.55 billion was expected from the concession of the oil blocs in the mini bid round—mainly from application fees, data prying fees, bid processing charges, seismic data lease as well as reports data lease charges. By the close of the second quarter 2006, processes leading to the signing of production sharing contract (PSC) between the Nigerian National Petroleum Corporation (NNPC) and winners of oil blocs during the bid round had commenced.

During the second quarter 2006, prices of crude oil rose markedly in the international oil market, with Nigeria's reference crude, the Bonny Light, recording appreciable leap. While the price stood at an average of $62.5 per barrel by end-March 2006, it had risen to $72.3 per barrel by June. Crude oil production, including condensates and natural gas inched up from 2.2 million barrels per day (mbd) to 2.3 million mbd between March and June. The phenomenal rise in the prices of crude oil in the international market was attributable to the high and rising demand in the United States of America, China and India, anxiety over supply disruptions in Nigeria as well as speculations on the likely impact of the row between Iraq and the international community on account of her nuclear programme.

Processes leading to a downstream gas sector law also commenced during the second quarter 2006. The law aims to establish a Gas Regulatory Commission, a Nigerian Gas Transportation Company and a Nigerian Gas Marketing Company. It will also provide a separate legal and regulatory regime for the downstream gas sector to recognize gas as being distinct from oil. Nigeria's natural gas reserves are estimated at 177 trillion cubic feet, placing the country among the top 10 countries with the largest gas resources in the world.

Nigeria 2006 Mini Bid Round (Flag Off: April 2006)

MAIN INVITEES	IDENTITY	RATIONALE	KEY LEASES
ONGC/VIDESH	Indian State Oil Company/Indian Partner	India lost out in 2005 bid round. Country is putative partner in power, refinery or gas projects in Nigeria	Leases in the bid include: 1) Deepwater - OPL 209 (Out of which the Erha field was carved); OPL 210, OPL 211 (North of Agip's Engule), OPL 212 (out of which Shell's Bonga was carved) OPL 217, OPL 218 (North of Bilah discovered), OPL 252.
ONGC/MITTAL	Indian State Oil Company/Indian Partner		
TRANSCORP	Private Nigerian Company	Transcorp, newly registered has shown keen interest in building a refinery	
AGIP	Italian Major	Constructed the first independent power plant by any major operator in the current dispensation.	
CNPC	China State Hydrocarbon Company	China is a funding partner and contractor in two major (335MW each) power plants in Nigeria	
CLEAN WATERS	Private Nigerian Company	Cleanwater has expressed interest in building a refinery	2) Shelf - OPL 278, OPL 471 OPL 233, OPL 289 & OPL 281
CPC	Taiwan's State Oil Company	Taiwan is in talks with Nigeria in some downstream projects	
Global Steel Holding	Private Indian Operator	Indian companies are favoured because of their country's interest in downstream activities.	

Source: R, EI&FEG

In the solid minerals sub-sector, processes leading to the licensing of mineral blocs and the privatization of parastatals/public-funded mining companies dominated the second quarter 2006. Specifically, in April, a committee was set up to carry out a pre-qualification exercise for the over 100 expressions of interest sequel to an earlier call for same. At the conclusion of the pre-qualification exercise, 12 companies were short-listed to carry out due diligence and bid on the two bitumen blocs on offer. 16 companies were short-listed for bidding on the 10 coal properties, while a total of 32 companies were short-listed for bidding on the various titles previously held by the Nigerian Mining Corporation.

The pre-qualified investors comprise companies from the United Kingdom, Canada, China, Malaysia, Australia, Switzerland, Russia and South Africa. The bidding was only for bitumen and coal mineral blocs as well as for ownership of the Nigerian Mining Corporation which oversees the mining of deposits of minerals and precious stones in Nigeria. A further breakdown of the pre-qualified firms show that 8 of them indicated interest in Bitumen Bloc 1 located in Ogun/Ondo state, while 12 of the 16 companies indicated interest in bidding on Bloc 2 located in Ondo state.

The Ministry of Solid Minerals Devel-

Companies Shortlisted for Bitumen and Coal Blocs Bid

S/N	Company	Origin	Bid Category
1.	Canwest Petroleum Corporation	USA/Canada	bitumen blocks
2.	CGCOC/Sinopec	China	,,
3.	Chinese National Petroleum Corporation (CNPC)	China	,,
4.	Ivanhoe Energy	Canada	,,
5.	Markmore Energy	Malaysia	,,
6.	Masefield Group	Ireland	,,
7.	Niger Delta Exploration & Production	Nigeria	,,
8.	Lake Asphalt of Trinidad & Tobago	Trinidad & Tobago	,,
9.	Gateway Bitumen	Nigeria	,,
10.	Associated Bitumen Development	Nigeria	,,
11.	Shebah Exploration & Production	Nigeria	,,
12.	Denca/Guangdong Geology Construction	Nigeria/ China	,,
13.	BHP Billiton	Australia	Coal
14.	JSC Kuzbassrazrezugol	Russia	,,
15.	Enel S.p.A	Italy	,,
16.	Mvela-phanda Resources	South Africa	,,
17.	Ivanhoe Mining	Canada	,,
18.	Aditya Birla Group	Australia	,,
19.	Aquila Resources	Australia	,,
20.	Nordic Industries	Nigeria	,,
21.	Dangote Industries	Nigeria	,,
22.	Global Energy/Shan-duka Resources	Nigeria/South Africa	,,
23.	Global Steel Holdings	Nigeria/India	,,
24.	Owukpa Consolidated Mines	Nigeria	,,
25.	LSC Consortium	Nigeria/South Africa	,,
26.	New Nigerian Develop-ment Company	Nigeria	,,
27.	Proper Technologies	Nigeria	,,
28.	Octa-goncorp	Nigeria	,,

Source: R, EI&FEG

opment (MSMD), as part of its drive to reactivate the sector, had identified about 34 solid minerals in 250 locations across the country. Although this initial bid round focused on bitumen and coal, subsequent ones are billed to cover other minerals that also exist in commercial quantity. The bids are being conducted in accordance with the Nigeria Extractive Industries Transparency Initiative (NEITI) principles to ensure transparency in the process. The Ministry had earlier published a list of successful companies for re-validation of licenses, with a total of 1,450 licenses comprising mining, quarrying and prospecting leases across the states of the federation.

TELECOMMUNICATIONS

The Federal Government, during the quarter under review, issued licenses to four telecoms operators under the emerging 'unified licensing' regime, from which it realized N1.83 billion. The four companies which became the first beneficiaries of the new regime are Multi-Links Telecommunications Limited, Prest Cable and Satellite TV Systems Limited, Intercellular Nigeria Plc and Starcomms Limited. Under the new order, the companies are to operate long distance services, full international gateway, broadband internet and fixed and wireless lines services across the country.

On its part, a newly licensed long-distance operator, *Phase 3 Telecoms,* has unfolded plans to invest $100 million in the construction of its nationwide fibre optic infrastructure, while *ZTE Nigeria* has set up a N1.9 billion handset factory in Abuja. The factory has since rolled out prototype handsets.

The Nigerian Communications Commission (NCC) announced during the quarter under review, a new regime of interconnection rates that is capable of conducing to cheap phone calls. The new rates billed to commence in the third quarter 2006, will end the three-year old charges introduced by the NCC in 2003. Instead of the N5.22 payable to fixed line operators by mobile telephone operators and N11.52 paid by fixed line operators to mobile operators under the old regime, according to the NCC, the interconnection rate for fixed call termination using near-end handover shall be N10.80 while rates for fixed call termination using far-end handover shall be N9.10. The interconnection rate for mobile call termination shall be N11.40.

The Federal Government also during the second quarter, 2006, commenced the process of harmonizing all Information and Communications Technology (ICT) networks embarked upon by all its agencies. The integration project will give birth to a National Information and Communication Infrastructure Backbone to be managed by a new firm, ***Galaxy Backbone plc.*** Projects to be pulled together include the Integrated Financial and Economic Management Information System (IFEMIS), the Integrated Payroll and Personal Information System (IPPIS) and the Public Service Network (PSNet).

• *A power transmission line*

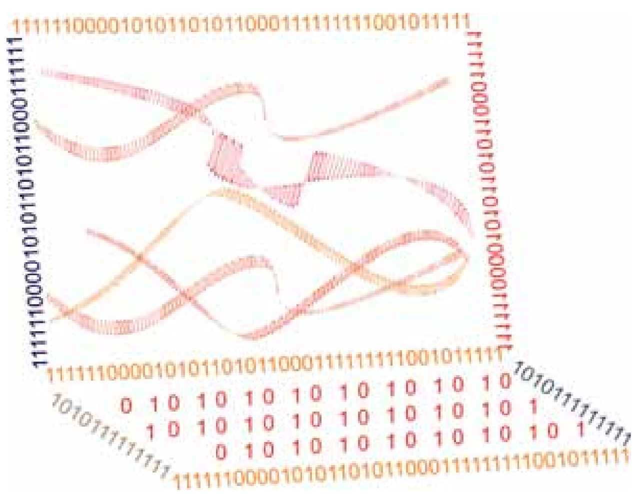
POWER AND STEEL

Further to the incorporation of the 18 successor companies to the Power Holding Company of Nigeria (PHCN), the Federal Government during the quarter under review, continued its efforts at improving power supply nationwide. It released about $3 billion to be spent on a special phased power project to produce 10,000 mega watts of electricity. This initiative covers 12 power stations currently under construction, seven of them across the Niger Delta and an additional five new ones approved for Ondo, Kogi and Abia states. While some stations in the Niger Delta will be due for commissioning by December this year, those in Ondo, Kogi and Abia states would be commissioned next year. These projects are distinct from the Independent Power Projects (IPP) currently being undertaken by some upstream oil companies.

The Federal Government is also investing N33 billion on the National Integrated Power Project (NIPP). Of this amount, N15 billion is for gas pipeline and associated infrastructure, seven new power stations, some transmission lines and associated equipment as well as distribution lines and related equipment.

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

*"The twenty-first century will be about velocity: the speed of business and the speed of change. To stay up with and anticipate change, businesses need radically better information flow. To get a better flow of information to develop the right processes and strategies, they need a digital nervous system…The successful companies of the next decade will be the ones that use digital tools to reinvent the way they work. These companies will make decisions quickly, act efficiently and directly touch their customers in positive ways." Bill Gates, **Business @ the Speed of Thought**.*



IT DEPLOYMENT AS CORPORATE STRATEGY IN REPOSITIONING BANKS IN NIGERIA

*** By Jim Ovia**

In the past few years, banks in Nigeria have increasingly depended on the deployment of Information and Communications Technology (ICT) infrastructure to drive their processes and deliver superior performance to meet and surpass customer expectations. Customers' insatiable appetite for efficient services has compelled financial institutions to make the transition from the traditional 'brick and mortar banking' on to the e-platform and in the process they have occasioned a more radical transformation of their business systems and models by embracing e-banking. With their transition to the e-business, e-commerce and e-banking platform, Nigerian banks are aggressively moving towards reduction of cash transactions.

The Nigerian payments system is still evolving and essentially cash dependent. The over-reliance on cash continues to pose enormous challenges to the system and these challenges have necessitated the need for a reform of the payments system to reduce the level of cash in circulation and move towards a near-cashless society.

To realize this, the Central Bank of Nigeria set up a Sub-Committee on Enhancing the Efficiency of the Nigerian Payments System in February 2004. The sub-committee's mission was: "To create an efficient payments system that deploys reliable, secure and convenient Information and Communication Technology (ICT) tools to satisfy the financial transaction needs of the Nigerian economy."

The sub-committee's aim was to review the existing payment system, explore ways of enhancing it and recommend new instruments.

Since the draft report was submitted to the Bankers' Committee in August 2004, the CBN has taken measures to effect some of the changes. A N1000 (one thousand naira) denomination note has been introduced and coins are forth coming. A new standardized cheque format has been introduced and old cheques would be phased out from September 1, 2006 while the Nigerian Electronic Funds Transfer (NEFT) and NIBBS Fast Funds are already operational. There has also been a noticeable improvement in the use of and proliferation in the number of Automated Teller Machines as well as ATM cards and Point Of Sales (POS) terminals. These two latest developments point to the new direction in the financial services and banking sector where the adoption of ICT tools and migration to an e-platform is reinventing the way banks work.

This paper focuses on how the deployment of information technology has evolved into a key corporate strategy for repositioning banks in Nigeria to meet the challenges of the financial services sector in the information age. Nigerian banks are aggressively moving towards reduction of cash transactions and are now offering e-solutions to customers (e-banking, e-commerce, e-payment) while internet banking is helping to facilitate product innovations and transaction notifications amongst others.

Statistics indicate that the Nigerian banking industry is the highest ICT spender, having committed well over $500 million USD since 2001 into the deployment of ICT infrastructure, hardware, software and solutions far above what the oil and gas industry – Nigeria's largest forex earner - has committed to ICT. Recent and ongoing reforms in the financial services sector are expected to further expand the reach and scope of e-banking.

In line with the recommendations of the CBN's subcommittee on enhancing the efficiency of the payment system, most Nigerian banks are embracing e-banking solutions. E-banking refers to the automated delivery of traditional banking products and services directly to customers through electronic and interactive communication channels. E-banking enables financial institutions, customers, individuals or businesses to access accounts, transact businesses or obtain information on financial products and services through a private network, including the Internet.

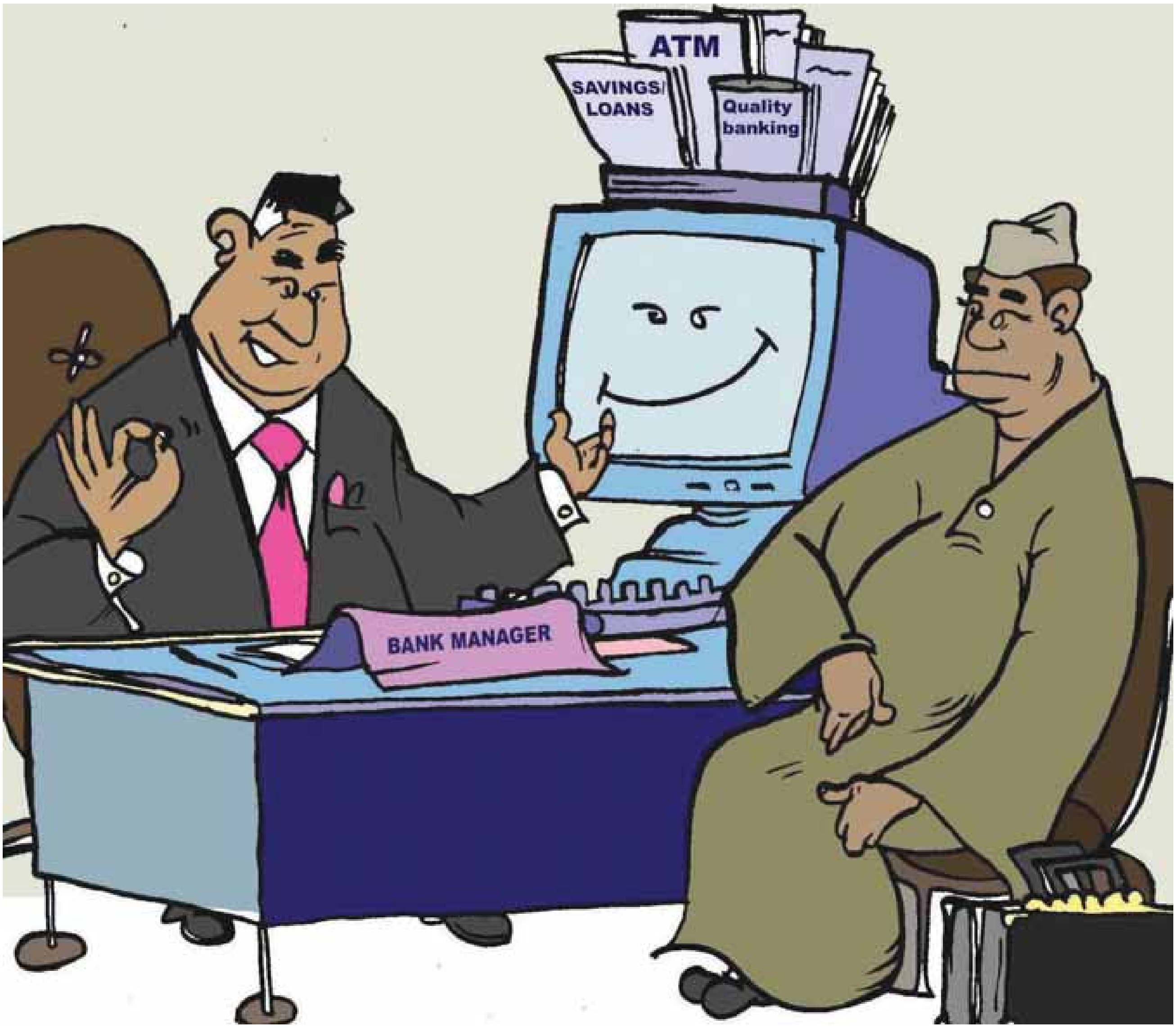
The embrace of e-banking has facilitated the acceptance and use of plastic money. Plastic money as the name implies, refer to electronic cards with chip enabled software that allow the card holder access to his or her bank account through electronic payment medium/media like automatic teller machines (ATMs) or point of sales (POS) terminals etc. In this light, plastic money act as electronic purses or wallets in that they allow the card holder to store value inside the cards in a safe, accessible and efficient way.

PLASTIC MONEY

Plastic money comes in different forms. They can be debit, credit or ATM cards. The important thing is that they reduce the need to carry cash with you and are thus safer and more efficient.

Debit cards:

Debit cards are e-purses and most Nigerian banks now issue them. The number has grown from less than 2000 cards in 2003 to 1.5m in February 2006 with total average



monthly transaction over 1,757,271. But even though the value of transaction has grown exponentially from a mere N630,754 in 2002 to N61.3bn in 2004, less than 2% Nigerians are debit card holders.

Credit Cards:

Credit cards, which provide short term credits acceptable at accredited merchants are also issued by banks in Nigeria. Credit cards are like e-purses but they work differently in the sense that the card holder spends before making payments. Four Nigerian banks are already issuing MasterCard debit cards with over 13,000 cards issued since 2004. Master card is available in Nigeria from six banks with over 9000 cards in use.

ATMs :

Automated Teller Machines (ATMs) are card enabled, automated and customer operated machines which dispense cash as their primary function. They can also be used to make enquiries as well as funds transfers.

ATMs were first introduced into the Nigerian financial services sector in the late 1980s by Societe Generale Bank. First Bank and Equity Bank followed suit in what was a short-lived venture. The venture was hamstrung by factors which include offline mode of transaction, resistance to technology, inadequate and inefficient power supply, and high cost of deployment and dearth of qualified support staff.

The deployment of cutting edge ICT has seen the re-emergence of ATMs in the Nigerian financial services land-

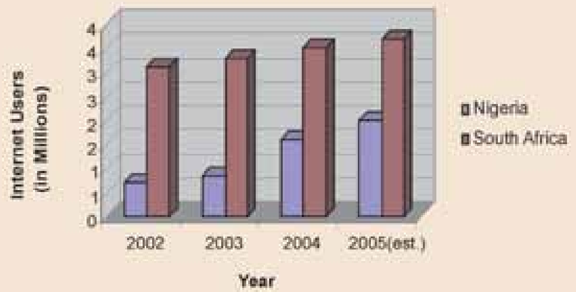
Table 1: ATM Density from selected countries

COUNTRY	POPULATION	ATM PENETRATION
Nigeria	135million	1:300,000
Singapore	4.5million	1:2,000
South Africa	44million	1: 6,079
Malaysia	24.3million	1:5,714

Source: *http://www.cia.gov/cia/publications/factbook/geos*

scape and customers are availing themselves of 24/7 access to cash. Available data from the CBN indicate that the number of ATMs in the country increased from 352 in June 2005 to 900 as at March, 2006. While this growth, which the CBN has attributed to "increased public awareness, introduction of shared ATMs, increased confidence in the system and the higher number of ATMs in use", is remarkable, it is still negligible compared to ATM statistics from other countries and emerging economies as the table above shows.

Chart 1: Internet Growth in Nigeria & South Africa: 2002-2005



(Source: ***www.internetworldstats.com)***

Internet Banking

Internet banking was introduced in Nigeria in 2000 and has since grown in prominence. All banks in Nigeria have fully functional websites and their customers who have registered for e-banking services can transact business online.

Although available statistics also point to an increased traffic and increasing internet penetration in Nigeria, there is still room for growth if Nigerian banking customers are to take full advantage of the opportunities open to them via the internet as other countries like South Africa are already doing. (*See chart.1*)

CONCLUSION

The gains from ICT enabled e-payment solutions indicate that this is the direction for banks to go, although the road to the e-platform is a bumpy ride fraught with challenges and obstacles.

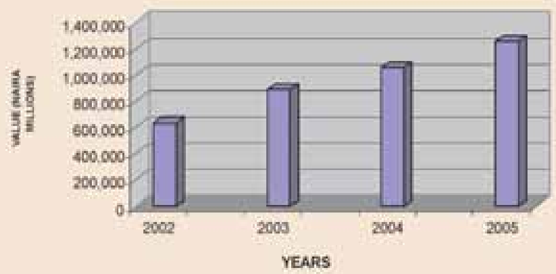
The major challenges facing banks and hindering them from optimally deploying ICT tools to reposition the industry include:

Inadequate ICT Infrastructure: Operating in excruciating BYOI (Buy Your Own Infrastructure) conditions, bank roof tops are usually dotted with VSAT masts installed and maintained by banks in order to meet their ICT needs.

Power outages & Shortage: The problems plaguing the power sector which is manifested in frequent power outages and shortages continue to hinder accelerated ICT deployment.

Inadequate funding: A paucity of funds hinders both operators and service providers from deploying cutting edge ICT infrastructure to facilitate e-banking transactions. A consortium of banks had to pool funds together in order to set up Nigeria's premier switching company, Interswitch.

Chart 2: Value of Card Transactions in Nigeria



Source: CBN and Vanguard Newspapers

High cost of ICT deployment: This is also a major problem exacerbated by high international call tariffs; low bandwidth, inadequate telephone lines and internet access as well as slow internet connection.

Security: Issues of cyber security are causes of major challenges as banks continue to contend with identity thieves, 419 fraudsters, issues of data integrity and protection of customer information as well as threats from hackers, viruses and worms.

(* Jim Ovia is MD/CEO, Zenith Bank Plc.)

The Contributory Pension Scheme: Building A New and Modern Nigeria

Governments around the world are creating management systems that release the resources and energy of their people for growth and sustainable development. Developing countries like Nigeria cannot be an exception to this global trend. The country needs to move away from administrative systems that carry heavy and avoidable overheads. A practical and common example of a dysfunctional policy that requires urgent reformation is the PENSION SCHEME.

PROBLEMS OF EXISTING PENSION SCHEMES

Over the years, pension schemes in Nigeria, in the public service and private sector have been bedeviled by many problems. The public service operates an unfunded Defined Benefits Scheme and the payment of retirement benefits are budgeted annually.

The annual budgetary allocation for pension has been one of the most vulnerable items in budget implementation in the light of resource constraints. Indeed, even where budgetary provisions are made, inadequate and untimely release of funds result in delays and accumulation of arrears. However, arrears of pension payments are only the symptom of a much deeper crisis. As the scheme is unfunded, there is no opportunity for the accumulation of investible funds. Even where funds were accumulated under some parastatals' schemes, restrictive investment policies and practices sometimes limited the capacity of such funds to grow.

Political instability and unstable labour policies in the past had engendered massive premature retirements thus creating an unstable pensioner - to active - worker ratio. In addition, poor administration, inadequate delivery structures for payment and lack of a database of pensioners have resulted in delayed payments of benefits and consequent near destitution of pensioners, adverse publicity in the media and portrayal of society and government as uncaring to the plight of its senior citizens. Such inherent problems of the pension scheme in the country have given rise to insecurity and appeared to have encouraged corruption in the active work force.

With an estimated outstanding pension liabilities nation-wide of about N2 trillion, the Defined Benefits Pension scheme cannot be sustained. The Nigerian Railway Corporation is a classic case of unsustainable relationship between the income generating and non income generating salary earners. The Corporation generates N30 million every month. It pays N250 million to pensioners and N200 million to its regular workers. Then, there is the accumulated teachers pension, itself a consequence of the same skewed pension policy.

Another graphic example is the armed forces, which have more officers and men on the pension roll than those in active service. Many of the retirees were retired in their thirties and forties. This means that they are at the mercy of budgetary constraints for at least thirty years. It is therefore not surprising that the pension crisis in Nigeria has

manifested most dramatically and tragically in the Nigerian Armed Forces, the Railway and the Teaching Services. This also explains, in part, why the existing pension scheme collapsed.

The foregoing scenario, among others, necessitated a re-think of pension administration in Nigeria. To address the issues, this Administration initiated a pension reform in order to address and eliminate the problems associated with the pension schemes.

PENSION REFORM OBJECTIVES AND FEATURES

The main objectives of the reform are to:

• Ensure that every person who has worked in either the public or private sector receives his retirement benefits as and when due;

• Assist improvident individuals by ensuring that they save to cater for their livelihood during old age and thereby reducing old age poverty;

• Ensure that pensioners are not subjected to untold suffering due to inefficient and cumbersome process of pension payment;

• Establish a set of standard rules and regulation for the administration and payment of retirement benefits in the public and private sectors; and

• Stem the growth of outstanding pension liabilities.

The reform process is governed by the key principles of sustainability, safety and security of benefits, transparency, accountability, equity, flexibility, uniformity and practicability.

Under this system, the employees contribute a minimum of 7.5% of their Basic Salary, Housing and Transport Allowances and 2.5% for the Military. Employers shall contribute 7.5% in the case of the Public sector and 12.5% in the case of the Military. Employers and employees in the private sector will contribute a minimum of 7.5% each.

The new Pension Scheme will be contributory, fully funded by both the employer and employee and based on individual accounts that are privately managed by Pension Fund Administrators (PFAs) with the pension fund assets held by Pension Funds Custodians (PFCs).

Furthermore, the scheme will be regulated and supervised by the National Pension Commission (Pencom), to ensure effective administration of pension matters in Nigeria. The Commission will also ensure that the payment and remittance of contributions are made and beneficiaries of retirement savings accounts are paid when due. Above all, the Commission will protect the retirement savings of workers by issuing guidelines for licensing, approving, regulating and monitoring the investment activities of Pension Funds Administrators and Custodians.

Under the Contributory Pension Scheme, the National Pension Commission as the regulator of Pension matters receives and investigates any complaint of impropriety leveled against any pension Fund Administrator, Custodian or Employer or any of their staff or agents. Essentially, the Pencom stands as a watchdog, with the overriding objective of ensuring that all pension matters are administered with minimum exposure to fraud and risk.

HIGHLIGHTS OF THE CONTRIBUTORY PENSION SCHEME IN NIGERIA

BACKGROUND

As is typical worldwide, the Pay As You Go Defined Benefit Scheme that operated in Nigeria was burdened with a lot of problems and became unsustainable. Against the backdrop of an estimated N2 trillion deficit, arbitrary increases in salaries and pensions as well as poor administrative structures, the need for pension reform became glaring.

Contributory System:

Under this system, the employees contribute a minimum of 7.5% of their Basic Salary, Housing and Transport Allowances and 2.5% for the Military. Employers shall contribute 7.5% in the case of the Public sector and 12.5% in the case of the Military. Employers and employees in the private sector will contribute a minimum of 7.5% each. An Employer may elect to contribute on behalf of the employees such that the total contribution shall not be less than 15% of the Basic Salary, Housing and Transport allowances of the employees. An Employer is obliged to deduct and remit contributions to a Custodian within 7 days from the day the employee is paid his salary while the Custodian shall notify the PFA within 24 hours of the receipt of contribution. Contribution and retirement benefits are tax exempt.

Fully Funded:

The contributions are deducted immediately from the salary of the employee and transferred to the relevant retirement savings account. By so doing, the pension funds exist from the onset and payments will be made when due.

Individual Accounts:

The employee opens an account to be known as a 'Retirement Savings Account' in his name with a Pension Fund Administrator of his choice. This individual account belongs to the employee and will remain with him through life. He may change employers or pension fund administrators but the account remains the same. The employee may only withdraw from this account at the age of 50 or upon retirement thereafter. This withdrawal may take the form of:

- A programmed monthly or quarterly withdrawal;
- A purchase of annuity for life through a licensed life insurance company with monthly or quarterly payments; and
- A lump sum from the balance standing to the credit of his retirement savings account: provided that the amount remaining after the lump sum withdrawal shall be sufficient to procure an annuity or fund programmed withdrawals that will produce an amount not less than 50% of his monthly remuneration as at the date of his retirement.

With any of the above options, there is an assurance that the pensioner has sufficient funds available to him for his old age. Although many have contended that at the end of the working period, they should be allowed to collect their savings in one lump sum, experience has shown that very few individuals have the discipline to manage funds effectively over a long period of time. The above was considered a better process than to allow the individual withdraw his accumulated savings at once, spend it all and then have no income when he is no longer in a position to work.

With any of the above options, there is an assurance that the pensioner has sufficient funds available to him for his old age.

Life Insurance Policy

Every employer shall maintain life insurance policy in favour of an employee for a minimum of three times the annual total emolument of the employee.

Privately-Managed Pension Fund Administrators And Pension Funds Custodians

The new scheme requires pension funds to be privately managed by Pension Fund Administrators (PFAs) and Pension Funds Custodians (PFCs).

Pension Fund Administrators (PFAs) will be duly licensed to open retirement savings accounts for employees, invest and manage the pension funds in fixed income securities listed and other instruments as the Commission may from time to time prescribe, maintain books of accounts on all transactions relating to the pension funds managed by it, provide regular information on investment strategy to the employees or beneficiaries and pay retirement benefits to employees in accordance with the provisions of the ACT.

Before it is issued with an operating licence, the PFA must be a limited liability company whose sole objective is the management of pension funds. To discourage frivolous applications and to ensure credibility, such company must have a paid up share capital of N150,000,000 and demonstrate professional capacity to manage pension funds and administer retirement benefits.

Pension Funds Custodians (PFCs) will be responsible for the warehousing of the pension fund assets. It is envisaged that at no time will the PFAs hold the pension funds assets. The employer sends the contributions directly to the Custodian, who notifies the PFA of the receipt of the contribution and the PFA subsequently credits the retirement savings account of the employee.

The Custodian will execute transactions and undertake activities relating to the administration of pension fund investments upon instructions by the PFA.

To be eligible for an operating licence, the Pension Assets Custodian must be a limited liability company incorporated under the Companies and Allied Matters Act and a licensed financial institution. The Custodian shall hold pension fund assets on trust for its clients. For the same reason adduced in the case of the PFA, the Custodian must have a minimum net worth of N5,000, 000, 000 and a total balance sheet of not below N125, 000,000,000 and guaranteed by its shareholders against any loss of the pension fund assets.

THE NATIONAL PENSION COMMISSION

The new Scheme entails the establishment of a National Pension Commission (Pencom), to regulate, supervise and ensure the effective administration of pension matters in Nigeria. The Commission will achieve the above by ensuring that payment and remittance of contributions are made and beneficiaries of retirement savings accounts are paid when due. Above all, the Commission will ensure the safety of the pension funds by issuing guidelines for licensing, approving, regulating and monitoring the investment activities of Pension Funds Administrators.

Under the contributory pension scheme, the National Pension Commission as the regulator of Pension matters shall receive and investigate any complaint of impropriety leveled against any Pension Fund Administrator, Custodian or employer or any of their staff or agents. Basi-

• *The Nigerian Railway Corporation*

cally, the Pencom stands as a watchdog, with the overriding objective of ensuring that all pension matters are administered with minimum exposure to fraud and risk. The Pencom will employ the use of approved risk rating agencies to determine the viability of an investment instrument.

ELIGIBILITY FOR THE SCHEME

The law makes it mandatory for all workers in the Public Service of the Federation and the Federal Capital Territory, and workers in the private sector where the total number of employees is 5 or more to join the contributory scheme at commencement.

EXEMPT INDIVIDUALS

Existing pensioners and workers that have 3 years or less to retire are exempted from the scheme. Also, exempted are the categories of persons under Section 291 of the Constitution of the Federal Republic of Nigeria. However, they may join of their own volition. The existing pensioners are also exempted.

Existing pensioners and workers that have 3 years or less to retire are exempted from the scheme. Also, exempted are the categories of persons under Section 291 of the Constitution of the Federal Republic of Nigeria. The existing pensioners are also exempted.

TRANSITIONAL PROVISIONS FOR THE PUBLIC SECTOR

Existing Pensioners

There shall be established Pension Departments under the scheme to continue to administer the affairs of existing pensioners. The National Pension Commission will supervise the Departments. The responsibilities, funds, and assets of the relevant existing pension boards or offices shall be transferred and vested in the respective Departments. It is anticipated that these Departments shall cease to exist after the death of the last pensioner.

Retirement Benefit Bond

This is a bond that will be issued to those who are currently in employment of the Public Service of the Federation and the Federal Capital Territory where the schemes were unfunded, who are not exempted from the new scheme but have worked for a specified number of years, in recognition of their accrued rights under the defunct pension scheme. This bond recognizes government indebtedness to them; however, it is only due and payable when they retire. This is a significant benefit to the Government, as it will not have to furnish immediately the entire funds required to change to the new system, known as Transition Cost. Since Transition Costs are typically huge and in most countries pose as the major hindrance to pension reform, the use of Recognition Bonds goes a long way in allaying a lot of the fears of the workers who are nearing the end of their service. In this circumstance, the use of recognition bonds defers government liabilities and spaces it over a long period.

Retirement Benefits Bond Redemption Fund

A fund known as the Retirement Benefits Bond Redemption Fund is to be established and maintained by the Central Bank of Nigeria. The Federal Government will pay an amount equal to 5% percent of the total monthly wage bill payable to employees in the public service of the Federation and Federal Capital Territory. The total amount in this fund shall be used to redeem any retirement benefit bond issued and payments into this fund shall cease after all retirement benefit bonds have been redeemed.

TRANSITIONAL PROVISIONS FOR THE PRIVATE SECTOR

Private Pension Schemes

Viable pension schemes in the private sector already in existence, shall continue to exist provided that they can demonstrate that they are fully funded at all times with any shortfall to be made up within 90 days; the assets of the company are fully segregated from the pension fund assets; the pension fund assets held by a custodian; and the company has the requisite capacity for the management of pension fund assets. The company must also show that they have managed pension schemes effectively for at least 5 years before the commencement of the new scheme. The old scheme will retain its present membership but will not be allowed further increase.

• *Nigerian Workers on May Day*

However, existing members shall have the option to join the new scheme. Where an employee exercises that option, the employer shall compute his retirement benefits to date and such amount will be transferred to his retirement savings account as maintained with a PFA of his choice.

A private pension scheme may retain all its existing investments subject to the regulations, rules and standards established by the Commission.

Any employer managing pension fund assets of N500, 000,000 and above shall apply to the Commission for a licence as a Closed Pension Fund Administrator in order to manage such funds directly or through a wholly owned subsidiary dedicated exclusively to the management of such pension fund assets. On issuance of the licence, the Commission will supervise and regulate the activities of the closed PFA.

Where an employer is managing pension fund assets of less than N500,000,000 and desires to maintain its existing scheme, such an employer shall have such pension scheme administered by a duly licensed PFA.

The National Social Insurance Trust Fund (NSITF) shall establish a Company to undertake the business of a PFA in accordance with the Provisions of the Act. Contributors under the NSITF Act shall, at least 5 years after the commencement of the Act, select a PFA of their choice for the management of Pension Fund standing to their credit. However, the pension funds and assets held by NSITF shall be transferred to a Custodian. NSITF shall also be supervised and regulated by the Pencom

SAFEGUARDS FOR THE PENSION SCHEME

The importance of safety of the pension fund assets cannot be over-emphasised as the success of the pension reform is hinged on the availability of funds to contributors when they retire. Since the pensioner will utilize the fund at the end of his working life, it becomes imperative that adequate measures be taken for its protection. Consequently, there are a number of stringent provisions contained in the Act with the singular objective of protecting the pension fund assets. The Act embodies a number of checks in order to preserve the pension fund assets. These include:

Separation of PFA and Custodian

Although they both deal with pension fund assets, the functions of the PFA and Custodian are so clearly delineated that it is difficult for either to misuse the pension funds assets to the detriment of the contributor. At no time will the PFA have the custody of contributions of the employee. The contributions go directly from the employer to the Custodian. On the other hand, the Custodian will not invest the pension assets except to the order of the PFA.

Pension Assets Custodian Guarantee

Applicant Custodian shall issue a guarantee to the full sum and value of the pension fund and assets held by it or to be held by it.

Government Pension Contribution

Government contribution shall be a first charge on the Consolidated Revenue Fund of the Federation.

Risk Rating Institutions

These are institutions that will be responsible for rating the instruments that pension funds will be invested in. The Pencom requires that these risk rating institutions possess the professional capacity and are licensed to rate the risk of investment instruments.

Compliance Officers

Every PFA shall employ a Compliance Officer who will be responsible for ensuring compliance with the provisions of the law regarding pension matters as well as the internal rules and regulations of the particular PFA. They will be required to liaise with the Pencom and the Board of Directors of the PFA with regard to the activities of the PFA.

Reporting requirement for PFAs

In order to keep track of their activities, the PFA is required to make a regular report of its activities to the Pencom. Many consider this an onerous requirement by the Pencom but in view of the volume and nature of the funds the PFAs will handle, it becomes necessary to be able to spot any wrongdoing early. Besides, this information is expected to be passed on to the Pencom electronically and would not constitute a hardship for any fully automated PFA.

Statutory Reserve Fund

A PFA shall maintain a Statutory Reserve Fund, which shall be credited annually with 12.5% of the net profit after tax, or such percentage of the net profit as may be stipulated by the Pencom to meet claims.

Sanctions

Clear legal and administrative sanctions have been provided for nn-compliance with rules and regulations.

Public Disclosure of Information

PFAs and Custodians shall be required to disclose their rates on return and publish their audited accounts.

MINIMUM PENSION GUARANTEE

All retirement savings account holders who have contributed for a number of years to a licensed PFA shall be entitled to a guaranteed minimum pension as may be specified by the Commission.

BENEFITS

Nigeria stands to benefit from the pension scheme. In the first instance, it addresses the pension liability by stemming its further growth and provides a platform for addressing this liability. Since the individuals own the contributions, the pensioner is no longer at the mercy of government or employer and is assured of regular payment of retirement benefits. Employee has up to date information on his retirement savings account. The scheme allows the contributor the freedom to choose who administers his retirement benefits account and this promotes competition among the PFAs. A major benefit of the scheme to the worker is that the individual accounts are portable and as such, the worker is able to change employment and still maintain the same account. He is merely required to provide the details of his account to the new employer.

A major benefit of the scheme to the worker is that the individual accounts are portable and as such, the worker is able to change employment and still maintain the same account. He is merely required to provide the details of his account to the new employer.

The scheme imposes fiscal discipline on the nation and is a solid foundation for economic development. There is an expansion of convertible funds, creation of a huge pool of long term funds and enhanced accountability. The scheme introduces clear legal and administrative sanctions and there is a separation of investment, administration and custody of assets. Transparency is also ensured by the requirements for published rate of returns, regular statements of contributions and earnings and annual audited accounts.

In 2004, the Ethics and Professionalism sub-Committee of the Bankers Committee handled complaints among banks, as well as between banks and their customers. As in the preceding years, most of the complaints bordered, among others, on excess charges by banks; manipulation and fraudulent practices on customers' accounts; conversion of investment funds; irregular clearing of customers' cheques, and non-refund of wrong debit to customers' accounts, etc.

Bank Inspectors, Supervisors & Service Quality Assurance

*** By Abdullalif A. Muse.**

The importance of banks in a financial system is generally well known. They are the vehicles used in national payment systems and also, facilitate international payments for trade and travels. At their optimal performance level, they contribute towards the stabilisation of the economic environment and represent the medium for the transmission of monetary policies from government regulatory agencies. Any time a bank, anywhere in the world runs into serious problems, the effects are usually far reaching.

There is the case of a Nigerian businessman who had a commercial court case in the UK in the early 1990's. The case involved a branch of a foreign bank there and had dragged on for about 3 years.

A few days after the Nigerian

won the case, he was handed a draft for over one million pounds and he dropped the instrument in BCCI, London say on a Friday. He went over to see the branch that he had lodged the funds into the very next Monday morning, but Lo and behold! the gates of the bank were firmly locked. The bank had failed.

A strong man, the Nigerian had suffered a mild stroke and managed to come out of it about 12 months later! The underlying reasons for the bank's failure included the familiar ones of poor risk assessment and control, fraud, inadequacy in capitalization and management.

The international consequence of bank failures is not limited to the micro situation just described. Serious problems in the banking system of a country, whether developing or developed, can threaten financial stability both within that country and internationally. All men of goodwill need to take steps to check the consequences of the misfortune!

When Mexico threatened to default on its short term debt obligation in 1995, President Clinton got America to come to its rescue with a loan package of about US$ 25 billion to save that country and its banking system as well as the US economy and indeed banks from its effects, without the approval of the US Congress. Mexico repaid the loan within 2 years and the world cheered a president with guts and foresight!

Indeed, part of the problems of bank failures has to do with regulations and their rigorous enforcements or otherwise. Regulatory enforcements take place at national levels or as dictated by prevailing legal circumstances. Sometimes, government's, discretionary actions prevail, even where they may not be the best advised.

Bank Supervisors and Inspectors

In the context of this discussion, Bank Supervisors and Inspectors are individuals, (usually employees but not necessary so) duly authorised by banking regulatory agencies, top of which is the Central Bank to carry out a review of any functions to be and indeed being performed by duly constituted and licensed banks or financial institutions in accordance with relevant laws. The principal objective of Bank Supervisors is to ensure the safety and soundness of the banking system. Nigeria Deposit Insurance Corporation (NDIC) complements the Supervisory roles of the Central Bank in this respect. The two principal banking legislations for Nigeria are the Central Bank Act 24 of 1991 and the Banks and Other Financial Institutions Act 25 of 1991. Clearly, therefore, the Bank Supervisors perform their duties with the backing of certain laws and carry with them the powers of the State.

Bank Supervision in Nigeria

In Nigeria, the official agency of the Nigerian Government responsible for the Supervision of Financial Institutions is the Central Bank (CBN). Institutions covered in this respect are the deposit money banks, the discount houses, primary mortgage institutions, community banks, finance companies, bureaux-de-changes and development finance institutions. The supervisory function of the CBN is structured into two departments – Banking Supervision Department (BSD) and Other Financial Institutions Department(OFID). The Banking Supervision Department carries out the supervision of banks and discount houses while the Other Financial Institutions Department supervises community banks and other non-bank financial institutions. The supervisory process involves both on-site and off-site arrangements, all on elaborate and expensive scales. Appropriate levels of government, however, appreciate that inadequate attention to supervision could be far more expensive and chaotic.

Banking Supervision Department

The on-site aspect of the department's function includes independent on-site assessment of banks corporate governance, internal control system and checks for the reliability of information provided by banks, among others. The field examinations carried out by the department are grouped into Maiden, which is usually conducted within six months of commencement of operation by a new bank; Routine which is the regular examination and Target, which addresses specific areas of operation of a bank e.g. credit. Special Examination is carried out as the need may arise and as provided in section 32 of the Banks and Other Financial Institutions Act. The departments also conduct spot-checks for quick confirmations /verifications.

The off-site aspect reviews and analyses the financial conditions of banks using prudential reports, statutory returns and other relevant information. It also monitors trends and developments for the banking sector as a whole. Industry reports are generated on monthly and quarterly basis.

Other Financial Institutions Department (OFID)

The department handles the supervision of community banks (CBs), primary mortgage institutions (PMIs) finance companies (FCs), bureaux de changes (BDC) and development finance institutions (DFIs).

In spite of the laudable structures put in place to supervise the system, the banking system still has problems that threaten its very existence. For our purpose, we reviewed several reports from the Banking Supervision Department between year 2000 and year 2004 which highlighted some of these.

> The frustration to get the banking system up and running since 1946 must constitute a Supervisor's nightmare and the need to learn from the experience of others must have informed the step to align with international standards!

Problems in the banking system

In the year 2000, the CBN, in its Banking Supervision Department report listed the following public complaints against some banks in the financial system:

i) Exploiting the ignorance of unsuspecting customers through excess commissions and illegal charges.

ii) Refusal to open certain types of accounts e.g. salary accounts.

iii) Failure to issue bank statements regularly to customers.

iv) Illegal disposal of customers' properties pledged as collateral for credit facilities.

v) Shortages in cash withdrawals.

vi) Unilateral application of interest rates outside the terms negotiated with customers.

vii) Refusal to honor the terms of performance bonds.

viii) Excess charges on bank drafts.

ix) Introduction of extraneous terms into contracts with customers, to short-change them.

x) Unauthorised/arbitrary debiting of customers' accounts.

xi) Release of funds transferred from overseas to impersonators.

xii) Imposition of previously undisclosed charges on customers' accounts.

xiii) Failure to credit customers' ledgers with the amounts deposited.

At the level of regulators, thirty one (31) banks were in various stages of liquidation owing to inadequate capitalization, poor asset control, insider dealings involving bank directors and frauds. *(NDIC 2000 Annual Report and Statement of Accounts).*

It is pertinent to observe that the trend of public complaints against Banks has been on the rise in recent times. The high level of complaints in spite of the huge expenditure on systems and technology constitutes a drag on the integrity of the profession and debases the service level below quality grade, especially since it is a well known fact that quality service generates income.

During the year 2004, the Ethics and Professionalism sub-Committee of the Bankers Committee handled complaints among banks, and banks and their customers. As in the preceding years, most of the complaints bordered, among others, on excess charges by banks; manipulation and fraudulent practices on customers' accounts; conversion of investment funds; irregular clearing of customers' cheques, and non-refund of wrong debit to customers' accounts, etc.

The CBN Annual report for 2004, **Monitoring Banking Sector Soundness** stressed that "the operational performance of banks revealed mixed developments. The rating of licensed banks, using the CAMEL parameters, revealed that ten (10) banks were "sound", fifty one (51) were "satisfactory", sixteen (16) were rated "marginal" and ten (10) banks were rated "unsound". However, the performance of banks since 2001 exhibited a deteriorating trend as the number of "satisfactory" banks had declined steadily from 63 in 2001 to 51 in 2004. In the same vein, the number of banks that were "marginal" increased from 8 in 2001 to 16 in 2004. "Unsound" banks also increased from 9 in 2001 to 10 in 2004. The marginal and/or unsound banks exhibited such weaknesses as undercapitalization, illiquidity, weak/poor asset quality and poor earnings.

The total assets of the industry grew by 23.0 per cent to N3,393.0 billion at end-December 2004. Further analysis showed that, "of the N1,463.0 billion outstanding credit, 21.6 per cent was non-performing, while insider credit accounted for 6.3 per cent."

The same Report also had comments on the Surveillance Activities of Financial Institutions both on-site and off-site of licensed banks and other financial institutions in 2004 undertaken by the surveillance departments of the CBN. "The surveillance activities during the year involved the wholesale examination of fifty-nine (59) deposit money banks, five (5) discount houses and eight (8) offshore outfits of some Nigerian banks. The routine examinations covered prudential regulations; foreign exchange operations; anti-money laundering controls and know-your-customer (KYC) directives. The examinations were aimed at determining the extent to which banks had complied with the banking rules and regulations as well as their financial condition.

Rating Of Banks Using The "CAMEL" Parameters

Category	Number 2001	2002	2003	2004
Sound	10	13	11	10
Satisfactory	63	54	53	51
Marginal	8	13	14	16
Unsound	9	10	9	10

The CBN also conducted follow-up examinations on some financial institutions to determine their compliance with the CBN recommendations contained in previous examination reports. The prudential examinations revealed various lapses in some of the institutions, including: undercapitalization, weak internal control systems, granting of credit with inadequate collateralization, poor asset quality, violation of the single obligor limit, and weak corporate governance. Specifically, in 2004, 54 banks contravened various CBN regulations and guidelines 99 times, as against 37 banks that contravened 66 times in 2003. Sanctions were appropriately imposed on the erring institutions. The routine examinations of foreign exchange operations of the banks revealed various breaches, including: non-compliance with open position limits, failure to repatriate interest earned on FEM funds, non-distribution of the naira proceeds repatriated on letters of credit transactions to eligible customers, excess charges by banks on foreign exchange transactions, recycling of airline tickets for invisible trade transactions, disbursement of foreign exchange without complete documentation, and failure to render specified returns to the CBN."

These concerns must bother any one who cares and it must have bothered the present crop of the board of CBN to the point of initiating the 13 point **Elements of Banking Sector Reform** which are listed below:

1. The requirement that the minimum capitalization for banks should be N25 billion with full compliance by December 31, 2005;
2. The phased withdrawal of public sector funds from banks, starting in July 2004;
3. The consolidation of banking institutions through mergers & acquisitions;
4. The adoption of a risk-focused, and rule-based regulatory framework;
5. The adoption of zero tolerance in the regulatory framework, especially in the area of data/information rendition/reporting;
6. The automation process for the rendition of returns by banks and other financial institutions through the enhanced Financial Analysis and Surveillance System (e-FASS);
7. The establishment of a hotline, confidential internet address (Governor@cenbank.org) for all those wishing to share any confidential information with the Governor of the Central Bank on the operations of any bank or the financial system;
8. The strict enforcement of the contingency planning framework for systemic banking distress;
9. The establishment of an Assets Management Company as an important element of distress resolution;
10. The promotion of the enforcement of dormant laws, especially those relating to the issuance of dud cheques, and the law relating to the vicarious liabilities of the Board members of banks in cases of failings by the bank;
11. The revision and updating of relevant laws, and the drafting of new ones relating to the effective operations of the banking system;
12. Closer collaboration with the Economic and Finan-

cial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU), and the enforcement of the anti-money laundering and other economic crime measures; and

13. The rehabilitation and effective management of the Nigerian Security Printing and Minting (NSPM) Plc to meet the security printing needs of Nigeria, including the banking system which constitutes over 90 percent of the NSPM's business.

To be fair, none of the reform provisions can be faulted as they represent corrective measures to counter well known system limitation and improve service quality.

Of course, the high point of the reform is the uniform N25 billion banks recapitalisation requirement but also a number of these measures answer the concerns of unfulfilled or largely unfulfilled parts of the core principles of the Basle Committee when the World Bank Financial Sector staff assessed Nigeria's compliance level. This issue is discussed further below.

We believe that the Central Bank should be commended for measuring its own performance by international standards. The frustration to get the banking system up and running since 1946 must constitute a Supervisor's nightmare and the need to learn from the experience of others must have informed the step to align with international standards!

Of course, the high point of the reform is the uniform N25 billion banks recapitalisation requirement but a number of these measures also answer the concerns of unfulfilled or largely unfulfilled parts of the core principles of the Basle Committee.

The Core principles of Basle

The phenomenon of international capital movements has also substantially made national boundaries almost irrelevant and the need to stabilize the financial system on a global basis has therefore long been recognized.

Official international bodies like the World Bank, International Monetary Fund, the Bank for International Settlements and the Basle Committee on Banking Supervision have consequently taken the lead to strengthen the financial systems through out the world.

On its own, the Basle Committee on Banking Supervision, consisting of senior representatives of banking supervisory authorities from Japan, Germany, France, Belgium, UK, Italy, Netherlands, Switzerland, Sweden, Canada and USA, developed what it called " Core Principles for Effective Banking Supervision" – (Basle Core Principles) over a period of 22 years. The views of many other countries were sought as the assignment progressed with the principal aim of setting standards so as to strengthen banking supervision in all countries. The Committee regards the standards set from the principles as minimum because environmental conditions in each country may necessitate a further strengthening of the principles for desired effects.

There are 25 core principles and they are detailed in their issue with comments, which have been excluded here. They can be very easily picked up on relevant Internet sites using some of the well known search engines, including Google.

LIST OF CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

Preconditions for Effective Banking Supervision

1. An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banking organisations. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorisation of banking organisations and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

Licensing and Structure

2. The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word "bank" in names should be controlled as far as possible.

3. The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organisation's ownership structure, directors and senior management, its operating plan and internal controls, and

its projected financial condition, including its capital base; where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.

4. Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.

5. Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

Prudential Regulations and Requirements

6. Banking supervisors must set prudent and appropriate minimum capital adequacy requirements for all banks. Such requirements should reflect the risks that the banks undertake, and must define the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, these requirements must not be less than those established in the Basle Capital Accord and its amendments.

7. An essential part of any supervisory system is the evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios.

8. Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and loan loss reserves.

9. Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.

10. In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's-length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.

11. Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks.

12. Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.

13. Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital against these risks.

14. Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.

15. Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.

Methods of Ongoing Banking Supervision

16. An effective banking supervisory system should consist of some form of both on-site and off-site supervision.

17. Banking supervisors must have regular contact with bank management and thorough understanding of the institution's operations.

18. Banking supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on a solo and consolidated basis.

19. Banking supervisors must have a means of independent validation of supervisory information either through on-site examinations or use of external auditors.

20. An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis.

Information Requirements

21. Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with

•E-Banking: overcoming the queues in banking halls

consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.

Formal Powers of Supervisors

22. Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking licence or recommend its revocation.

Cross-border Banking

23. Banking supervisors must practise global consolidated supervision over their internationally-active banking organisations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organisations worldwide, primarily at their foreign branches, joint ventures and subsidiaries.

24. A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities.

25. Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.

The World Bank, the IMF and other similar world bodies were encouraged to use these standards in their efforts to support countries to promote their overall macroeconomic and financial stability.

Since Nigeria has endorsed the Basle Core Principles, a World Bank Financial Sector Mission in 1999 carried out an assessment of compliance by the Central Bank.

A close review of the 25 provisions would show that it's best that the entire banking system either as Supervisors or Operators comes to terms with the minimum standards of Basle. For Nigerian bankers, this would appear to be an imperative since the official government regulators have endorsed the standards and would apply them. For the safety of the huge investment in capital and their deposits, the general public and students of Economics, Banking and Finance need to be familiar with the provisions. Of course, Accountants and Auditing firms have a more than passing interest in the matter since they generate the audit of the financial condition of banks for analysis and rating.

Assessment of Nigeria's Compliance with Basle core principles

The report of the Assessment is contained in the Banking Supervision Annual Report 2000. The state of compliance was categorised into four, namely, fulfilled, largely fulfilled, largely unfulfilled and unfulfilled.

Details of some of the Mission's assessments and comments by the regulatory authorities are highlighted below.

Permissible activities of licenzed institutions

Under the current regulatory framework, regulators are in a position to ensure that all banks and non-bank financial institutions including finance companies, primary mortgage institutions, discount houses and bureaux de changes are licensed.

Beyond the institutions under the CBN regulatory purview, other operators in the financial system – capital market and insurance - must be licensed by their respective regulators - the Securities and Exchange Commission and the National Insurance Commission, respectively. In the specific case of bank licensing, there is strict control over the use of the word "bank" in the name of institutions. This Principle was adjudged both from self-assessment and by the Mission to have been fulfilled.

Regular contact with bank management and supervisors' understanding of bank operations

This Principle was also considered to have been fulfilled. Mainly in the course of examination, supervisors come in close contact with the management of the supervised institutions. This has been further improved in recent times in the series of focused meetings between the supervisors and the management of supervised banks at the executive level. The approach has reduced significantly the seeming distrust between the two sides of the divide. As regards the understanding of banks' operations, supervisors display a good knowledge of activities performed by Nigerian banks, thereby enabling them to discharge their duties effectively and with credibility. The latest change in the executive management of the CBN has further enhanced this understanding, with a good representation of experienced operators in the new team.

Independent validation of supervisory information either through on-site examination or use of external auditors.

This Principle was adjudged to have been fulfilled. The Mission observed that full on-site examinations are conducted on the average of once in 18 months. This may not be sufficient for big banks and those in distress. In addition, however, other types of examination such as target, which is focused on a particular area of the bank's operation (e. g. credit), maiden (usually conducted in the first 6 months of a new bank's operation) and special (for a bank that is perceived to be in serious problem) are common. With the adoption of risk-based approach to supervision, adequate coverage of the high-risk areas of banks' operations are expected. The examination cycle is also expected to shorten with the restructuring of the regulatory departments into a team-based arrangement rather than the erstwhile functional set-up. The idea of outsourcing some supervisory functions has been adopted. A policy position has already been taken in the case of community banks and a number of auditors and retired examiners have been registered for this purpose. The BOFIA requires that the financial statements of banks be audited, and approved by the CBN before publication. To ensure the independence of auditors, the banking laws require that any change of auditor by the banks must be with the approval of the CBN.

Consolidated supervision

Though there is no specific provision in the banking law for consolidated supervision, the Banks and Other Financial Institutions Act requires that supervisors shall have access to all the books of a licensed bank. On the basis of this, the Nigerian supervisory authorities have commenced the supervision of related institutions on a consolidated basis. Co-operation among supervisors in the various sectors of the financial system is being greatly facilitated by the establishment of the Financial Services Regulation Co-ordinating Committee [FSRCC]. The establishment of this body is the first major step towards incorporating specific provisions for consolidated supervision into the banking laws. Consolidated supervision is still limited within the Nigerian financial system, as offshore banking is minimal. This informed the "fulfilled" rating granted to this Principle by the Mission.

Global supervision, foreign bank branches and cooperation with foreign supervisors

Very few Nigerian banks operate offshore. The few offshore operations have always been subject to supervision by the authorities with the cooperation of the host supervisors. For example, the Financial Services Authority [FSA] of U.K. has always contacted the CBN for information on the management and internal control practices of the three Nigerian banks that have branches in the U.K. The World Bank Mission concluded that issues related to cross-border supervision were not relevant to Nigerian banks as their activities were domestic to a very large extent.

Country and market risks

Hitherto, banks and supervisors in Nigeria had not been focusing on these issues. However, with the adoption of risk-based approach to supervision, the framework would be put in place to address the issues which are yet to be given due attention. The assessment was "not applicable" as the risk exposures were almost nil.

Supervisory powers

Both the CBN and the NDIC have sufficient and comprehensive legal powers to take adequate and timely action on banks in distress. This was demonstrated in the liquidation of 26 terminally distressed banks in 1998 and, recently, by the revocation of the licences of three (3) banks in December 2000. The World Bank Mission expressed fear about political pressure, which might hinder the supervisory authorities from exercising their powers and rated this principle as largely fulfilled.

Other principles adjudged to be largely fulfilled included those dealing with loan classification, money laundering, off-site and on-site supervision, powers to address compliance with laws, transfer of ownership, power to review acquisitions and investments, management process to control material risks and accounting policies and disclosures.

> In spite of the laudable structures to supervise the system, the banking system still has problems that threaten its very existence.

Internal Control

It is expected that with the risk-based approach to on-site supervision, greater and more focused attention would be given to internal control.

The appraisal of banks is focused on analysis of financial ratios and compliance with regulations. Although the CBN has enough powers under the existing banking laws to bring erring bank directors into line or to outrightly remove them, the critical role of the board in safeguarding the assets of the bank is not emphasised in the laws. This principle was consequently adjudged largely unfulfilled.

Operational independence

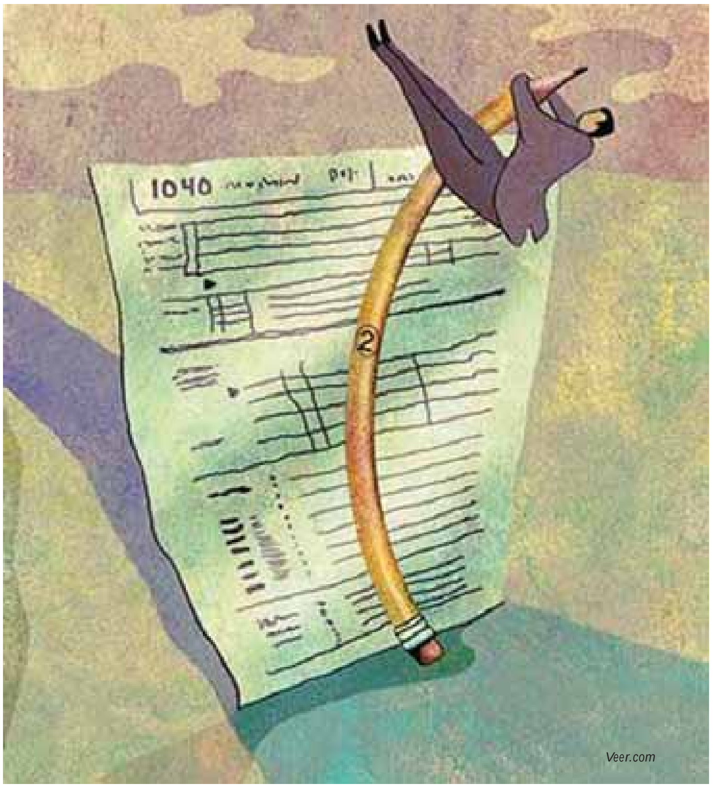
The 1999 amendment to the CBN Act granted autonomy to the CBN in the execution of its functions. The World Bank Mission was, however, of the view that the CBN may not perform its duties independently from political forces since the government, from a legal standpoint, could influence most actions taken or intended to be taken by the regulatory authorities. Efforts are being focused on addressing the inadequacies in the Banking Act through appropriate amendments. The Mission found the supervisors seriously lacking in the provision and upgrading of Information Technology [IT] systems. This principle was assessed to be largely unfulfilled but efforts to fulfill this requirement were underway especially as the CBN has initiated action to upgrade its IT systems.

Management Information

The Mission was of the view that Management Information Systems [MIS], which would enable supervisors to identify concentration and related issues, were lacking. Moreover, it argued that Nigeria's practice of restricting the definition of "large exposures" to 20% or 50% of capital for commercial or merchant banks, respectively, was unsatisfactory and questioned the rationale for allowing merchant banks to hold higher single exposures than commercial banks whose activities were more diversified. The Mission concluded that the Principle on management information was not fulfilled and efforts to achieve it were not underway. It however noted the efforts of the CBN to collect information on loans of N1 million and above through the Credit Risk Management System (CRMS) or Credit Bureau and advised that it should be incorporated into the supervisory data process. The restriction on single obligor limits for commercial and merchant banks was expected to be streamlined when Universal Banking commenced in 2001.

Connected lending

The Mission was also of the view that the core principle on connected lending was largely unfulfilled and efforts to achieve fulfilment were not underway. The reason was that regulatory safeguards were not sufficient to discourage unsound lending practices, nor were penalties stiff enough to avert such unsound practices.



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The issue of insider abuse had been a source of concern to regulators in Nigeria. Serious steps had been taken to address the problem including the implementation of the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act 1994 with the cases hitherto handled by Special Tribunals now moved to dedicated divisions of the Federal High Courts.

However, a new policy position regarding borrowing by key shareholders and directors of banks was expected to be taken in 2001.

Legal framework

The core principle on legal framework and the provisions relating to the authorisation of banking establishments and on-going supervision was assessed to be unfulfilled and efforts to achieve fulfilment underway, without actually stating what action had not been addressed.

The Mission confirmed the granting of larger autonomy to CBN, which the regulatory authorities believed had eliminated obstacles to achieving fulfillment.

Licensing of banks

The CBN has continued to license new banks while the inspection of community banks to determine their viability for the grant of licences was carried out. While the Mission was aware of the CBN's autonomy, it was not aware that the CBN had started granting licences to new banks or had started the inspection of community banks for licensing. Consequently, the "unfulfilled" rating, for the reason that, no new bank had been licensed, and that no final licence had been issued to a community bank, would be reviewed.

Prudential reporting

The Core Principle on Prudential Reporting involving the processing of returns from banks was assessed "unfulfilled and efforts to achieve fulfillment not underway". This assessment was based on the fact that the level of the IT systems of the regulators and the banks does not allow for the best use of information. The Mission believed that the Bank Analysis System (BAS) might partially remedy the situation. The authorities totally agreed with the Mission's assessment but hoped that the present policy thrust of the CBN towards the development of IT would, to a large extent, remedy the situation.

Legal protection to supervisors and corrective action

There were other principles which, in the opinion of the Mission, required legal provisions, otherwise they would remain "unfulfilled and effort to achieve fulfilment not underway". These included, among others, legal protection for supervisors, and corrective action by CBN and NDIC on distressed/failing banks without government interference. It is therefore the responsibility of the supervisors to make a comprehensive proposal to the National Assembly on the relevant provisions that need to be amended or included in the CBN and Banks and Other Financial Institutions Acts.

In its summary of the assessment of Banking Supervision against the 30 core principles, the World Bank Mission indicated that 9 were fulfilled, 11 largely fulfilled, 5 largely unfulfilled and 5 unfulfilled".

In conclusion, the Central Bank had some disagreement between its own self-assessment and the view of the Mission, and considered that a review is necessary, in the light of recent developments. However, the lapses observed were believed to be indicative of areas requiring further supervisory action.

Consequences of Assessment

As we pointed out earlier, the consequences of the World Bank assessment would appear to reflect in the new bank reforms. From the standpoint of analysis, it seems clear that certain problems have remained endemic in the Nigerian financial system and seem to have defied solution, for so long, in spite of both the application and enforcement of regulatory sanctions and moral suasion.

New Capitalisation requirement

It is debatable whether the reform measures have gone far enough to solve the problem of under capitalization bearing in mind that neither too little nor too much of capital is good for business. We would however grant that drastic diseases sometimes require drastic measures!

> In spite of the laudable structures to supervise the system, the banking system still has problems that threaten its very existence.

Conclusion and Recommendation

Like other businesses, Banks can still fail even with Supervision. Too much will constrain initiatives and too little will generate laxity. The essence of bank supervision and inspection, we submit, is to stem failures from wreaking serious havoc to the banking public, creating loss of confidence, causing tax payers money to rebuild confidence in the system even as it deals with erring bank personnel for deliberate misdemeanour. What is adequate supervision is a product of experience learnt in the field and can be drawn from the global knowledge base which is now so much easier to access. Disregard for the safety of investors and depositors' funds could adversely affect the confidence of the general public in the financial system and result in economic chaos.

Banking education

In the recent past, the concern of regulators has been the need for far more education for themselves and bankers on the emerging instruments of portfolio management known as derivatives. We submit that the problems are more than that. Quite apart from glaring knowledge gaps evident at most levels from the experience of the Sub Committee on Ethics and Professionalism in the Banking and Financial Industry that require new attention, bank supervisors seem to be knocking their heads against a brick wall as they take measures after measures to check and improve on bank service quality. Each measure to correct a lapse has literally pushed banks to be more disingenuous. Those unwholesome practices will not be solved by recapitalization! The unethical practices in our banks that have become a national embarrassment may not reduce because of increase in sanctions! The system would appear to need a whole lot less with the right personal leadership education for bankers, (the whole spectrum of bankers) that will extol and motivate good virtues of trust and integrity. These need to be taught from staff induction and through every level of seminars and meetings. We must drill down to the very heart of the problem and get to the proverbial pain-points to overcome this embarrassment.

For banks, the scare has always been and would remain about change. From our experience, it would appear that there has not been enough articulation in the banking system even now on the nature, feature, intensity and dynamics of change. Whilst a few appreciate the implication of this phenomenon on their career, many would not appear to and therefore lack the ability to assimilate transitions and their challenges. The result is that an unduly stressful condition that is better imagined is created and along with it dysfunctional behavior patterns. For our own sake, we have to change how we see change and teach bankers to manage at the speed that change is occuring.

From a review of the measures, it is clear too that a lot of education would attend the reforms. Education in terms of new skills on the handling of the consequences of mergers and acquisition, for those who chose that route to comply with the capitalisation request.

Finally, we submit that the permanent feature of change and its management needs to be an integral part of the curriculum of the banking Institute and bank trainers generally.

(* Mr. Muse, former CEO, Access Bank Plc is a consultant in Lagos.)

Business is under increased pressure to invest and re-invest its resources and profits to meet the social needs and wants of the communities in which it operates. Although these pressures are not new, they have been rising with the spread of globalization and the growing gap between the world's rich and the world's poor. The corporate social responsibility debate has taken on a distinct meaning in developing countries, and in many cases the problems arise from the mistaken perceptions of and difficult experiences with market reforms. The result has been reversals from the course of democratic and free market reform as skeptics began to point their fingers at business and blame capitalism for corruption scandals, financial collapses, disastrous privatizations, and similar events.

The reality of any economic system is that business does not operate as a single entity; each company pursues its own interests. Therefore, reform efforts must focus on the internal conduct of individual businesses and not treat the business community as a monolith. One of the solutions in this case would be the introduction and strengthening of solid corporate governance mechanisms. Corporate governance mechanisms can provide a barrier to corruption while still allowing businesses to increase their profits.

An Institutional Reform Approach to Corporate Social Responsibility

*** By Aleksandr Shkolnikov**

In addition to improving corporate governance, the institutional environment in which companies operate must be conducive to honest business activity. Improving the quality of institutions as the rules of the game that make competitive markets possible and reducing the legal and regulatory burdens the private sector faces are two of the answers to ensuring that markets live up to the expectations of society. Those reforms, which can be enacted by means of private-sector advocacy, will also enable all citizens to have access to markets and the prosperity they bring. In that regard, getting the private sector involved in legal and regulatory reform can be thought of as a proactive approach to corporate social responsibility.

For a long time, economists' responses to social responsibility pressures have been straightforward. In some regard, it was summarized by Milton Friedman in his 1970 article in the *New York Times Magazine*. In fact, one does not have to read the whole article – for defenders of private enterprise as well as for its natural critics, it was largely captured in the title, which reads "The Social Responsibility of Business is to Increase its Profits." Although there was much more to the argument Friedman made, the emphasis on profits was quickly picked up by the public and continues to be the core of the debate over the issue.

In some cases, the corporate social responsibility and profit-by-any-means debate became a quarrel over the ability of free-market economies to deliver. As such, negative connotation of profits and selfishness became synonymous with free markets in many countries. This is evidenced by the rise of nationalist, populist movements, which seek to build socially-oriented economic systems and replace "exploitative" market mechanisms. Although a push for, and the subsequent emergence of, highly controlled, micromanaged economies to ensure responsible behavior by business is hardly a new idea, it seems to be striking a chord with the public in more country than one. In those countries, we are seeing a reversal of free-market reforms by democratically elected leaders.

Frustration with markets is and was not without a reason. The unchallenged conventional wisdom of neoclassical economics was that free markets make societies better off, and such was the message channeled by reformers in developing countries. Yet, the daily realities of reforms in transitioning economies brought to the surface one of the major pitfalls of neoclassical economics – treating economies in aggregate terms.

Unlike in theory, in reality not everybody became better off , and the promises of democratic equality and market prosperity materialized for some but not for all. Expert propositions that incomplete reforms led to the creation of crony capitalist economies where only a select few have access to the system attract little sympathy from citizens, who often want immediate changes and are fed up with promises of economic prosperity that do not materialize. Another assumption of neoclassical economics, that key institutions are in place and function properly, has also led to frustration, when seemingly simple reforms with a proven track record in developed economies have failed in achieving similar results in emerging economies.

Overall, the unprecedented economic expansion of the past several decades has been marred by the emergence of clear winners and losers of reforms in the global economy and has put a spotlight on the role of private enterprise, as skeptics began to point their fingers at business and blame capitalism for the plight of African countries, corruption scandals, financial collapses, disastrous privatizations, and similar events. "The worst enemy of humanity is capitalism," declared Evo Morales in a run up to the presidential elections in Bolivia several years ago. These words of Morales became one of the pillars of his election campaign and echoed in the hearts and minds of millions who voted him into office, as well as many others around the world who felt left out, watching the train of economic prosperity pass them by. Today's events illustrate that it was not simply rhetoric; the actions of Morales and the likes, such as nationalization of industries and increasing barriers to doing business, show that the elected leaders are living up to their campaign promises.

The social responsibility of business: developing countries' perspective

Adam Smith's view of markets was built around the concept of self-interest. In his world, one could address social interests through private needs and wants by means of market mechanisms (Shand 1990). The modern-day debate about the merits of capitalism still goes back to the idea of self-interest and Smith's now famous quote that "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" (Smith 1981: 26). Yet, magically, Smith's comments have a whole new meaning today. Over the years, in many emerging and stagnating economies, the ideas of self-interest and entrepreneurship advocated by Smith and others like him obtained a negative connotation and were replaced with notions of selfishness. As such, in many economies, capitalism as an economic system became synonymous with vice rather than virtue, and unethical behavior rather than morality.

For the most part, the real intention of free-market reformers in the 1980s and 1990s was to improve socio-economic conditions for the benefit of all citizens. In the world of Adam Smith, Frédéric Bastiat, and other classical economists, market forces always lead to beneficial consequences for all (Shand 1990).

These ideas of classical economists were channeled by reformers to the public, driving up the expectations of market prosperity – until these expectations began to materialize for some and elude others.

For example, privatization schemes in Russia in the 1990s left thousands of people unemployed and industries devastated, while the owners of newly acquired enterprises – the new business elite or so-called *oligarchs* – abused the opportunities presented to them by the new system. They engaged asset-stripping, thus padding their own pockets rather than contributing to economic growth through private enterprise, and engaged in unfair competition, using bribery, extortion, and other illegal means to fend off and eliminate competition. Throughout the 1990s, as the business elite was capturing the largest share of economic growth, most of the country was mired in relative poverty. By the early 2000s, the new administration had a new, clear agenda in mind; it determined that business cannot be left to itself and that strict political controls must be put in place to ensure that it acts in the interest of society.

Traditionally, in developed economies, corporate social responsibility focused on the economic performance of firms and the social and environmental impact of their operation.

Although one can debate the relative merits of increased pressure on business from the government in Russia, the fact that the playing field has increasingly become more restricted is undeniable. Moreover, increased political control over private enterprise seems to find popular support, as the calls for social values replace the ideals of liberty, private initiative, and enterprise.

Such sentiments are not limited to Russia. In the 1990s and 2000s, leaders in countries across the world began to rethink business-society relations, increasing pressure on business to address social needs and wants.

In some countries, governments began to coerce business into sharing its profits through regulatory measures or administrative threats, giving rise to micromanaged market systems. In others, private enterprises began to revert back to state ownership, and market mechanisms began to be replaced altogether. As a result, the corporate social responsibility debate, limited for a long time to

A car plant in Russia

developed countries, began to address developing economies – not only through the operation of multinational enterprises in those markets, but also through domestic business and politics.

Traditionally, in developed economies, corporate social responsibility focused on the economic performance of firms and the social and environmental impact of their operation. It was largely viewed through the prism of business' relation with society through workforce issues, environmental impact, and community leadership. Business sought to behave responsibly in its operations and strove to take into the account not only the interests of its immediate owners but other stakeholders, i.e. society at large, as well.

Some firms, of course, completely dismissed the idea of social responsibility from the beginning, holding Friedman's view that the social responsibility of business is to increase its profits. The logic of this argument is that if private business does not make a profit, it simply cannot exist, as the alternative to making profits is making losses. While loss-making state-owned enterprises can continue operation because they are subsidized by the government (never mind the fact that the government in turn extracts the funds from the citizens through taxes and other means), private-sector companies do not have such a luxury. And if a business perishes, so will the people dependent on it for jobs, goods, services, and income. Further, if a business does not employ people and if it does not pay taxes, how can governments provide public services? That was one view held by many for quite some time.

In others, private enterprises began to revert back to state ownership, and market mechanisms began to be replaced altogether. As a result, the corporate social responsibility debate, limited for a long time to developed countries, began to address developing economies – not only through the operation of multinational enterprises in those markets, but also through domestic business and politics.

However, the reality of the complex socioeconomic systems within which business operates made ignoring social responsibility pressures a difficult task, especially after calls for voluntary socially responsible behavior on the part of companies began to be replaced with real actions through lawsuits, media campaigns, and regulations by governments and some nongovernmental organizations.

The alternative to ignoring the problem altogether came in the form of a passive response to social responsibility pressures – philanthropy. The reason philanthropy is essentially a passive response is because it does not address the root sources of the problem – it is a strategy intended to deal with problems, not solve them. In that regard, the evolution of philanthropy is interesting. Voluntary philanthropy in the form of 'giving back to the community' has always been part of business, as individual business owners would share some of their profits to meet the needs of society beyond providing employment and goods and services. The key point here is that philanthropic contributions have historically been made by individual owners of companies – wealthy businesspeople – on a voluntary basis. They did not serve a particular business purpose, as companies in the United States, for example, were legally prohibited for a long time from becoming involved in social affairs (Smith 2003).

Yet, philanthropy has transformed over the years, and in many cases additional contributions to societal well-being are no longer just voluntary – frequently they are expected and demanded from business, and penalties for companies that refuse to cooperate can be quite high. As firms were increasingly expected to donate a share of their profits beyond taxes for the good of society, philanthropy evolved into a business strategy – helping companies build a market image, respond to pressures, and fend off critics.

In comparison with developed countries, in transitioning and emerging economies social responsibility concerns have a somewhat different meaning and a more profound effect. The reality of market reforms was such that business was put in a rather uncomfortable position in regards to its role in society.

In cases of privatization, for example, unprofitable state-owned enterprises were transferred into private ownership in order to make the company competitive in a market economy. While undergoing restructuring, these new privately owned companies laid off excess workers and increased the previously subsidized prices for goods and services. While the conventional wisdom channeled to the public by market reformers was that privately owned companies are more efficient in terms of delivering higher quality goods and services in larger quantities and at lower prices, the reality in many cases, at least in the short-term, was quite the opposite.

In Brazil, for example, privatization of the energy sector resulted in disrupted service and higher prices. The real reason was the incomplete reform process – only part of the energy sector was privatized while the rest remained under state ownership. Although privatized companies had to compete under market rules and prices, the government did not liberalize the energy tariffs (Sullivan, et. al. 2003). When Brazil faced the grim reality of not being able to satisfy the growing energy demand, popular opinion quickly identified the privatization process and the private sector's concerns with profits, not incomplete reforms, as the primary suspects.

In the Philippines, the term 'crony capitalism' was born in the 1970s and 1980s, as democratically elected Ferdinand Marcos and his cronies established tight control over the economy, building huge monopolies and siphoning profits into their personal bank accounts in Switzerland. Corruption and backdoor dealings allowed a group of wealthy businesspeople to essentially rob the poor, denying them the opportunity to participate in the market process and setting up a system where only a few insiders could benefit from the distorted market reforms.

And in countries like Nigeria and Venezuela, as the price of oil increased, citizens found themselves watching oil companies reap large profits from the natural resources, while they were stuck at the bottom of nearly every development index. Development and profits in those countries did not extend beyond the places of extraction of natural resources.

The examples are many, but they all lead to the fact that during the liberalization and reform processes of the 1980s and 1990s, in many emerging economies the popular perception of business became that of dishonest organizations seeking to increase their profits by any means. However, it would be unfair to say that such was the situation in all transitioning and emerging economies; in some, the private sector became a driver of reform efforts and improved its image drastically. Montenegro is one of the countries where the process was successful, and the business community worked to gain the trust and respect of citizens and government officials[1]. The improved relationship between the business community and government and society in Montenegro had an effect on the legal system as well – the private sector saw more efficient regulations come from the legislature as its involvement in the policymaking process steadily increased. The government recognized the role that the private sector plays in creating jobs and wealth in the country, and through a consultative process rewarded the business community with business-friendly regulations.

The reason philanthropy is essentially a passive response is because it does not address the root sources of the problem – it is a strategy intended to deal with problems, not solve them.

However, there are countries where the public sector is still viewed as a primary source of employment and income. In those economies, the rise of cautious attitudes towards business and a lack of trust in the private sector have proven to be dangerous from the development perspective. Some citizens began to view market mechanisms as tools for the rich to use countries' resources for their personal benefit and capitalism as an outside system imposed on them by foreign entities seeking to satisfy their own interests. The morality of markets began to be questioned and political control over the economy began to return in some countries after years of steps towards liberalization. In light of this, the reversals from the course of economic reform and continued stagnation of countries in the Middle East, Africa, Eurasia, and Latin America are not coincidental.

Who is business?

Economists are often criticized for their tendency to speak and think in aggregate terms. Yet, citizens holding negative perceptions of business and capitalism in developing countries fall into the same trap – they treat business in aggregate terms.

The reality of any economic system is that business is not a monolith (Sullivan 1999). Various companies have different interest and often operate under different rules. In any economy, there are small and medium companies, large firms, state-owned companies, micro enterprises, family-owned firms, informal sector vendors, state-connected companies, multinational corporations, and many others. Each type of company pursues its own interests and has different issues on the agenda. Labeling all of these different types of companies as simply "the business community" is a mistake made by many – and a mistake that has significant policy implications.

Breaking business down into its appropriate components is useful in evaluating the interests of different types of companies, the barriers they face, and the impact of their activities in the marketplace on society. While some state-connected companies, such as the case of the Philippines under Marcos, can circumvent legal mandates through bribery and backdoor dealings, informal sector vendors often struggle to survive under a myriad of legal and regulatory barriers, such as the case of Peru in the 1980s. Some cutting-edge companies may seek access to foreign markets to bring new technologies, goods, and services into domestic markets, while state-owned enterprises may keep borders closed, thereby suppressing free trade and keeping competition in check.

Thinking about business in these terms is a gateway to understanding that relations between states, societies, and business do not take place in the extremes – it is a mixture of various interests and strategies. While some firms may be a burden on society, wasting resources, suppressing competitive market forces, keeping out innovation, and corrupting the legal system, other companies seek to alleviate poverty, create jobs, remove trade barriers, introduce new technology, and provide goods and services. In that regard, attempts to penalize all businesses for the misbehavior of some is a faulty strategy.

Dividing business into its key components in this way is not, however, the final step. Going back to Milton Friedman's view of corporate social responsibility, while he was largely quoted for calling profits-making the social responsibility of business, he made a much more important point in his works. As he so rightly noted in the *New York Times Magazine* article, we cannot think about the social responsibility of businesses; we need to put the emphasis on individuals.

The discussions of the "social responsibilities of business" are notable for their analytical looseness and lack of rigor. What does it mean to say that "business" has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but "business" as a whole cannot be said to have responsibilities, even in this vague sense.

This comment opens the door to a very different view of the social responsibility of business. To illustrate the point, consider the following example of corruption: a company bribing a government to gain favorable access to the market or to receive preferential treatment regarding the enforcement of regulations. After observing such behavior, the typical response would be to declare business corrupt and impose regulatory penalties or political oversight over the company or, in most cases, the whole industry, to prevent such behavior from taking place again.

But in treating this behavior from an inside-out rather than an outside-in approach, it is easy to see that it would really be an individual (a company executive) providing a bribe to another individual (a government official) to gain favorable access to the market. The motive in the case would be not to provide the company with an access to the market but to reap individual benefits in the form of salary increase, for example, for the individual involved in bribe-giving as well as the one receiving the bribe. With an outside-in view of corruption and an outside-in response to it, we would be equally penalizing the company employee who is providing a bribe and the company's workers and shareholders who may not know anything about this activity taking place. This is not to say that companies should not be held accountable for their actions, but we must be careful when imposing penalties and increasing regulations when the system is not broken.

One of the solutions in this case would be the introduction and strengthening of corporate governance mechanisms, which can act as an antidote to corruption.

Corporate governance mechanisms can provide a barrier to corrupt dealings on the part of individuals by limiting discretionary decision-making, increasing oversight over the distribution of funds, and introducing codes of ethics and conduct. Multinational companies and firms in emerging economies are only beginning to think about corporate governance as a successful tool against bribery, yet it has great potential. As case studies in the recent

U.N. Global Compact publication "Business Against Corruption" show, companies can successfully erect barriers to corrupt dealings through internal company measures.

What the inside-out approach yields is that business is not inherently bad and actions on the part of some individuals should not be considered a reason for political control over the private sector. In fact, a viable alternative to government control over an economy through increased regulations (an approach that frequently fails to take into account the costs and benefits of regulations at the margin) is an internal business value approach. That approach involves private-sector companies developing internal ethical guidelines and corporate governance mechanisms to ensure that company incentives are aligned in a way that encourages ethical behavior along the country's moral and cultural value systems.

From social responsibility to institutions

Another important point made by Friedman (2002) in his discussion of the social responsibility of business is that emphasis must be put on the rules and the competitive markets within which a business operates.

[In a free economy] there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

Friedman correctly recognized the tendency in the social responsibility movement to extract business from the market environment in which it operates – but taking that market environment into account is of utmost importance when dealing with social responsibility pressures. While breaking down business into its structural components allows us to recognize the different interests of various companies and individuals, recognizing the structure of the markets within which companies operate allows us to address the incentive structures that drive the behavior of those individuals.

Market structures separate countries from one another and doing business in one country is different from doing business in another. In some countries, for example, it may take more than a year for a company to enforce a contract and work its way through a complex judicial system, and providing a facilitation payment to speed up the process may seem like a viable alternative.

In other countries, where judicial systems function more efficiently, the need for such a facilitation payment disappears.

Or, consider property rights protection. In countries with poor property rights regulations, doors are open to a variety of anti-competitive actions. Competitors may bribe judges to transfer shares of a company into their names illegally, or government officials may threaten expropriation if certain demands are not met. In countries where property rights are enforced, the possibility of such actions taking place is greatly reduced.

Understanding the institutional structure of markets allows us to understand why in many cases there has been a breakdown between market reforms and market performance. Market reforms implemented in the absence of true economic freedoms are bound to not live up to expectations. For example, privatization is much more than simply transferring titles from public into private ownership. It may be so in developed countries where the institutions necessary for the privatization process to work are already in place, but in many developing countries, in the absence of rule of law, privatizations are often an open door to asset-stripping, corruption, and resource misallocation.

At the end of the day, it comes down to the fact that while advocating for market reforms in developing countries, many experts have taken institutions for granted (North 2005). That mistake has had a profound effect on people's perceptions of the future benefits of reforms and their real outcomes. Seemingly simple economic reforms implemented in an institutional vacuum have brought about conflicting results and outcomes.

Understanding the institutional structure of markets also provides some insight into why there are increasing calls for political controls over business and pushback against market reforms in so many developing countries. Further, it can explain why the increasing of political oversight over the private enterprise is bound to exacerbate the inherent problems rather than provide viable solutions. But the most important outcome of such an approach is that it allows us to better understand the root sources of discontent with the performance of business in some developing countries and thus devise effective solutions to combat negative perceptions of private enterprise, markets, and capitalism as an economic system.

Corporate governance mechanisms can provide a barrier to corrupt dealings on the part of individuals by limiting discretionary decision-making, increasing oversight over the distribution of funds, and introducing codes of ethics and conduct.

A proactive approach to social responsibility pressures

The World Bank's Doing Business Database captures well the inherent economic problems in many developing countries[2]. It shows a clear connection between the overregulation of business and corruption, lower development levels, poor investment, and other economic ills. But while in many cases over-regulation has been the cause of countries' bad economic performance and subsequent discontent with market mechanisms, the traditional response by anti-market forces has been more instead of less regulation (Caplan 2004).

Improving the quality of institutions as the rules of the game that make competitive markets possible and reducing the legal and regulatory burdens the private sector faces are two of the answers to ensuring that markets live up to the expectations of society. Those reforms will also enable all citizens, not just a select few, to have access to markets and the prosperity they bring.

In that regard, getting the private sector involved in legal and regulatory reform can be thought of as a proactive approach to corporate social responsibility. Instead of responding to pressures through philanthropy, institutional reform in developing countries can address the root sources of public discontent. In other words, if we speak of the social responsibility of business, we should speak of business' role in building truly competitive markets, which allows for economic growth and provides opportunities for people stuck at the bottom of the pyramid to move up the development ladder.

This can be done by means of private-sector advocacy through business associations. In such an approach, business associations are not a redistributive mechanism that allows companies to capture rents (Krueger 1973); rather, they are an advocacy mechanism that improves the business environment across the board. Here lies a key difference between lobbying as trying to capture a larger share of the pie and advocacy as simply increasing business opportunities by removing barriers to doing business and, as a result, making the pie bigger rather than seeking to capture one of its pieces. One of the more fundamental concepts of economics is that free markets are not a zero-sum game, and private-sector advocacy exemplifies well this fundamental concept.

It is also a viable alternative to Mancur Olson's (1982) view of interest groups as predatory groups bound to drive economies into stagnation and societies into despair.

Certainly, not all business associations are capable of being advocates for free-market reforms. Some associations may act as vehicles for business groups to "capture the state," (Hellman, et. al. 2000). These types of business associations act as barriers to, not as facilitators of, economic reform. Other types of associations, particularly those based on the mandatory membership-type Continental model of associations, have few incentives to address the institutional deficiencies and act as 'the voice of business.' Those types of associations act more as tax-collection agencies, since their survival is dependent only on laws that require businesses to become members.

Voluntary membership-based associations of the Anglo-Saxon model are much better candidates to advocate for institutional reforms, as their survival is dependent directly on their ability to attract and retain members (Pilgrim and Meier, 1995). From another perspective, voluntary business associations can act as 'the voice of business' in the political reform process, bringing the issues companies face on a day-to-day basis and possible solutions to those problems before policymakers. The process has become known as the national business agenda and it has been implemented by the U.S. Chamber of Commerce in the United States. The basic idea of the national business agenda is that associations survey their members to identify the barriers to doing business they face, devise solutions, and channel the problems along with the solutions to the policymakers.

As noted above, not all associations are the same. The key difference between market-protection and market-expansion associations is that market-protection associations seek to shield their member companies from competition such as, for example, erecting trade barriers, thereby limiting the functioning of markets.

Market-expansion associations, on the other hand, seek to improve the functioning of markets, such as supporting measures to improve contract enforcement or reduce transactions costs in the form of business registration procedures. The case for association participation in institutional reform as an answer to social responsibility pressures in developing countries is made for market expansion, not market protection associations. Unfortunately, in many developing countries the latter exceeds the former in number and efforts to erect market barriers often outnumber efforts to remove them.

The greatest challenges lie in creating and supporting these reform-oriented private-sector associations and breaking down the political barriers that prevent them from playing an active role in policymaking. In countries where the private sector is not given an opportunity to voice its concerns and participate in policymaking, the regulatory burden on the private sector and political control of business are likely to increase, distorting the performance of markets even more. In countries where the private sector is given a voice in policymaking, and laws and regulations are created in a bottom-up, transparent manner, market institutions have a better chance of surviving and lifting citizens out of poverty.

[1]For more see Ivanovic, Petar and Ralph Marlatt "Strengthening Democracy and Developing the Private Sector: Seven Years of Reform in Montenegro" CIPE *Economic Reform Feature Service* http://www.cipe.org/publications/fs/articles/022806.htm.

[2] Available at http://rru.worldbank.org.

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The Stock Market As A Store of Value

* By Vincent Nwanma

You probably have heard many stories of people whose lives were changed for the better through the stock market. Here's another: Persuaded by a teacher in a remedial school, where she could hardly afford to pay the child's fees, a widow struggled to invest about 50,000 naira in stocks through a broker. Some two years later, pressed hard by increased needs, she called at the broker and asked to be given her money. "How much do you want to take, Madam?" the broker asked. "My money," was the woman's reply.

Now, the broker had some explanations to make. First, the money had grown in value beyond the 50,000 naira that she had invested. Secondly, she could take just a part, and still leave the rest to grow even further. At the end of the day, the woman took the amount she needed immediately while the balance remained invested.

The stock market is obviously one of the wonders of the capitalist system. It is not just an institution for saving; rather, it is a vehicle for capital formation or accumulation through proper articulation of one's financial objectives or goals. The Nigerian Stock Exchange explains this clearly in its Mission Statement:

"To promote increased capital formation in Nigeria by providing issuers and investors with a responsive, fair and efficient stock market through competent and dedicated professionals using the latest technology, thus assuring local and foreign investors access to the Nigerian stock market with confidence both in the regulatory framework and in the reliability of trading and settlement systems."[1]

In the story above, the woman's money grew in value over the period because the broker, acting on the agreement with her, invested the fund in stocks that had the potential to appreciate in value.

Without knowing in details all that the broker did, one can surmise that he probably bought securities of more than one company, and probably also sold all or some as their prices rose. Having done that, he probably reinvested the amount in other stocks, or the same stocks (less the profit), and probably sold later as the prices rose.

Alternatively, he could simply have held on to the stocks he purchased initially, until their values rose, such that when he sold some, he could realize the initial amount that the woman invested.

On the other hand, it is possible that the broker invested the whole amount in equities. He could also have invested part in equities, and part in fixed-income securities, or possibly in mutual funds. These are the various investment instruments available on the stock market for profitable investment. The choice of which security to invest in, is normally influenced by a number of factors, chief among them being the objectives of the investor. We shall say more about these objectives later.

The reader probably already knows this: the money in your pocket or under your pillow now is worth less today than it was yesterday.

The above descriptions mirror, although in a highly simplified form, the processes by which investors create value for themselves over time through the mechanism of the stock market.

Risks Assessment

The stock market is thus one of the amazing features of capitalism, which permits private ownership of wealth through individual effort. It is underscored by an objective assessment of the risks inherent in every investment process. This is done through the analysis of the records of the general economy, companies, and the industry or sectors in which they operate.

By appropriately pricing or assessing risks inherent in investments, individuals are able to increase the value of their financial assets over time through the optimisation of returns on such investments.Those that are able to do this correctly –or as correctly as possible – get rewarded through the increase in value that they get.

Here lies the distinction between the stock market and gambling. The market is regulated, and operators play by the rules. On their part, investors are expected to be guided by information sourced by themselves or their brokers.

The purpose is to ensure that investors' actions are driven by the right information and that the actions they take are the appropriate response to the market sentiment at any given point.

This of course does not in any way imply that investors in this market operate with absolute certainty. Despite the efforts made at risk reduction through the provision of information, it is evident that the future cannot be predicted with full accuracy. While industry or firm-specific issues could be analysed and hedged against to reduce risk, it is not so with economy-wide issues. Yet, operators can access the risks they carry, as provided by historical facts on the market or individual companies, and the projections for the future.

The market therefore provides a safe haven for escape from the scourge of inflation that invariably eats into the value of money left on its own. The reader probably already knows this: the money in your pocket or under your pillow now is worth less today than it was yesterday. Any subsequent day that passes by sees this value decline further. Therefore, in terms of the real value or purchasing power of that amount, it diminishes with time.

This is the concept of the **Time Value of Money.** Simply put, it states that money in hand today is worth more than the same amount to be received tomorrow. Or, alternatively, it says that money received at time $\mathbf{T_1}$ is worth more than the same amount of money to be received at time $\mathbf{T_2}$. This is illustrated in the time line above.

There are at least two sources of this difference in the value of money received over time. One is inflation, the rise, over time, in the general price of goods and services. The other, perhaps the more relevant in the case of fixed-income securities such as bonds, is interest payment.

Inflation matters because it eats into the real value of money that all of us carry. From the inflation figures in the table, it is clear that any amount of money held without being invested since the beginning of 2006 has depreciated in real terms by as much as 17.5%. Similarly, any amount of money invested in an instrument that pays just 17.5% and held until the end of the year will simply maintain its original value, if, for instance, the inflation rate remains at this average level for the whole of the year.

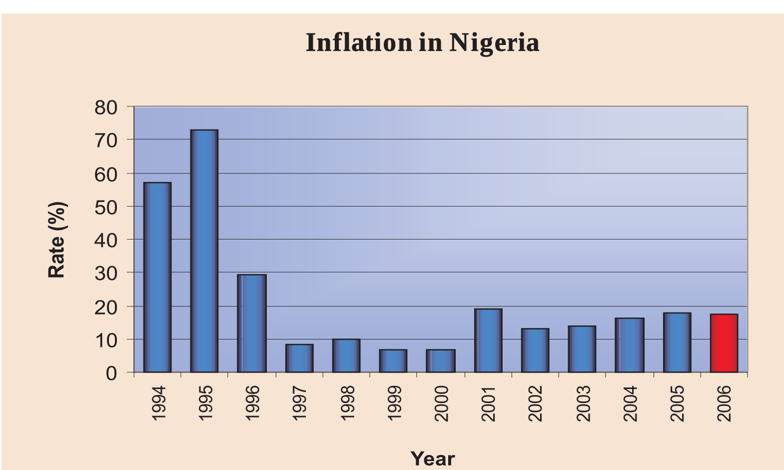
While the inflation element compensates the buyer or holder of the bond for possible loss in purchasing power of the future receipts, the interest element is compensation for deferred consumption or use of the funds today. It is also a compensation for the risk of default by the borrower that the lender bears in parting with the money.

Between January and June 23, 2006, the All-Share Index of the Nigerian Stock Exchange rose by 6.57%, having risen to 25,668.00 points, up from 24,084.76 points, where it ended the year 2005. The index is a broad measure of the performance of the stock market, across board.

From the Inflation Table, it is clear that for this year, the average inflation rate for the first four months has been 17.5%.[1] Therefore, if you put your funds in securities that paid you 17.5% per annum, you have simply altered the location of your money without raising its value. It means, for instance, you moved it from under your mattress into a fixed-deposit account, but it's a kind of motion without movement because there has been no change in its value.

From the above, it would seem that investors on the stock exchange have lost out this first half of the year. That is what the all-share index of the market would suggest, on the average, judging from its performance. This, however, is far from the truth.

It must be pointed out that some of these values of the index actually under-report the performance of the market. First, it does not include the dividend income that companies pay to their shareholders every year. This is discussed below. Besides, the performance of the entire market falls short of some stocks in a year, sometimes as a result of industry-specific events. In other words, some stocks actually outperform the market, while others, unfortunately, perform below the market.



* Average for the first four months of the year. *Source: National Statistical Bureau*

Portfolio Selection and Diversification

The above scenario makes it imperative for investors to diversify their investments as a hedge against loss of value. A distinguishing feature of stock market investment is the fact that operators recognize the existence of risk, and make efforts to minimize the impact of such risks on the eventual outcome of the investment processes. This constitutes the bulk of activities undertaken by regulators and operators- to ensure that risks are reduced to their barest minimum. And the greatest factor that leads to risk reduction is information. Investors are able to make the best decisions on the basis of information available to them. Those who possess this information are likely, therefore, to act in the most appropriate way, as far as the market is concerned.

"The process of buying different stocks for your portfolio is known as **diversification.** It is simply another name of the expression that one should not put one's eggs in one basket. The reason is that in the stock market, like any other market, prices go up and also go down. But there is hardly any day when **all** the stocks fall in price, except in the event of a **market crash**. And since at any point in time the total value of your portfolio is determined by the sum of the values of each of your stocks, it makes sense to have different stocks, so that if some are down in price, at least some will be up. In this way, you are able to maintain the value of your portfolio, despite fluctuations in prices."[3]

Table 2: Performance of the Nigeria Stock Exchange, 1997-2006[4]

Year	All-Share Index	Growth (%)	Market Cap (bn)	Growth (%)
1997	6,440.51	-7.9%	282.00	
1998	5,672.76	-11.9%	263.3	-6.7%
1999	5,266.43	-7.2%	300	13.9%
2000	8,111.01	54%	472.9	57.7%
2001	10,963.11	35.%	662.6	40.1%
2002	12,137.72	10.71%	763.9	15.3%
2003	14,565.45	20.0%	919.7	22.8%
2004	23,844.45	18.5%	2,112	129.6%
2005	24,085.76	1.01%	2,900	37%
2006*	25,668.00	6.57 %	2,908	0.27%

** As at June 23, 2006*
Source: NSE

Investors are able to make the best decisions on the basis of information available to them. Those who possess this information are likely therefore to act in the most appropriate way, as far as the market is concerned.

Therefore, depending on the composition of their portfolios, investors on the Nigerian Stock Exchange this year have achieved significant levels of returns, some of them obviously higher than the recorded inflation rate.

Sources of Growth In Stock Value

Many people are averse to the stock market largely because they do not understand the mechanism by which it operates to create value for investors. There are three main sources of growth in the stock market, and an investor's aspiration should be to benefit from one or more of these sources.

Share price appreciation

One of the expectations of investors is that over time, the price at which they buy their stocks would rise so they can sell at a higher price and therefore make profit. This is one of the forces that drive the stock market. Various reasons account for this rise in stock prices, chief among them being the interplay of demand and supply, which in turn are driven by the fundamentals of a company.

When a company is doing well or is expected by the market to do well, demand for its shares rises, as more investors seek to take advantage of the envisaged improved performance of the company. Generally, this expected improved performance would in turn result in higher cash dividend being declared for the share-lders. All these help to push up prices of securities. e have seen this in some of the companies on the igeria Stock Exchange.

In the banking industry, for instance, some of the nks have experienced significant price increases llowing the consolidation exercise. With improved pital bases, the banks are now expected to perorm better, which in turn should lead to improved returns to shareholders.

Price appreciation occurs both in the short and long terms, and investors can sell to take advantage of it, depending on their investment horizons and objectives. In the first half of 2006, many of the stocks listed on the NSE recorded appreciable price increases (and decreases, in some cases). The table below tells part of the story.

Except for the two stocks that showed price depreciation, all the other 10 clearly outperformed the market during the period. Therefore, depending on the composition of their portfolios, investors certainly have made some significant returns on their equities this first half of the year. And, should this trend continue for the second half of the year, it is obvious that some stocks will achieve more than 100% return – on price appreciation alone.

Cash Dividend Income

This is another source of growth in stock investment. Indeed, for some groups of investors, this constitutes the major reason for investing in stocks. Generally, companies reward their shareholders yearly by paying a certain portion of their net profits as dividend to their investors. The portion to be declared as dividend is not constant, but depends on the company's performance, its investment plans (some of the profit has to be reinvested into the company's operations), etc.

Companies' dividend payment history is one of the factors that affect the selection of stocks by many Nigerian investors. This explains their preference for some of the mature enterprises, many of which are known for the yearly dividend payments. Therefore, the more of a particular share an investor has, the larger the total sum he receives as dividend income from that stock each year.

Table 3: Price Movement on Selected Shares on the Nigerian Stock Exchange, Jan – June 23, 2006.

Stock	Price on Dec 30, 2005	Price on June 23, 2006	Growth (%)
First Bank	32.00	52.80	65.00
Union Bank	25.48*	32.49	27.50
Zenith	16.50	20.18	22.30
Guinness	96.00	108.00	12.50
WAPCO	17.30	29.75	71.96
Ashaka Cem	34.20	38.50	12.60
NB	38.80	35.90	- 7.47
PZ	16.20	21.52	32.84
UNILEVER	20.51	14.22	30.67
7-UP	28.04	35.49	26.57
Flour Mills	25.00	39.99	59.96
OANDO	96.00	75.49	-21.36

** Union Bank made a Public Offer/Rights Issue at N20 per share. At this price, the capital appreciation is even higher – 59.47%.*
Source: NSE

Bonus share issue

This is also known as **Stock Dividend**. From time to time companies give non-cash dividends, often in the form of bonus shares. These are free stocks that the company gives to existing shareholders, in a certain proportion to their current shareholding, thereby increasing the number of paid up capital/shares in their books. For instance, a company could decide that at the end of its accounting year 2006, it will give every shareholder one new share for every ten already held. In other words, a shareholder who has previously held 100 shares gets 10 new shares (you get this by dividing 100 by 10), which makes his new shareholding now 110.

Usually, the price of the share in question is expected to fall in proportion to the ratio of bonus shares. Investors on the NSE have benefited from bonus shares declared by companies. The fall in price usually offers an opportunity for more investors to invest in such stocks. This has also happened this year, with several companies, including banks, offering bonus shares to existing shareholders as the companies seek to raise their share capital.

To benefit from any or all of the above sources of growth in the value of stocks, an investor must have clearly defined investment objectives. It is these objectives that will determine the types of stocks to be recommended to you by your stockbroker.

So, the reader should think again: What is your investment objective? Is it dividend income? Is it capital appreciation, in which case you want to buy and sell as the price of the stock rises? Or perhaps a mixture of these- such that you can take advantage of current high prices, and be able to accumulate a certain amount of money at a future date. All these are possible in this market. For a start, why don't you talk to a broker today?

[1] The Nigerian Stock Exchange FACTBOOK 2002, page 15.

[2] CPI figures for the months are: Jan 17.9%; Feb 17.8%; Mar 17.4%, and Apr 16.9%. Source: National Statistical Bureau.

[3] Nwanma, Vincent : **Creating Wealth Through the Stock Market**, 2005, page 21.

[4] From various editions of The Nigerian Stock Exchange **FACT BOOK**

(* Author of Creating Wealth Through The Stock Market, Nwanma is Nigeria's Correspondent for Dow Jones Newswires. He was a World Bank Scholar on the Knight-Bagehot Fellowship in Economics and Business Journalism at Columbia University, New York).

As the global economy evolves by becoming more integrated, it is clear that two languages - English and Mandarin Chinese - are set to dominate international commerce and trade, science and technology discourse, and electronic communication.

Language Globalisation & Technology

*** By Yomi Makanjuola**

It is not often that the leader of the world's most populous and fastest growing economy, China, visits the black world's most populous nation, Nigeria. To drive home this point, just as one in five of the human race is a Chinese, every fifth African is presumed to be a Nigerian. Political and economic pundits predict that China is on course to emerge as a full-fledged superpower by the middle of this century, powerful enough to challenge the global supremacy of the United States of America. Of course, it must be stressed that China's date with destiny is not solely based on its headcount, but the fact that the country's resource-hungry and awe inspiring economy has been growing at close to double-digit pace for over two decades. Therefore, for Nigeria to emerge as a genuine regional power and a force to be reckoned with, both in Africa and on the world stage, a pre-condition is a strong, dynamic and modern economy.

During his recent state visit to Nigeria, President Hu Jintao of the People's Republic of China was given the rare honour of addressing the nation's joint legislative body at the

National Assembly. During that evening's television broadcast, my attention was drawn to the throng of federal lawmakers listening to President Hu's speech. Colourfully decked out for the occasion, they generally wore a quizzical *"all very well but what-is-in-it-for-us"* look that utterly failed to mask their boredom. Granted that Mr. Hu spoke Chinese (more specifically, Mandarin), an unintelligible language in these parts, there was nevertheless a drawling, voice-over translation in the background. However, what really caught the eye was not President Hu's smart Western suit and tie, but what I can only describe as the ugliest, full-throated yawn ever captured on camera this side of the equator. Judging from the body language and sweaty demeanour of this camera-friendly House Member, inelegantly sandwiched between two other brave hearts, overt discomfort was written all over him. No doubt, this was made even worse by the fact that he was compelled to listen to a total stranger speaking in an alien tongue. Whoever said it was an easy job being a legislator?

Now tagged the "World's Workshop", just about every consumer product imaginable is now made and exported from China - shoes, toys, home appliances, sports equipment, just name it. Leveraging capital and a relatively low-wage labour force, there are few countries, if any, that can match China's manufacturing cost structure.

Chances are that if you look carefully at the packaging of a *Made in China* product lying around your house, you are liable to come across operating instructions written in the Chinese language.

Printed alongside may be this illustrative, less than crisp, English rendition: *"The section cut off very handsome and yet very easy to cut in one hand.* Be *careful not to place your finger under blade by your first holding* of *the handle for serious cutting will happen"* or *"When connect to the LD player having system control terminall, may wield two-faced securing, do not connect any ting to the system control terminall* of *the LD player'.* But if you think the Chinese are laughable, why don't you consider this faithful reproduction of a job application entry written by a Nigerian graduate (he was asked to describe his interest in that company):

"I, want to say sincerely that these company is an organised, among indigenous company who is really abreast in our country. What interested me *mostly was that is* a *company that strive hard to exell and also to be their best. Not only that, the company gave her staff free hand to produce with efficiency in all her given task its uniqueness in all its organization."*

Clearly, the Nigerian education sector is facing a serious crisis. And as the country continues to turn out tens of thousands of university graduates, the society and employers are left to bear the brunt.

Clearly, the Nigerian education sector is facing a serious crisis. And as the country continues to turn out tens of thousands of university graduates, the society and employers are left to bear the brunt. The hard truth is that the teaching profession has been so badly traumatised, it is incongruous to expect teachers to pass on to our children what they themselves do not possess. To build an effective and functional workforce for the future, government, communities and parents must join hands to reverse this dreadful trend. On the other hand, Asian product manuals, in particular, are justifiably famed for being badly written. Needing to cut costs, these companies sometimes compose instruction manuals in their native language and then transcribe word for word into English, using a dictionary. Occasionally, the poor quality is not due to a lack of will, many entrepreneurs often face the real challenge of finding skilled linguists.

As the global economy evolves by becoming more integrated, it is clear that two languages - English and Mandarin Chinese - are set to dominate international commerce and trade, science and technology discourse, and electronic communication. Unlike Mandarin Chinese, which is spoken by over 70% of the Chinese population (other key variants are Wu Chinese and Cantonese) across a relatively contiguous territory, English is the official language of that other emerging heavyweight, India, and the current sole superpower, the U.S.

Today, over 1.5 billion people live in countries where English is the official language, spread across 50 odd countries. Recognised as the pre-eminent language in science and technology, diplomacy, international business, popular culture and so on, about 20% of the planet's population speaks English with varying degrees of proficiency. It is also projected that the number of people who claim English as a secondary language will soon surpass the total number of native speakers. To demonstrate its global reach, *Microsoft Word,* the ubiquitous office productivity tool, has a dictionary containing different variants for countries as diverse as Australia, Belize, Canada, Caribbean, Honk Kong, India, Indonesia, Ireland, Jamaica, Malaysia, New Zealand, Philippines, Singapore, South Africa, Trinidad and Tobago, U.K., U.S., and Zimbabwe. Just as Microsoft's operating system locked in millions of users early, the spread of English owes a lot to England's past colonial exploits, as well as the rise of the United States as an economic power. Today, because the U.S. accounts for about a quarter of global GDP, the bulk of electronic communication including radio, cable, and mail traffic is in English. However, with the rapid spread of Internet traffic and wireless communication, and as their economies continue to boom, the centre of gravity is beginning to shift towards Asian countries, especially China.

While Spanish is not faring too badly, spoken mainly in Spain and much of Latin America by about 350 million people, another old colonial power is doing less well. France (despite its self-consciousness and doggedness in preserving its culture) is finding it difficult to embrace globalisation or to accept the erosion of its international influence; all told, native French speakers in fact number fewer than 100 million. Globally, experts estimate that there are still over 5,000 different languages in existence, many oral but unwritten, with about 200 of these having one million or more indigenous speakers. Anthropologists fear that close to half of the world's languages may soon become extinct because children in many communities are no longer learning their mother tongue. What is emerging is a form of linguistic and cultural hegemony - a creeping hazard that is driven mainly by powerful media companies and unbridled capitalism, enveloping even former Communist or closed societies. Evidently, the economic, social and demographic changes that the world is witnessing is accelerating rather than slowing down, almost like a tidal wave, as markets become more interconnected. The implication is that, to compete effectively in world markets, language skills - both spoken and written - are bound to become more important and may become indispensable tools for achieving competitive advantage.

Even as we explore and exploit global trends, Nigerian

parents and schools must continue to encourage the teaching of indigenous languages. We must take great pride in our heritage, and desist from jettisoning our customs wholesale at the altar of foreign norms. Government has a big role to play by promoting social and educational policies that simultaneously strive to preserve our culture while focusing on strategic, economic-themed goals. One of these should be the teaching of Mandarin Chinese as a foreign language in selected schools, starting now. Many Asian countries are beginning to flock towards Mandarin and, even in the U.S., it is estimated that over 30,000 students enrolled in Chinese classes back in 2002. I seriously believe that Mandarin should be given as much prominence as, say, the French language because, accept it or not, the whole world will soon be angling to enter the Chinese market, comprising hundreds of millions of upwardly-mobile consumers.

For languages, much like in nature, it is a case of survival of the fittest. Although speech is transmitted in analogue mode, digital electronics continues to enhance our ability to modulate and process speech or sound from analogue to digital and back to analogue mode. Using the globe-girding Internet platform for data simulation and multimedia transmission, information exchange now occurs literally at the speed of light. Hence, while English and Chinese Mandarin may shortly emerge as de facto world languages and others like French and German may become more balkanised, the real winner and language superpower may turn out to be computer and communications protocols, which are internationally agreed-upon formats for transmitting data between various electronic devices. A popular example is what is technically referred to as IP (or Internet Protocol) which is a standard method of digital transmission over the Internet.

Today, over 1.5 billion people live in countries where English is the official language, spread across 50 odd countries.

With greater computer processing power and further miniaturisation, yet-to-be perfected middleware technologies and speech engines may soon be available over communication networks to facilitate real-time, on-line voice and data translation. Shall we therefore look forward to the day when we can do away with expensive human interpreters and towards near-instantaneous communication and comprehension between people speaking in different tongues? As this far-fetched prospect draws nearer, we shall be close to achieving the modern-day version of the *Tower* of *Babel* or Babel redux. In virtuous hands, technology has the power to improve the overall quality of human life. In the wrong hands, it could represent a sinister force for evil. Metaphorically, progress is and always will be a double-edged sword.

As boring as all this may seem, I wouldn't yawn if I were you. But, if you must, at least try to cover your mouth. Beyond obvious health reasons, the mouth must be treated with due respect at all times because housed inside it is that most formidable of all God's handiwork. Remember always that no other instrument known to man is as *soundly connected* and none that cuts as *seriously* or viciously as an unrestrained human tongue. Imagine, therefore, a digitalized and fully networked planet where language barriers become artificial and consigned to the past. All in all, let's be careful what we wish for.

(**** Yomi Makanjuola is Group Executive Director, Honeywell Group***)

CANADA – NIGERIA TRADE: REAPING MUTUAL BENEFITS

*** By Toni Kan Onwordi**

Canada is a significant and strategic trading partner for Nigeria. Ranked as one of the world's wealthiest nations in terms of GDP per capita which stood at $31,500 in 2004, Canada is a member of the Group of Eight (G8) industrialized nations and the Organization for Economic Cooperation and Development (OECD).

Operating a free market economy, the North American country, which is blessed with a huge land mass, the second largest after Russia, has a wide array of natural resources which accounts for the country's huge earnings not just from logging and petroleum but also mining and fishing amongst others. These natural resources which are found in different regions of the country help enforce the country's regionalism. Oil for instance which is the mainstay of Alberta in the east, is easier and cheaper to sell to the US rather than to the Western Ontario province which is forced to rely on imported fuel and nuclear power for its energy needs.

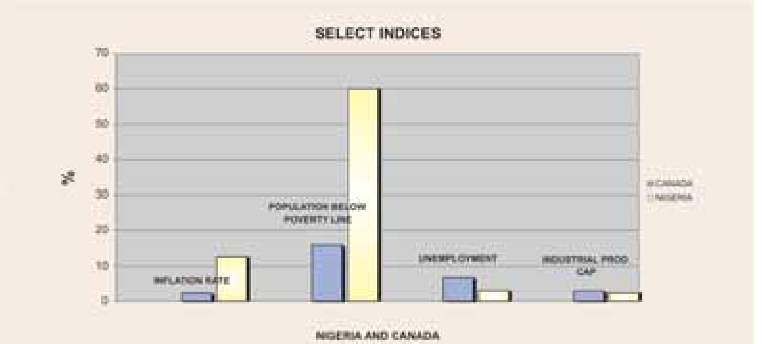
The exploitation of these huge natural resources has raised serious environmental concerns as well as contentions from native land claims. These problems have forced many Canadian companies to focus their exploration and expansion activities abroad, making Africa a destination of choice because of the abundant cheap labour as well as more conducive and less stringent operating environments.

Canada's relationship with Nigeria has blossomed both on the political and economic fronts. The relationship was fractured in 1996 following the judicial murder of writer and environmental activist, Ken Saro-Wiwa in late 1995.

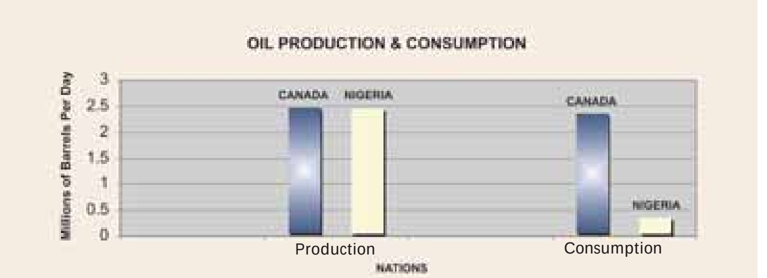
Aside from the extractive industries, Canada has a well developed service industry, a pre-eminent manufacturing sector and remains one of the world's most important suppliers of agricultural products especially wheat and sundry grains. Its agricultural products find their way mostly to the US, Europe and East Asia.

In Manufacturing, Canada's automobile industry which is generally regarded as a creation of the Autopact of the 60s remains one of the most important. The Ontario based automobile industry is reputed to produce more vehicles per annum compared to the US state of Michigan, the heart of the US automobile industry. Manufacturers are drawn to Canada on account of a few advantages and incentives which include the highly educated and skilled workforce, the low labour costs and government run healthcare which exempts companies from health insurance costs unlike in the US.

The Canadian service sector is a vast and varied one accounting for 2/3 of GDP and employing about 75% of the population with the retail industry taking up the largest



Source: *www.cia.gov/cia/publications/factbook/geos/ca.html (2005 estimates)*



Source: *www.cia.gov/cia/publications/factbook/geos/ca.html (2005 estimates)*

chunk of about 12% of the labour force. Other key sectors are the financial services, real estate and communications industry

Even though Canada occupies a peculiar position as one of the few developed nations that is a net exporter of Energy, it is also one of the world's highest consumer per capita of energy and because the Western provinces are shut off from the oil that is produced in the Eastern provinces, their reliance on imported oil means that Canada expends vast amounts of its resources on importation. In 2004, Canada spent CDN$51.3m on importation of crude and fuel oil from Nigeria accounting for 55.4% of total imports for the period. It is instructive to note too that Canada exported CDN$13m worth of oil and gas equipment to Nigeria.

Canada's relationship with Nigeria has blossomed both on the political and economic fronts. The relationship was, however, fractured in 1996 following the judicial murder of writer and environmental activist, Ken Saro-Wiwa in late 1995. The schism was healed in September 1998 as a new era of democratic governance began to dawn and the Canadian-Nigerian Joint Economic Commission resumed sitting after a ten year hiatus, affording both countries an opportunity to resume discussions and collaborations in areas of mutually beneficial bilateral cooperation.

The resumption of both political and economic relations has been beneficial to both countries. The first major fallout was the reopening of the Canadian embassy in Nigeria thus ensuring that Nigerians no longer had to go to Ghana to obtain or renew Canadian visas.

By the end of 2001, there were already 156 Canadian companies registered with the Canadian mission to do business in Nigeria with special emphasis on 11 different sectors of the economy especially telecom, oil and gas and energy. By the end of 2002, the number of registered Canadian companies had risen to over 200 with most of them concentrated in the energy and telecommunications sectors of the economy.

Trade between the two countries was also looking up, with Canada paying CND$196m for Nigerian crude oil and CND$7m for cocoa. Nigeria on the other hand spent CND$80.5m on the importation of various goods, mostly grains, machinery, plastics and vehicles. Foreign Direct Investment inflow from Canada to Nigeria totaled CND$375m in 2002.

The positive balance of payment position is good news for Nigeria which is in a weaker economic position compared to Canada. With a population of 128 million people, Nigeria's GDP per capita was US$1000 in 2004 as against the US$31,500 ($11^{th}$ in the world) recorded for Canada with a population of 33 million people in the same period.

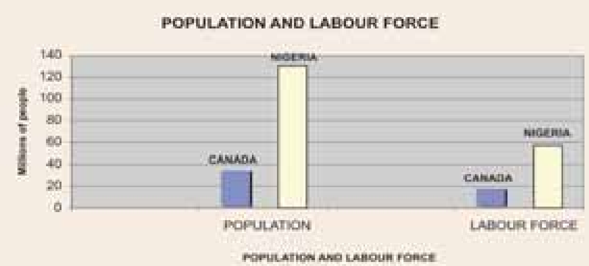
On the political front, bilateral relations between the two countries continue to yield beneficial results for Nigeria. Canada's bilateral assistance to Nigeria focuses primarily on health, environmental and agricultural issues. In the area of health, Canada, which has made a success of its health care system is offering assistance targeted at helping reform the public health care system in Nigeria while also focusing on polio eradication, provision of basic care, reproductive medicine issues and the fight against

By the end of 2001, there were already 156 Canadian companies registered with the Canadian mission to do business in Nigeria with special emphasis on 11 different sectors of the economy especially telecom, oil and gas and energy.

HIV/AIDS. In financial terms, $6m was committed to polio eradication in 2001, while another $10m was committed to fighting HIV/AIDS.

There is also ongoing assistance in Nigeria's land and water management which aims to control the serious soil erosion and desertification problems plaguing parts of the country. Aware that good governance is a sine qua non for a good investment environment that will attract foreign businesses, Canada continues to, through the Canadian International Development Agency (CIDA), provide support in upholding principles of good governance and electoral reform for Nigeria's fledgling democracy.

Nigeria also reaped substantial gains from Canada when its debts were written off last year. Canada was among the G8 countries which pledged to write off debts owed by some of the world's poorest countries to the World Bank, the International Monetary Fund and the African Development Fund. In 2005, Canada's aid budget amounted to 0.31 per cent of GDP, which puts it in third place among G8 countries, behind only France (0.38 per cent) and Britain (0.33 per cent)



Source: www.cia.gov/cia/publications/factbook/geos/ca.html (2005 estimates)

The importance of Canada-Nigeria trade is apparent from the fact that Nigeria remains Canada's second largest trading partner in Sub-Saharan Africa after South Africa. With over two hundred Canadian companies currently doing business in Nigeria and with more expected as Nigeria's telecommunications and energy sectors expand, Canadian Foreign Direct Investment in Nigeria is expected to increase and so would its oil imports from Nigeria. Nigeria is also expected to reciprocate in like measure in its import of grains, machinery, plastics, vehicles and other essentials.

The reform agenda which has seen consistent and substantial improvements in the Nigerian economy as well as the strengthening of democratic structures is expected to engender more confidence in the economy and thus attract more investments and bilateral aid from Canada in the coming years.

** Toni Kan Onwordi is an Assistant Editor, Zenith Economic Quarterly.)*

• *Resort & spa, Canada*

• *Yankari Spring, Nigeria*

Comparative GDP Indices

	GDP(USD)	GDP PER CAPITA (USD)	GDP GROWTH RATE	GDP COMPOSITION BY SECTOR
CANADA	1,035 trillion	34,000	2.9%	Agric: 2.2% Industry: 29.1% Services: 68.7%
NIGERIA	77.33 billion	1,400	6.2%	Agric: 70% Industry: 190& Services: 24.4%

Source: www.cia.gov/cia/publications/factbook/geos/ca.html (2005 estimates)

Latin America: Engaging the Disenfranchised, Creating Wealth

*** By Álvaro Vargas**

Although the macroeconomic situation throughout Latin America has been continuously improving, the citizens of many countries are turning toward radical leftist leaders. It is apparent that while statistics show growth and increasing prosperity, the average citizen has not reaped any of the benefits. Voters are expressing their frustration with their current socioeconomic status, their lack of options, and their exclusion from the economic system in various ways.

To address the problems Latin America faces, the institutional environment must be reformed. Without institutional reforms that facilitate wealth creation, entrepreneurship, and enfranchisement, people will remain angry, and their anger will be perfectly justified. If Latin American leaders have the courage to address these issues in a fundamental way, there will not be a future for demagogues and populists.

Latin America has a lot of hard work ahead of it, and its leaders must be realistic about current trends and sentiments. Previous governments in the region made a lot of mistakes when they had the chance to engage in free-market reform, and now there is a natural backlash against that. However, that will run its course, they will get another chance, and when they do, they need to get it right!

It is evident that, current policies are not working and that fundamental institutional changes are necessary to ensure that Latin America moves towards free-market reform and democracy and away from populism. The current levels of centralization, bureaucracy, corruption, and poverty have created a large population that does not trust politicians or the government. It is only through enfranchisement, transparency, and increased economic opportunities for all citizens that Latin America will reverse the current political trend.

Let's start with the positive side of things. Latin America today is doing very well by historical standards. Macroeconomic statistics are very positive. For instance, GDP growth in Latin America was about 4.3 percent last year. Direct foreign investment has increased dramatically, to approximately $50 billion in the last year. That is about five billion more than the previous year, which demonstrates a trend of positive growth.

A closer look at specific countries paints an even brighter picture. The economy of Venezuela grew by nine percent and Argentina's grew by eight percent. Peru, Chile, Panama, and Uruguay all experienced a six percent growth rate the last year. Although those rates may not be as high as China's or India's, they are still good.

In addition, inflation is very low, and fiscal deficits are both low and manageable. Debt has decreased from about 50 percent of GDP to about 30 percent of GDP – and a 30 percent debt is quite manageable. This is a significantly better situation than the one in Europe, for example, which is burdened by a high debt to GDP ratio.

Adding to that, the positive trends above are not new. In fact, in the last four years, Latin America has experienced substantial economic growth. Between 2003 and 2006, the average GDP growth rate was four percent across the region, and poverty has decreased from about 45 percent to about 40 percent. That type of growth is exactly what the region needs.

The estimates for this year look positive as well. GDP growth, on average, is going to be about four percent. Although it will be slightly lower than last year in Argentina and Brazil, dropping from eight and nine percent respectively to six percent, six percent is still a commendable figure. In Peru and Colombia, the growth rate is going to be approximately four or 4.5 percent, which is encouraging by the standards of the region's complicated past.

In other words, the macroeconomic situation in Latin America is encouraging.

Why is there a huge backlash against sensible reform, good management, rational government, and good governance?

There is a huge disconnect between the macroeconomic statistics and what is happening at the grassroots level. The direction of grassroots movements and voting patterns seems to be moving in the opposite direction of economic trends. This is a development that will have a major impact on the future of Latin America, and it has happened many times before – in the 1950s, the 1970s, and parts of the 19th century. There is a tendency for the region to experience periodic backlash against free-market reform and good governance and support for populism.

'Populism' in Latin America has a completely different meaning than populism in the United States. The populism in Latin America is not related to local governance; it is not Jeffersonian populism. It is a heavy left-wing form of populism native to Latin America and exemplified by the regimes of Juan Perón in Argentina, Getúlio Vargas in Brazil, and Alan García in Peru[2]

A fruit market in Peru

Although this situation has occurred many times before, this iteration is particularly important, as it will have a large impact on the future of Latin America. If it is not addressed, it is going to continue to reoccur.

The statistics provide some insight as to why this is happening and what exactly is going wrong. Investment levels are very low – between 15 and 20 percent of GDP. Compared to East Asia, where investment rates are between 25 and 30 percent, Latin America is lagging far behind.

The actual reason for the positive macroeconomic statistics presented above also helps to explain the problem. There is a heavy reliance on profits from natural resources, as there has been throughout history. Recently, demand has risen by approximately 30 percent as a result of increased trade with China and India. However, the profits from those commodities do not reach the people; there is no trickle-down effect. Only the elites benefit. Thus, the macroeconomic picture does not reflect the situation at the local level.

In the 1990s, a number of free-market reforms were implemented across Latin America and a number of significant accomplishments were made. Inflation was controlled, which was a major feat. For example, in the 1980s, before the reforms, Peru experienced one million accumulated inflation over five years.

Hyperinflation devalued the currency to such a degree that 100 intis in 1985 were worth two intis in 1990[3]. Inflation was controlled in the 1990s due to a series of monetary and fiscal reforms, and some of the fiscal deficits were reduced. In addition, investment increased in some countries. However, although Latin America experienced economic growth, some necessary reforms were not implemented, and some were not true free-market reforms.

In the 1990s, a number of free-market reforms were implemented across Latin America and a number of significant accomplishments were made. Inflation was controlled, which was a major feat.

Privatization caused a number of problems because some state-owned companies became monopolies, which translated into high tariffs and high prices, especially for social services. In Argentina, most tariffs decreased dramatically in the early 1990s, but because of regional trading blocs like Mercosur, tariffs on 71 out of 97 goods increased. Of course, the fallout was a backlash against privatization.

These reforms created a lot of frustration. They created a lot of losers – disenfranchised citizens – who then turned against free-market reform. Thus, the current situation in Latin America, which is characterized by a vibrant anti-market movement, is not entirely surprising. However, the situation is not entirely negative because there are many different 'anti-market' constituencies and not all of them are really anti-market. At least half of the 'anti-market' constituencies can be addressed in an effective way from a free-market point of view.

There are many different types of anti-market movements. The first type is relatively anarchist, radical, left-wing, such as "Que se vayan todos" – "Get rid of all" – in Argentina. The next type is protectionist, comprising business leaders, labor leaders who lost ground in the 1990s, and politicians who fell from favor in the 1990s. The third group of anti-market proponents is composed of nationalists – people who resent partnerships with the United States, with the International Monetary Fund, and other international organizations. Those three groups are the most hard core anti-market constituencies, and there is no effective way to accommodate them. No amount of reason will convince them that free markets will ensure a better future; they do not want progress for Latin America.

However, those groups do not constitute a majority. There are other groups that consider themselves anti-market but may be amenable to market reforms. For instance, there are many people who shun market reforms as a reaction against corruption. This group wants more transparency and more accountability, which was sorely lacking during the reforms undertaken during the 1990s. Yet, what occurred then simply was not full, free-market reform. Although it is a difficult argument to make, the people opposing market reforms as a result of the corruption in the 1990s are not truly anti-market – they are against the type of bureaucracy that makes corruption a way of life.

Another group of people misguidedly reacting against free markets is composed of the disenfranchised.

Their reaction stems from their own socioeconomic situation. They are excluded from the market and have not benefited from it, although they have seen others prosper. The feeling of exclusion fuels the anti-market sentiment, but their true issue is not with the market itself. They simply would like the opportunity and know-how to play a more integral role in society.

They would like the post-privatization prices of social services to decrease to levels indicative of a competitive market, not a monopoly. They would like lower interest rates. They would like the tax burden to be reduced. Most importantly, they want to participate.

Unfortunately, they currently see insurmountable ob-

Fishermen hunting Squids in Chile

stacles in the way of participation. Yet, this is actually a good sign. Although they are angry and resentful, they want to become contributing members of society and their communities.

There is a third group that can likely be convinced of the merits of a free-market system. This group is made up of people who want to spend – on healthcare, education, and infrastructure. They are not advocates of redistribution, they do not want to expropriate companies, and they are not in favor of big government.

Instead, their priorities are focused on providing for society as a whole; they want to improve and expand the educational systems, and they want to build infrastructure, which is direly needed in most countries in the region.

For instance, experts calculate that Peru needs a $20 billion investment in infrastructure, and in January, the main highway from Maiquetia, Venezuela's airport, to Caracas collapsed, which is likely the result of imprudent economic policies. There are real infrastructure problems such as this, and it is logical that people want more investment in infrastructure, healthcare, and education. However, by no means are they populist or vehemently opposed to the concept of a market economy.

There is also an ethnic dimension to this problem that could easily be addressed. There is a large indigenous and mestizo population in Latin America, and politicians have gained their support through anti-market rhetoric. The speeches of politicians like Humala, Morales, and Chávez are resonating with people, who are beginning to believe that there is a policy of ethnic apartheid in Latin America.

To some extent, there is. Many of the disenfranchised – those people who have been left out of the market economy – are of a particular ethnic background and come from specific regions. These regions are often poor and the inhabitants live far from the capital, where almost all of the opportunities for upward mobility lie. This problem is a factor of the high degree of centralization in many Latin American countries. For instance, Lima, the capital city of Peru, produces almost 60 percent of the wealth in the country. The second largest city in Peru produces no more than six percent. That demonstrates the huge divide between Lima and the provinces. If the second largest city produces only six percent, other poorer regions produce only nominal amounts of wealth. The centralization penalizes those who do not live in the capital city, who are disproportionately indigenous persons. In the case of Peru, most of the Humala's voters come from the Andean south, where there is a heavy concentration of indigenous persons. In Bolivia, indigenous people from La Paz and Oruro came out in support of Evo Morales.

However, those voters are not necessary anti-market. In fact, the indigenous population believes in the market because it values production, trade, and creating value. Unfortunately, while the values of the indigenous community are not different from any other sector in society, it has not been able to translate this politically into a pro-market movement. For this reason, indigenous people have become dazzled by populist politicians.

Thus, within the group of anti-market proponents, there is the potential for change, but currently there are many different groups of people in Latin America reacting against the market and electing anti-market governments. However, because these groups are so different, with diverse and contradictory priorities and values, the populist governments do not know to whom to cater.

A Red Cross official teaching children first aid skills in Colombia

Three excellent examples of this are Argentina, Brazil, and Uruguay. Argentinean President Nestor Kirschner will act like a left-wing populist one day and a responsible advocate of free markets the next. In Brazil, President Luiz Inácio Lula da Silva has a very strong anti-market base of support, but behaves in a very responsible way, at least from a macroeconomic point of view. Even though he is not engaging in radical free-market reform, he campaigned on a Marxist platform, he is doing exactly the opposite of what the people who voted for him were expecting from him, and he still has enough support. Perhaps he will be reelected later this year in Brazil.

In the case of Uruguay, current President Tabaré Vásquez comes from an even more radical background than Lula. Most of the people supporting him had some connection to the Tupamaros movement[4]. These were revolutionaries, violent people who took up arms in the 1960s, and yet Vásquez has turned out to be a very responsible leader. He is currently advocating a free trade agreement with the United States.

Therefore, there are not one, but many different leftwing currents in Latin America. There is the Chávez line, the Lula line, and even the Chilean line. Under a socialist government, Chile was able to reduce poverty to about 18 percent of the population. Chile is truly on the right path and is slowly becoming a developed nation. If the trend continues, within approximately the next generation, Chile will join the ranks of developed countries, which is a wonderful success story for Latin America. The interesting part of this situation is that Chile has had two consecutive socialist governments – socialist governments that have implemented reasonable policies promoting free-market reform.

There is a battle going on in Latin America for the soul of the left, and the goals of the two opposing sides can be summarized as follows. One wants to turn Latin America's left into a European Social Democratic kind of left and the other simply wants to continue along the path of Fidel Castro and Hugo Chávez.

It is heartening to note that Chávez, despite his petro-diplomacy and the approximately $25 billion he has spent over the past seven years in an attempt to woo the rest of the region, is not winning – at least not yet. He has an ally in Evo Morales, yet even Morales has not behaved quite like Chávez would prefer. In general, most leftist leaders are a great deal more moderate than he is, which is a positive indicator.

Without institutional reforms that facilitate wealth creation, entrepreneurship, and enfranchisement, people will remain angry, and their anger will be perfectly justified. If Latin American leaders have the courage to address these issues in a fundamental way, there will not be a future for demagogues and populists.

From a long-term perspective, these issues will continue to play an influential role in the development of Latin America, and they are something that must be addressed now. The 1990s were full of light, but also full of shadows – and in order for the proponents of free markets to succeed, those shadows must be addressed head on. Free marketeers need to understand that unless they break down the barriers that separate a large part of the population from the realm of opportunity, people are going to oppose market reforms and continue to support the types of reactionary leaders that have been voted into power recently. The solution is to generate and foster wider participation in the market.

The first step is that the moderate left needs to win this battle against the radical left. However, that is not enough. When the pendulum swings in the other direction, and it will eventually, as it has always happened in Latin America, the center-right and the liberals (in the Latin American sense of the word) need to come to power and support free-market reform. Of course, it is not just a matter of support – they need to learn from the mistakes of the 1990s. They need to engage in much more meaningful reform that will enfranchise the large segments of the population that feel excluded, are naturally reacting to their feelings of exclusion with passion, and are lending ears to the first demagogue that comes along, simply out of desperation.

The situation is not entirely negative, and Latin America is not condemned to a future full of leaders like Chávez and Morales. Throughout the rest of the world, countries are winning their battles against poverty, and it is possible for Latin America to do the same. The region has natural resources and a very creative population. It is readily apparent from the success of Latin American immigrants to the United States that the potential for Latin American prosperity is alive within the people. They open businesses, they create wealth, and they want bright futures for their children.

It is the institutional environment that has been holding Latin America back. Without institutional reforms that facilitate wealth creation, entrepreneurship, and enfranchisement, people will remain angry, and their anger will be perfectly justified. If Latin American leaders have the courage to address these issues in a fundamental way, there will not be a future for demagogues and populists.

This message is both optimistic and realistic. Latin America has a lot of hard work ahead of it, and its leaders must be realistic about current trends and sentiments. Previous governments in the region made a lot of mistakes when they had the chance to engage in free-market reform and now there is a natural backlash against that. However, that will run its course, they will get another chance, and when they do, they need to get it right!

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Capital Market & Wealth Creation: The Global Picture

***By Eunice Sampson**

Statistics indicate that over 60% of the world's 6.4 billion population live in abject poverty. Poverty alleviation and wealth creation have become primary issues for discussion in any gathering of world leaders. Though much has not been achieved by such deliberations, it is pertinent that the world now acknowledges poverty as a major threat to global peace and security, and agrees that something must be done to arrest the dreadful trend.

While nations worry themselves about wealth creation for their citizenry, individuals and corporate entities also struggle to maintain the tempo. This is why the 'investment' phenomenon is now a way of life – to ensure sustainable creation of wealth.

According to Phil Bartle, an expert in community empowerment, *"You can do three things with wealth: (1) consume it, (2) store it, and (3) invest it"*. So, wealth in itself does not mean much; what matters is what you do with it to ensure its sustainability. The capital market has become the preferred investment option for many because, more often than not, it is a reliable channel of investment and a sustainable store of wealth.

Source: The Netherlands Bank

So, what is the capital market? It is a market where securities are traded, where companies, governments, etc raise long-term funds to achieve different developmental purposes.

The capital market includes the Stock Market and the Bond Market. Another common distinction is the primary market (where new issues are offered to investors) and the secondary market (where existing securities are traded).

As part of the Capital Market, a Stock Market is a market where company stocks – the listed securities and the privately placed – are bought and sold.

The size of the world stock market is estimated at about $41.66 trillion, while that of the worldwide 'bond market' is estimated at $87 trillion, with the United States and Europe accounting for over 65% in both cases. Over the years, the capital market has stored more and more of the global wealth, making it a fundamental economic performance indicator.

EVOLUTION OF THE CAPITAL MARKET

The origin of the Capital Market is traceable to the 12th century when *courratier de change* emerged. These entities acted as representatives of banks in the management and regulation of debts owed by agricultural communities. They are often referred to as the first 'brokers' in global history. From the middle of the 13th century Italian banks in Venice, Verona, Florence, etc began to trade in government securities.

Later, the Dutch was to start a system which allowed shareholders to invest in business ventures and get a share of the profit. In 1602, the Dutch East India Company issued the first shares on the Amsterdam Stock Exchange, thus becoming the first company to offer stocks and bonds to the public. In the early 17th century, the Amsterdam Stock Exchange also became the first Exchange to engage in continuous stock trading, pioneering such market features as short selling, option trading, debt-equity swaps, merchant banking, unit trusts and other speculative instruments.

Today, there are Stock Markets in virtually every developed and developing economy, with the world's biggest markets being in the United States, UK, Germany, France, and Japan.

TRENDS IN MODERN CAPITAL MARKETS

Since the mid-1990s, drastic changes have occurred in the way capital markets are run worldwide. Modern stock markets have moved away from trading mostly on government securities to offering highly diverse investment opportunities with diverse risks portfolios. Many have been liberalized from government control and ownership and now operate as private, profit-making, business entities.

> The capital market has become the preferred investment option for many because, more often than not, it is a reliable channel of investment and a sustainable store of wealth.

Some of the diverse financial instruments today's Markets offer include:

- *Stocks*
- *Bonds*
- *Commercial papers*
- *Certificates of deposit*
- *Pension policies*
- *Insurance policies*
- *Mortgages*
- *Mutual funds*
- *Savings account*
- *Checking account*
- *Derivatives*

Due to globalization and advances in

Information and Communication Technology (ICT), competition has intensified as Capital Markets now operate on a global scale. This has brought about radical changes in the structure, operations and services of capital markets. Pioneered by Exchanges in the major economies, consolidation and *demutualization* are taking root in the global Capital Market. It is pertinent to note that on March 8, 2006, for example, the 213-year old New York Stock Exchange (NYSE) became a listed company after a successful merger with its all-electronic rival, **Archipelago Holdings Inc** in April 2005. The merger is expected to move the NYSE operation towards complete electronic trading.

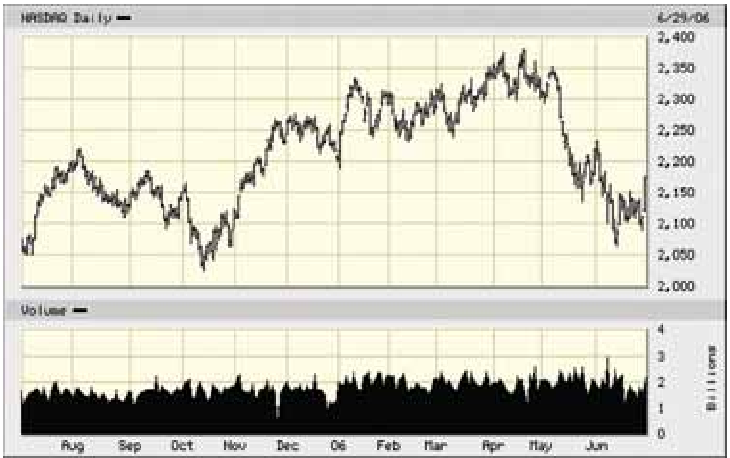
In 2005, merger talks between Euronext (which operates exchanges in Paris, Amsterdam, Brussels, Lisbon, and London) and Deutsche Börse failed, as the two could not reach a compromise. In March 2006, NASDAQ's acquisition offer to the London Stock Exchange was rejected. Despite these initial hiccups, it is significant that the global Capital Market has entered a new era that would shape the future of Stock Exchanges especially since NYSE and EuroNext announced a merger of equals on June 01, 2006. The new group to be known as NYSEEuronext creates the world's largest and most liquid market place with combined market capitalisation of $20bn (15bn Euros) and total market capitalisation of listed companies of $27 trillion (or 21 trillion Euros).

From the examples of the major Exchanges (NYSE, LSE, TSE, Paris Bourse, etc) the value and volume of capital market transactions have grown overwhelmingly in recent times as more investors and fund-seekers resort to that market segment.

Investors are more prepared to take calculated risks on equities, attaching less importance to the traditional government-insured bank deposits as investment options.

Ideally, stock movements should be based on the real or perceived global or national economic situation, and of course, the performance of the individual corporate entities whose stocks are traded. While capital market theorists emphasize the fundamental considerations that should determine investment choices and price movements (corporate earnings, profits, dividend payout, etc), in reality, these principles do not always hold. Most often, speculations, perceptions, expectations and current stock price value drive market directions.

A practical example of modern stock market behaviour is the sudden NASDAQ rally on June 29, 2006. NASDAQ Composite Index had reacted sharply to news that the US Federal Reserve will soon stop the rate-hike regime. Since all things being equal, the stock market performs better when rates are lower than when they're higher, there was



Source: http://bigcharts.marketwatch.com

a strong rally in the US market with the Dow Jones Industrial Average rising more than 217 points and the Nasdaq Composite increasing by an incredible 62.54 points.

The Federal decision to halt rates hike is due to a weakening in the US economy in the second quarter, following a drop in the housing market boom and the negative impact of rising interest rates and energy prices. It was therefore shocking to many stock analysts that the market should rally so strongly in the wake of such economic developments. Under normal circumstances, news of a weakening economy ought to dampen activities and prices in the stock market.

The reaction is typical of trends in capital markets today, where more often than not, irrational assumption becloud market activities. It will not be surprising if few days or weeks later; the markets come crashing as investors better rationalize the reasons for the interest rate decision.

Another trend that is changing is the class of capital market investors. Years ago, buyers and sellers of market securities were individual investors (mostly upper-class businessmen or royals). Today, individuals of all classes and financial status invest in securities. Also significant is the fact that 'institutional investors (e.g., banks, mutual funds, pension funds, insurance companies, etc) are now dominant players in capital markets.

CAPITAL MARKETS AND WEALTH CREATION

"With each passing year, the noise level in the stock market rises. Television commentators, financial writers, analysts, and market strategists are all overtaking each other to get investors' attention.... Sometimes there appears to be no rhyme or reason to the market, only folly."

The quote above is from Warren Buffet, a big time American stock market player. Warren Buffet began his career with only $100 and has over time built himself a multibillion-dollar fortune through calculated investments in securities. In one of his numerous equity investments, Warren Buffet in 1965 invested $10,000 into Berkshire Hathaway Company. By 2005, the investment had grown to $30million. Today, Buffet is worth over $43billion and is now commonly described as the greatest stock market investor of modern times.

At no better time has the capital market been empowered to create and store wealth than in this era of globalization, information technology, expanding global economy and enhanced profitability of corporate institutions.

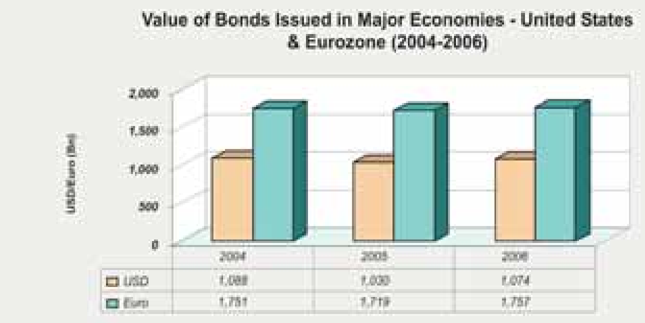
Private companies and governments float stocks and bonds to raise funds from the public for development and expansion. In turn, they share accruing profits with the investors.

Investor's perception of stock value is based primarily on expectations in terms of dividend, bonuses and stock price appreciation over time. '*To assess return, you add any increase or decrease in price from the time of purchase and any dividends the stock has paid over that time. Then you divide by the amount you invested to find percent return. As a final step, you can find the annualized return by dividing the return by the number of years you owned the stock'* (*www.optionsxpress.com*). Some investors adopt the strategy of purchasing equities on margin when there are indications of double-digit returns in the immediate future.

For the companies whose stocks are offered or traded, value is measured by their ability to generate sufficient capital flow for expansion and improved services, for better competitiveness and enhanced profitability which in turn translates to better returns for investors.

For the larger economy, capital market creates wealth when the sectors are well funded, gross domestic product is expanded, jobs are created and the economy flourishes.

Source: http://www.nasdaq.com



*Source: OECD; *2006 figures are projections*

The capital market has overtime met investors' expectations for wealth creation. In the fourth quarter of 2004 for example, the personal income of US investors was boosted by $99.4 billion generated from dividend payouts. And by December that year, personal dividend income stood at an estimated $298.2 billion on annual rate. As a result, the standard of living was enhanced; consumer spending increased; national productivity and growth also expanded.

The cyclical impact that capital market investment could have on any economy is best illustrated with the Microsoft dividend payout illustration. On July 20, 2004, Microsoft Corporation announced that it would pay a special dividend of $3.00 per share to shareholders on its record as at November 17, 2004. The dividend amounted to $32 billion out of which about three-fourths (or $24.9 billion) was paid to individuals.

The dividend payment, which was effected on December 2, 2004, affected the fourth-quarter 2004 estimate of US personal income that was released on January 28, 2005. The largesse also affected estimates of corporate profits, national income and government current receipts released at the end of the first quarter of 2005.

In 2005, the income tax of benefiting US workers also rose as a result, impacting positively on government current receipts. But the payout would have negative impact on the foreign transactions accounts, as the current account balance will become more negative by the amount of the dividend payments distributed to foreign shareholders.

Some of the most profitable and stable stocks in the global capital market today are Microsoft Inc., General Electric, Dell Computers, CISCO, Exxon-Mobil, Pfizer, etc. Investments in these and many other equities have made millionaires of individual and corporate investors.

STOCK MARKET BOOM

Stock Market boom is said to occur when there is a sudden dramatic rise in the value of shares of listed companies. A good example is the June 29, 2006 NASDAQ rally.

Factors that drive stock market boom include:

- Sound economic Prosperity
- Positive country rating
- Low interest rates
- Favorable investors' perception
- Good corporate governance and performance
- Discovery of valuable natural resource
- Speculative future rise in stock prices

As good as such booms might seem, the major setback is that companies' shares become highly overvalued, resulting very often in a 'bubble burst'. When the bubble bursts, share prices fall dramatically, many companies could go out of business and the economy goes into recession.

The **dot-com bubble** – One of the most historical stock market boom and the resultant bubble burst is the 'dot-com bubble'. From 1997, many Internet based companies emerged in the US stock markets with their stock prices climbing up dramatically in response to favorable market speculations and widespread availability of venture capital. In what Alan Greenspan (Federal Reserve Board Chairman during the boom period) described as "Irrational exuberance", the prices of these stocks were highly overvalued.

But when the bubble burst in the late 2000 and through 2001, most developed economies suffered a mild but prolonged recession which impacted negatively on personal and corporate income, savings, spending and overall economic growth.

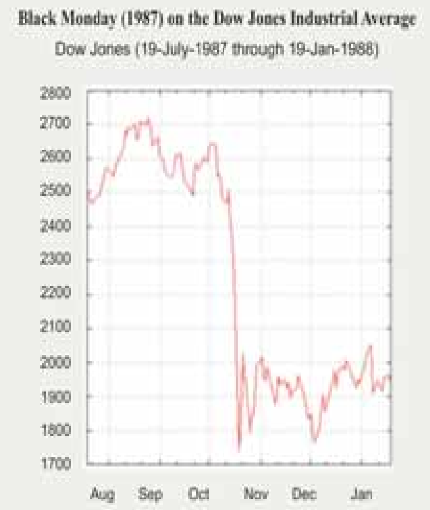
Source: http://en.wikipedia.org

STOCK MARKET CRASH

Like any other channel of investment, capital markets sometimes suffer downturns in the form of stock price crash and panic selling.

'A stock market crash is a sudden dramatic decline of stock prices across a significant cross-section of a market. Crashes are driven by panic as much as by underlying economic factors. They often follow speculative stock market bubbles such as the dot-com boom' – http://en.wikipedia.org.

The two major reference points are the crash of 1929 (The Great Depression) and the 'Black Monday' Crash of 1987.



Source: http://en.wikipedia.org

The First Crash (1929) – The Great Depression was a worldwide economic downturn which lasted from 1929 till the 1930s. The depression has been blamed on the Stock Market Crash of 1929 which preceded it, and which saw the Dow Jones Industrial Average dropping 50%.

Mostly affected were the highly industrialized nations of Europe (Germany, United Kingdom, France, etc) and the United States and Canada. Mining and construction activities were grounded; prices of agricultural products fell by 40-60%; millions of jobs were cut; and the investment spirit was killed.

The 'Black Monday' Crash – 'Black Monday' is the name given to Monday, October 19, 1987 when the Dow Jones Industrial Average (DJIA) suddenly went down 22.6%. Australian stock market fell 41.8%; Canada, 22.5%; United Kingdom, 26.4%; Hong Kong, 45.8%. It was the second largest one-day percentage decline in stock market history, the largest being that of Saturday December 12, 1914 when the DJIA fell 24.39%. But the case of 1914 was due to the closure of the New York market for over five months following the outbreak of World War I.

Different explanations have been given for the 'Black Monday' crash, including the panic selling in London and New York, the biggest stock markets in the world, which affected other markets around the world, creating a global stock market crash.

Factors that could cause stock market crash include:

- Overvaluation ('Irrational Exuberance')
- Illiquidity
- Market pessimism and panic selling
- Corporate scandals and poor financial performance
- Natural disasters
- Technology failure
- Macroeconomic instability and economic downturn
- Negative country rating
- Bubble bursts

A recent case is the Icelandic stock market crash of February 22, 2006. Various asset classes and emerging market bonds were hit as investors reconsidered some of their emerging market exposures. An immediate reason adduced for the crash is the downgrading of Iceland by Fitch over fears about an unsustainable Icelandic current account deficit similar to imbalances evident before the 1997 Asian crisis. The temporary spillover effect on other assets has been attributed to traders trying to close their profitable emerging market positions to compensate for Icelandic losses.

Mind-blowing Stock Price Appreciation within Ten Years - NYSE, NASDAQ and AMEX:

	Company (Stock)	Initial Value	Peak Value	% Price appreciation
1.	Netegrity	$2.18	$78.20	3487%
2.	Visionics	$4.38	$21.00	379%
3.	Cellstar	$1.44	$13.50	837%
4.	Iomega	$3.25	$13.90	328%
5.	Nanophase	$3.75	$16.75	347%
6.	Immunomedics	$1.44	$29.12	1922%
7.	Total Renal Care	$3.12	$26.95	741%
8.	Voxware	$ .90	$10.31	1046%
9.	Corvas	$3.00	$23.25	675%
10.	Cytogen	$2.12	$17.50	725%
11.	Verilink	$3.00	$14.62	387%
12.	GeneLabs	$2.31	$10.72	364%

Source: http://www.pennystock.com

CAPITAL MARKETS IN DEVELOPING ECONOMIES

The developing economies have in recent years, sustained strong economic growth, far stronger than their developed counterparts at an average of 5.5%. The capital market is an evolving trend in most developing economies but already contributes over 10% of GDP in some of them.

The International Finance Corporation, IFC (the private sector arm of the World Bank Group) recently estimated that by 2006, market capitalization of emerging Stock Markets would exceed $5 trillion for the first time, up from less than $2 trillion in 1995. Emerging markets now constitute more than 12% of world market capitalization.

Governments, multilateral organizations and international financial institutions are exploiting the possibility of bringing about socio-economic change in this region through the promotion of private capital, free enterprise, and social entrepreneurship, rather than the traditional over-reliance on foreign aids. The capital market has the potential to drive this vision.

It is noteworthy that the flow of private capital into the developing countries is currently put at about $350 billion, more than four times the amount of international aid flow to these economies. Net foreign assistance from official sources (aid, debt, and grants) is an estimated $70 billion, while private flows (debt and equity) are roughly $300 billion.

The capital market remains the easiest channel through which developing economies could tap into the global financial market and increase capital flow for sustainable growth and development.

'From 1990 to 2002, the percentage of people in the developing world living on less than $1 per day dropped from 27.9% to 21.1%; similarly, the percentage of population living on less than $2 per day dropped from 60.8% to 49.9%' – IFC.

The issuance of international securities by emerging market sovereigns and corporates has increased from a level of $325 million in 1995 to about $1 billion. Meanwhile, the level of domestic bond issuance by emerging markets issuers has also risen, from $1 trillion as at 1995 to about $2.8 trillion.

With higher oil prices, OPEC member countries (mostly developing economies) invest some of their oil surplus in US assets. In January 2006, OPEC countries' holdings of US assets increased to $77.6 billion, up from $66.5 billion in December 2005 and the high of $67.6 billion in November 2005.

Source: IFC

• Bombay Stock Exchange

• New York Stock Exchange

FUTURE OF THE CAPITAL MARKET AS STORE OF VALUE

For every investor, (individual, corporate, government, etc) the bottom-line is the return on investment. Investment in stock and bonds is becoming increasingly popular worldwide because it offers good and sustainable returns.

The capital market phenomenon will therefore further expand in future and offer more investment portfolios. Sophisticated technology would be deployed for enhanced operational and transactional efficiency and data integrity.

Cross-border investments would grow; and investors would demand for enhanced corporate performance to maximize return on their investments. More synergies and consolidation would take place in the capital markets, nationally, regionally and globally. Strategies that would improve economies of scale would be pursued.

For developing economies, ongoing macroeconomic and social reforms in most countries would further vitalize the capital markets. In Nigeria for example, the pension reform programme, the recent introduction of a Micro-finance policy, financial services sector consolidation and privatization of government owned enterprises, are some of the factors that would boost activities in the nation's capital market and enhance economic growth prospects and the welfare of the common man.

For wealth creation and sustainable economic growth, the developing economies would do well to build up their capital markets to meet global standards and enhance their interactions with the global financial system and capital pool.

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

ZEQ DATABANK

Macroeconomic Environment

Nigeria's macroeconomic environment continues to improve on the heels of sustained high crude oil prices, improved debt profile and strengthened national economic management. Commodity prices which have remained the focal point of current global economic expansion have complemented this improvement particularly as Nigeria's non-oil sector growth (rose to about 8.5% in 2005) show signs of sustaining this growth. This trend is beginning to reflect in the real sector.

Generally, macroeconomic fundamentals seem to be 'looking up' for Africa, including Nigeria. Africa has experienced GDP growth rate of 4.5% consecutively in the last three years and Nigeria's growth performance (6% + in the past two years) accounted for much of the good showing in West Africa.

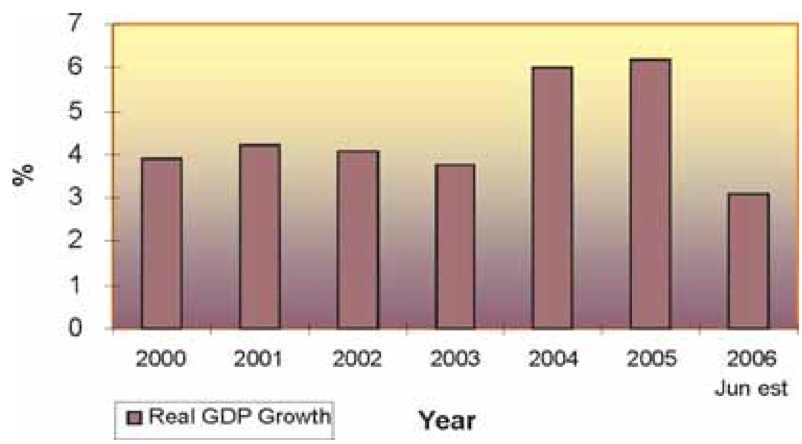
This upward trend in macro fundamentals has been driven largely by three factors: expansion in global trade in commodities and the consequent significant improvements in terms of trade and export growth (improved export performance), debt relief measures which have contributed to a steady decline in debt service, and finally, improved macroeconomic policies and strengthened national economic management. These have begun to yield result, facilitating the eventual introduction of further growth-enabling reforms, essentially in terms of 'rightsizing the public sectors' business focus and orientation and therefore better resource allocation. Clearly, the same can be said of Nigeria, given the ongoing sector reforms and its effect on the real sector.

The only snag, and it is quite worrisome, given its impact on the revenue earnings of the Federation, is the seeming volatile condition in the Niger Delta region and the perceptible inactivity on the political scene. Indeed the stakes are quite peculiar now in view of the fact that about 70% (including at least six governors of the Niger Delta region), of the state governors are ineligible for elections in 2007, having served two terms.

GDP Growth

Although GDP growth rate for the year is projected at more than 7%, it is doubtful if the restiveness in the Niger Delta region would not hinder the attainment of this goal. YoY rate for first quarter 2006, was about 3% with non-oil sector as main driver. (In 2005 it contributed YoY, 8% and thus far it has contributed 5%). From all indications GDP growth rate may be sustained at about last year's 6.5% since non-oil sectors especially Agriculture have responded positively to government policy initiatives so far. GDP at year end is expected to be more than $120bn.

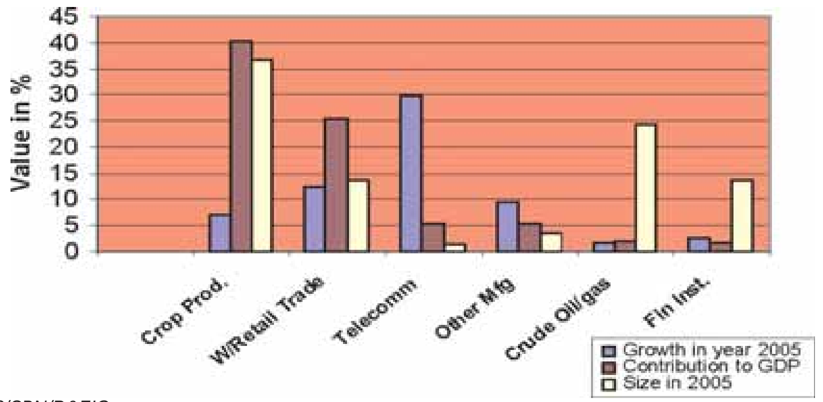
Real GDP Growth (Percent) 2000 -2006 (June est.)



Source: FOS/CBN/R&EIG

It is expected that the same significant contributors to growth in GDP would account for growth this year. However, the power sector, currently about 3.5% in terms of size and contribution to GDP, has the potential of a leapfrogged contribution in the immediate future when the various IPPs, national integrated power projects and the Niger Delta power projects become operational.

Size, Growth and Sector Contribution to GDP in 2005



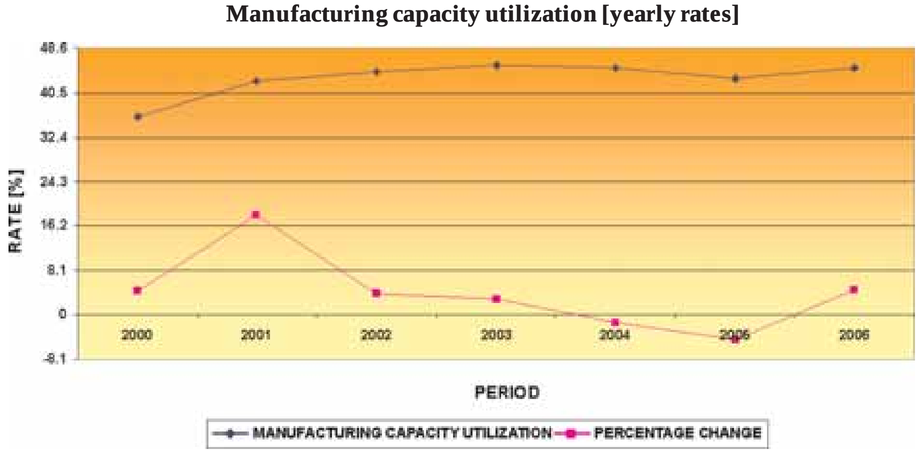
Source: FOS/CBN/R&EIG

There is no question about the fact that Agriculture, especially crop production, would continue to be the most important contributor to GDP growth.

Manufacturing Capacity Utilization

The prospect for improved capacity utilization is very high especially given the 2006 budgetary provision (subsidy)to avoid increases in the pump price for petroleum products. More importantly, the reforms in the foreign exchange market and the international price of crude oil continue to assure manufacturers sustainable access to foreign exchange (at relatively stable rates). Although the energy crisis remain relatively the same, it is expected that third and fourth quarter capacity utilization would improve significantly to bring year end levels close to 50%.

Manufacturing capacity utilization [yearly rates]



Source: CBN/R&EIG

Interestingly, domestic credit to the private sector has sustained its gradual growth since 2004. It grew by about 37% in 2005, and compared to same quarter last year, by about 17% this year.

Inflation Rate

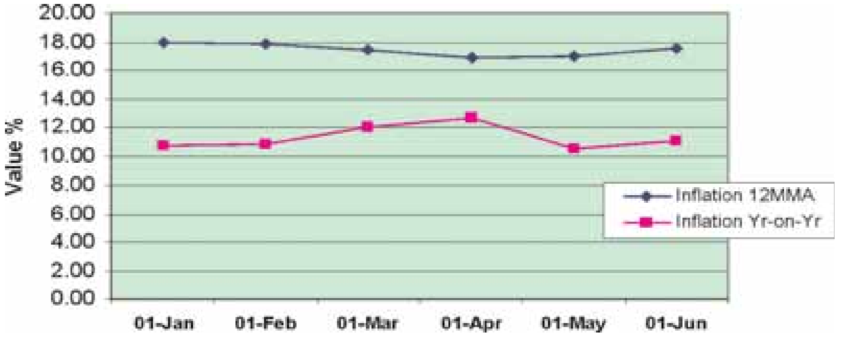
Inflation rate which started on a low double digit in January, rose by March, only to decline to 10.5% in May (due largely to early harvests in crop production with its moderating effect on food prices) and rising again in June, fueling speculations that systems liquidity was getting out of hand (especially after the MRR was reduced from 15% to 13%). It is important that the rate has remained significantly below the Policy Support Instrument (PSI) target range of 17-21% set by the IMF, and the peak rate of about 29% in August 2005.

There is a reoccurrence of declining short term interest rate and excess liquidity. The recent commencement of repayment of government outstanding domestic debts to local contractors and arrears to pensioners would certainly add another dimension. These would certainly affect prices and therefore the trend in inflation rate for the rest of the year, especially when political activities begin to pick up.

CBN aims to keep inflation at single digit by year end and plans a formal implementation of an inflation targeting framework which clearly points to monetary policy as the main tool for containing inflation, especially as government spending is set to rise ahead of the 2007 elections and in the light of huge excess crude oil revenues.

Unless there is a deliberate attention by the regulatory authorities, the upward trend would be sustained, a far cry from the single digit target set for the year.

Inflation rates in Nigeria: Jan -June 2006

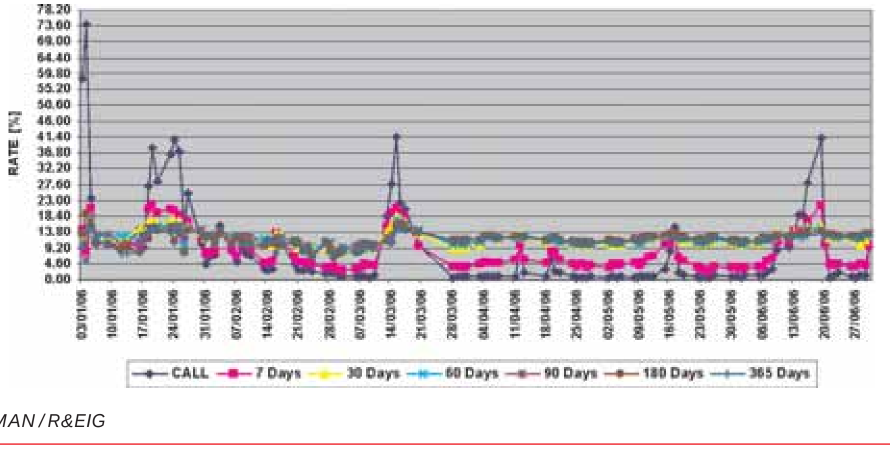


Sourc: MMAN / R&EIG

Interest Rate

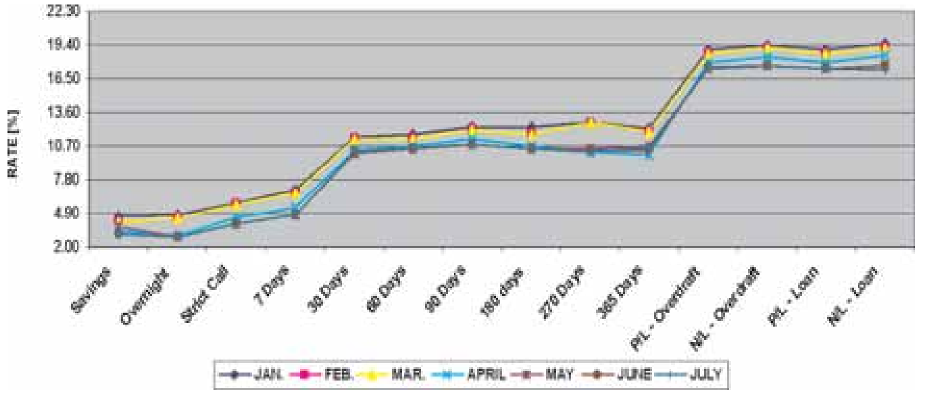
Interest rates have generally been on the increase (except for savings which, on the average declined marginally) in spite of the noticeable excess liquidity. Indeed, rates on most deposit maturities rose by between 5% and 10%.

Nigerian inter-bank offered rates [Nibor]: January - June 2006.



Sourc: MMAN / R&EIG

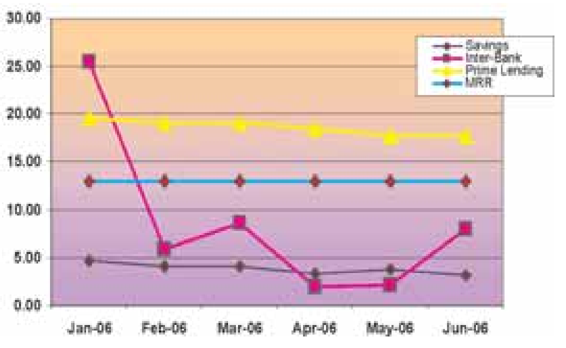
Banks average interest rates: January - June, 2006.



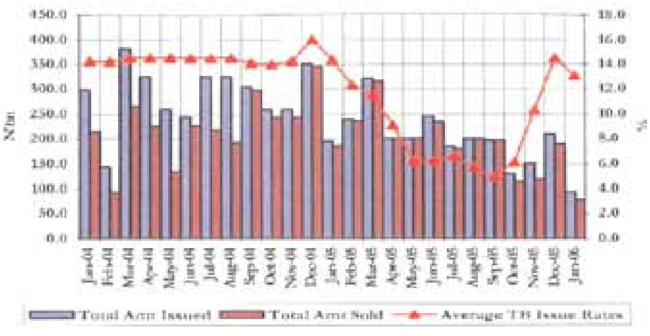
Source: MMAN / R&EIG

Except for sudden swings in rates occasioned by the now-typical pattern of federation account operation-FAC allocations, there had been some stable, even if upward, trend in general interest rates for all tenors.

Banks Interest Selected (Monthly Average)



Primary Market Auction



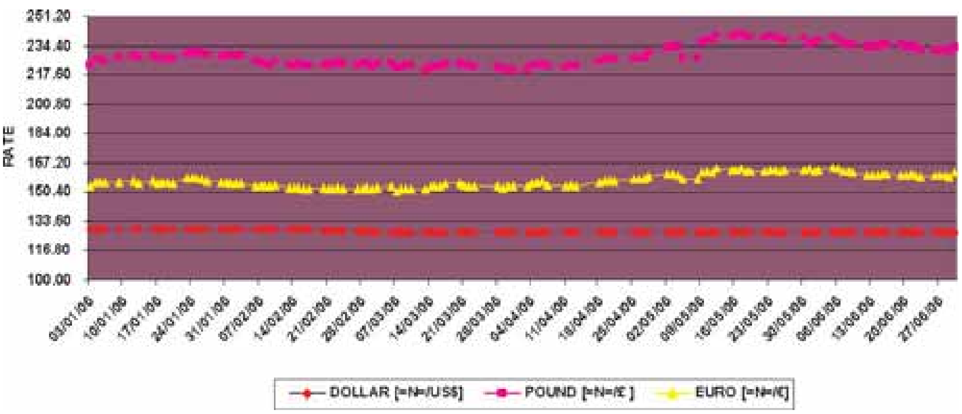
Source: MMAN / R&EIG

Government securities market remained active with higher values of Treasury Bills (TB) issues to accommodate maturities during the quarter. Although yields have been volatile, banks and discount houses have continued to hold much of the outstanding stock for obvious reasons. Bond market activity declined relatively but is expected to pick up given the timetable of new issues by the Debt Management Office, and the prospects of strong competition amongst the primary dealers appointed recently. There are indications that primary dealers would be appointed before the end of the year for treasury bills market also.

Foreign Exchange Market

Significant changes have been introduced into the foreign exchange market since the ongoing reforms in the banking sector. The introduction of the Wholesale Dutch Auction had unified the official and interbank markets, thus enhancing the effectiveness of CBN intervention in the foreign exchange markets. Similarly, the commencement of Bureau De Change services by banks has further demystified foreign exchange transactions.

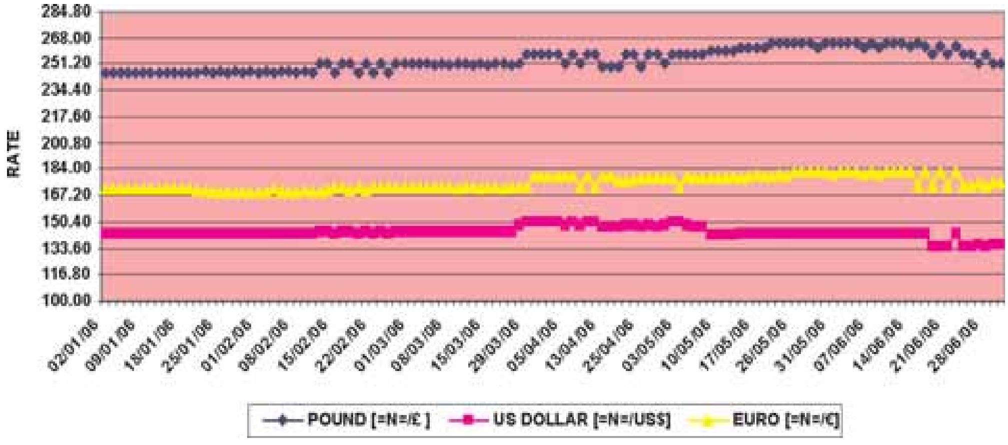
Foreign Exchange [official rates]: January - June, 2006.



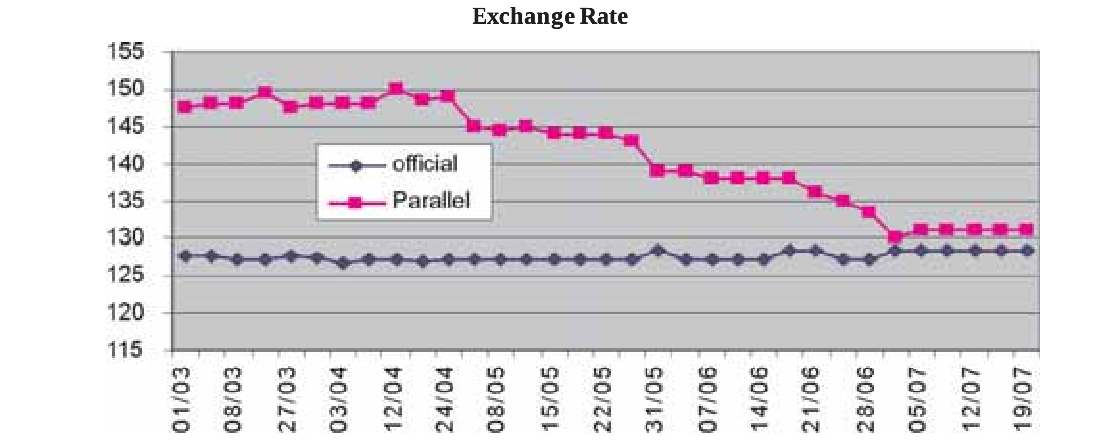
Source: MMAN / R,EI &FEG

In recent times, the market has become more de-segmented and the recent announcement by the CBN that rates in the parallel and official markets have merged for the first time in so many years, is indicative of the level of attention being given to this market. Clearly, the massive intervention by the CBN in the retail market and the dismantling of the huge, sometimes worrisome level of documentation required to conduct even a simple transaction in this market has been quite successful.

Foreign exchange rates [parallel market]: January - June, 2006.

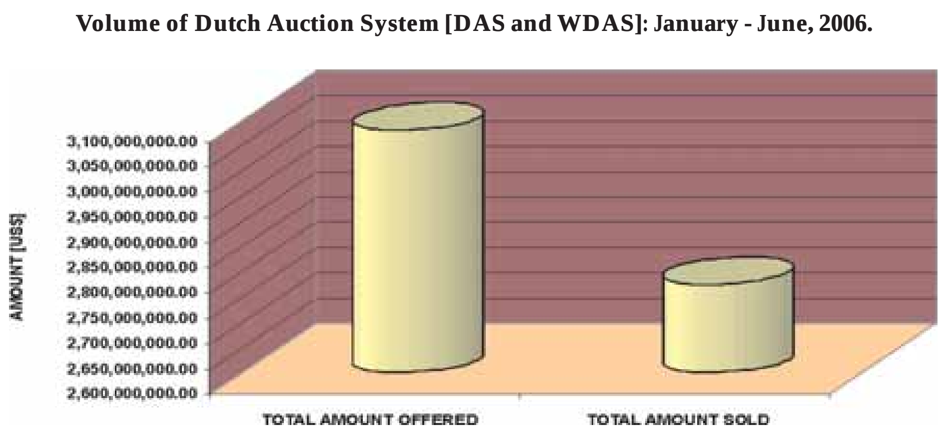


Source: MMAN / R,EI &FEG



Source:Economicassociates/FDC/R,EI&FEG

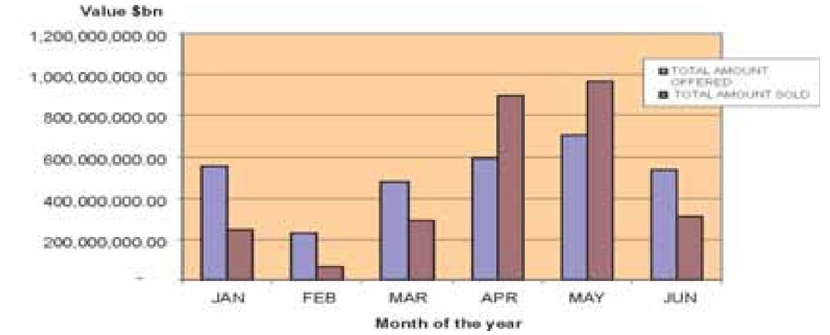
Given the sustainable (short term at least) oil revenues inflow, a stable supply of forex and an appreciating naira can be expected for the rest of the year. Certainly the complete unification of the two main foreign exchange markets can be realised and sustained. There has also been a growing acceptance of the market rules as non-official sources have continued to complement official inflows – especially foreign direct investment sources like the Vmobile transaction which resulted in an inflow of about $1.0bn into the market – which compares favourably with total official inflows to date.



Source: R,EI &FEG

Not all banks participated in the various WDAS sessions during the quarter. For the greater part of the quarter, demand far outstripped supply. However CBN met the demand (largely due to the increased inflows from oil proceeds). There was an average increase of about 20% in the monthly sales to authorized dealers in the quarter with a marginal appreciation of the naira over the dollar.

Foreign Exchange market (WDAS/DAS) Jan - June 2006



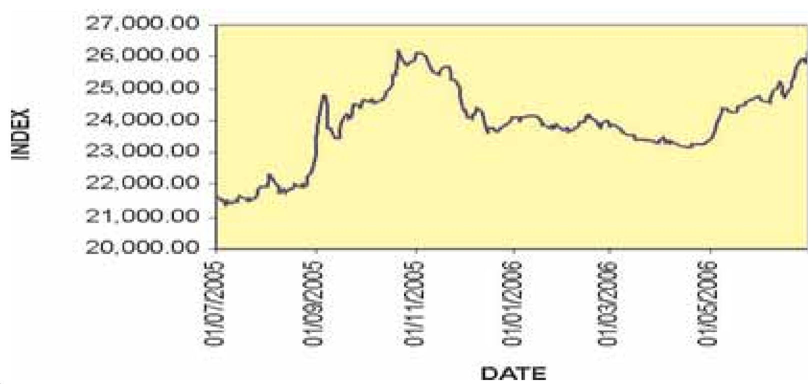
Source: R,EI &FEG

Clearly, the Naira has continued to achieve a stronger purchasing power parity level. This is not likely to cease in the short term, as the CBN might focus on defending the Naira at about this level. With reduced debt service obligations, expected good harvests and sustained oil earnings (in spite of the reduction in production), this can be achieved. However, the nature of interest rate volatility might occasionally put pressure on the Naira.

Capital Market

The capital market ended the quarter on a bullish note. The all-share index rose generally in the quarter. Market capitalization increased marginally due to significant price movement in some sectors. Although growth in earnings does not seem to justify price momentum, the banking sector recorded the highest growth in earnings in the quarter. The capital market has continued to be significantly sensitive to rumours and speculations, especially about dividend (rather than by earnings and other fundamentals.)

All-Share Index movement (July '05 - June '06)

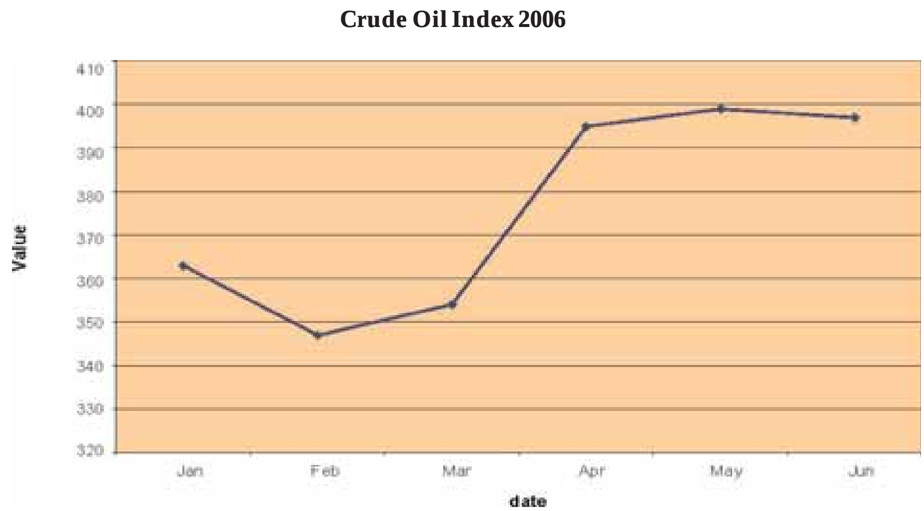


Source: R& EIG

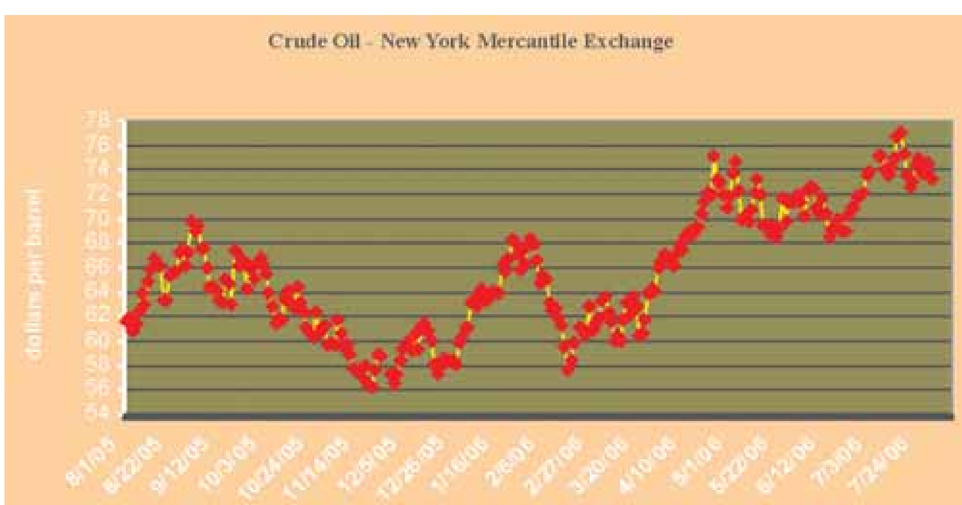
A few developments in the market are pointers to increased activity in the coming quarters – Pension Fund Administrators have entered into the market albeit cautiously (by cherry picking stocks), Banks with unamortized goodwill are not allowed to pay dividends (and this has implications for stock prices) and some banks are considering the capital market option as they strive to recapitalize further to meet the global custodianship minimum criteria for managing part of Nigeria's external reserves. This is aside from the appreciation of the naira, declining yield on Treasury Bills and other fixed income securities and discernable liquidity due to payment of pension arrears and outstanding debts to local contractors. Therefore, in the short run, claims to being the biggest bank would be rampant after each successful offering. Perhaps the time has come for a regulatory intervention to achieve a uniform financial year end for all banks.

Crude Oil Market

The crude oil market has continued to impress generally. The average price of Bonny Light has remained significantly above the benchmark for 2006 federal budget. There are speculations that states would canvass strongly for distribution of part of the excess crude proceeds to meet current development efforts. Nigeria's Bonny light ended the quarter very close to $80pb. Given the declining US stock, prices are likely to exceed the $80pb mark by year end. Nigeria's production levels have been significantly affected by the restiveness in the Niger Delta and clearly, this would affect total revenue projections for the year at the current prices. For example, Shell Petroleum Development Company, (SPDC) which recently reported an additional loss of 180,000bpd due to a leakage in the Nembe Creek truck line, already has a total production loss of over 650,000bpd and SPDC is Nigeria's largest oil production company. Although this has the effect of pushing prices up, reduced production would certainly affect Nigeria's Dollar cash flow negatively.



Source: R&EIG

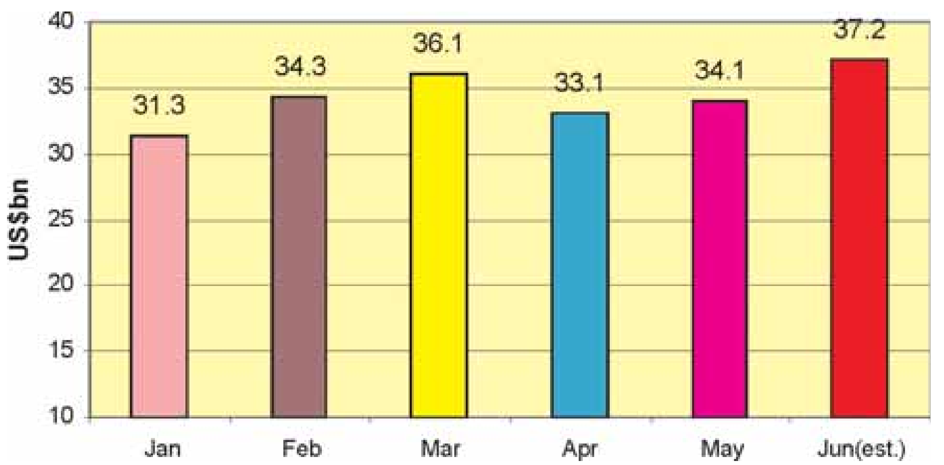


Source: FDC/R&EIG

External Reserves

Nigeria's external reserves have continued to improve due largely to three factors. First the debt service obligations have reduced since it exited the Paris Club Debt. Secondly, the high price of crude oil has meant that revenues have exceeded projections (budgetary benchmark for 2006 is $35pb) and finally the Administration has continued to exercise considerable fiscal restraint, preferring the option of prudent management of resources. Although demand for foreign exchange rose sharply during the quarter, inflows were good as external reserves grew in May alone by about 3.1% to $34.1bn, which is estimated to be at least a 22 months import cover. The estimate for June 2006 is $37bn.

Nigeria's External Reserves $bn) Jan-Jun(est.) 2006



Source: R& EIG

Editorial Guidelines For Contributions To The Zenith Economic Quarterly

Introduction

The Zenith Economic Quarterly is a publication of Zenith Bank Plc. Its focus essentially is to contribute towards strategic information dissemination and broadening of the horizon of top level executives in the private and public sectors in Nigeria while serving as a useful reference document on Nigeria for the international community. Editorial contributions are welcome from intellectuals – academics, researchers, etc and top level business executives in Nigeria and around the world as well as very senior government officials, senior executives of international organisations and multilateral institutional and development partners.

A section of the publication is dedicated to financial, business and economic indices and selected global financial developments with implications for Nigeria's economy and socio-political policies. It is part of a proposed Zenith Ecoserve, an electronic databank on economic, financial and business indices on Nigeria, which is reader-friendly and regularly updated.

The following information serves as guide for prospective contributors to the publication:

(i) **Restriction and Submission of Manuscript**

Manuscripts for publication should be unpublished unless the submitted version is materially different from the original.

Electronic copies of the manuscript should be submitted to the address below:

Editor
Zenith Economic Quarterly (ZEQ)
Zenith Bank Plc
84, Ajose Adeogun Street
Victoria Island, Lagos
Tel/Fax: 2703192 | email: monokeke@zenithbank.com

(ii) **Mode of Submission**

Potential contributors should submit diskettes or electronic copies by email.

The following regulations should be observed:

1. Each table and figure must be accompanied by a complete source reference.
2. Please do not hyphenate words at the end of any lines
3. Notes should be numbered consecutively and citations should be placed as footnotes or formatted endnotes
4. Text should be 'Full justify', and the font size should be 12-points (Times New Roman or Arial).
5. All materials – including extracted quotations and notes – must be double-spaced
6. You are required to use as few formatting commands as possible.

(iii) **Identification of Author**

Each author is required to identify him/herself on a separate page, providing name, (in the manner expected in the publication), mailing address, telephone number and other details. Specifically, references to their own work in the text should be in the third person, and citation should be written without possessive pronouns – no "See my…"

Authors are required to submit an abstract of not more than 120 words which highlights main point(s) of the paper and places the article in context. Subheads should be used to divide the manuscripts into three or four sections (or more, depending on length). Articles should not be more than 40 typescript pages (notes and other materials inclusive).

Illustrations may be used (at author's sole responsibility)

Authors of accepted manuscripts will be given two copies of the edition in which the article appears. Extra copies in whatever form may be given subject to a maximum of five.

(iv) **Preparation of Manuscript**

The Editorial Board has approved the use of the Chicago Manual of Style (1999) based on the Webster's Dictionary.

We recommend that contributors should use gender-neutral pronouns where it is not anachronistic to do so. Double quotation marks should be used for journal titles and direct quotation; single quotation marks are used for quoted material inside quotations. Male nouns and pronouns should not be used to refer to people of both sexes. The day-month-year form is used for dates: e.g.: 31 December 2005.

(v) **Citation Forms: Illustration**

Book: Lee Kuan Yew, From Third World to First: The Singapore Story: 1965 – 2000 Harper Collins Publishers New York 2000.

Journal: Chris 'E Onyemenam, 'Firm Level Competitiveness in Nigeria' In The NESG Economic Indicators, Vol. 10 No. 3. July – September 2004.