Zenith Economic Quarterly

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Nigeria's Budget 2012:

Options For Attaining Sustainable Development

INSIDE

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Global Economy in 2012: Another Recession Imminent?

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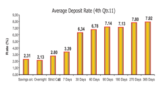

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From the Editorial Suite

The Key Performance Index

Undoubtedly, economy management has remained the most crucial yardstick for gauging the performance of politicians or governments in all jurisdictions, such that hardly do other indicators matter, when the chips are down. From time immemorial governments have been cheered or jeered based on the visible improvement or deterioration in the standard of living of the citizenry. Yet there has been no fool-proof management or leadership approach in running the economy, whether planned or unplanned, to guarantee the desired improvement.

This, for most countries including Nigeria, has posed the ever-present challenge of what instruments to deploy in planning and running the economy to achieve consistent improvement in the quality of life of the citizenry—that is economic development—as against the usually superficial economic growth. One critical instrument in Nigeria has been the annual budget—a kind of annual plan. This is why our key article on "Nigeria's Budget 2012: Options for Attaining Sustainable Development" takes a panoramic view of the plan document that was presented to the National Assembly by President Goodluck Jonathan in December 2011.

From time immemorial governments have been cheered or jeered based on the visible improvement or deterioration in the standard of living of the citizenry.

The author recognises that as in the preceding year, the watch word for the budget is fiscal consolidation, indicating government's resolve to cause a change of direction in its finances—finance being the life-blood of the annual plan. Highlighted also are the likely risks and challenges of the budget including monetary and fiscal policy disconnect, expenditure overload, petroleum subsidy conundrum and the usual budget implementation drag. All said, the critical and transformational role of agriculture is acknowledged; and indeed, flaunted as one of the trump-cards for attaining most the wholesome objectives of the budget.

In a related treatise, focus is directed at the "Railway System: Nigeria's Neglected Critical Transport Infrastructure", and the damaging long neglect of that key haulage facility is deeply analysed, just as the renewed attention it is getting in recent times is appraised. Thus, the author sums up that it is expected that upon the completion of the ongoing resuscitation and modernization of the rail system, it will become attractive for concessioning and further investments which will in turn propel the expansion of the rail system to meet growing demand across the country.

Yet, our concern for the economy moves to the 'Global Watch' where we raise our apprehension under the rubric: "Global Economy in 2012: Another Recession Imminent?" Here, the author analyses the economic conditions in the Euro-zone, America, Asia, Latin America, among others, summing up that "even if the global economy manages to escape a full blown crisis, the world would still grow far weaker than the post 2008-2009 recession levels." In a related discourse: "2012: Be on High Alert for the Much Awaited Return of Global Growth," our man in London holds a similar opinion. For him, growth will most certainly not be uniform; some countries will not feel the benefits of the much promised and much awaited global upswing this year or even next.

In another treatise, we delve into one of the deliberate efforts of the government to entrench the culture of due process, transparency and dignity of labour in the consciousness of the generality of Nigerians. Thus, the article "Due Process and Transparency: Money Laundering" dwells on the most misunderstood and abused subject of money laundering and its ever-spreading tentacles. The author traces the enabling laws, exposing the ramifications of the hydra-headed crime, the local and international dimensions, and its dominant presence in the financial and business world.

Other regular sections of the journal also treat a number of critical issues including the topic "Economy: Reforms, Stability Prevails" which is a panoramic view of Nigeria's economic sectors, policies and activities during the relevant period. We also have annotated diagrammatic presentation of all the economic indicators under the section 'Facts & Figures' as well as the 2012 to 2015 expenditure framework and fiscal strategy paper as released by the Federal Government.

This is indeed another rich package for you. It is *unputdownable*, I promise!

Marcel Okeke

from our mailbox

I am directed to acknowledge with thanks receipt of your publication, the Zenith Economic Quarterly ZEQ) Vol. & No. 4 October, 2011 which focuses on the "Sovereign Wealth Fund as a Development Imperative". Zenith Economic Quarterly (ZEQ) which holds a prominent place in NRC research library is now a must read Journal by Railway Directors. The Corporation will therefore appreciate that you retain the NRC on your subscription list. Please accept the assurances of the Managing Director's highest regards.

W. A. Yinkore
for: Managing Director (NRC)
Office of the Managing Director
Nigeria Railway Corporation, Lagos

With appreciation, I acknowledge the receipt of a copy of your Zenith Economic Quarterly (ZEQ), Vol. 7, No. 4 of October, 2011, which focuses on the Sovereign Wealth Fund and the Cashless Economy, amongst other issues. Your journal is a veritable instrument and priceless resource guide for economic policy and cooperate investment. I accept your regard and thank you for this valuable material that I hope would provide useful reference and information to me and my team. Please, accept the assurance of my best wishes.

Chukwuma C. Chinye
Commissioner
Ministry of Commerce and Industry
Government of Rivers State of Nigeria

I wish to acknowledge with thanks the receipt of the above magazine October 2011 edition forwarded to the Mission. The magazine no doubt, provides critical information on Nigeria and global economy for strategic policy decisions.
Warm regards.

A. N. Madubike
For: High Commissioner
High Commission of the Federal Republic of Nigeria, Pretoria

I am directed to acknowledge with thanks, receipt if your letter of the above subject, dated 28th December 2011 and to inform you that the High Commissioner appreciates the role of the accompanying magazine in the economic sector of our dear country.
Warm regards.

J. Olowodahunsi
Administrative Attaché 1
For: High Commissioner
Nigeria High Commission, Kampala-Uganda

I am directed by the Attorney General & Commissioner for Justice, Mr. Ade Ipaye to acknowledge the receipt of your letter dated December 28, 2011 with the copy of the October, 2011 Edition of the Zenith Economic Quarterly Journal.
I am to express the Attorney General's appreciation for the journal and assure you of his highest regard.

Iyabode Oshodi
For: Attorney General & Commissioner for Justice
Lagos State Government, Alausa

I write to acknowledge with thanks receipt of your letter dated 28 December 2011 forwarding a copy of the October, 2011 edition of the Zenith Economic Quarterly (ZEQ).
I found the publication quite informative and educative, and it will, no doubt, assist the mission in its task of promoting Nigeria's interest in Singapore. I am therefore grateful for your gesture. While wishing you continued good health, please accept the assurances of my highest regards.

Danjuma Nanpon Sheni
Acting High Commissioner
Nigeria High Commission, Singapore

His Excellency the President of the Senate, Distinguished Senator David A. B. Mark, GCON Acknowledges with thanks your letter forwarding a copy of your Zenith Economic Quarterly Publication.
Please accept the assurance of His Excellency's high regards and best wishes.

Sen. (Amb) Anthony G. Manzo FRCS
Chief of Staff to the President of the Senate

We wish to acknowledge with gratitude receipt of a copy of the October 2011 edition of the Zenith Economic Quarterly (ZEQ) and to inform that the ZEQ has proven to be a valuable source of relevant information on important economic issues.
The journal has been a useful reference material because its incisive analysis has provided significant insight into regional and global economic matters.
Please accept the assurances of the Head of Mission's highest regards.
Yours sincerely,

Beatrice Ayokhai
Admin. Attaché II
For: Ambassador
Embassy of Nigeria Conakry, Guinea

I am directed to acknowledge with thanks your letter dated 28th December, 2011 forwarding a copy of the October, 2011 Edition of the above-named publication. I wish to add that the receipt of the publication was timely as it would serve as a veritable source of reference material in the Mission's engagements with the Irish Business Community. Kindly accept our most sincere appreciation, please.

Nkwocha E.N.
First Secretary
For: Ambassador
Embassy of Nigeria, Ireland

Your Branch Manager at Zenith Bank Plc, Awka recently gave me the October, 2011 edition of your well written Zenith Economic Quarterly (ZEQ). Let me first register my appreciation for the expertise exhibited in the topics discussed in that edition of ZEQ.
Researchers and Policy Makers will no doubt find the journal a good reference material for our developing economy.
In fact, you have made available, very sound, educative and topical information for growing minds.
Please, accept my compliments for the nice work. Continue this good work and do remember to always include me in your mailing list.
Kind regards!

Charlie O. Okeke
DPRS
Ministry of Education
Awka, Anambra State

ECONOMY: reforms, stability PREVAIL

***By Marcel Okeke**

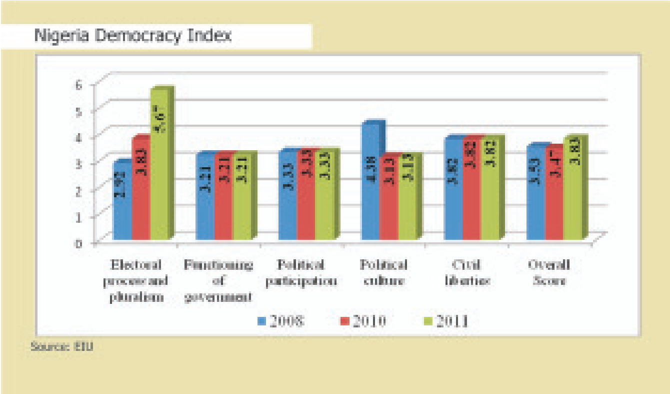
The plethora of ongoing reforms in various sectors, proposals for a number of policy initiatives including the 2012 Federal budget as well as the Medium Term Expenditure Framework (MTEF) were some of the key features and drivers of the national economy during the last quarter 2011. Other specific policy proposals during the period include the 'cashless' economy, petroleum subsidy removal, 'nationalization' of some rescued banks, adoption of the International Financial Reporting Standard (IFRS), and run up to the take off of the Sovereign Wealth Fund (SWF). Consistent increase in crude oil prices in the international market, just as in the previous quarters, also prevailed in the period under review—thus providing some stimulus to the nation's external reserves.

President Goodluck Jonathan presented the N4.749 trillion 2012 Appropriation Bill to the national assembly (NASS) on December 13, 2011, following the earlier presentation and adoption of the (2012—2015) MTEF and the Fiscal Strategy Paper (FSP) by the NASS.

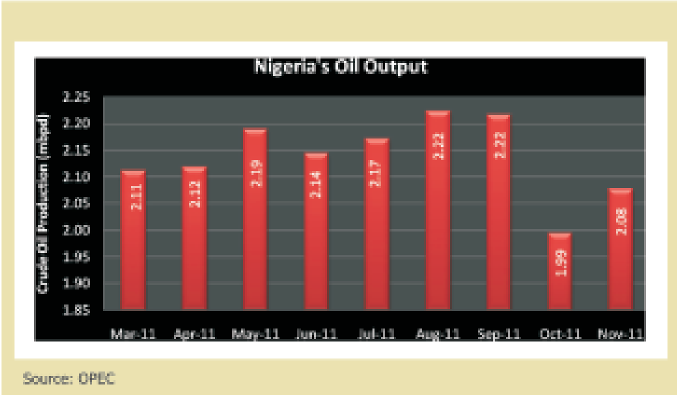
The MTEF and FSP comprise the macroeconomic framework which gives an analysis of key macroeconomic trends of recent years and provides insight on future policy direction. The FSP outlines fiscal strategy, analyses expenditure and revenue figures for the years under review; details the assumptions underlying these projections; reviews the previous budget and gives an overview of consolidated debt and possible fiscal risks. The 2012 budget is premised on the assumption of $70 per barrel of crude oil and production level of 2.48 million barrels per day during the budget year. It is broken down into a capital expenditure of N1.32trillion (or 28 percent), recurrent expenditure component of N2.472trillion (or 52 percent); statutory transfers – N398 billion (or 8.3 percent) and debt servicing – N560 billion (or 11.7 percent). These proposals were however under legislative debates and even executive revisions at the time of this report.

Another major factor that influenced the economy during the quarter under review was the upgrading of outlook on the Federal Republic of Nigeria to 'positive' from 'stable', by the global rating agency—Standard & Poor's. This revision, according to S & P, indicates that there is at least a one-in-three likelihood of an upgrade, if Nigeria's reform initiatives support economic growth, build stronger buffers against current dependence on petroleum revenue and reduce pressure on the exchange rate. Similarly, according to the Economist Intelligence Unit (EIU) Democracy Index data, despite the fact that 2011 was an exceptionally turbulent year politically, democracy in Nigeria recorded an improvement—by 10.4 per cent—placing the country in the 119th position in 2011, compared with the 123rd position it occupied in 2010.

Democracy Index which provides an assessment of the state of democracy worldwide for 165 independent states and two territories, ranks each country on such factors as quality of elections, civil liberties, democratic culture, among others.



Source: EIU



Source: OPEC

From the EIU survey, Nigeria's overall democracy index increased from 3.47 in 2010 to 3.83 in 2011 as a result of high increase from electoral process and pluralism index.

The impact of these influences on the economy in the period under review was a mixed outcome: double digit inflation, depreciated national currency, improved gross domestic product, some accretion to external reserves, increase in national debt, etc. Specifically, inflation rate ended the year 2011 at 10.30 per cent, slightly down from the 10.50 per cent in November and October, as against the cardinal goal of the Central Bank of Nigeria (CBN) to achieve a single digit inflation rate. Apparently, inflationary pressure was sustained by the structural deficiency of the Nigerian economy, huge import bill, high public sector fiscal profile, among others. And according to the apex bank, single digit inflation rate in the country would lead to positive real return on fixed income securities and encourage investment in these instruments and thus engender savings.

In the foreign exchange market, excessive demand for foreign currencies remained unabated all through 2011, causing the value of the Naira to slide against the US Dollar. For example, in October and rest of the year, the nation's currency met severe head winds

The impact of these influences on the economy in the period under review was a mixed outcome: double digit inflation, depreciated national currency, improved gross domestic product, some accretion to external reserves, increase in national debt, etc.

with much pressure coming from importers, downstream oil companies as well as speculators. Indeed, the national currency breached the CBN's adopted trading band of N150 (+/-3 percent), sparking rumours of possible devaluation. In the face of this ugly trend, the CBN tinkered with a number of measures to bring about some stability to the market, the overall effect remained a depreciated Naira. Some of these measures include increase in the sale of foreign exchange, removal of limit of dollars sold to Bureau De Change (BDCs), target audit of the authorized dealers to prevent speculative demand on dollars, lifting of restriction on the holding period in government securities by foreign investors, increase in MPR, and close to year-end, the reduction in net open limit of banks' shareholders funds. Despite these measures, the Naira depreciated in all the three segments of the foreign exchange market against the US Dollar. Indeed, it ended 2011at N156.7/$1 and 164/$1 at the official and parallel markets respectively.

While the Naira experienced depreciation during the period under review, the nation's Gross Domestic Product (GDP) moved in the opposite direction. Available data from the National Bureau of Statistics (NBS) show that the GDP grew by 7.40 per cent in the third quarter 2011, and closed last quarter of the year at an estimated 8.68 per cent. This growth was driven mainly by activities recorded in Agriculture, Wholesale & Retail Trade, Telecommunications, Manufacturing and Finance & Insurance sectors. Similarly, the nation's stock of public debt experienced significant accretion all through 2011. Data from the Debt Management Office (DMO) show that Nigeria's debt stock (addition of external and domestic debt) as at December 31, 2011 stood at N6.51 trillion, representing an increase of about 24.38 per cent from the December 2010 figure of N5.24 trillion. It was N6.199 trillion as at September 30, 2011.

A breakdown of the debt stock as at year-end 2011 show that external debt accounted for 13.64 per cent of the total debt, standing at N887.95 billion, while the domestic component accounted for 86.36 per cent or N5.623 trillion. Furthermore analysis of the year-end 2011 debt stock show that it is about 17.50 per cent of Nigeria's GDP , as against the applicable critical

http://www.bagco-ng.com/pages/weaving%205.jpg

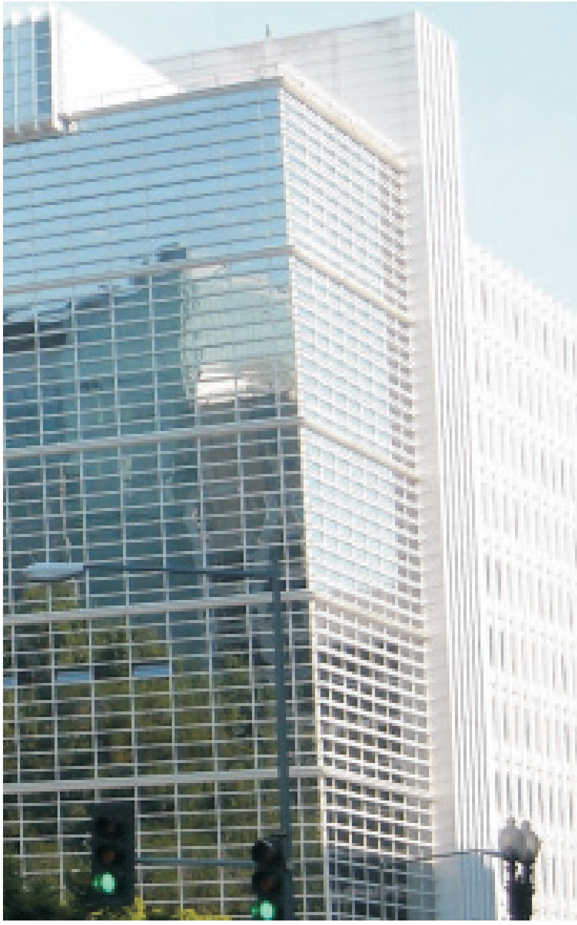
This growth was driven mainly by activities recorded in Agriculture, Wholesale & Retail Trade, Telecommunications, Manufacturing and Finance & Insurance sectors.

http://www.globalhomesmagazine.com/wp-content/uploads/2011/08/World_Bank_buildingweb.jpg

limit of 40 per cent for countries in Nigeria's economic peer group. This still underpins Nigeria's claim to wide fiscal sustainability space. But while the nation's public debt stock was inching up, its external reserves were declining or remained flat, standing at US $32. 64 billion as at December 31, 2011, as against US$32.34 billion level at December 31, 2010. The CBN has all through 2011 expressed concerns about the persistent demand pressure in the foreign exchange market and emphasized the need for tighter fiscal controls around oil revenue. The apex bank noted that the solution to reserve depletion resided in the implementation of appropriate reforms with regard to industrial and trade policies aimed at reducing import-dependency nature of the Nigerian economy which will help to conserve some foreign exchange.

Through its Commercial Agriculture Development Project (CADP), the World Bank is also giving a push to agriculture in the country by reaching more states in the six geopolitical zones with its US$150 million facility.

Preparation towards the take-off of the compulsory adoption of the International Financial Reporting Standards (IFRS) by all publicly quoted companies in the country reached a feverish pitch during the last quarter 2011. In line with the subsisting policy, effective January 01, 2012, public companies operating in Nigeria are expected to migrate from the Nigerian Generally Accepted Accounting Policies (N-GAAP) to IFRS. This requires the preparation of 2011 accounts based on IFRS. IFRS are principles-based standards, interpretations and the framework, adopted by the International Accounting Standards Board (IASB). Towards the adoption of the IFRS in the country, the Nigerian Accounting Standards Board (NASB) has since transformed to the Financial Reporting Council of Nigeria, sequel to a Bill that was signed into law on 20 July 2011. With this development in Nigeria "more meaningful and decision enhancing information can now be arrived at from financial statements issued in Nigeria because accounting, actuarial, valuation and auditing standards used in the preparation of these



statements shall be issued and regulated by this Financial Reporting Council," according to the Minister of Trade and Investment, Olusegun Aganga.

The transformation agenda of the Federal Government continued to gain expression in the agricultural sector of the Nigerian economy during the period under review. Sequel to the roll out of the Agricultural Transformation Action Plan (ATAP), the Federal Government has also initiated the Growth Enhancement Support (GES) under which farmers, agro-dealers, seed and fertilizer companies will be supported to make a success of their agric business. Also, efforts to establish Staple Crops Processing Zones, Clusters, Commodity Marketing Corporations jointly with the private sector have commenced. Through its Commercial Agriculture Development Project (CADP), the World Bank is also giving a push to agriculture in the country by reaching more states in the six geopolitical zones with its US$150 million facility. In this drive, ten states are the beneficiaries under the CADP, including Kano, Kaduna, Lagos, Cross River, Enugu, among others.

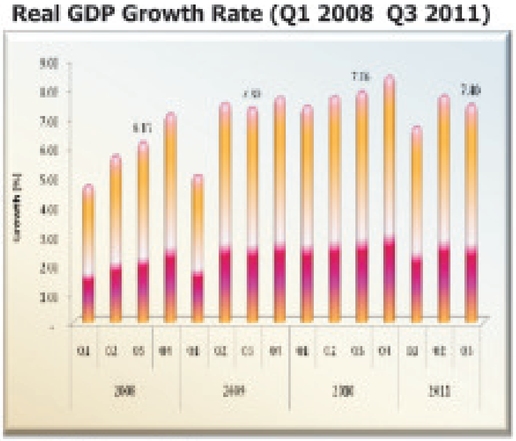
In a similar vein, the CBN strengthened its agric credit guarantee scheme, under which it guaranteed about N10.20 billion to over fifty-six thousand farmers in the 36 states and the Federal Capital Territory (FCT) in 2011. A breakdown of this sum shows that the apex bank guaranteed a total of N969.40 million in the first quarter 2011, N1.38 billion in the second quarter, and N3.55 billion in the third quarter. The guarantee shot up to N4.44 billion in the last quarter 2011. The purpose of the Agricultural Credit Guarantee Scheme (ACGS) is to provide guarantee in respect of banks' loans to farmers for agricultural activities, with the primary objective of increasing the level of bank credit to the sector. The loans normally comprise advances, overdrafts and any other credit facilities.

Another creative funding support for the agric sector came during the period under review, when the Federal government through the DMO issued sovereign guarantees to banks, securing up to 70 per cent of the loans granted by banks to agro dealer. This innovative funding is intended to get seeds and fertilizer (agric inputs) into the hands of farmers directly and help boost food production in the country. This totally obviates the challenge of Government using its funds for direct procurement and distribution of these inputs. About 12 banks are participating in this new arrangement.

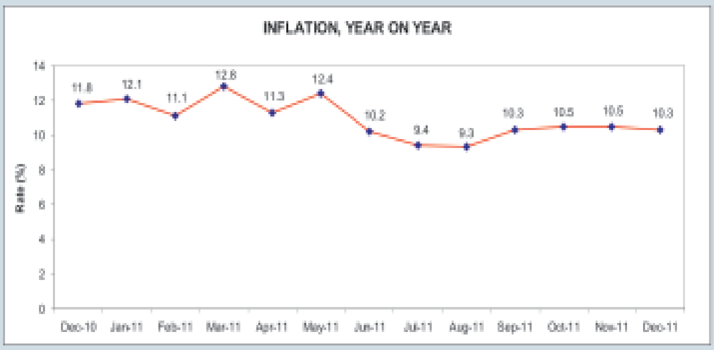
THE CAPITAL MARKET

Contrary to the predictions of most analysts about the behavior of the capital market in 2011due to the spillover effect of the steps taken by the CBN in 2010 to rescue some banks and increase investors' confidence, the bear

Real GDP Growth Rate (Q1 2008 Q3 2011)



Source: National Bureau of Statistics



Source: NBS

the acquired banks were de-listed from the daily official list (DOL) of the Nigerian Stock Exchange (NSE); thus, the market closed with 15 strong and healthy banks as against 21 banks that started the year.

BANKING AND FINANCE

The Central Bank of Nigeria (CBN) pursued with vigour, its reforms in the banking sector all through 2011—leading to a wave of mergers and acquisitions (M & A), recapitalization and nationalization. On the M & A train, Access Bank took up Intercontinental Bank; Ecobank Transnational Incorporated Plc (ETI) acquired 100 per cent of the outstanding share capital of Oceanic Bank, just as First City Monument Bank (FCMB) took over Finbank and Equitorial Trust Bank merged with Sterling Bank. On the other hand, Union Bank embarked on a rights issue of five new shares for every nine shares held. This was part of its re-capitalization efforts where a core investor—a consortium of private equity firms headed by African Capital Alliance—took major stake in the bank. The CBN had earlier nationalized and revoked the licenses of three other banks for failing to recapitalize ahead the stipulated deadline. The assets of these banks were transferred to three newly created, nationalized banks: Keystone Bank, Enterprise Bank and Mainstreet Bank.

The apex bank also tenaciously took steps towards implementing its "cashless" economy policy—having emphasised for so long that the Nigerian economy was too heavily cash-oriented in the transactions of goods and services. According to the CBN, huge volumes of cash transactions impose enormous costs to the banking system and consequently, the customer, in terms of cash management, frequent printing of currency notes, currency sorting and cash movements. It opined that these cash-fuelled transactions in

ruled the market. Indeed, such predictions turned out to be false at the close of the year—with the All-Share Index (ASI) losing about 17 per cent of its value to stand at 19, 526 points and the Market Capitalization declining by about 18 per cent, closing at N6.5 trillion. Rising unemployment, weakened purchasing power and poor investor confidence, all combined to exert down ward pressure on the stock market during the period under review.

From the external front came the 'contagion' of the lingering global economic meltdown, which reflected on the market in form of foreign investors almost cashing out of the scene, even as their local counterparts sought refuge in short and medium-term government securities. Specifically, the Euro-zone sovereign debt crisis which led to underweighting of frontier and emerging markets resulted to withdrawal of foreign investments. Also, persistent interest rate hike by the CBN (with MPR raised from 6.25 per cent in January to 12 per cent in October 2011) to curb inflation and pressure on the Naira robbed off negatively on the capital market.

Over all, the capital market data show that in 2011, 28 Bonds issued in the market totalled N79b billion naira; those of States (Delta, Ekiti, Niger and Benue) and Corporate Bonds collectively amounted to N84 billion. Also, there were 16 new Issues; six rights issues; nine private placements and one preference share issue, totalling N142 billion. Foreign portfolio investment into the market amounted to N478billion naira during the year.

Significantly, the banking sub-sector closed the year with less number of quoted/listed banks as a result of successful mergers and acquisitions that took place in the sector within the last quarter of the year. A number of

The apex bank also tenaciously took steps towards implementing its "cashless" economy policy—having emphasised for so long that the Nigerian economy was too heavily cash-oriented in the transactions of goods and services.

the economy informed the preference by the banks to lend to the capital market and oil and gas industry rather than the real sector and small & medium scale enterprises (SMEs). Furthermore, the apex bank insists that the spiralling cash management cost, most of which is passed to the customers in the form of bank charges and lending rates, is as a result of the cash dominant economy.

Thus, all through the last quarter 2011, both the deposit money banks (DMBs) and the CBN were in a frenzy working out the logistics for the take-off of the new retail cash policy which commenced January 1, 2012. The policy stipulates that over the counter cash transaction above N150,000 and N1,000,000 for individuals and corporate respectively will attract a charge. The pilot phase of the "cashless" policy has commenced in Lagos, and will gradually cover Port Harcourt, Kano, Aba and the Federal Capital Territory (FCT), among others.

TELECOMMUNICATIONS

The GSM segment of the telecoms industry continues to dominate the performance of the sector by all indices. The Nigerian Communications Commission (NCC) data for year 2011 show that the segment recorded a total subscriber-base of 90, 566, 238 out of the 95,886,714 industry-wide. MTN Nigeria, with 41,641,089 subscribers, representing 46 per cent of the segment, maintained its leading position. Globacom with 19,886,014 lines accounting for 22 per cent ranks second. Airtel controls 20 per cent of the GSM segment with 18,028,385 subscribers, while Etisalat had 10,752,230 subscribers, representing 12 per cent of the segment. M-tel's 258,520 subscribers represent zero per cent in that market segment.

A further breakdown of NCC figures show that on a quarterly basis, Etisalat witnessed the most impressive growth rate of 13.02 per cent between the third and fourth quarter. Airtel also grew impressively at 8.06 per cent while MTN and Globacom grew marginally at 1.30 and 0.16 per cent respectively. Etisalat's market also witnessed the most gain as it grew to 12 per cent from the 10 per cent in the preceding quarter. Again the only gainer in market share on a quarter-to-quarter basis was Etisalat which moved from nine per cent as at end of first quarter 2011 to 10 per cent as at the end of the second quarter. Airtel's market share also increased to 20 per cent from 19 in the preceding quarter. On the other hand, MTN's market share declined from 48 per cent in the third quarter to close the year at 46 per cent while Globacom also closed the year at 22 per cent, down one per cent from 23 per cent as at end of third quarter.

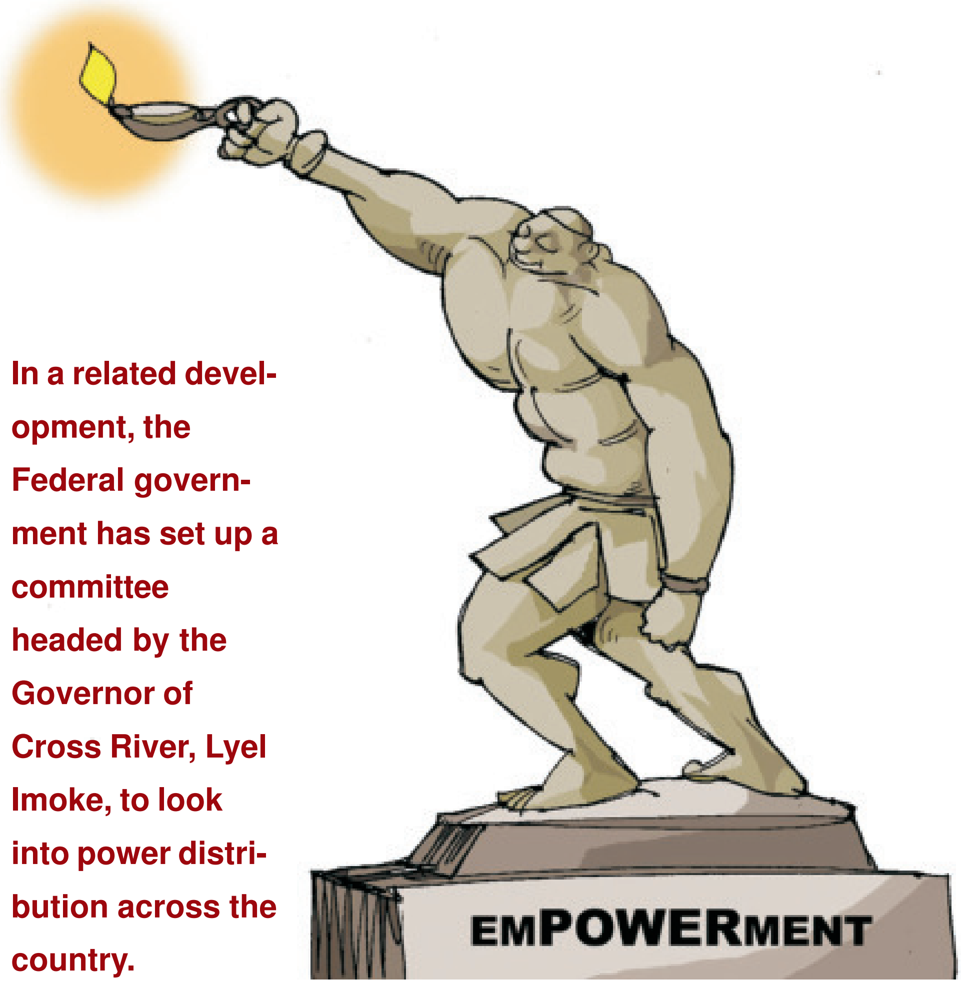
In the CDMA segment of the market, which had 4,601,070 subscribers as at end 2011, Visafone improved its dominance with 2,604,038 subscribers representing 57 per cent of the market share. Starcomms ranks next with 980,109 subscribers accounting for 21 per cent. Multilinks-Telkom with 701,304 subscribers controls 15 per cent of the segment, while Reltel controls seven per cent of the segment with 315,619 subscribers. The only gainer in market share from the second quarter 2011 in the CDMA segment is Visafone which moved from 47 per cent as at the end of second quarter 2011 to 57 per cent (a growth of 11 per cent) as at end of the year. Conversely, the market share of Multilinks-Telkom slipped from 17 per cent to seven per cent in the same period.

The industry regulator, NCC, has completed the Subscriber Identification Module (SIM) cards registration, and also taken steps towards achieving number portability and Quality of Service (QoS) improvement in the industry. In this regard, it has appointed a consortium of three companies: Interconnect/Saab Grintek/Telecodia, as the preferred implementers of the number portability service in the country.

POWER AND ELECTRICITY

As part of the ongoing transformation in the power sector, the Federal government during the period under review formally issued operational licenses to 20 new power generation companies, a distribution firm and the Nigerian Bulk Electricity Trading Company Plc (NBETC). The distribution companies have also executed a 'vesting contract' with the Bulk Taker (NBETC)—a process which provides the arrangement to ensure that available power is shared equitably among the distributing companies. Ahead of this, the Bureau for Public Enterprises (BPE) in tune with the revised timeline for the privatization of the successor companies created from the Power Holding Company of Nigeria (PHCN), released the industry agreements which are the draft Power Purchase Agreement (PPA) and the draft Vesting Contract.

About 135 pre-qualified firms for bidding for the successor companies



In a related development, the Federal government has set up a committee headed by the Governor of Cross River, Lyel Imoke, to look into power distribution across the country.

to the PHCN also commenced physical due diligence on 17 power firms that have been put up for sale by the Federal government. Some of the prequalified companies include Dangote Industries Limited, Oando Plc, Essar Consortium, Honeywell Energy Resources International Limited, Kenya Electricity Generating Company, Odu'a Distribution Company Limited and Rockson Engineering, among others.

In a related development, the Federal government has set up a committee headed by the Governor of Cross River, Lyel Imoke, to look into power distribution across the country. Members of the committee include four other state governors, minister of power, national planning, Chief Economic Adviser to the President as well as the Director General of Bureau for Public Procurement.

In line with the privatization programme, the PHCN has also been wound up, with workers at its headquarters redeployed to its successor companies. Effort has also commenced at privatizing existing thermal plants of the PHCN, just as the hydro plants are slated for concessioning. The Federal government has, on the other hand, signed a Memorandum of Understanding (MoU) with Global Biofuels Limited, for the construction of 15 integrated bio-fuel plants in Nigeria. The N424 billion project will generate about 450 megawatts of electricity and will create about 120,000 jobs on completion.

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

Policy

2012-2015 MEDIUM TERM EXPENDITURE FRAMEWORK & FISCAL STRATEGY PAPER

1. Introduction

The Medium Term Expenditure Framework (MTEF) & Fiscal Strategy Paper (FSP) are statutory documents which articulate Government's revenue and spending plan as well as its fiscal policy objectives over the period. Section 11 of the Fiscal Responsibility Act (FRA) 2007 requires the Minister of Finance to prepare the MTEF & FSP and lay it before the Federal Executive Council and the National Assembly for consideration.

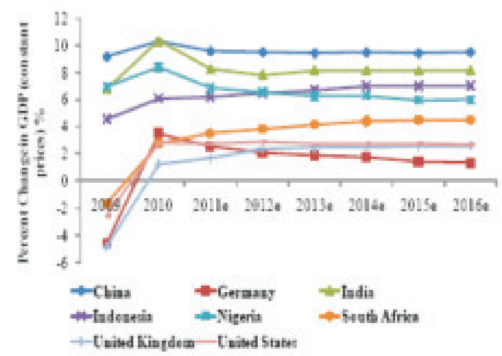
The MTEF & FSP is composed of the macroeconomic framework which gives an analysis of key macroeconomic trends of recent years and provides insight on future policy direction. The FSP outlines fiscal strategy, analyses expenditure and revenue figures for the years under review, details the assumptions underlying these projections, reviews the previous budget and gives an overview of consolidated debt and possible fiscal risks.

2. Macroeconomic Framework

2.1 Global Economic Overview

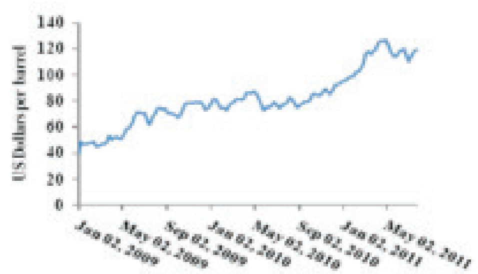
Recovery from the global recession has slowed down significantly as downside risks are on the increase on the back of the debt crisis in the Euro area and concerns about the trajectory of US recovery given the recent downgrade by Standard and Poor's (S&P). Poor GDP growth figures from Organisation for Economic Cooperation and Development (OECD) countries over the last few quarters and high unemployment figures have further increased fears of a double-dip recession.

Figure 2.1: GDP Growth for Selected Countries (2009-2016)



Source: IMF

Figure 2.2: Weekly Price of Bonny Light (Jan 2009- July 2011)



Source: EIA

Global growth remains unbalanced as many advanced economies, especially in the Euro area periphery, continue to struggle with high levels of sovereign debt. Japan's growth prospects have been weakened considerably by the recent nuclear crisis and effects of the tsunami and earthquake culminating in the recent downgrade of Japan's credit rating. Emerging markets are leading the recovery, in particular, China and India, although overheating concerns persist.

Although it is expected that emerging and developing countries such as Nigeria would continue to lead the recovery in the medium term, rising food and commodity prices as well as other inflationary pressures must be managed for growth to proceed.

2.2 Overview of Nigerian Economic Performance

Although the Nigerian economy has recovered considerably from the worst effects of the global economic crisis, global economic activities, particularly the outlook for international oil prices, remain a source of concern. The main transmission mechanisms of the crisis to the economy were the international price of oil, foreign capital inflows through remittances, portfolio investment and FDI. The oil price has been above $100 per barrel since February 2011; however weak economic growth prospects pose considerable downside risks to the global demand for oil.

Reforms in the banking sector, such as the creation of AMCON to clear up non-performing loans on bank balance sheets and NSE reforms to introduce tighter regulations in the market, are also aiding recovery in these areas but there is a long way to go. To mitigate the possibility of a reduction in oil revenue receipts, Government will continue to implement the policy of fiscal consolidation commenced in the 2011 fiscal year. Increasing inflationary pressures and their impact on macroeconomic stability through adverse interest and exchange rate movements necessitates this. Greater coordination between monetary and fiscal authorities will seek to mitigate these concerns. The goal will be low inflation, interest rates consistent with strong and sustained economic growth, a stable exchange rate reflective of real market conditions and a build up in external reserves in the presence of high oil prices.

3. Review of the 2010 Budgets – Amended and Supplementary Budgets

The 2010 Budgets were stimulus budgets intended to mitigate the negative consequences of the global economic crisis. The 2010 Appropriation Bill was based on aggregate expenditure of N4.637 trillion; however to address the realities of revenue constraints, the National Assembly passed an Amendment Budget of N4.427 trillion in May 2010. The approved Amendment Budget was based on an oil benchmark price of US$60 per barrel, oil production of 2.25 million barrels per day and an exchange rate of N150/US$.

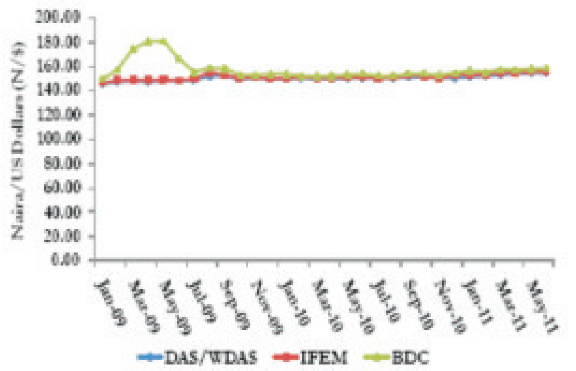
A first Supplementary Budget of N644.75 billion was appropriated to make provision for some unanticipated expenditure items such as the wage increases awarded to civil servants, university lecturers, and medical personnel amongst others as well as the PHCN arrears of monetisation. A second Supplementary Budget of N87.72 billion was approved for INEC in preparation for the 2011 Elections.

3.1 2010 Budget Performance: Revenue Outturns

International oil prices averaged US$81 per barrel in 2010 while data from NNPC indicated average oil production of 2.462 mbpd for the year. This resulted in gross oil revenue of N5.396 trillion, 10% higher than the budgeted revenue of N4.902 trillion while FGN Retained Revenue which was projected at N3.18 trillion; fell short by N221.15 billion (or 6.95%) as of the end of December, 2010 as only N2.959 trillion was realised.

FGN's share of oil revenue was N1.267 trillion against the budgeted N1.456 trillion, representing a shortfall of N188.6 billion (or 12.96%). Its aggregate share of VAT, CIT and Customs Duties fell short of the N530.1 billion target by 1.70% with N521.05 billion realised as at the end of December, 2010. Breakdown of non-oil revenue performance indicates that the main driver was CIT, with collections being 12.63% above the budgeted figure; whereas customs collections fell short by 22.74%.

Figure 2.4: Exchange Rate Movement (Jan 09- June 11)



Source: CBN

3.2 2010 Budget Performance: Expenditure Outturns

Aggregate expenditure approved in the 2010 Budgets (Amendment, Supplementary I and II) amounted to N5.16 trillion, of which N1.765 trillion was allocated to capital expenditure and N2.669 trillion to recurrent spending.

Of the N1.765 trillion budgeted for capital expenditure, only N956.11 billion was released and cash-backed, as it was clear ab initio that the capital vote approved by NASS was far in excess of available resources. Of the amount cash-backed, MDAs utilised N935.61 billion after the fiscal year was extended to March 31st, 2011. At the end of the period under consideration, N935.61 billion had been utilised, resulting in average capital utilisation of 97.86%. This was an improvement over the 70.42% performance as at 31st December, 2010.

Inability to fully fund the capital budget raises the issue of the skewness of the budget towards recurrent spending and the squeeze it places on funds for capital spending. Approved salary increases of 53.7% for core civil servants and medical personnel amongst others raised the wage bill substantially. The payroll bill, representing 34% of aggregate expenditure, increased by 61% from N857.04 billion in 2009 to N1.381 trillion in 2010 and to N1.506 trillion in 2011.

To ensure greater efficiency in Government spending, Government has approved the engagement of capital programme and project portfolio managers, with the objective to work with pilot MDAs to improve the quality and efficiency of their capital project implementation. Government is also compiling a database of ongoing projects for MDAs that will focus attention on completing and exiting the large portfolio of uncompleted capital projects. Moreover, it would help to minimise the incidence of duplication of projects within and across MDAs, abandoned projects, and avoid spreading resources too thinly across multiple initiatives.

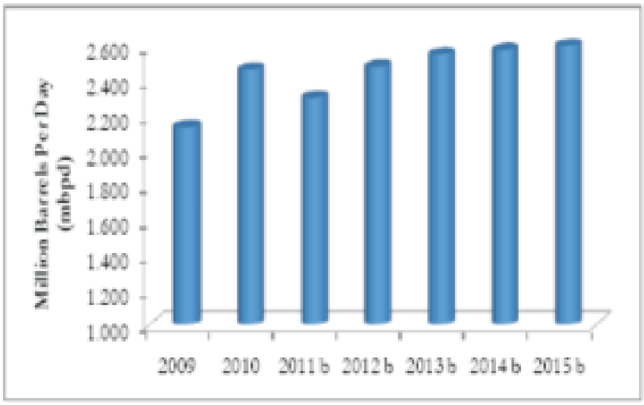
4. Review of the 2011 Amended Budget

The 2011 Budget, with aggregate expenditure of N4.226 tr (subsequently increased to N4.388tr) was presented to NASS by Mr. President in December 2010. This was a budget of fiscal consolidation as the total level of spending implied a deficit of 3.62 percent of GDP, a significant reduction from the 6.06 percent of GDP in 2010.

NASS passed a budget of N4.972 tr in March 2011, which was deemed too large and the resultant deficit of 4.23 percent of GDP. On this basis, the Executive and the Legislature collaborated to reduce the level of spending while still accommodating critical expenditure. Discussions on reducing the level of spending were prolonged by the 2011 Elections and were not finalised until May 2011. The outcome of the negotiations between the Executive and NASS was an Amended Budget with Aggregate Expenditure of N4.485 tr which comprises Statutory Transfers of N417.82 bn (this now includes the total allocations to NASS and INEC as per S.81 of 1999 Constitution, as amended), Debt Service of N495.1bn, Personnel Costs of N1.503 tr, Overheads of N288.05 tr, Capital Expenditure of N1.148 tr, Pensions of N154.75 bn, MYTO of N37 bn and other Service-Wide Vote items of N439.16 bn.

Implementation of the 2011 Budget is still ongoing. Reports from the OAGF indicate that FGN revenue fell below target by N231bn as of August 2011, mainly due to shortfalls in non-oil revenue as oil revenue receipts were on target. Expenditure releases are largely on track.

Fig. 5.1: Oil Production (2009 – 2015)



Source: NNPC

5. Assumptions Underlying Projections of Oil and Non-Oil Revenue

5.1 Oil Production & Market Price of Oil

Projected oil production for 2011 is 2.3 mbpd. Data from NNPC indicates that average production recorded in the first quarter of 2011 was 2.43 mbpd, or 5.65% over the budget benchmark oil production. On this basis and after consultations with NNPC, average oil production is estimated at 2.480 mbpd, 2.550 mbpd, 2.575 mbpd and 2.600 mbpd in 2012, 2013, 2014 and 2015 respectively.

5.2 Benchmark Price of Oil In continuation of the adoption of an oil-price based fiscal rule, oil benchmark prices significantly below the current market prices will be adopted for the 2012-2015 period. Revenue in excess of the benchmark price will continue to be set aside in the Sovereign Wealth Fund (SWF) The SWF, which formalises the ECA, was designed to guarantee savings for future generations, to promote the development of critical infrastructure thus promoting growth and diversifying the economy and to protect the budget against negative oil price shocks. Based on a combination of a 5-year and 10-year moving average, an oil benchmark price of US$75 per barrel has been adopted for 2012-2015 as baseline scenario. Less optimistic scenarios of US$65 and US$70 per barrel have also been prepared in recognition of potential volatilities in the international oil market.

5.3 Non-Oil Revenue Baseline Assumptions

Estimates of non-oil revenue are the result of changes in the relevant components of GDP. The underlying tax bases are as follows:

- for CIT the underlying base is the portion of nominal GDP liable for CIT;
- for VAT the underlying base is the share of consumption liable for VAT;
- for Customs Duty the underlying base is Import CIF.

It is important to note that our projections also take into account the impact of ongoing reforms and include efficiency factors accounting for operational improvements in the various tax administration agencies. Projected gross revenue figures for CIT, VAT and Customs duties for 2012 are presented below:

6. Fiscal Strategy for 2012-2015 6.1 The Fiscal Strategy & Economic Objectives of Government Over the 2012-2015 period, Government will focus a large portion of its spending on key sectors which include Security, Infrastructure (including Power), Agriculture, Manufacturing, Housing and Construction, Entertainment, Education, Health and ICT. By investing funds in these sectors, Government intends to support job-creating opportunities which will in turn foster greater and diversified economic growth.

Government will also continue its strategy of fiscal consolidation by which expenditure, particularly on recurrent spending, will be reined in and directed to its most productive and growth-enhancing use while efforts will be intensified to increase revenue. This strategy is guided by Government's long-term development objectives as provided by the Vision 20:2020 framework, the need to maintain macroeconomic stability and the effect of contemporary global events on the activities of the public and private sectors. The highlights of Government's fiscal strategy include:

6.1.1 Fiscal Consolidation:

The reduced size of the 2011 Amended Appropriation Act relative to the 2010 Budgets signals Government's intent to scale down its spending from the highs reached in recent times, largely due to the fiscal stimulus extended during the peak of the global economic crisis and the recent increase in the wage bill. This scaled back spending will also create space for greater private sector participation in financial markets. The need for fiscal consolidation is made more apparent by the recent sovereign downgrade of Nigeria from a stable outlook to negative by Fitch Ratings.

Although aggregate expenditure is expected to increase from N4.8tr in 2012 to N5.18tr in 2015, concerted efforts are being made to make savings from overheads as allocations will be frozen till 2015. Capital spending will increase marginally from N1.32tr in 2012 to N1.64tr in 2015 as Government intends to leverage on PPP-type arrangements to supplement capital allocations from the Budget.

A major component of the policy of fiscal consolidation is Government's intent to phase out the fuel subsidy beginning from the 2012 fiscal year. This will free up about N1.2tr in savings, part of which can be deployed into providing safety nets for poor segments of the society to ameliorate the effects of the subsidy removal. The accrual to the SWF as a result of the withdrawal of the fuel subsidy will also augment funds for critical infrastructure through the infrastructure window of the SWF.

The fiscal deficit is expected to follow a declining and sustainable path from 2.69% of GDP in 2012. This is within the threshold indicated by the FRA, 2007 and more importantly implies that the deficit will be financeable as domestic borrowing will also follow a declining path over the period. The macroeconomic benefits expected to accrue from a reduction in the fiscal deficit include a reduction in the crowding out of private investors and a positive impact on interest rates.

6.1.2 Rebalancing the distribution of Government spending

In recent times, the outlay on recurrent spending has outstripped the growth of spending on capital projects. This increase can be attributed largely to the rising wage bill, an outcome of the increase awarded to civil servants, medical personnel, ASUU staff etc. The 2012-2015 period will focus on correcting this structural imbalance in our expenditure profile thus ensuring that more funds are allocated to critical infrastructure projects. The report of the Expenditure Review Committee, which concluded its work in April 2011, will provide a starting point for this key initiative. PPP funding for infrastructure projects will also be pursued aggressively. The share of recurrent spending in aggregate expenditure is set to decline from 74.4% in 2011 to 72.5% in 2012 while capital expenditure as a share of aggregate spending is set to increase from 25.6% in 2011 to 27.5% in 2012.

6.1.3 Diversification of the economy

The diversification of the Nigerian economy has been a critical objective of Government for some time as our over-reliance on oil revenue proceeds has hampered the growth of the non-oil segment of the economy. Government has recorded much success and goodwill in the creation of the ECA and now its successor, the SWF, application of the oil-price-based fiscal rule and adherence to the provisions of FRA, 2007; however, in the medium-term, it will be essential to consolidate on this success through targeted interventions to boost the non-oil economy.

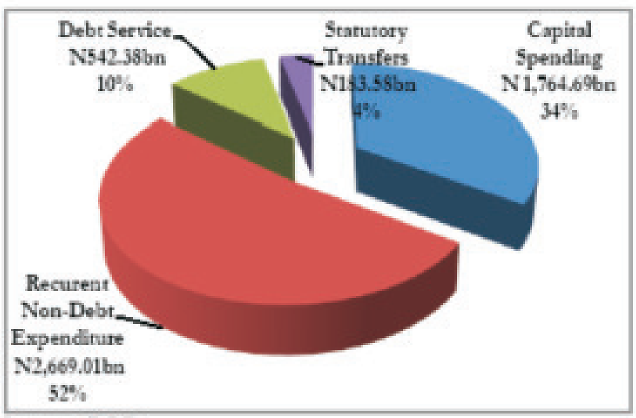
During the 2012-2015 period, oil revenue is expected to increase marginally from N2.37tr in 2012 to N2.47tr in 2015 as the benchmark price of US$75 will be maintained throughout the period and oil production is projected to rise from 2.48mbpd to 2.6mbpd. The drive for increased receipts from non-oil revenue will be intensified and this is expected through better management and intensification of IGR, CIT and Customs collections.

6.1.4 Four-Year Capital Budget Planning

Government is adopting a four year capital budget plan commencing in the 2012 fiscal year. The focus is the completion and exit from the portfolio of ongoing capital projects and programs which are being reprioritized in line with the developmental objectives of the First National Implementation Plan (1st NIP) of the Nigeria Vision 20:2020.

Capital budget allocation will reflect Government priorities and there will need to be serious trade-offs in order to ensure flagship projects in key sectors of the economy are

Figure 3.1 2010 Amended and Supplementary Budgets Expenditure Breakdown



Source: BOF

adequately funded.

Fiscal tables for the 2012-2015 period are provided in the Annex.

7. Analysis and Statement on Consolidated Debt and Contingent Liabilities

Recent events worldwide, particularly in the United States and Euro-zone area, have highlighted the importance of sustainable debt in maintaining economic stability. During the first few years of the global economic crisis, many developed countries had limited fiscal space to accommodate additional spending by Government and had to resort to the debt markets to raise funds to keep their economies running. Emerging and developing countries have fared much better in this regard given that many, including Nigeria, had embarked on successful macroeconomic reforms prior to the start of the crisis. Nigeria was able to enjoy fiscal space owing to the successful Paris Club debt relief arrangement and on the back of ongoing macroeconomic reform. The reforms have resulted in lower inflation levels, higher GDP growth and lower debt levels; however, in recent times, the rising domestic debt profile has become a source of concern.

7.1 Debt Service

Debt service payments are made to service our obligations to foreign and domestic creditors. Although the domestic debt stock had been on the rise in recent years, with our current policy of fiscal consolidation and its positive impact on the size of the fiscal impact and thus domestic borrowing, a reduction in the domestic debt stock is expected.

7.2 Debt Sustainability

Nigeria conducts a Debt Sustainability Analysis on a yearly basis in conjunction with the World Bank and IMF. The DSA utilises macroeconomic data to assess a country's debt sustainability in relation to current debt burden thresholds and projects its future ability to service its debt.

The results from the DSA indicate that Nigeria is well within the debt sustainability threshold for all the years covered up to 2030 and is still at a low level of debt distress. According to DMO, the current Net Present Value (NPV) of Debt to GDP ratio is about 18 percent (domestic debt to GDP ratio of 16.4 percent) while the recommended threshold for countries similar to Nigeria is 40 percent.

7.3 Nature & Fiscal Implication of Contingent Liabilities

Contingent liabilities are potential obligations which crystallise at the occurrence of a future event. These liabilities could arise where guarantees of debt, made by the Federal Government with regard to contract agreements for capital projects entered into by MDAs, crystallise into actual obligations. With our current move towards PPPs in driving capital projects, the possibility that these liabilities are realised is quite real; hence, the need for careful and rigorous analysis of potential projects for the PPP scheme.

8. Fiscal Risk

8.1 Global Economic Trends

The global economy has witnessed a number of upheavals since 2010 that have posed a challenge to global GDP growth and recovery from the global economic crisis. The unfolding Euro zone debt crisis particularly is having a huge impact on global financial markets. The crisis is sending shockwaves through the markets as commodity and stock prices are exhibiting greater volatility on concerns about the risk of default by the affected countries. The bailouts of Greece, Ireland and Portugal introduced greater stability in the markets but current developments indicate that uncertainty persists. The recent debt ceiling negotiations in the United States and downgrade of the US economy to AA+ from AAA have also contributed to market tensions. Japan's recovery from the recent nuclear, tsunami and earthquake disasters has also led to a downgrade of its credit ratings. As a result, uncertainty on global economic recovery in the medium-term is highly uncertain.

8.2 Global Oil Trends

Global oil demand projections for 2011 have been lowered due to the slowdown in global economic growth. The demand outlook for 2012, although initially more positive due to post-construction efforts in Japan and demand from emerging countries like China and India, has also been revised downwards. The downside risk from persistently high oil prices has become more pronounced in recent times; however, China, India and the United States will continue to remain major drivers of oil demand growth.

The unfolding events in the MENA region, particularly the ongoing conflict in Libya, will have an impact on oil supply as well as the future trajectory of international oil prices. The supply outlook for 2011 is cautious considering the uprising in the MENA region is still unfolding.

8.3 Risks to Oil Production & Price

Oil production in Nigeria has improved considerably as the Niger Delta Amnesty Initiative has resulted in peace and stability in the region. According to data from the NNPC, actual production figures in 2010 were higher than projected; however, caution will be exercised in making projections for 2012.

International oil prices have been relatively high since late 2009 although greater volatilities have been exhibited in recent times due to global events such as the uprisings in the MENA region, the earthquake, tsunami and nuclear crisis in Japan and the Euro-zone debt crisis. In line with our efforts at fiscal discipline we will continue to abide by the oil-price based fiscal rule by setting a prudent budget benchmark price for the 2012-2015 period. Recent world events and the uncertainty concerning current events linked to oil price movements also suggest that caution should be applied in setting the benchmark price.

8.4 Risks to Non-Oil Revenue

In 2010, the non-oil economy was the largest contributor to GDP growth with agriculture, wholesale and retail trade in the forefront, in line with the pattern in recent years. As we accelerate the diversification of the economy, we expect non-oil revenue to contribute a greater share of budget revenue compared to the current contribution of about 30%. The performance of non-oil revenue in 2010 was below expectations as Customs and VAT collections were below target although Corporate Tax performed above target for the 2010 fiscal year.

With the acceleration of recent reform efforts by Government and the implementation of initiatives to boost key non-oil sectors, this performance should improve. Government is actively engaging with revenue generation and collection agencies to improve collections. In addition, moves are being made to harmonise the establishing acts of MDAs to ensure consistency with provisions of the 1999 Constitution (as amended) and FRA, 2007, thereby increasing receipts.

Annex: 2012-2015 Medium Term Fiscal Framework (MTFF)

FISCAL ITEMS	2011 Budget Amendment	2012 Projection	2013 Projection	2014 Projection	2015 Projection
	=N= bns	=N= bns	=N= bns	=N= bns	=N= bns
KEY PARAMETERS, ASSUMPTIONS & INDICATORS					
Average Budget price per barrel (in US$)	75.00	75.00	75.00	75.00	75.00
Average Exchange Rate (NGN/US$)	150.00	153.00	153.00	153.00	153.00
Oil Production (mbpd)	2.300	2.480	2.550	2.575	2.600
GROSS FEDERALLY COLLECTIBLE REVENUE	9,152.25	9,905.64	10,604.39	11,271.29	11,923.60
Total Oil & Gas Revenue	6,815.45	6,896.04	7,006.24	6,953.08	7,272.37
Total Non-Oil	2,151.27	2,741.15	3,300.31	3,998.48	4,329.15
Special Levies for Targeted Expenditure	93.62	164.67	187.07	209.06	211.33
Other Non-Federation Account Items - Education Tax	91.91	103.77	110.77	110.66	110.74
SUMMARY OF FAAC & VAT POOL					
FGN	3,241.36	3,462.84	3,671.78	3,851.18	4,088.97
STATES	1,957.46	2,083.13	2,255.15	2,460.74	2,631.55
LGCs	1,482.89	1,578.66	1,705.75	1,854.67	1,982.15
Total	6,681.71	7,124.63	7,632.68	8,166.59	8,702.67
FGN BUDGET REVENUE (INFLOWS)					
Unspent balance from previous FY	120.00	100.00	100.00	100.00	100.00
FGN BUDGET Share of Federation Account (48.5%)	2,882.08	3,081.63	3,252.49	3,380.32	3,582.89
FGN BUDGET Share of VAT (14%)	103.50	107.90	129.71	167.56	184.14
FGN Independent Revenue	228.93	393.46	480.81	515.89	528.04
Estimated FGN's Balances of Special Accounts end Dec.	13.61	10.18	7.13	7.99	8.79
Total	3,348.12	3,693.17	3,970.14	4,171.77	4,403.86

9. Conclusion

The 2012-2015 FSP and MTEF have been prepared against a backdrop of heightened global economic uncertainty. The debt crisis in the Euro Area, its possible contagion effects, the downgrade of the US economy by S&P and the possible downgrade of major EU economies is having a dampening effect on financial markets and potential for global economic recovery in the medium-term.

The downside risks to economic growth have been taken into consideration in the preparation of the MTEF & FSP. The priority sectors identified by Government will receive the bulk of capital allocations over the period. Government intends to continue to implement a fiscal consolidation policy especially in view of the structure of expenditure which has increasingly tilted towards recurrent expenditure in recent times. To correct this bias, Government is implementing a 4-year capital project plan commencing in 2012, which will ensure that we exit from the current portfolio of ongoing projects. In addition, measures to rationalise recurrent expenditure as identified by the Expenditure Review Committee will be fully implemented.

On the revenue side, the strategy of adopting an oil price-based fiscal rule and the accrual of windfall oil savings will continue. A baseline Benchmark oil price of US$75 per barrel is proposed for the 2012-2015 period while oil production of 2.480mbpd, 2.500mbpd, 2.575mbpd and 2.600 mbpd will be adopted for the 2012, 2013, 2014 and 2015 fiscal years respectively. To increase non-oil revenue receipts, efforts to improve collections will be stepped up, taking off from the recently concluded audits of revenue-generating and collecting agencies. Government will also advance current work to improve IGR remittances by reconciling establishing acts of parastatals and agencies with the provisions of the FRA, 2007.

The policies outlined in the 2012-2015 MTEF & FSP are in line with the 1st National Implementation Plan and Vision 20: 2020. These will continue to serve as the guiding vision of Government's fiscal strategy over the medium term towards the actualisation of the Transformation Agenda of the Administration.

Global Economy in 2012: Another Recession Imminent?

By EUNICE SAMPSON

In 2008-2009 it was the United States; today, it is the euro-zone that is pushing the global economy into another brink of recession. This time, it is sovereigns that are insolvent; not the gigantic, 'too-big-to-fail' corporate institutions that cluster round Wall Street. And when sovereigns go broke, who bails them out?

For sure, the euro-zone is bound for a recession in 2012. Reasons include the worsening debt crisis there and the threat of a contagion, with major economies in the zone, including Italy, Spain, France, and God knows where next, highly vulnerable. The massive size of the euro-zone economic bloc with nominal GDP of over $12 trillion, second only to the United States, casts shadows on the global economic outlook for 2012.

But the scope of the problem goes far beyond the euro-zone. Other major economies in the European Union, including the United Kingdom, have continued to struggle since the 2008-2009 global recession. For the leading emerging economies including Brazil, Russia, India and China, the euro-zone crisis has slowed export earnings and foreign investments while markets have remained volatile in reaction to uncertainties in much of Western Europe. This is a major setback for an economic bloc that would otherwise have driven global growth at a time like this.

Observers opine that should the 2012 recession happen, a major chal-

lenge for most economies would be their huge debt overhang and fiscal deficits following the 2008-2009 recession. This would make it difficult for the impending recession to be fought with the same level of fiscal aggression as was deployed during the last global economic slump.

A recent World Bank report observed that the coordinated global response to the 2008-2009 economic downturn, especially in the form of stimulus helped to lower interest rate, increase public spending, cut taxes and ease liquidity. These outcomes reduced the longevity and impact of the crisis. But with economies already struggling with massive deficits, sovereign debt and over bloated balance sheets, a repeat of these measures might not be possible this time around.

Global Growth Statistics in 2011

For virtually all the major economies, available data shows a drop in growth during several quarters in 2011, an indication that year-end results may have declined for several of these economies. Preliminary data released in the middle of January reveals that the United States managed a real GDP growth of 1.7% year-on-year in 2011, compared to a robust 2010 growth of 3.0%. After a 1.6% growth in first quarter 2011, which subsequent data proved to be its best quarterly advancement last year, the United Kingdom maintained a below 1% growth for the last three quarters of 2011. Year end 2011 position is therefore expected at, at best, 1.0%.

The Euro-zone experienced 1.4% advancement in 3rd quarter 2011, with a poorer performance expected in the last quarter of the year. Estonia (8.5%), Slovakia (3.0%), Finland (2.7%), Austria (2.6%) and Germany (2.5%) were the high flyers; with Greece (-5%), Portugal (-1.7%), Slovenia (-0.1%), Ireland (-0.1%) and Italy (0.2%) being the worst performers, in that order. Some of these sluggards could end up in outright recession by first quarter 2012.

Year end data shows that the economy of Germany enjoyed a robust 3% growth in 2011, with employment levels improving rather than declining and measuring far above the Euro area's current average. Although Berlin slashed its 2012 growth forecast to a worrisome 0.7% in January, citing the euro-zone debt crisis and the expected negative impact on exports, the country remains the only major economy in the region that seems poised to escape a recession in 2012.

For the traditional high flyers – the BRIC economies – with the exception of Russia which experienced growth swings between first quarter 2010 and fourth quarter 2011 – all other economies in the bloc suffered persistent quarterly drop in growth within the same period, a trend that is expected to continue into the first half of 2012. China for example after a massive 11.9% growth in first quarter 2010, slumped to 8.9% in fourth quarter 2011, following a persistent drop in growth all through the year. Beijing's December 2011 economic data reveals a significant fall in export and the biggest decline in Foreign Direct Investment since the 2008-2009 recession. There are fears that china which contributed over a third of global economic growth in 2011 may experience a slowdown this year. The same is true for India and Brazil, (see graphs).

Other major developing economies in Asia, Latin America and Africa experienced some encouraging growth in 2011. But constrained by dampening export, slowing demands for raw and finished products and capital flows, very few attained the heights recorded in 2010. And 2012 looks even glimmer unless the spreading crisis in the Euro-zone is halted soon enough.

Other major developing economies in Asia, Latin America and Africa experienced some encouraging growth in 2011.

World Bank/IMF Outlook For 2012

The World Bank in its half-yearly Global Economic Prospects report published on January 18 noted that the world has "entered a very difficult phase characterized by significant downside risks and fragility" and warned policy makers around the world to 'prepare for the worst'. The growing global economic weakness is evident in

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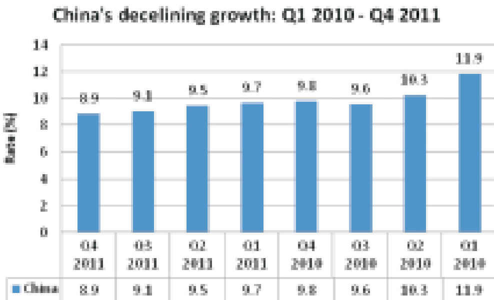

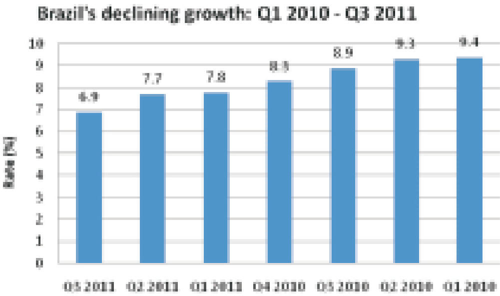

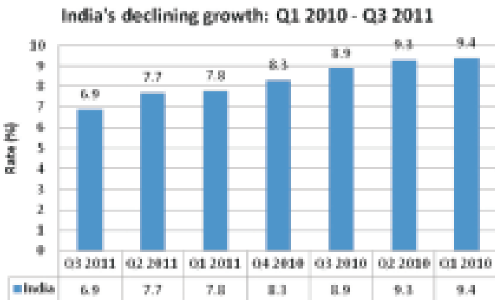

Source: tradingeconomics.com

slower trade and capital flows to developing economies, lower commodity prices and the threat of a meltdown in global financial markets. Money supply is on a decline, keeping interest rates high in most countries of the world, all of which have been carried over to the New Year. The Bank therefore lowered its global growth forecast for 2012 from 3.4% to 2.5%.

The World Bank also cut its 2012 growth forecasts for several individual countries from its earlier estimates with a warning that the world is on the brink of another recession that could be as bad as the 2008-2009 experience.

According to the report, growth in developed economies will shrink to a mere 1.4%, which is barely half of an earlier estimate of 2.7%. The euro-zone economies will end the year on a negative territory of -0.3%, rather than an earlier predicted growth of 1.8%. Without the euro-zone, the rest of the developed world will grow at a projected 2.1%. The United States, with a projected growth of 2.2%, down from an earlier World Bank forecast of 2.9% will remain one of the fastest growing developed economies in 2012.

Emerging and developing economies will drive global growth this year even though they are currently not without their own challenges. The recent World Bank forecast puts projected growth for these economies in 2012 at 5.4%, lower than the 6.2% projected last June. China, the leader of the pack will see a slower growth of about 8.4% this year, far below its 9.2% advancement in 2011 and 10.3% in 2010.

The threat factors observed in the report include the escalating debt crisis in Europe, crash in commodity prices, dampened global consumption and demand and a possible hard landing in some critical developing economies.

While much of the impact would be felt in the high income economies, the developing world would feel the pinch, especially in the areas of trade, commodity prices, remittances, liquidity and capital flows which could affect output in these economies. The challenge, according to The World Bank

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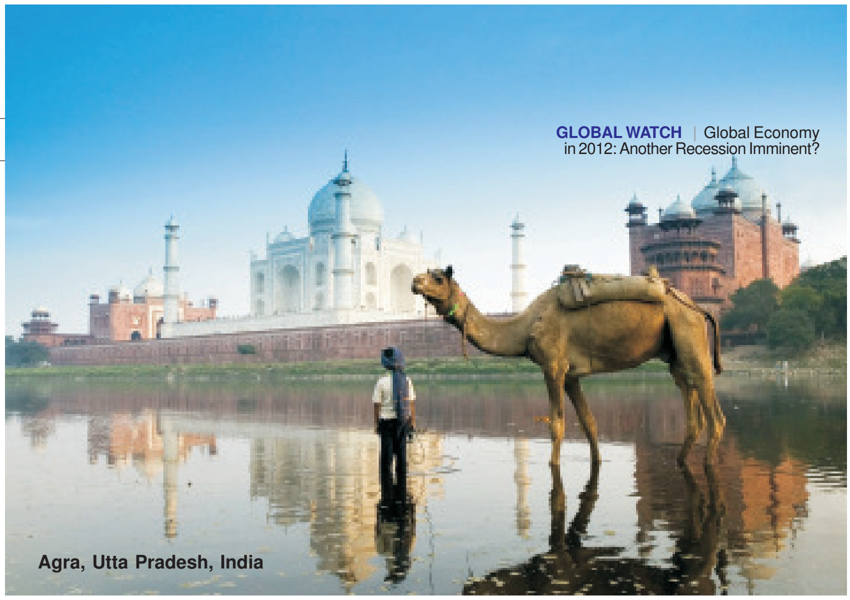
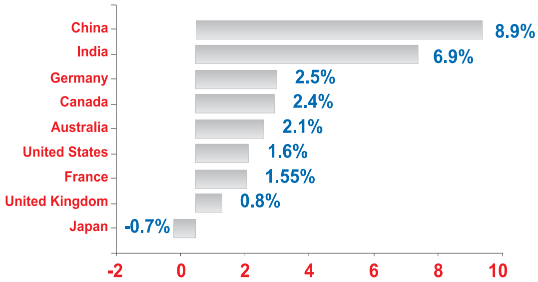
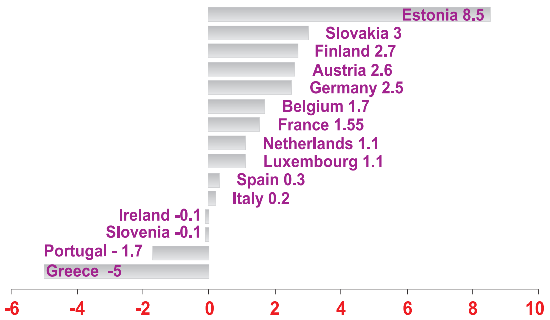


Agra, Utta Pradesh, India



Source: tradingeconomics.com

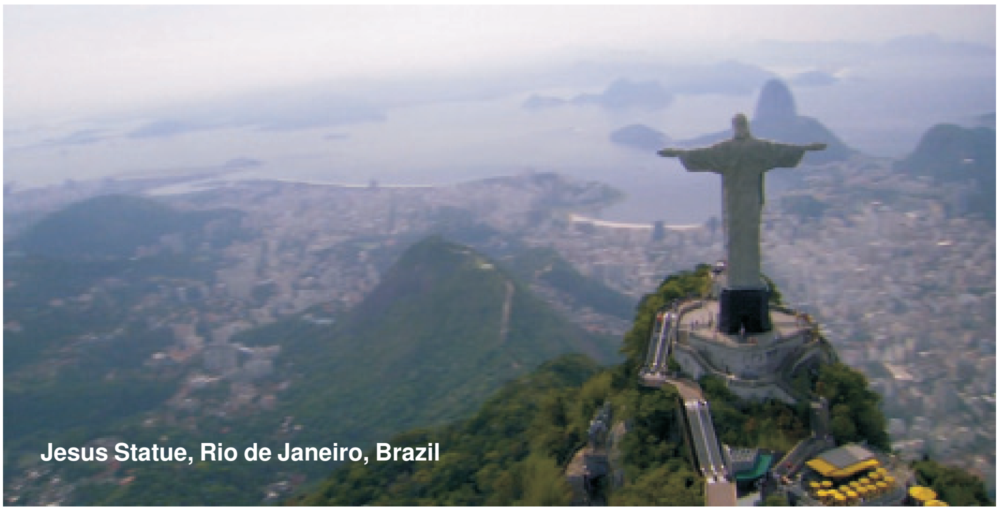


Source: tradingeconomics.com

remains how to avoid a contagion which if it happens, will spare no economy.

Even if the global economy manages to escape a full blown crisis, the world would still grow far weaker than the post 2008-2009 recession levels. The World Bank projects a 2.5% growth in 2012, down from an estimated growth of 2.7% in 2011 and 4.1% in 2010.

In its World Economic Outlook published on January 24, 2012, the International Monetary Fund, IMF, expressed the same worries about the fate of the global



Jesus Statue, Rio de Janeiro, Brazil

economy this year, urging world leaders to focus on growth more than severe austerity measures.

The Fund also lowered its global growth forecast for this year to 3.25%, down from its September 2011 forecast of 4%. It predicts that the euro area will shrink 0.5% this year, down from an earlier prediction of 1.1% growth.

The IMF expects the United States to grow 1.8% at the end of the year, unchanged from its earlier projection. The US has witnessed relative improvement in its major economic indicators, including employment generation and consumer confidence and spending.

The IMF also cut China's growth outlook this year to 8.25%, from 9.0% forecast last September. After growing 9.2% in 2011, its first single digit growth in several years and yet the world's best performance among major economies, China will remain the key global growth factor again this year.


http://www.zastavki.com/pictures/1920x1200/2010/World_China_Lake_in_the_foothills_of_China_022180_.jpg

10 most indebted developed Economies:		
Countries	Debt as % of GDP	Size of debt ($bn)
Japan	234	13,795
Greece	139	434
Italy	120	2,564
Iceland	108	16
Belgium	103	504
Ireland	102	220
USA	99	14,270
Singapore	95	254
France	88	2,365
Portugal	87	202

Source: *The Economic Times; IMF*

Can the global economy avoid a recession in 2012?

Most of the major economies that determine the pace of global economic growth seem to be struggling with one economic challenge or the other. Despite the recent improved recoveries in the United States, for example, especially during the last two quarters of 2011 which saw a drop in unemployment levels, rise in consumer confidence and spending and an improved advancement in GDP, the world's leading economy is still far from achieving its traditional growth pace. Euro-zone and its neighbors, including the United Kingdom could experience near stagnation or outright negative growth this year with no quick fix in sight for the highly indebted European countries.

There is no doubt about it; the world is again faced with threats of another bad recession. But despite these scary prospects, it is not impossible for the global economy to avoid a recession in 2012.

To start with, the United States, a country that contributes a third of the total global GDP just might consolidate on the gains of the last two quarters to further strengthen its growth outlook this year. This reasoning is supported by the fact that 2012 is a Presidential election year with the incumbent President Barack Obama and his Democratic Party eager to impress voters with policies that could stimulate growth and the people's wellbeing.

As leaders of the euro-zone, the epicenter of the whole recession threat continue their struggle for a way out of the debt mess, and as other world leaders lend their support, a workable solution to the debacle could still be found. Especially now that the Greeks have at last agreed to a new round of economic measures that would qualify them for a second IMF/EU bailout plan, there just might be a light at the end of the tunnel, sooner than expected.

Also, China despite the relative slowdown in growth in 2011 could pull some economic surprises that could bring it back to double digit growth. Though both the IMF and the World Bank have posited lower growth expectations for China this year, it would not be the first time that the Chinese economy advances far beyond economists' expectations. Brazil, India, Russia and other major developing economies could well shake off the dust of the previous year and improve their output performance in 2012.

Food for Thought?

At this point, global leaders are faced with the challenge of efficiently managing policies and resources to stimulate growth. Decision makers in advanced and emerging economies alike must somehow balance their deficit status with a need for a relatively expansionary spending to help maintain a growth track. The IMF has reiterated that fiscal tightening policies, which are a spontaneous reaction of policy makers during periods of fiscal deficits such as this, would not help the situation. The global economy requires a boost and only some level of deliberate stimulation would ensure sustained growth throughout the year.

The IMF also warns that steps by global leaders to cut debts and budget deficits should be phased rather than short term, to ensure that growth prospects are not subdued.

At this point, the Breton Woods institutions should also be up to the task, especially in policy support and fiscal bailout for more economies that might require them. 'A stitch in time', going forward, would help save the world from other instances of the Greek '*wahala'*. The cooperation of all stakeholders including global and regional leaders, multilaterals, etc would be required; and joint, collective actions would be necessary if the world is to escape this impending slump. As IMF's Christine Lagarde puts it, "It is not about saving any one country or any one region," but about "saving the world from a downward economic spiral."

In sum, if a quicker than expected solution is found to the seemingly worsening debt crisis in the euro-zone; the BRIC economies manage to find their growth rhythm near double digit; global leaders team up against this imminent menace; nations adopt monetary and fiscal discipline; global demand and consumption manage to recover significantly; and perhaps, very importantly, if the US economy continues to sustain the recent pickup in retail sales, mortgage, employment levels, etc, the world could still avoid the much predicted recession in 2012.

Bye and large, though a significant advancement might be out of the question, the global economy still stands the chance of dodging two successive quarterly decline in growth, which technically translates into a recession, and instead get away with some slowed growth this year.

After the dark days that were overcome barely two years ago, the last thing the global economy needs right now is another round of recession. While the current glaring risk factors cannot be wished away, yet the 'sentence' of a recession this year is still very much subject to an 'appeal'.

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

Nigeria's budget 2012: Options for Attaining Sustainable Development

* By Mike Uzor

The 2012 budget has been constructed in reflection of concerns for a deteriorating external sector and the challenges facing the nation in the domestic economic front. The nation's economy lies highly vulnerable to the many imponderables in the international oil market; oil being the commodity on which the Nigerian economy largely.

The 2012 budget therefore represents an effort by government to navigate the economy through a narrow path of tight revenue and sticky expenditure profile. Achieving the specified budget targets will require great ingenuity on the path of government and to a large extent an element of luck that the global economic conditions eventually turn out much better than feared.

As in the preceding year, the watch word for the budget is fiscal consolidation, indicating government's resolve to cause a change of direction in its finances. Apparently the favourable revenue environment in 2011 did not permit much progress in terms of fiscal restraint, which it had pursued. The high prospects for revenue disappointments in the current year have made fiscal retrenchment quite compelling.

Cost cutting hitches

Despite compelling economic circumstances, reducing cost in government operations isn't going to be that easy. Government's decisions and actions are usually subject to a lot of compromises that must be made to attain a social balance. This is why technocrats have to take it easy with government.

Those whose jobs begin and end with lending and recovering money can hardly excel in political administration. Neither can political leadership stand without sufficiently diluting advice and recommendations based on pure economic numbers. The attempt at full deregulation of downstream oil sector is a clear demonstration that government cannot attain the fiscal targets being required by technocrats without a great deal of political and social disharmony.

The high cost structure of government emerged gradually over the years and cannot easily be reversed suddenly. What the 2012 budget has done, which is what an annual budget can do, is to merely scratch the structural problem on the surface. Hence, despite government's disposition towards fiscal consolidation, budget numbers aren't saying much about fiscal restraint.

Aggregate expenditure of the federal government is projected at N4,749 billion for fiscal year 2012. This represents a moderate increase of 6.0% - which is lower than the anticipated inflation rate of 9.5% for the year. Government revenue is projected to grow slightly ahead of expenditure at 9.0% to N3,644 billion. The budget will therefore run on a fiscal deficit but the amount of the deficit is provided to drop by 20.1% to N1,110 billion in 2012.

Non-debt recurrent expenditure, the main trouble spot in government finances, is provided to decline marginally at 0.4% to N2,472 billion in 2012. The figure represents a decline of 2.4% as a proportion of aggregate expenditure from 74.4% in 2011 to 72% in 2012. Savings to be generated by this move will be channeled into the capital spending budget, which has been raised from 26% of total budget in 2011 to 28% in 2012. Budget numbers generally indicate an effort to shift from non-productive to productive spending though a significant shift isn't to be expected in the year.

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Muddy waters to cross

With as much as 72% of the expenditure still consisting of recurrent items, it can be expected that the problem of translating economic growth into sustainable development will remain with us in 2012. The President's view, as expressed in the high points of his budget promises however does not agree with this expectation.

This budget, he said, will translate the development plans of government into concrete actions. Speaking further he promised that the budget will deliver the dividends of democracy to the people and will turn the nation's possibilities into reality. Well, since it is a fact that the President is now governing and no longer campaigning, these bold promises seem to engender more confidence than the budget numbers.

But how is the President going to wade through the muddy waters to make his promises come true? He has a limited room to maneuver in the area of revenue and is confronted with an expenditure structure that may hinder economic capacity building. Furthermore, his budget numbers assumed zero subsidy payments on petroleum products in 2012. Now he has to rework revenue estimates to cut off a good part of the federal government's N470 billion share of the estimated oil subsidy savings in 2012.

Government needs to take steps to avoid the prospect for a major financial embarrassment this year. The fact that government purse is getting lean is not peculiar to Nigeria; it is a global problem. The difference however will be how far each government will be able to cut back its expenditure to reflect the current revenue realities.

If the figure of N1.3 trillion estimated savings from petroleum subsidy is brought back into the 2012 budget, then the fiscal crisis being feared as imminent, has already happened. If a provision of that sum had been made in the 2012 budget, the N3,644 billion federal government revenue projection would have been less by about N470 billion estimated federal government's share of the subsidy.

Readmitting petroleum subsidy

If the figure of N1.3 trillion estimated savings from petroleum subsidy is brought back into the 2012 budget, then the fiscal crisis being feared as imminent, has already happened. If a provision of that sum had been made in the 2012 budget, the N3,644 billion federal government revenue projection would have been less by about N470 billion estimated federal government's share of the subsidy.

Recurrent expenditure will then constitute 77.9% of total revenue, leaving only N702 billion of the federal government's projected revenue. This is insufficient to cover the N560 billion provision for debt servicing and the N398 billion statutory transfers. This means a large part of the statutory transfers will have to be borrowed and fiscal deficit will increase from N1.11 trillion to a new peak of N1.72 trillion.

With the 50% increase in pump price of fuel, a significant part of the N1.3 trillion naira fuel subsidy will still have to be added back to the 2012 budget. Consequently, the amount of distributable federally collectible revenue will drop by whatever amount of subsidy that is retained in the system.

The effect on the federal government budget will be to raise total borrowing from 23.2% to 36.2% of aggregate expenditure. Without the inclusion of petroleum subsidy in the 2012 budget, government is still going to borrow N1.11 trillion to fund the budget. This means revenue from all sources, inclusive of subsidy removal, is already captured in the federally collectible revenue of N9,406 billion from which the federal government's share is calculated.

An impression has been created as if the savings from fuel subsidy removal will accrue outside the revenue already disclosed in the 2012 budget. If there is money that is going to be earned from anywhere in 2012 outside of the budget, then the budget document sent to the National Assembly is incorrect and nobody other than the National Assembly can legally appropriate it. There is no other fund going to be available to build infrastructures this year other than the N1.3 trillion capital expenditure provided for in the budget – N1.11 trillion of which is to be borrowed.

High expectation, weak capacity

There are high expectations from the 2012 budget because it is the President's first full year budget to deliver his electoral promises to the people. There is more interest in the outcomes of government plans and policies than the 'what' and the 'how' of their accomplishments. Yet the budget has to be structured to reflect the realities of the global economy. That seems to leave both the people and the government at the crossroads.

From the view point of Nigerians, the President came into government as a messiah that would lead the people to the promised land after many years of past disappointments. But amid the frustrations of the moment will the disappointments of the past be vexed upon his government. I personally feel for the President that he has come into leadership at a time of high expectations from government. The much expectation reflects little or no more capacity for the people to bear further economic hardship.

While the people cannot wait to see government policies and actions improve their living conditions, government is presently struggling to come up with structures to lift the nation out of poverty. Despite the President's good intensions, the economy still does not have the strong capacity to translate the high hopes and promises into practical results.

Beginning from the years of former President Olusegun Obasanjo in 1999, the administrative structure of government has been reshaped around the influx of huge oil revenue. In 1999, when oil price hovered around $16 per barrel, Nigeria incurred a fiscal deficit of N285.1 billion. In that year, capital spending vote represented 52.5% of total federal government expenditure.

In 2010, when average crude oil production rose from 1.82 mbd in 2009 to 2.13 mbd, the price of Nigeria's reference crude rose by 22.6% to $80.81 and export volume grew by an average of 30.7% in the year, fiscal deficits grew to an all time high of N1,105.4 billion. Capital spending vote dropped to 35.9% of total expenditure. While the 2011 budget was termed one of fiscal consolidation, it contained even a higher fiscal deficit provision of N1.39 trillion and capital vote dropped further to 23.8%.

The structure of government that the President has inherited is exactly the problem and there are no pretences that he isn't going to change this structure over night. Despite compelling economic rationality to do so, the needed radical pruning of the government machinery is a political decision. The truth is that the President cannot single handedly pull down the unsustainable administrative structure in place.

If the President is to do exactly what the Central Bank is demanding, not less than one-half of government workforce will be sent home and a good part of the arms and extensions of government will have to be amputated. Many government agencies have

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been established by various enabling laws that must be repealed before the executive can act.

So, the 2012 budget is in reality articulated to meander through the problem of an over bloated government. This is indeed the problem that is preventing government from translating economic growth into sustainable development.

2012 Budget Highlights

Budget Item	N billion	Change Over 2011 Budget
Federally Collectible Revenue	9,406	
Federal Government Aggregate Expenditure	4,749	+6.0%
Total Federal Government Revenue	3,644	+9.0%
Non-debt Recurrent Expenditure	2,472	-0.4
Capital Expenditure	1,320	+15%
Fiscal Deficit	1.11	-20.1
Debt Service Provision	560	+3.2%
Statutory Transfers	398	+102.9%
Security Vote	921.91	
Crude Oil Production Benchmark	2.48 mbd	+0.18 mbd
Crude Oil Price Benchmark	$70/barrel	+$5
Benchmark Exchange Rate	N155/$	+N5
GDP Growth Rate	7.2%	+0.2%
Inflation Rate	9.5%	
Share of Recurrent Expenditure	72%	-2.4%
Share of Capital Expenditure	28%	+2.0%
Fiscal Deficit	2.77% of GDP	-0.19%

Expenditure overload

Rising concerns over government debt make it the more imperative for government to slim down. Salary cuts of 25% have happened but government continues to limp along with an excessive expenditure overload. The President assures that "we are conscious of the need to control the cost of governance" yet his pruning saw seems to be blunt for now.

The Central Bank expects that imminent revenue shocks will compel government to face the reality of shading weight in 2012 but so far the budget isn't structured to make that happen. The proposed 2.4% scraping of non-debt recurrent expenditure isn't expected to bring about the hoped fiscal retrenchment in 2012. Again, government is well known for excessive bursting of budget numbers, particularly on spending targets and borrowing ceilings.

The dominant size of recurrent expenditure leaves no cushion in the budget to keep the capital spending on course in the event of revenue shortfall.

The President has rightly identified some viable avenues for cutting recurrent expenditure, which are reducing waste, inefficiency, corruption and duplication in government. If the avenues are thoroughly screened in 2012, the level of recurrent spending can be expected to drop by much more than he has proposed in the budget.

In the light of the gloomy picture of the global economy for the current year, government revenue projection appears rather too optimistic. Considering the cyclicality of crude oil price in the international market, this year looks more like a down time. The $70 per barrel oil price benchmark for the 2012 budget may end up being over optimism.

If the high volatility in the international oil market that made crude oil price swing from $147 to $38 per barrel in 2008 is fully appreciated, then the margin of less than $30 below the current price is too close for comfort. Fiscal retrenchment happening in the advanced countries and the downside risk arising from Euro zone credit crisis will appear to have more serious implications for crude oil price than the 2012 budget seems to recognise.

Budget risks and challenges

This underscores the extent to which the 2012 budget rests on the good luck that the global economy and the crude oil market turn out much better than feared. That also highlights the underlying risk to which the budget is exposed. In the event of revenue disappointments the capital budget is likely to be sacrificed while every attention will focus on the day to day running of the affairs of government. The dominant size of recurrent expenditure leaves no cushion in the budget to keep the capital spending on course in the event of revenue shortfall.

Another element of risk in the budget is that it is yet going to run on a large fiscal deficit that has been the feature of government finances for several years now. Proposed fiscal deficit remains high at N1.11 trillion, which still has a good chance of being exceeded. The excess crude oil account may not be as fat as it was in 2011, which is an indication that government is likely to come under pressure to burst its fiscal targets. New borrowing at the significantly increased interest rates will compound the fiscal problems of government.

A major concern is that fiscal deficits have been rising as government revenue grows. As in most of the past years since the oil market rally began in 1999, government revenue is making new peaks, providing a rare opportunity to accumulate large budget surpluses. That is clearly not the target of the government in 2012. What the President is promising are manageable deficits and sustainable debt-GDP ratio of no more than 30%.

A major challenge facing the 2012 budget is that the fiscal consolidation plan of the 2011 budget was not realised. The unrealised plan of action for 2011 has not provided the much needed concrete platform upon which to consolidate in 2012. As part of government's strategy to cut recurrent expenditure in 2011, the President set up an expenditure review committee and promised to implement its report to the letter.

It is evident in the 2012 budget that the task of cutting expenditure in 2011 was not accomplished. In his 2012 budget address the President said "in this respect, I have received the preliminary Report of the task force which I set up for this purpose and we shall implement relevant recommendations".

It will appear more effective if the committee had been given a definite target as to the proportion of government expenditure that must be cut. To make its job of cutting expenditure doable, the committee needs to be empowered to recommend measures to restructure the entire government machinery to attain a lean structure of administration. As long as government wears the present administrative structure, the expenditure review committee isn't likely to make any major headway.

Perhaps the assignment needs to be transferred to the economic management team that appears to have a superior mandate. If the President is to succeed in transforming the economy as promised, he first needs to transform the structure of governance. The administrative structure needed to optimise government expenditure and permit new economic capacity building is yet to be accomplished.

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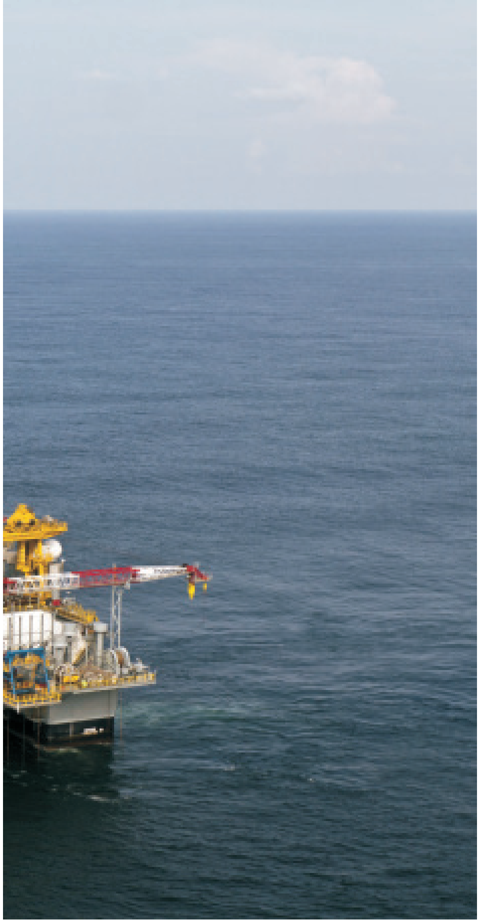
Balancing monetary and fiscal policies

Because fiscal consolidation didn't happen in 2011, monetary policy had to be excessively used to compensate for the missed fiscal targets. If fiscal restraint fails to happen in 2012, it can be expected that the excessive reliance on monetary policy will happen all over again. This will hurt business activity further in the private sector. First, the single digit inflation rate proposed will be unattainable without fiscal restraint. And the Central Bank, which is keen to keep interest rates above inflation rate, isn't likely going to compromise its stance on maintaining positive real interest rates.

In 2011, businesses generally worked for banks in terms of how much they paid as interest charges relative to what may be left as profit for shareholders. At the current level of interest rates, survival of many companies will be difficult in 2012. The prospects for a further hike in interest rates are better not imagined for the productive sectors, which underscores the critical need to achieve fiscal restraint in the current year.

The move towards fiscal retrenchment is important to end the sole dependence on monetary policy for economic adjustment. Less inflationary spending by government will enable the Central Bank navigate monetary policy towards stimulating investment and domestic output rather than fighting inflation.

If the objective is realised, it is expected to create stability in the financial markets in 2012. Interest rates may fluctuate less violently, as liquidity mop ups will no longer need to be frequent. This will expectedly usher in a more stable investment climate and permit a balance to be attained in both equity and debt markets.



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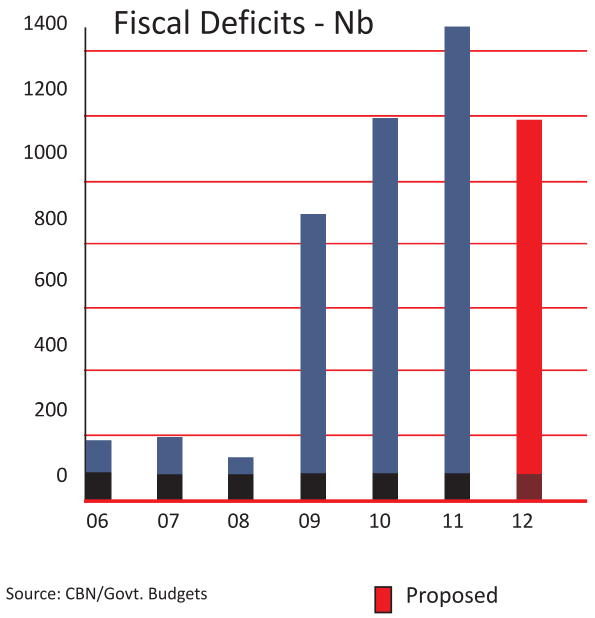


Interest rate worries

The local debt market will be the government's main destination for borrowing to finance the fiscal deficit of N1.1 trillion in 2012. Interest rates are expected to remain high with a greater chance of rising than falling. This is in anticipation that inflation rate may remain in double digits, as recurrent spending still accounts for up to 72% of aggregate expenditure. The proposed decline in the recurrent budget isn't likely to be sufficient to attain the single digit inflation rate target in 2012. The Central Bank is also expected to use an interest rate hurdle to discourage government recourse to excessive borrowing in the event of revenue disappointments.

If luck runs on the side of government, increases in crude oil production, price per barrel and exchange rate benchmarks for the 2012 budget plus savings from the reduced petroleum subsidy, will reduce government's borrowing needs in the year. At N560 billion for 2012, debt servicing obligation of government is 15.4% of total revenue projection. Government has indicated its intension to keep its debts at sustainable level.

Domestic debts aren't excessive at the current ratio of 16.4% of GDP and government has set a maximum debt-GDP limit of 30%. There is therefore sufficient room for government to increase its borrowing without putting the credit markets at risk. It can be expected normally that the markets will gradually raise the range of bid rates for new debt instruments in the course of the year.

Interest rates need to come down in order to stimulate business activity and save the economy from rising corporate bankruptcies. If government is going to keep its promise of creating jobs, its policies need to reinforce rather than counter themselves as they affect the private sector. If new jobs have to come from the private sector in 2012, fiscal and monetary policies must be coordinated to bring down the cost of business operations and inject new life into many ailing businesses.

Up shoot in economic equilibrium

The implication of the increase in pump price of fuel is that economic activity will be conducted at a higher level of equilibrium in 2012. Economic units will struggle to attain the new equilibrium but only those that can pass on to consumers of their goods and services the higher cost will be able to do so. Yet even those that can transfer the cost through higher prices will also have to pay higher prices for products and raw materials.

All economic units unable to transfer the higher cost stand the risk of a sharp drop in income in 2012. The implication of this is that many economic units will most likely become unviable with the fall in real incomes and the upward shift in the economic equilibrium.

Highly vulnerable are the unemployed, the under employed and all those whose incomes fail to grow by the margin of increase in the price level. This group will fall into yet a deeper level of poverty in the course of the year and should be the focus of palliative measures of government. In view of the already high level of poverty in the land, the pros-

pect for deepening poverty is quite frightful and needs immediate responses to address the situation.

Transforming agriculture

Central to government's transformation strategy is a fresh initiative on agriculture. The President speaks of total transformation of agriculture, moving it from traditional farming to modern business, offering new opportunities to both small- and large-scale enterprises. The objectives are highly desirable – to ensure food security, boost the non-oil export basket and roll out new jobs.

The initiative on agriculture is quite fascinating because this is in line with our canvassed 'u-turn to agriculture contained in the study of "The post election economy: yet another chance for development" published in Zenith Economic Quarterly of April 2011. Agriculture is the main economic activity in which Nigeria holds a comparative advantage. This is where the nation should be and the President does well to beam the light on the sector that needs a new action plan with a great sense of urgency.

Supportive fiscal policies are proposed and interest rate subsidy is also coming to suppliers of seeds and fertilizers. However the key strategy that will truly modernise traditional farming is yet to be unfolded. Agriculture needs grand capacity building that will open up new opportunities in various areas in the sector. Abundant availability of arable land and the large percentage of the population engaged in agriculture provide a great opportunity to impact on the lives of the largest number of Nigerians through the initiative on agriculture.

As a modern business, agriculture has the advantages of cheap labour, very low import content and therefore high profit margin. Only banking comes anywhere close to agriculture in terms of profit margin, which is again explained by low import content of products.

With continuing dependence on crude technology the food output-to population ratio is bound to continue to decline. The nation is therefore headed for a major food crisis, which warrants a major government intervention in the agricultural sector. A food status report in 2008 ranked Nigeria 20th on the global hunger index and 65% of the population are labeled food insecure.

It is important for government to appreciate that transforming agriculture is a long-term project and a number of supportive policies will have to be put in place to sustain progress. It needs to be appreciated as well that the challenges that confront the sector transcends beyond tariffs, machinery and equipment importation and subsidised bank credit.

A workable initiative on agriculture needs to be developed based on the facts about Nigeria's agricultural practices. About 70% of the population work as subsistence farmers, accounting for up to 80% of annual output. Crops cultivation represents about 85% of their activity; farm yields are low and storage facilities are inadequate. Farm technology is crude; research so-

Nigeria's External Debt as at June 2011

Category	Total Outstanding Debt $m	Percentage
MULTILATERAL World Bank Group		
IBRD IDA	13.44 3,907.41	
IFAD	85.04	
African Development Bank Group		
ADB ADF	79.91 350.31	
EDF	123.31	
IDB	3.98	
SUB-TOTAL	4,563.39	84.54
NON-PARIS		
BILATERAL	161.02	
COMMERCIAL	173.63	
SUB-TOTAL ICM	334.65	6.20
EURO-BOND	500.0	9.26
GRAND TOTAL	5,398.04	100.0
TOTAL DEBT BY STATES	2,220.34	41.13
TOTAL DEBT BY FED GOVT	3,177.70	58.87

Source: **DMO**

The initiative on agriculture is quite fascinating because this is in line with our canvassed 'u-turn to agriculture contained in the study of "The post election economy: yet another chance for development" published in Zenith Economic Quarterly of April 2011

lutions are unavailable, access to finance is severely restricted and improved seeds are scarcely available. More than 72% of the 98.3 million ha of land is suitable for cultivation but only about one-half of that is presently being farmed.

It is apparent that the plan for subsidised bank loans and importation of conventional agricultural machinery and equipment isn't targeted at the 70% of the population engaged in small holder farming. Yet in this group lies the greatest potential for massive job creation in the country. Transformation of traditional farming isn't going to happen by the masses of individual farmers becoming big time farmers but by designing policies that enable them to enlarge their coasts.

Government needs to put to the use of small holder farmers simple hand driven machines of the size of lawn mower enabling them to clear, till and weed mechanically. The land tenure system here and the socio-cultural environments of the farming community demand that new technology be adapted to suit the local conditions.

A country like China cannot wait to roll out such locally adapted machines for Nigerian farmers. Where the technology isn't adapted to the local farmers, they will rut away right in their cases, as has been the experience with previous initiatives.

Any such government intervention needs an integrated approach to ensure that seeds are not in short supply when farmers are empowered to cultivate more lands and that increased output is not lost due to poor storage facilities. Market intervention will also be ensured to prevent wide fluctuations in product prices while the capacity to produce for export is gradually built.

It is noteworthy that a major part of the current problems facing agriculture is the poor implementation of existing incentives. If existing incentives are not well implemented, it is doubtful how far new incentives can go.

A clear definition of milestones to be attained in the agricultural transformation initiative of government is needed. Is government targeting to increase the number of hectares cultivated or to improve the yields per hectare of presently cultivated land and by what amounts? Who are the targets of the new policies – the 70% small holder farmers that produce 80% of total agricultural output or the 30% that account for the balance? This is important because how many jobs will be created depends on who gets the support.

The agricultural sector provides the nation a golden opportunity for government to realise its job creation promises, check the rising dependence on food imports and restore the capacity for non-oil exports. An unfailing strategy to attract the youth to agriculture is to put new technology and infrastructures in the farms.

(* Mike Uzor is the MD/CEO, Datatrust Consulting Limited)

Due Process & Transparency: MONEY LAUNDERING

*** By Chuks Nwaze**

In the last edition of this serial, we dwelt on the general principles of due process in corporate governance, not only in relation to financial institutions by the regulatory authorities but also for every organization that is desirous of making sustainable progress in the current dispensation. In this edition, we shall explore one of the deliberate efforts of the government to entrench the culture of due process, transparency and dignity of labour in the consciousness of the generality of Nigerians. As will be observed shortly, there is a strong nexus between this legislation and the operation of financial institutions.

The basic philosophy of money laundering has been captured in the words of ***Somerset Maugham*** who wrote that: " The measure of a person's real character is what he would do if he knew he would never be found out"

LOW LEVEL OF AWARENESS

Money Laundering is not only a much abused term, it is also much misunderstood, perhaps because of the predictable, chronic and consistent involvement of the high and mighty in the society. Although the general public is yet to come to terms with the actual provisions of the law in that respect, the fact remains that most of us are either present or potential culprits, whether we are apprehended or not. It is the persistent controversy and endemic temptations inherent in the public sector that gives the impression that money laundering offences are the exclusive preserve of political office holders in our land.

Sadly, it is this low level of awareness within the populace that encourages the alleged selective implementation of an otherwise laudable instrument employed, even in other parts of the world, to address the cankerworm of corruption as well as financial and economic crimes, especially in the public sector. As the real issues at stake are often emasculated in complex legal, technical or linguistic parlance, I shall endeavour to break them down to the simplest terms, leaving only interested readers to refer to the law itself and grapple with the challenge inherent in the lexicon. The glossary at the end explains the major terms used while the accompanying comments also help to amplify the issues at stake.

DEFFINITION

Money Laundering can be defined in any of the following ways:

- "A process of disguising criminal proceeds from their illegal origin"- ATF.
- "A process by which assets obtained or generated through criminal activities are moved or concealed to obscure their link with the crime" – IMF.
- "A process by which criminals attempt to hide or disguise the true origin and ownership of their ill-gotten wealth".
- "The criminal practice of filtering ill-gotten gains or '*dirty money*' through series of transactions so that the funds are 'cleansed' to look like proceeds from legal activities."
- "Knowingly assisting a criminal in facilitating the foregoing."

The above definitions, which are comprehensive in concept and scope, have set the tone for a more incisive consideration of illegal sources of wealth which constitute the major thrust of the criminal activity called money laundering.

ILLEGAL SOURCES OF WEALTH

According to the Money Laundering Act 1995 as severally amended, illegal sources of wealth include but not limited to the following:

- Drug trafficking
- Human trafficking
- Robbery
- Smuggling
- Fraud
- Corruption
- Tax evasion etc.

The Nigerian Money Laundering Prohibition Act (MLPA) is our local obligation as imposed by the global Anti-Money Laundering (AML) legal framework that prohibits the laundering of the proceeds of crime or illegality anyway in the world.

Comment:
There is no doubt, whatsoever, that the basket of illegal sources of wealth being targeted by the money laundering legislation constitutes a formidable clog in the wheel of implementation. This is so because a considerable majority of wealthy or influential Nigerians, are already automatic candidates for prosecution.

ULTIMATE OBJECTIVE: TO CONCEAL 'DIRTY MONEY'

The ultimate objective of money laundering offenders is to avoid prosecution, conviction or confiscation of the ill-gotten wealth.

Comment:
The money laundering initiative is also specially designed to isolate inappropriately acquired wealth and prevent it from being recycled into the economy. In other words, "dirty money" should not be allowed to mix with "clean money". Surely, this is a potent deterrence against criminal acquisition of wealth if it is faithfully implemented as there is obviously no motivation in amassing wealth which you can neither use nor hide.

STAGES OF MONEY LAUNDERING

A complete money laundering operation can be analyzed in three stages:

STAGE 1: Placement; This involves the initial injection of illicit funds into the Financial Institutions or Designated Non-Financial Institutions (i.e. FI's or DNFI's) through deposits, purchasing items of value such as motor vehicles etc.

STAGE 2: Layering; This second stage refers to the process of separating illicit proceeds from their source by creating complex layers of financial transactions disguised to make it difficult to trace the origin of illicit funds. In other words, at this stage, criminals attempt to further obscure the trace of criminally- generated funds. An example includes fund transfers, buying and selling of investible products, etc.

STAGE 3: Integration; At this final stage, the ill-gotten wealth are moved into the main stream of the economy through legitimate economic activities such as investment, purchasing of shares etc. That is, the illegal proceeds have been successfully re-integrated back into the economy and mixed-up with legitimate earnings.

Comment:
The journey from placement through layering to integration looks arduous to the uninitiated. However, this is being accomplished almost effortlessly on a daily basis by experienced operators, especially fraudsters and drug barons, who already have their network of accomplices and tentacles everywhere, including some compromising employees of financial institutions.

OVERVIEW OF THE MONEY LAUNDERING PROHIBITION ACT (MLPA):

The Nigerian Money Laundering Prohibition Act (MLPA) is our local obligation as imposed by the global Anti-Money Laundering (AML) legal framework that prohibits the laundering of the proceeds of crime or illegality anyway in the world. In order to keep pace with the rest of the world, our own MLPA has undergone several amendments from inception until 2011 which is the most current amendment. The 2011 amendment increased the threshold for disclosure as well as acceptance of cash for transactions by non-financial institutions.

MANDATORY DISCLOSURES: FINANCIAL INSTITUTIONS

The most visible provision of the act is the one conspicuously placed at the counter in every banking hall to the effect that any transaction in excess of:

- **N5million** in the case of an individual (previously N1million)and
- **N10million** in the case of a body corporate (previouslyN5million) shall be disclosed to the Nigerian Financial Intelligence Unit, NFIU for onward transmission to the appropriate government office (i.e. National Drug Law Enforcement Agency, NDLEA, the Economic And Financial Crimes Commission, EFCC or the security services).

However, according to *The Punch of Monday, July 4,2011*, a senior official of the Nigerian Financial Intelligence Unit, complained that all the banks operating in Nigeria had failed to submit the list of illegal transactions (i.e Suspicious Transactions Reports, STR) in contravention of this provision.

".....We have our own analysts who go through the reports the banks send to us and we have detected that there are illegal transactions going on in the banks . But the banks have not reported them. All the 24 banks have defaulted and we have prepared sanctions for that and it is going to the Central Bank of Nigeria, CBN....."

Financial institutions, casinos and other businesses whose operations are mostly done on cash basis are mandatorily required to verify the identity of their customers. In other words, "K*now Your Customer*" (KYC).

Comment

We need to point out that these allegations against banks are not new. Management of these institutions should endeavour to fish out these elements who are tarnishing the image of the industry.

OTHER PROVISIONS:FINANCIAL INSTITUTIONS AND OTHERS*:*

There are other fundamental provisions which are not so visible. These are mostly in relation to the Designated Non-Financial Institutions , DNFI's, since money launderers have shifted their focus from the organized financial institutions to the informal sector in view of the weak link in the latter.

Limitations To Make Or Accept Cash Payments:

No person shall, except through a financial institution, make or accept cash payment of a sum exceeding:

- **N5million** in the case of an individual (previously N500,000.00) or
- **N10million** in the case of a body corporate (previouslyN2million)

Duty To Report International Transfer Of Funds:

A transfer to or from a foreign country of funds of a sum exceeding US $10,000 by any person or body corporate shall be reported to the Central Bank of Nigeria, CBN.

Identification of Customers:

Financial institutions, casinos and other businesses whose operations are mostly done on cash basis are mandatorily required to verify the identity of their customers. In other words, "K*now Your Customer*" (KYC).

Records Preservation:

Financial institutions (FI's) or designated non-financial institutions (DNFI's) are required to maintain records of all transactions above threshold (i.e. five million Naira for individuals, ten million Naira for firms) for a period of at least five years after severance of relations.

Rendition Of Reports On Suspicious Transactions:
Organisations with cash intensive operations are required to file returns on suspicious transactions within seven days stating;
- Name of reporting entity
- Details of transaction and customers
- Reason for suspicion.

Internal Control & Compliance:
Organisations are also required to appoint designated money laundering compliance officers as well as establish internal audit unit to monitor compliance.

Raising Awareness:
Deliberate effort should be made by organisations to arouse money laundering consciousness within its rank and file through training.

Registration with Special Control Unit:
The Federal Ministry of Commerce and Industry Industry (now Ministry of Trade and Investment) through its special control unit on money laundering, coordinates the anti-money laundering efforts within the designated non-financial institutions in collaboration with the EFCC. These organisations are also encouraged to register with this unit for regulatory purposes.

WHERE DO MONEY LAUNDERING ACTIVITIES OCCUR?
These include the following businesses; some are financial institutions while others are not:
- Banks
- Bureau de change
- Securities firms/ insurance companies
- Accounting firms
- Legal profession
- Cash intensive businesses

MONEY LAUNDERING: RED FLAGS:
What circumstances should put you on alert? Look out for the following in respect of clients, customers or associates;

• Unwillingness to provide complete information about self or business.

• Preference for cash instead of using the bank.

• Customer always receiving invoices from associates, subsidiaries or affiliates located in countries with reputation for terrorism or money laundering.

• Acquisition of assets which are not consistent with the ordinary business practise in that specific industry.

• Payments to subsidiaries that are not within the normal course of business.

• Customers that are always paying unusual consultancy fees to un-related offshore locations.

• Customers or clients that change book keepers or accountants regularly without justification.

• Customer that refuses to reveal the identity of a third party on whose behalf he is acting (i.e. his principal).

RISKS OF NON-COMPLIANCE
Notwithstanding the organic challenges of implementation, some of which we shall consider shortly, every organization (i.e. financial or designated non-financial) is enjoined to employ its best efforts to ensure compliance as much as is practicable. Non-compliance risks include the following:

Operational Risk: This exposes the institution to direct and indirect losses that could jeopardise its continued existence.

http://office.microsoft.com/en-gb/images/results.aspx?qu=laptop&ctt=1#ai:MP900422764|mt:2|is:3|

Legal Risks: Court cases could be instituted against the organisation which could also threaten its corporate survival

Reputational Risks: Bad image could weaken the confidence of customers, investors and other stakeholders which can spell doom for the entity.

MANDATE INSTITUTIONS

The overall mandate for the enforcement of the Money Laundering Prohibition Act (MPLA) is vested in the EFCC while its subsidiary, the Nigerian Financial Intelligence Unit (NFIU) coordinates the anti-money laundering efforts as the Nigerian arm of the global Financial Intelligence Unit (FIU). However, the Federal Ministry of Commerce and Industry (now Ministry of Trade and Investment) through its Special Control Unit coordinates that of the DNFI in collaboration with the EFCC/NFIU.

IMPLEMENTATION CHALLENGES OF AML. 2004 AS AMMENDED

Scope:
To date, application of the law has to a large extent been limited to the financial sector, specifically the banking industry. This has resulted in a low level of compliance by other designated reporting entities such as non-bank financial institutions (e.g. bureau de change operators) as well as operators of designated non-financial institutions (i.e. precious metal/jewellery shops, restaurants, hotels, casinos, cybercafés, car dealers, professionals etc.) who also transact high volume businesses in cash.

Non-Rendition of Reports:
Professionals such as lawyers, accountants, auditors, financial advisers, notaries, trustees, consultants, real estate brokers and other fiduciaries who often act as intermediaries cannot be relied upon to comply with the law on behalf of their principal as that would affect not only their own interest but also the agenda of their principals.

Cultural/Domestic Factors:
Our national anti-money laundering legislation was crafted along the lines of international best practices which are largely driven by the experiences of the developed, automated economies, some of which are not yet applicable to our shores. Even the issue of know your customer/customer due diligence through means of identification, residential addresses and utility bills is still problematic, especially in rural areas.

Process Automation:
There is no doubt, whatsoever, that automation of essential processes such as suspicious transactions is pretty expensive, not only from the point of view of software acquisition but also the employment or training of staff in the relevant skills.

Civil Society Cooperation:
The vexed issue of money laundering has a great impact on our development as a nation. Bribery, corruption and other financial crimes are conducted, in the main, outside the financial and designated non-financial institutions and "off the books". Hence, a large dose of public cooperation is fundamental and this is not easy to come by.

Our national anti-money laundering legislation was crafted along the lines of international best practices which are largely driven by the experiences of the developed, automated economies, some of which are not yet applicable to our shores. Even the issue of know your customer/customer due diligence through means of identification, residential addresses and utility bills is still problematic, especially in rural areas.

Immunity And Constitutional Loop- Holes:
It is alleged that politicians and serving public officers brazenly cart away physical cash, virtually on a daily basis, from public vaults for personal enrichment for the simple reason that they evade justice under the constitutional immunity clause they are so privileged to enjoy. These unsavory attitudes and misconduct, planned and executed with impunity are not only a direct affront on law enforcement but also frustrate our collective will to combat financial crimes, especially money laundering offences.

Legal And Institutional Weaknesses:
The Evidence Act which is still in operation constitutes an impediment concerning the admissibility of electronic

http://1.bp.blogspot.com/_o23NlRELjKE/TOZbHLjxuOI/AAAAAAAABJ4/W1_3FEt2-sQ/s1600/bank+hall.jpg

evidence. In this age of high speed information technology and communication, most financial crimes, including money laundering, take place in cyber-space through the movement of data across the world. If lacunas exist in the law impeding the admissibility of evidence of such movements, successful prosecution becomes an uphill task. The slow pace of court proceedings, also frustrates prosecution of money laundering and other criminals.

Money Laundering & Multi-Lateral Cooperation: The globalisation of financial systems has also posed some challenges to the implementation of the money laundering regime. Most financial and economic criminals, especially those involved in public sector corruption, export the proceeds of their crimes to nations which turn a "*blind eye*" to the source of the funds (i.e. *safe heavens*). This habitual movement of funds presents difficulties on several fronts. Apart from increasing the cost of tracing, investigation, and recovery, some countries place complex procedural and bureaucratic bottlenecks on the investigation of funds lodged in their domestic financial institutions. Surely, solving these problems require a great deal of multilateral cooperation and understanding.

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

GLOSSARY OF MONEY LAUNDERING TERMINOLOGIES

AML – Anti – Money Laundering; Measures put in place to counter money laundering offences

CDD – Customer Due Diligence; verify the identity of your customer

CFT – Countering Financing of Terrorism; Measures put in place to counter the financing of terrorist activities worldwide

CTR – Currency Transaction Report

DNFI – Designated Nnon-Financial Institutions; Cash-intensive businesses outside the financial system which have been brought within the purview of money laundering legislation. Their regulatory responsibility is vested on Federal Ministry of Commerce & Industry (FMC&I) such as dealers in jewellery, cars, casinos, hotels, supermarkets , precious metals & stones, estate agents, pool betting and lottery, Non-Governmental Organizations (N.G.Os).

EFCC *– Economic & Financial Crimes Commission*

FATF – Financial Action Task Force; Intergovernmental body created in 1989 to generate political will to combat money laundering and terrorist financing

FIU – Financial Intelligence Unit; The global watchdog on financial crimes

IMF – International Monetary Fund

KYC – Know Your Customer

MLPA – Money Laundering Prohibition Act; This has gone through several amendments. The most current one is the MLPA 2011

NCCTS – Non-Cooperative Countries & Territories

NFIU *– Nigerian Financial Intelligence Unit*

SCUML – Special Control Unit on Money Laundering; coordinates the regulatory responsibilities of DNFIs within the Federal Ministry of Commerce

STR – Suspicious Transaction Reports. To be submitted to the relevant agency in respect of transactions over which the reporting entity does not feel comfortable

Rail System:
Nigeria's Neglected Critical Transport Infrastructure

*By **Sunday Enebeli-Uzor**

In recent times, there has been renewed effort to resuscitate and modernise the nation's moribund rail transportation system with a view to providing an alternative cost-effective, affordable, energy saving and environmentally friendly mode of transport especially for raw materials, containers, and bulk petroleum products across the country. The most recent plan embodied in the Subsidy Reinvestment and Empowerment Programme (SURE-P) ambitiously seeks to rebuild/remodel 3,877km of railway across the country. Although there has been past government initiatives to revive rail transportation in the country, the government appears to have hit the ground running in the implementation of its recent rail modernization strategy for the transportation sector. For instance, rehabilitation work on the Eastern corridor Port-Harcourt to Maiduguri rail track has commenced in earnest with a completion period of 10 months set. Similarly, restoration work on the Western corridor Lagos to Kano rail track has reached advanced stage and is due to be completed in the first quarter of 2012.

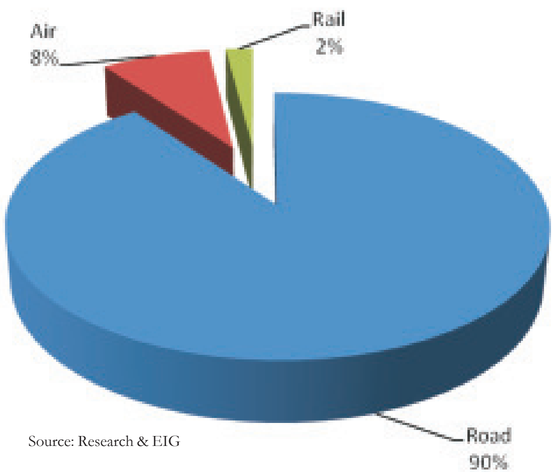
Even more encouraging is the fact that passenger commuter services on some of the nation's rail tracks have commenced. For example, the 98km railway track from Lagos to Abeokuta and the Lagos-Ibadan-Ilorin railway track have commenced commuter services. Also, the Nigerian Railway Corporation (NRC) recently took delivery of twenty pressurised tank wagons (each with a loading capacity of 40 tonnes; axle load of 16.5 tonnes; tare weight of 22 tonnes; and a total volume of 45 cubic metres, which is equivalent to a capacity of about 45, 000 litres) for petroleum products' transportation through the nation's railway network; plans have been concluded to acquire fifty additional tanks. The NRC is also procuring some Diesel Multiple Units (DMUs), which are modern passenger trains with advantages of low maintenance cost, fuel efficiency, and durability to add to the existing fleet. The commencement of passenger services on these hitherto moribund rail tracks and rehabilitation of others across the country could not have come at a better time than now when the government is seeking to develop a holistic approach to building a modern transportation system in the country.

Whereas Nigeria with a population of over 160 million has a rail network of 3,505km, South Africa with about 50 million people has 20,192km rail network. In South Africa, rail is the most important element of the country's transport infrastructure as it connects all the major cities. South

Africa's railway system is unarguably the most developed in the continent with an extensive network – the 14th longest in the world. The country's rail infrastructure, which connects the ports with the rest of South Africa, represents about 80 percent of the continent's total rail network. Egypt has approximately 5,083km of railroads servicing a population of about 82 million.

Global statistics indicate that railways are the most cost-effective mode of transportation, especially for moving bulk cargo for long distances over land. All over the world, rail transportation has evolved to become the preferred mode of transportation as highways become more congested. In Nigeria however, transportation is almost unimodal as 90 percent of domestic freight and passengers are transported by road. Passenger movement figures from airports in Nigeria indicate that only 8 percent of the population travel by air. Rail therefore accounts for just two percent of national transport. This scenario is in contrast with what obtains in other climes where rail accounts for the majority of inter-urban passenger transportation. For instance, in the United States, 40 percent of freight transportation is by railway. In Japan, 32 percent of freight transportation is by rail, while in Russia, rail accounts for 81 percent of passenger traffic and 40 percent of freight traffic.

Nigeria's Mode of International Transportation by Percentage



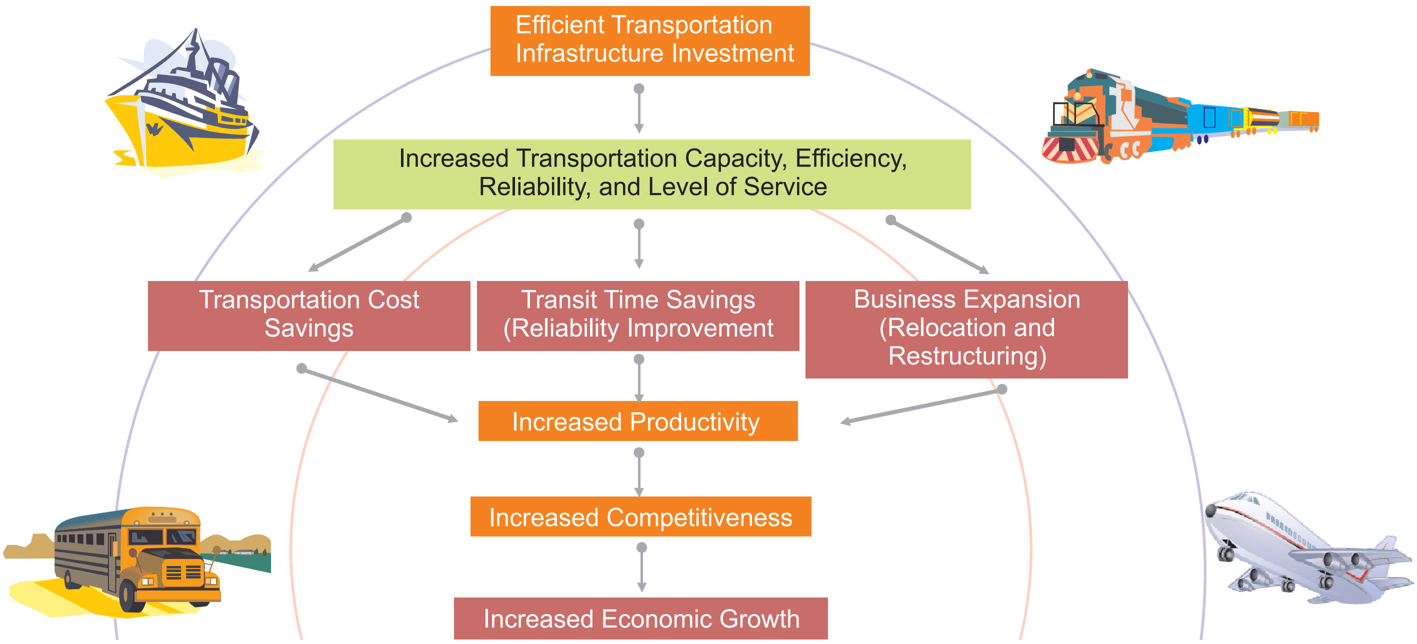
Source: Research & EIG

Global statistics indicate that railways are the most cost-effective mode of transportation, especially for moving bulk cargo for long distances over land.

Efficient Transport and Economic Growth – The Nexus

The availability of efficient transport services is crucial as transport services are essential for economic development. Efficient modes of transportation enable economic activity by connecting people, businesses and resources. Economic analyses are replete with evidences of correlation between the quality of a country's transport infrastructure and its growth potential. One of the links between transport and economic activity is the relative efficiency of moving goods to market, and

Transportation and the Economy



Source: China Highway Study Group

the ability to access a wider pool of skilled labour and suppliers. Investing in projects that enable passengers and freight to switch between different modes has been shown to provide good economic returns.

Rail transportation has become a major catalyst in sustainable economic development. No other form of ground transportation can move the sheer volume of goods and products like the rail does. A single cargo train is estimated to haul goods that 62 trucks on the average are required to convey. The larger carriage volume of the train allows the simultaneous transportation of a large volume of cargo within a short timeframe and allows tight delivery schedules to be met. Rail fuels economic growth safely, efficiently, and in a more environmentally friendly and responsible way. It is one of the most cost-effective modes to move freight for companies thereby reducing supply chain costs. Rail is a reliable and consistent mode of transportation as trains operate according to a regular fixed time schedule known well in advance. This allows for shipment goals to be met in a precise and consistent manner.

Rail transport is also a safer means of transportation relative to road as transportation by train reduces exposure to different road hazards. Train travel affords much convenience and comfort that are not available on other mundane means of transportation. For instance, while cell phones cannot be used on airplanes, train travellers have the privilege of communicating on cell phones during the course of their journey. Trains also have comfortable seats with more leg room than is available on airplanes and cars. One of the advantages of train travel is the opportunity of relishing scenic spots alongside the train routes. It offers the ambience of nature devoid of the encumbrances associated with road transport. Investment in rail has also been identified as an economic stimulus. For instance, the United States Department of Commerce estimates that every $1 invested in rail systems (track, locomotives, bridges, etc.) returns $3 to the economy, a 200 percent return on investment. Investment in rail infrastructure also has a ripple effect on job creation in the economy.

Railway Development in Nigeria

Railway system of transportation was introduced in Nigeria in 1898 following the construction of the first rail line from Lagos to Ibadan by the colonial administration. Thus, rail has been in existence in the country for 114 years, making the Nigerian rail system rank amongst the first generation of world railways. Nigerian Railway was transformed from Government Department of Railways to the Nigerian Railway Corporation (NRC) in 1955 through an act of parliament which, apart from changing the name of the railway industry, equally conferred on it absolute monopoly as the only institution recognised by law to carry out railway services in the country. The over one hundred years of its existence notwithstanding, its development and growth has been abysmally slow. Whereas railways across the world have advanced both technologically and operationally, its development in Nigeria leaves much to be desired. While the average speed of trains is put at 150 km/hr, Nigeria's currently operational trains move at a speed between 30-40km/hr. The inability of the railway system to develop has been variously attributed to the monopoly of the NRC, which means that the business of rail transportation is strictly government-owned, managed and operated.

Country	Population Est. (Million)	Total Railway Network (Kilometre)
Nigeria	160	3,505
Egypt	82	5,083
South Africa	52	20,192

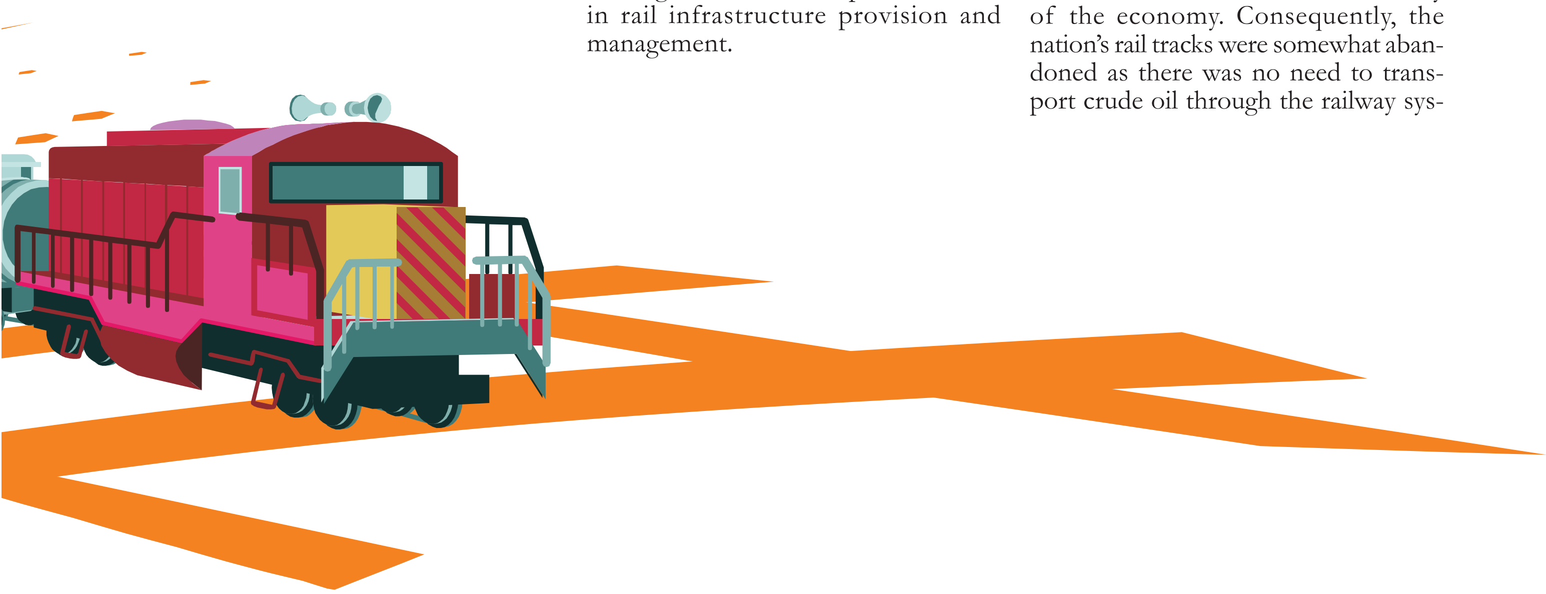
Source: ***Research & EIG, The World Fact Book***

In a bid to develop the rail system of transportation, successive governments over the years developed various intervention programmes for the railway. These programmes notwithstanding, the country's rail system is still grossly inadequate and the state of existing trains remain poor and antiquated. Most rail tracks have not only become moribund, they also require enormous resources to resuscitate them.

The federal government identified efficient transport as a necessary precondition for achieving its Vision 20:20:20. In its vision to propel the economy to rank among the top twenty economies in the world by the year 2020, government recognises the place of an efficient rail transport infrastructure. To this end, government conceived the 25years strategic plan for railway development in the country, seeking to involve the private sector in rail infrastructure provision and management.

The Nigerian Railway Network

The country inherited a rail network from the colonial era. The nation's railway network was designed in a North–South fashion essentially to facilitate the flow of goods, such as groundnut, cocoa and cotton, from the inlands to the coast for shipment to Europe. At independence, the railway system was efficient and vibrant. Although the single-track narrow-gauge network ran diagonally across the country, it was able to haul agricultural products from the north to seaports in Lagos and Port Harcourt. The era of groundnut pyramids in the north, palm oil produce from the east and cocoa from the west coincided with rail development in the country. Following the discovery of crude oil in commercial quantity and the subsequent transition to a petro-dollar propelled economy, agricultural commodities seized to be the mainstay of the economy. Consequently, the nation's rail tracks were somewhat abandoned as there was no need to transport crude oil through the railway sys-



tem since crude oil was produced in the coastal areas and was easily pumped into vessels for shipment.

The existing rail network in the country consists of 3,505km of narrow gauge tracks and 276km of standard gauge tracks which connects Ajaokuta (where the country's steel mill is located) to Warri (a major oil hub and transit point for goods through its port). The narrow gauge tracks cover two major rail lines: one connects Lagos and Nguru in the Yobe State (Western corridor); the other (Eastern corridor) connects Port Harcourt and Maiduguri in Borno State. The single-narrow-gauge railway line was for many years the only mode of freight movement between the North and South. Successive years of neglect have stalled the expansion of the existing railway network as it has not significantly changed from the legacy bequeathed by the colonial administration. No city in the country currently has an operational intra-city rail system. However, two major intra-city rail systems are currently being developed, these are the Lagos light rail and the Abuja light rail projects.

The Lagos Light Rail

Lagos is unarguably the most populous conurbation in Nigeria and is also one of the most populous cities in Africa, and estimated to be the 7th fastest growing city in the world with average annual growth rate of 4.44 percent. According to the National Population Commission (NPC), Lagos had 9,013,534 inhabitants as at 2006 and going by UN estimates, the city will achieve mega city status by 2020. The city is Nigeria's most prosperous, and much of the economic activity are concentrated in the state, being the nation's commercial hub and gateway to the national economy – accounting for over 60 percent of total investment in the country. Lagos harbors 60 percent of the nation's total industrial investments and foreign trade while also attracting 65 percent of commercial activities. It is home to the headquarters of local and foreign financial institutions and accounts for over 48 percent of bank deposits, and about 70 percent of total loans. Industrial capacity utilisation in the city is about 47 percent while it consumes over 45 percent of national electricity and 50 percent of petroleum products.

These alluring attributes of Lagos notwithstanding, the city has serious traffic congestion problem. Although traffic congestion is a phenomenon common to major cities of the world, driving through Lagos roads especially during peak periods is not only time consuming, but also energy exhausting. The several hours lost daily to excruciating traffic on the roads translate to enormous economic loss to the country. It has been variously argued and established that the road traffic menace in the city is due to lack of alternative modes of transportation especially rail. Despite efforts by successive administrations in Lagos to upgrade the road infrastructure since the 1970s, the traffic problem has remained unabated and even worsening. For instance, it was assumed that the construction of Carter Bridge would ameliorate the then ever increasing traffic congestion from Lagos Mainland to Lagos Island. Same was the argument for the construction of Eko Bridge, the Third Mainland Bridge, and so many other major roads in the city.

While these bridges and roads are all desirable, conventional wisdom holds that expanding road transport infrastructure cannot effectively curb traffic congestion. Redesigning cities and developing/expanding alternative modes of transportation offer the best long-term solution to traffic congestion. The first attempt to construct a metro rail line in Lagos was truncated by yet inexplicable political undercurrents in the early 1980s. However, the Lagos State Government has commenced the development of an extensive urban rail system for Lagos through a public private partnership structure. The Lagos Metropolitan Area Transport Authority (LAMATA) has proposed seven lines in the rail network: Red, Blue, Green, Yellow, Purple, Brown and Orange. The urban rail

project has commenced with the simultaneous construction of the Red and Blue Lines at an estimated cost of $1.4billion.

The 30km long Red Line rail system is being developed on the city's North–South axis through some of the most densely populated areas in Lagos beginning on the island to Agbado through a total of thirteen stations. According to LAMATA, the Blue Line will run 27km from Okokomaiko to Marina, also one of the most densely travelled corridors in the city. The Blue Line is being developed in conjunction with the Badagry Expressway project and will run on an exclusive 15 metre right of way in the middle of the expressway. Upon completion, the horizon of Lagos is bound to change, and the impact of the rail on the city's transport system is expected to be revolutionary. The light rail will no doubt significantly reduce congestion on the city's roads and improve mobility with the attendant positive impacts on economic activities.

Abuja Light Rail

Another novel rail development project in the country is the on-going Abuja light rail expected to be completed in 2013. Upon commencement of passenger service, respite is expected to come to inhabitants of Abuja and environs who presently commute to the federal capital city by road under severe stress. The influx of people to the federal capital has made it one of the fastest growing capital cities in the world and this has stretched the road network despite continuous expansions. Long queues in bus stops have become a regular scene in the city. The traffic congestion has become nightmarish especially for those living on the outskirts of the Federal Capital Territory (FCT) where it is estimated that about 70 percent of the city's workers live. The ambience and tranquility associated with the city when the seat of government was moved there in 1991 is now lost as traffic congestion has become an everyday problem.

The federal capital city authorities in their response to the traffic congestion problem plan to introduce a light rail to ameliorate the situation. Although construction of the Abuja light rail was conceptualised in 2007, the project experienced funding difficulties which impeded the 2008 start date. Work on the light rail project has however commenced in earnest, in efforts to achève the 2013 completion deadline. The 280 kilometres Abuja light rail network is expected to link the federal capital territory with satellite towns such as Nyanya, Kubwa, Mararaba and Lugbe. The light rail is expected to ease the city's traffic logjam and improve mobility.

Going Forward: From Monopoly to Liberalisation

Government's hitherto complete monopoly in the ownership and management of transport infrastructure is beginning to change. Following the successful concessioning of the Murtala Muhammed Airport 2 (MMA2), there has been an increasing move towards more private sector involvement in the management and operation of other transport infrastructure in the country including railway. In the draft national transport policy, the federal government seeks to remove all impediments to private sector participation in the development, provision, maintenance, operation and upgrading of transport infrastructure and services in the country. Such initiatives include public private partnerships, and build-operate-transfer (BOT) arrangements. Government's policy thrust is to develop an adequate, safe, environmentally sound, efficient and affordable integrated transport system within the framework of a progressive and competitive market economy.

The draft national transport policy and the 25 Year Strategic Vision for the Nigerian Railway System stipulates government's goal for the rail system and seeks to transform it to an efficient, flexible and competitive one. The plan involves the concessioning of the existing railway facilities and services and the outright sale of non-core assets of the Nigerian Railway Corporation. The objective of the concessioning is to transform the railway system from a non-performing and debt-ridden transport mode to a dynamic and more functional transportation system in the country. Government also seeks to encourage the use of rail to reduce road traffic congestion problems and other negative externalities associated with road transportation. It is expected that upon the completion of the on-going resuscitation and modernisation of the rail system, it will become attractive for concessioning and further investments which will in turn propel the expansion of the rail system to meet growing demand.

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

2012 Be on high alert For the much awaited Return of global growth

* By **Neil Hitchens**

As we look forward to the prospects for the coming year, it is with a heightened sense of anticipation that I feel that 2012 will turn out to be markedly better than either 2011 or 2010 were. The New Year will certainly resolve some of the more pressing problems that have beset the global economy over the past few quarters and one way or another by the end of 2012 we will see the final and much anticipated return of overall global growth.

However it must be understood from the outset that growth will most certainly not be universally uniform and that some countries will not feel the benefits of the much promised and much awaited global upswing this year or even next, such is the deep recession that a few areas are likely to remain mired in for a long time to come. While, overall, global economic indicators are still painting a fairly gloomy economic outlook for the coming year, there are some signs from the US that, as we had tentatively hoped, the American economy is still showing some rather hopeful signs of life.

Recent readings of various PMI (Purchasing Managers Index) levels in the US, Europe and the UK have show differing recent paths but the latest readings released at the end of January have positively surprised all round.

The PMI, as an indicator of both current sentiment and of the likely future path of an economy, is closely watched, setting the tone for the month or months ahead (the numbers are released at the start of every month) and also impact subsequent economic releases.

The magic number for the PMI is 50: A reading of 50 or higher indicates expansion and below 50, contraction. As such, it is considered a good indicator of future/near term GDP growth.

As can be seen from our chart, the most recent readings show that for Europe (January reading of 49.0) and the UK (49.6), there is still the near term possibility of a brief return to recession. However the latest scores for both these areas are suddenly significantly higher than a few months ago. The October readings of 47.0 for Europe and 47.6 for the UK were the recent low points. There is significant hope that after the recent Western European economic turmoil that, just maybe, the overall economic picture has turned a corner.

In the US the overall picture is becoming consistently more encouraging. After a recent 'near miss' bounce off the low of 50.6 in August subsequent readings have been increasing ever since which are the likely prelude to a gradual expansion of the American economy in the coming months. The most recent reading of 54.7 has been extremely positively received.

Other recent economic releases do, it must be admitted, show a greater possibility that the US did hit the economic bottom during the summer of 2011 and the time may finally have come to realise that it may actually be reasserting itself as the economic engine of growth for 2012. The economic releases for January have consistently shown an overall much more positive picture in the US than had been forecast even 3 months previously.

Examples of the undershoot of recent forecasts can be best illustrated by the following latest releases;

Event	Survey	Actual
Construction spending	+0.5%	+1.2%
U of Michigan Confidence	71.5	74.0
Durable Goods Orders	+2.0%	+3.0%
Durables ex-transportation	+0.9%	+2.1%
Personal Income	+0.4%	+0.5%

Unemployment figures are also starting to show what could be the first signs of a gradual decline with the total unemployment rate falling from 9.1% in August 2011 to 8.7% in November, 8.5% in December and 8.3% in January 2012.

http://yesimyorukoglu.com/wp-content/uploads/2010/10/IMG_0281.jpg

In a co-ordinated move the Federal Reserve slashed the rates it charges the European Central Bank for short-term US Dollar loans from 1.1% to 0.6%.

Almost to add the icing to the cake we also note with some relish that forecasts for US GDP have already been quickly revised upwards in a little over three months. Where previously the average forecast for 2011 was +1.70%, for 2012 +2.05% and 2013 +2.45% a mere one quarter later these figures are now +1.90%, +2.30% and +2.75%.

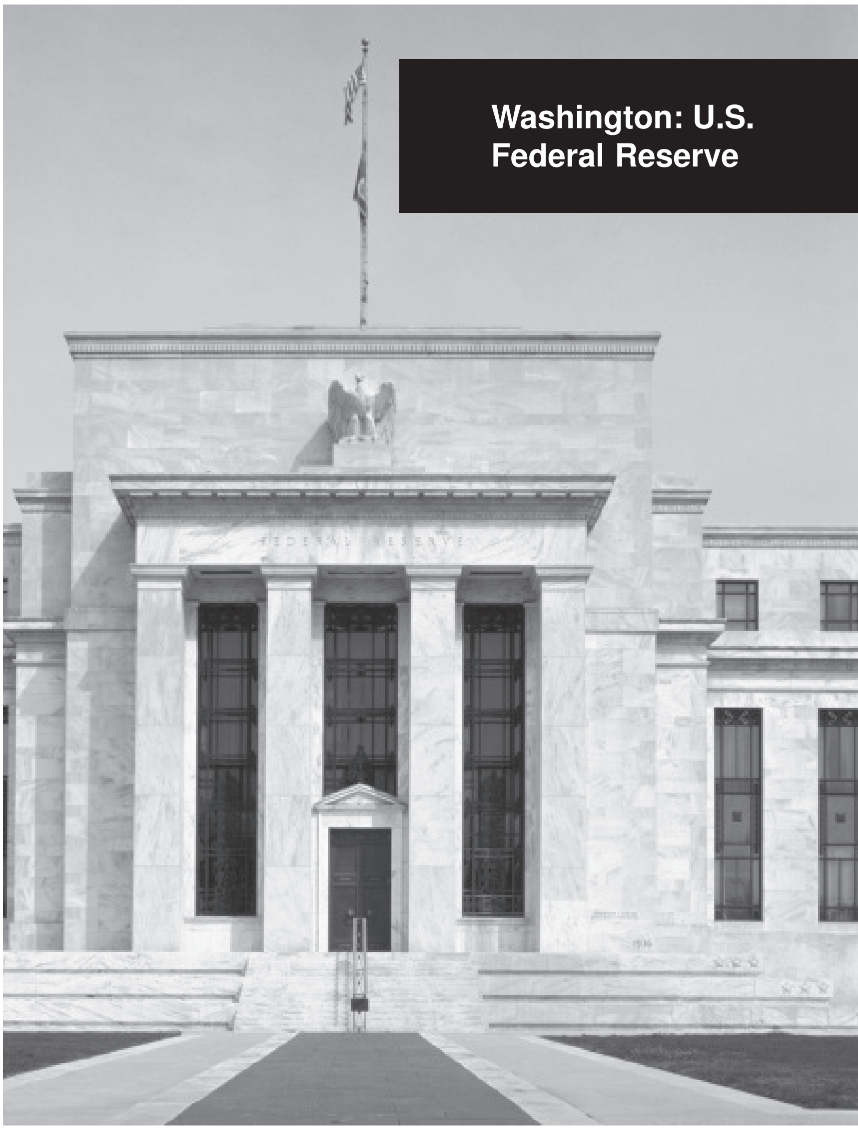
Europe - not out of the woods.....just yet.

In conjunction with the improving US economic picture, we also had the rare sight of fast and concerted Central Bank moves at the end of November to try and avert a liquidity crisis. While such a move cheered equity markets it also highlighted the depth of international concern about possible economic turmoil in Europe.

In a co-ordinated move the Federal Reserve slashed the rates it charges the European Central Bank for short-term US Dollar loans from 1.1% to 0.6%. China had slightly jumped the gun with a decisive shift towards easing its own monetary policy and even Brazil cut its own benchmark Selic (Sistema Especial de Liquidação e Custodia) interest rate by 0.5% from 11.5% to 11.0%, with a further 0.5% cut on January 17th 2012.

However while the provision of liquidity is welcome, the reality is that it is no substitute for the necessary actions that Europe has to take in the coming months. It is interesting but also worrying that the language around the Euro has changed dramatically during November. While earlier the tone was one of 'possible' explosion of the Euro, towards the end of the year this had changed to 'probable'

The emerging consensus view is that the proposed move towards a Germano-Franco fiscal union are most welcome, but should have been put in place at the creation of the Euro. It is evident that this is the time for the European Central Bank to start to assert itself as the lender of last resort, to be the ultimate financial powerhouse and be able to power the Euro out of what could still be a 'death spiral'; certainly the very sensible idea to scrap individual sovereign bond issuance and



Washington: U.S. Federal Reserve

http://media-1.web.britannica.com/eb-media//15/99515-050-909E6F8D.jpg to issue pure 'Euro [wide]-Bonds' is long overdue.

The Germans are digging their heels in on this one - Chancellor Merkel has to, somehow, exorcise from the collective German memory the Weimar hyper-inflationary disaster of 1919-1923.

Yes, there may be some slight uptick in inflation in the short-term, but the idea that, somehow, we could see inflation explode to the millions of percent per year is frankly ludicrous. Even were the Euro to shrink slightly to a hard core of France, Germany and the Benelux countries the longer term benefits from such a move would outweigh the current rolling series of ineffective 'meetings about meetings' that has been the hallmark of this crisis.

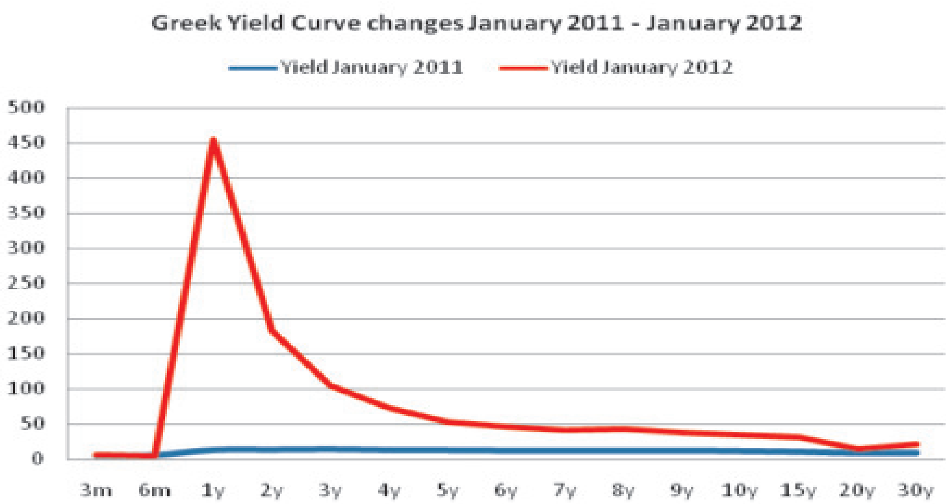
One way or another, this has to be finally and definitively ended. If the French can calm down the Germans and hold their hand on this one, while the entire Euro experiment might not be saved, certainly the exogenous shock of a full blown currency implosion can be averted now with some imaginative but not outrageous thinking.

Whether this is possible is another matter. While the latest of the seemingly interminable Euro Summits on December 9th went some way to resolving this issue, we fear that going into 2012 we could be facing exactly the same problems as we ended 2011.

Investors though should be aware that when the problem is finally resolved, that serious money is there to be made on the upside in banks and financials - and it has been some time since we mentioned this as even the remotest of possibilities. Those banks that are the 'last ones standing' will be able to reap the immense benefits of whichever form the Euro ultimately takes.

At a recent conference in Europe we discussed the European landscape in the aftermath of what would be, at the time it occurs, an extremely volatile environment. It was felt that banks could, finally, be seriously looked at again as investment opportunities. To have a theoretical discussions about possible gains, in the right environment, of 200/300/400/500%+ or more, was refreshing.

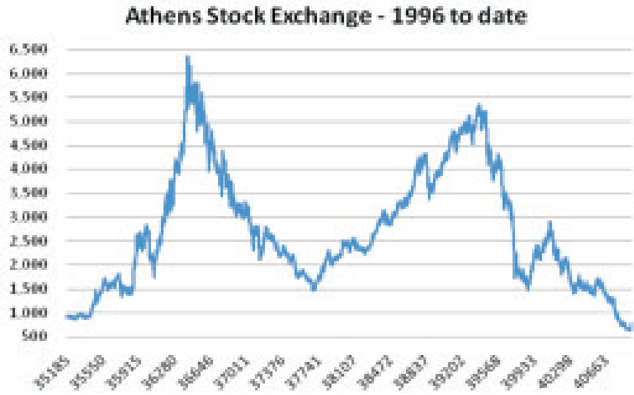
If the French can calm down the Germans and hold their hand on this one, while the entire Euro experiment might not be saved, certainly the exogenous shock of a full blown currency implosion can be averted now with some imaginative but not outrageous thinking.



Stocks mentioned included Lloyds Bank [EPIC Code, LLOY], Société Génerale [GLE], Commerzbank [CBK] or Banco Popolare [BP].

Recent price moves in all of these stocks leads one to believe that some serious sifting of the survival chances of certain banks has already begun. Lloyds Bank has moved from a low in November of 21.84 to 33.44 - a rise of 53% in little over 2 months. Société Génerale has moved from a low of 15.00 to 23.59, +57.27%, Commerzbank, 1.178 to 1.921, +63.07% and Banco Popolare 0.809 to 1.388, +71.57%!

However do not get carried away - most of these banks are 80%, 90% or even 95% off their pre-crash highs of 2007. For Lloyds, for instance, to return its 2007 peak would involve a price move of +810%. This simply isn't going to happen any time soon.



Greece - what a difference a year makes

When we first highlighted the growing problems with the Greek economy, little did we think that the bond or equity markets could implode quite so fast and quite as dramatically as they subsequently have.

Despite months of protracted negitations with the underlying bond holders, and regular visits by the Greek Govenment to the European Financial Stability Facility (EFSC), Europe's bailout fund, Greek yields have quite simply exploded beyond belief.

The resulting financial and economic turmoil has sent regular shockwaves through the global financial system, but there does come a point beyond which the talking has to stop.

Like a bad marriage the longer the talking continues, the longer nothing is actually done, the greater the likelihood of a period of mutual separation while both parties consider the option of a full blown divorce.

We have a well defined and well signposted "pinch point" coming up very shortly - the refinancing of the Hellenic Republic 4.3% bond which matures on 20th March 2012. The issue is a 'jumbo' issue with some €14.4 *billion* due to mature.

You may well idly ask how the market both qualifies and quantifies the chances of anything concrete happening, the chances of a full redemption and the possibility of a successful refinancing.

The answer can be found by looking at the current yield to maturity.

A useful benchmark for comparative purposes is the German 5% 'Bund' which matures shortly after the Greek paper, on 4th July 2012.

As we write the German bond yield is priced with a bid/offer spread of 0.02%/0/07%.

The Greek 4.3% bid offer spread is 1,246%/ 1,320%.

This is not a typographical error.

The yield really is well over *one thousand percent*.

In other words there is essentially no confidence in the ultimate ability of the Greek Government to repay anything but a small proportion of this bond at maturity.

Anyone who still holds this particular bond should now realise that the money they so trustingly subscribed only two years ago has effectively been devalued by 60%.

A similar situation also exists with the Greek equity market.

The Greek market may well have rallied 18% in January but it is still -87.47% off its all time peak.

What we are witnessing is capital destruction on an almost unprecedented scale with only the remotest chance of Greek equities being able to regain the old highs either in this decade or the next.

The statistics are sobering

If an individual had invested their money in the basic Athens Index on 20th September 1999 - the all time peak of 6,355.04 - for them to get a

http://www.ecardmedia.eu/data/media/920/Mykonos_Greece.jpg basic, inflation excluded, return of their money with the end of January level of 796.02, would require a return of 698.35%.

At a 5% annual return this will take 43 years - in other words the peak would only be regained in the year 2055.

10% a year will take 25 years - 2037.

Even 15% a year will take 17 years or till 2029.

This is without taking into account any inflationary erosion which even at a very modest 2% a year would add many years to the sums.

As we have always stated - to buy and hold eternally and without thinking of the longer term consequences, never, ever works.

Equity Markets have shaken off near term negativity

When the S&P recently downgraded 9 Eurozone governments including France (which lost its coveted AAA rating), Italy, Spain and Portugal - the market shrugged.

The axe fell again shortly after as S&P stripped the European Financial Stability Facility (EFSC), Europe's bail-out fund, of its AAA rating. The market barely noticed.

Compare the reaction to what happened just five months previously when the S&P downgraded the US from AAA to AA+. The Dow fell from a closing point on August 3rd of 11,893 to an intra-day nadir of 10,605 on August 9th, a loss of 1,288 points or -10.83%. The S&P fell by a similar margin, moving from 1,260 to 1,101, a drop of -12.62%.

In Europe last July and August, when the market first realised that it was probably possible France was going to lose its AAA rating, the French CAC Index slid from a high point in July of 3,866 to eventually bottom out at a few weeks later at 2,693 - an eye-watering loss of -1,173 points or -30.34%.

Reaction to the most recent downgrades shows dramatically different market behaviour. Since the European credit rating reductions were officially announced on January 13th this year most indices have **risen** including those of most of the countries negatively affected.

By January 31st France had risen - from a mid-month low of 3,151 to as high as 3,368 (+6.89%) before some end of month profit taking muted overall profits; Austria, also reduced by one notch from AAA to AA+, a slightly smaller but still important market, had a second half of January trading range of +15.89%. Spain still managed a trading range rise of nearly +5% and Italy +11%.

Portugal though bucked the trend falling -5.5%, but as it is now the unwelcomed centre of attention for the Euro eruption proponents, the equity market in the form of the Portugal PSI 20 index is one of the first financial entities in the firing line.

In the US both the S&P and the Dow Indices also managed a +4.4% trading range gain in the same 9 day mid-month period.

Reaction to recent earnings announcements has differed from recent trends. Despite a mixed picture, markets, which previously in the face of even mild earnings disappointment would have led to analyst reductions for 2012 and negative sentiment overall, have had a quietly surprising and positive January with results that have been completely at odds with the heavily negative sentiment displayed as we were going into the 4th Quarter of 2011. Of the 91 global indices tracked by Bloomberg, January saw rises for 75, (82% of the pool) and falls for 16 (18% of the sample).

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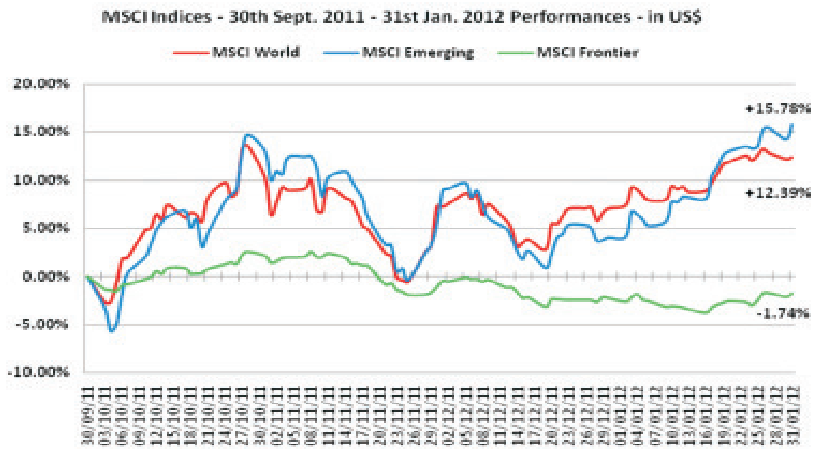


Source: MSCI Barra / Bloomberg

Manhattan, New York

It should be noted and remembered that it is usually the smaller capitalised indices, which by their very nature have higher volatility than the more established and larger capitalised ones, which are normally the best and/or worst performers. Those who somehow had the luck to make allocations at year end to Cyprus saw a +31.49% return (when measured in US$) for the month, closely followed by Egypt, +28.33%, Budapest, +19.94%, and the Indian Sensex, +19.37% - India being one of our picks for 2012.

The lowest returns came from Zambia, -6.90%, Mongolia, -5.97%, Sri Lanka,-5.02% and Jamaica, -3.83% - however given the extremely small market capitalisation of all these markets, exposure here would only be found in the most esoteric or sector restricted portfolios.

But, as always, "one swallow does not a summer make" - such extremes of performance must always be put into context; the Cypriot rise was after a fall in 2011 of -72%, giving a total return from 31st December 2010 to January 31st 2012 of -63% - underwhelming. Egypt for the same 13 months is a similar, -45.11% but the Budapest return for the period of -11.4% and India, -16.17%, shows the greater maturity of both markets. Oddly enough the worst performers were after some good returns in 2011 and here it is obvious that such specialist allocations were only temporary and were going to be exited when a more positive trend was seen in developed markets. Zambia in 2011 had risen +26% and Jamaica, +17%.

What is being missed or even plain ignored, as we mentioned earlier, is the US equity markets. All of the major US indices have that 'feel' of looking to rally and are no longer overreacting to bad news.

US equities have been held down by outside pressures, a toxic combination of the [Southern] European debt crisis, worries over the US economic recovery and a crisis of overall confidence. The view of the US recovery as a tepid one is now changing. Consumers are returning, the job market is firming up and the realisation is slowly growing that for the US there will be **no** double-dip recession. Growth may be anaemic but there is steady consistent growth.

There is also a massive build up of private equity cash - firms such as Apollo and KKR are sitting on almost *one Trillion* dollars of unspent capital - $204 billion of which are in funds that are legally required to invest within the next 12 months. This money will not go into bonds but equities. There is also the small matter of the US election. Every year since 1948 markets have gained in election year. In the 14 elections since 1928 that involve a sitting President the S&P has gained an average of +14.6%. Admittedly this time around things are slightly different - they usually are, though, but as I write this the Dow is very close to breaking the old pre-financial crisis 2008 high of 13,058, the next level to take out after this is the all time high on Tuesday 9th October 2007 of 14,164.53. This is now far from an impossible target - one I think could be breached this year. It is after all only 12.12% from the end January level and 15.94% from the year end levels. It will not go from here to there in a straight and continuous line.

The US does remain a cautious "Buy"

In Europe while we do not believe that there are quite as many surprises to come this year, Europe and more pertinently the Euro will frustrate and annoy. While there continues to be 'talks about talks' on solving the debt crisis nothing will change. Time though is running out for one participant and this could be a game changer - it is now 82 days until the first round of the French Presidential election. Unless Monsieur Sarkozy manages a Houdini like escape from his current polling position - possible but currently unlikely, it looks more than possible that the Socialists will win. Quite how Angela Merkel will take this remains to be seen. Markets here will remain volatile and highly prone to short term corrections - France especially. While not as strong a conviction buy as the US, Europe remains of interest so long as you are not tempted to start dabbling in the equity markets of the Southern half of Europe.

Commodities - 2011 profits unlikely to be reversed in the short term

Short of a complete resolution to the twin Euro and European worries and a complete cessation of global quantitative easing, gold still remains a favourite for investors going into 2012. The Q4 peak seen on 8th November of $1,800.50 an ounce was exactly at the top of the trading channel we had previously identified.

The yellow metal ended January at $1,730.98, at almost exactly the midpoint of our trading range, after an initial move away from Gold during the latter half of December 2011 as equities began their recent rally (where gold held as a reserve was liquidated to fund stock purchases).

Analysts continue to talk up Gold. Some hope Gold will surge to more than $2,500 per ounce by the end of the year and break even more records in 2013. We did discuss internally the possibility that the trend had broken down after the August '11 U.S. credit downgrade. But the trend re-emerged quickly and shows signs of soon revisiting $1,800, the recent high and our trigger for a slight position reduction. It is here that there could be some profit taking before retesting the old highs of $1,900 some time in Q2/Q3 2012. The current crossing of the 25 and 50 day moving averages reaffirms the short term positive trend. While probably not the time to initiate new positions, certainly the near term trend is likely to be volatile. Any weakness though should be used as a point to re-evaluate strategy and initiate new trading positions.

The bull market here is far from over.

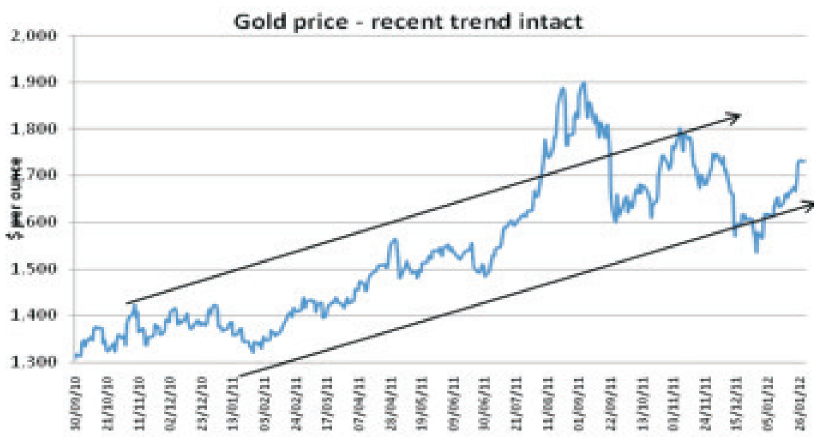
Oil has, as we had hoped, continued its recovery from the October 2011 lows. West Texas has consolidated its move back to a more 'comfortable' level of around $100 a barrel and the gap between it and Brent has moved to a more normalised 10% or so. The Northern European winter, though, has been slightly late in coming - earlier pictures of snow free Alpine ski-resorts have since been replaced by footage of extra deep snowfalls and it is highly likely that winter will now make up for its lateness by being intensively cold for a longer than predicted period.

Oil though has been given an extra fillip with Iran announcing the "possibility" of its closing the Straits of Hormuz in response to mooted sanctions being imposed by the West on its crude exports and financial services.

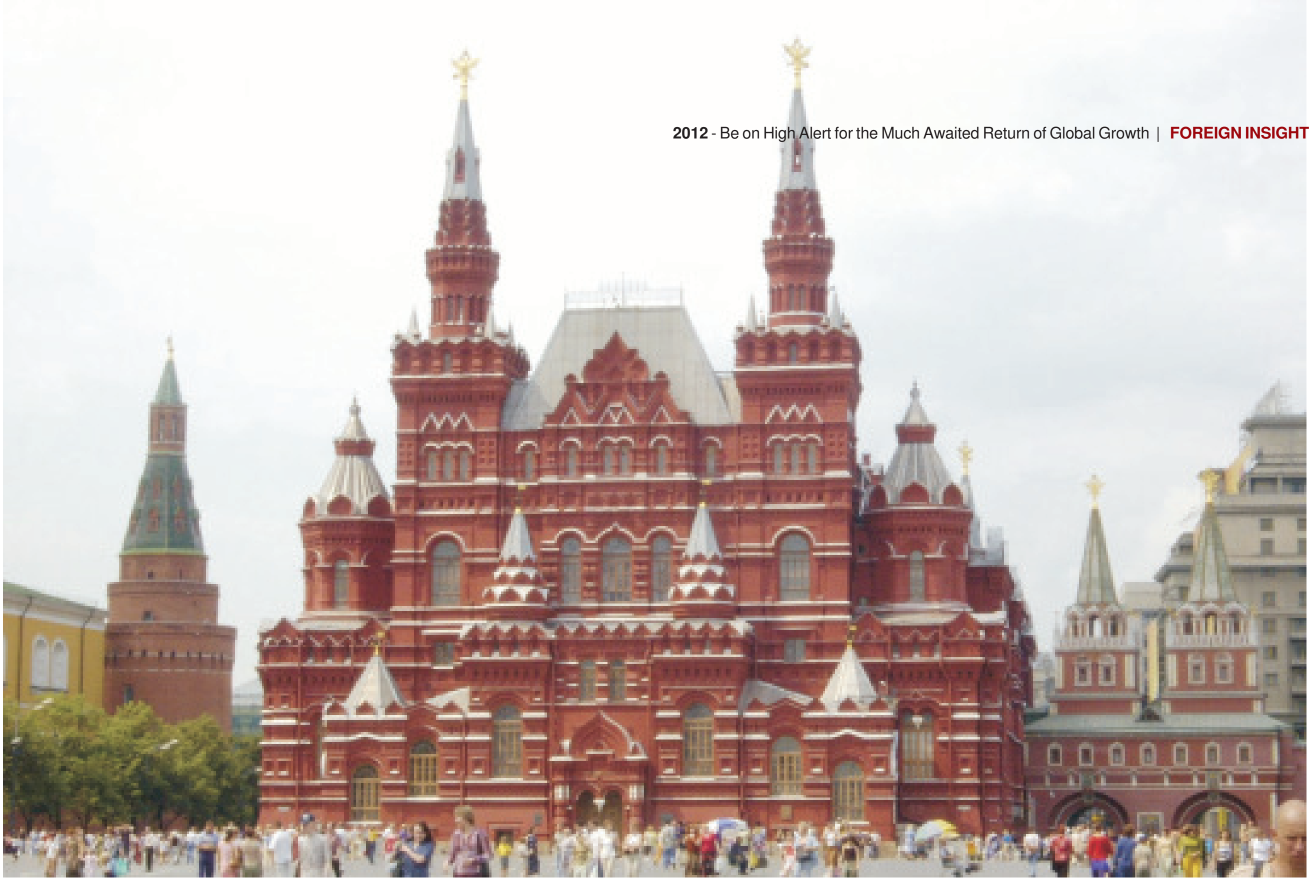
While Iran would probably only be able to block the waterway for two weeks or so, given the limited possible usage of missiles, mines or fast attack boats, it would not take much for insurers to stop coverage which would, de-facto, halt all tanker traffic. This in turn could see oil prices spike sharply but briefly, maybe to $200+.

The fact that the UAE has decided to delay until mid-2012 the launch of its new pipeline, specifically built to bypass the Straits and linking its oilfield to the port of Fujairah, may increase the likelihood of Iran acting unilaterally.

The knock-on effect of this, as shipping is re-routed from the Persian Gulf, would have a huge impact on



Source: Bloomberg



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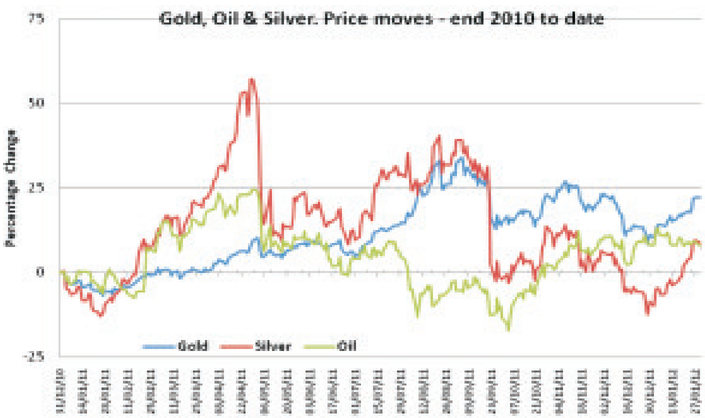


the economy of the Middle East and cause a systematic restructuring of the flow of goods around the world. At the moment investors remain positive about the Gulf countries because they are seen as a good business case for the long-term development of the region as a global hub.

While the oil price remains stubbornly in the middle of the near term trend we would caution that now is perhaps not quite the time to open new positions - but events may well overtake us. A spike in oil is likely to be accompanied by spikes in other 'crisis resistant', portable commodities - gold, platinum, palladium and diamonds.

Russia - the ignored enigma

One final conundrum to add to this heady commodity mix is a potential problem that many commentators have so far missed - Russia.

Ahead of this year's Presidential elections we should certainly expect some near term equity market convulsions. As a major oil producer (a fact that is sometimes conveniently forgotten), if Russia sees some serious social and/or economic unrest, the shockwaves would ripple through both the oil industry and negatively impact global equity markets.

If Putin wins the Presidency without promising concrete reforms, or if his victory (currently probable) is tainted by a far more obvious rigging of the ballot than has been suggested / hinted at recently, then gold will be the obvious shorter-term refuge - and the price could well be driven sharply and decisively above $2,000 .

While Russia is unlikely to implode there could be some major social changes similar to those seen in the Middle East.

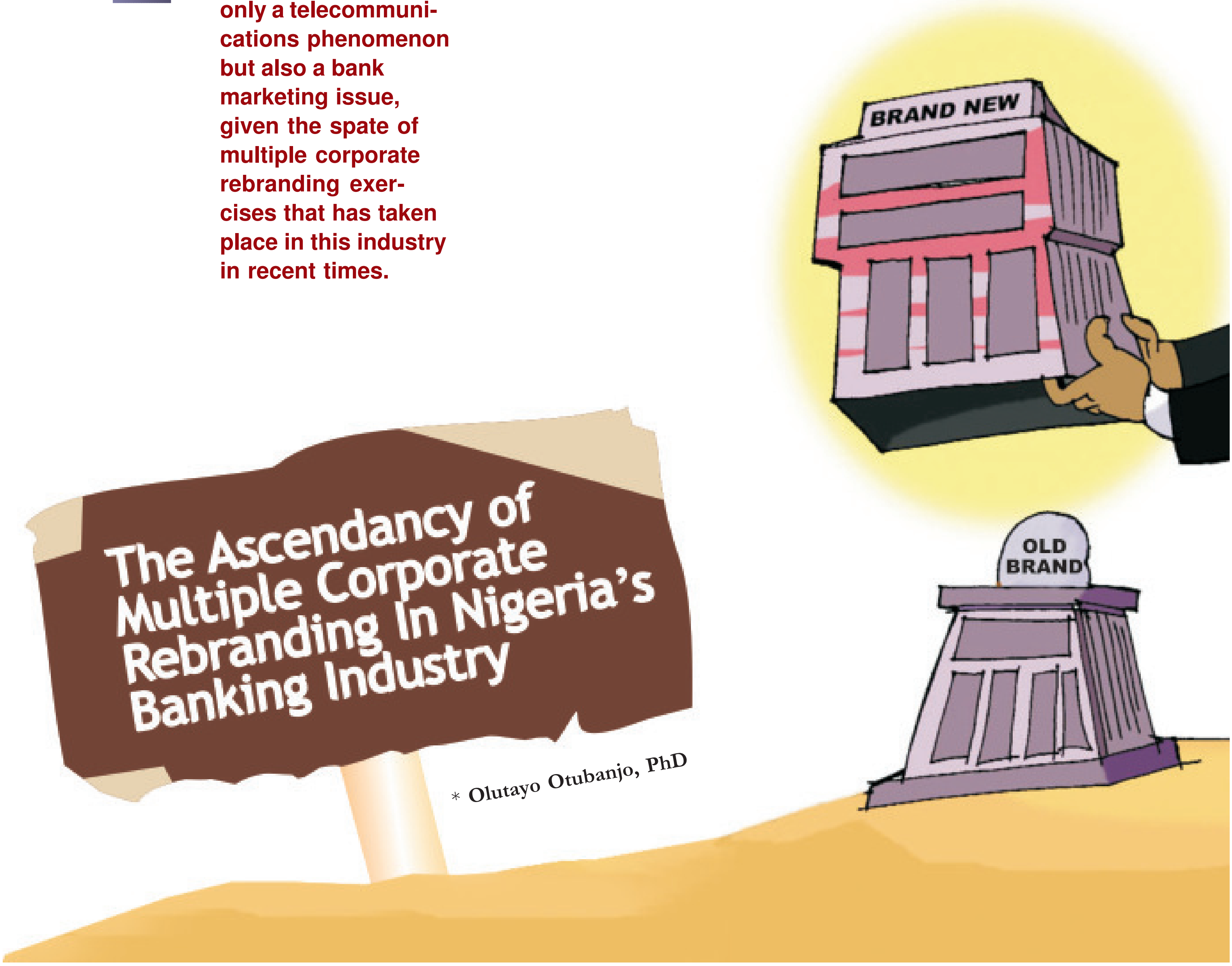
Welcome to 2012!

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

Discourse

Following a comprehensive review of Tevi's work however, it became clear that the concept of '*multiple corporate rebranding*' is not only a telecommunications phenomenon but also a bank marketing issue, given the spate of multiple corporate rebranding exercises that has taken place in this industry in recent times.

Recent work (Tevi, 2011), which examined how multiple corporate brand reconstructions over time influence customer retainership in the telecommunications industry, gives useful insight into the nature of the concept of multiple corporate rebranding. Following a comprehensive review of Tevi's work however, it became clear that the concept of '*multiple corporate rebranding*' is not only a telecommunications phenomenon but also a bank marketing issue, given the spate of multiple corporate rebranding exercises that have taken place in this industry in recent times. Consequently, a point of concern, in this study, is how multiple corporate rebranding is constructed



in the Nigerian banking industry. Located in the same line of inquiry is how a variety of environmental factors triggered these activities.

Similarly, an attempt is made to suggest a definition for this newly emerging concept.

Importantly, these areas, which form the areas of focus in this study, are presented in four paragraphs. The first paragraph makes a case for the dearth of academic literature on multiple corporate rebranding, stressing however, Tevi's (2011) novel work on this new concept. The next paragraph presents three types of multiple corporate rebranding exercises that occurred in the banking industry, with insights into the peculiarities of the factors that triggered them.

The paper continues in the third paragraph with a discourse on the meaning of multiple corporate rebranding. The paper ends with a summary and conclusion of the issues discussed.

Dearth of studies on multiple changes in corporate brand: a review of literature

The review of corporate marketing literature, especially those found in western academic journals (i.e. *Journal of Marketing, European Journal of Marketing, Journal of Marketing* Management, Journal of Brand Management, Corporate Communication: An International *Journal, Journal of Product and Brand Management, Irish Marketing Review* etc) indicates that there is a dearth of literature on the concept of multiple corporate rebranding. Works (see Olins, 1995; Baker and Balmer, 1997; Balmer and Dinnie, 1999; Kaikati, 2003; Muzellec et al., 2004; Muzellec, 2006) that approach this subject as *corporate rebranding* as opposed to *multiple corporate rebranding,* conceive it as a one stop exercise. These works failed to recognize never ending spate of the turbulence in the business environment and how this can force corporate brands to rebrand ongoingly over time. The following sub paragraphs strengthens this argument by making a review of works on the subject, stressing however, the dearth of literature on the concept of multiple corporate rebranding in academic literature.

Olins (1995) argued that the spate of mergers and takeovers led to the rebranding or the reconstruction of the corporate identity of many firms across Europe and the United States. Olins (1995) conceived the rebranding or reconstruction of corporate identity following a merger or acquisition exercise as an exercise that must be done bearing in mind the disparities in the internal identities of the merging firms as a platform for developing a single corporate brand with a singular behaviour. Olins's (1995) rebranding approach, though influential and insightful, paid less attention to the never-ending changes in the environment which could trigger the rebranding of a firm's corporate identity over and over again. Olins (1995) conceived corporate rebranding as a one stop exercise, not likely to occur in future.

Baker and Balmer's (1997) work on rebranding or corporate visual identity change underscored how a new corporate visual identity was developed to create better identification and recognition for a major British university. The paper suggests that assessing a visual identity can be useful in identifying organizational weaknesses; but argues that a weak visual identity may be a symptom rather than the solution to corporate malaise. The paper recommended that a new visual identity, although powerful, should be part of an effectively coordinated rebranding campaign. Baker and Balmer's (1997) work is useful in that it draws attention to the pitfalls that universities must avoid if an effective rebranding strategy is to be achieved. Put another way, the paper gives insight into the processes of rebranding a university and suggests how best to pursue a rebranding exercise at a university. What could be done to strengthen Baker and Balmer's (1997) work is to recognize that the business environment is often governed by ongoing turbulent changes. Arguably, these changes are equally accompanied by never-ending changes in the personalities of corporate brands.

Balmer and Dinnie (1999) highlighted the importance of the reconstruction of corporate identity within a merger and acquisition exercise and argued that the failure of many of such exercises is due to the poor attention that is paid to the reconstruction of the corporate identity. Although, Balmer and Dinnie's (1999) work provides useful insight into some of the factors that contribute to the failure of mergers and acquisition exercises, the paper nevertheless paid little or no attention to the ongoing changes in a firm's corporate identity – occasioned mostly by the never-ending changes in the turbulent business environment.

Kaikati (2003) examined the reincarnation of Accenture by tracing the company's heritage and highlighting how it pioneered the splitting of consulting from accounting activities. The paper also draws attention to the three pillars of Accenture's transformation – grounded on the development of rebranding, restructuring and repositioning campaigns. Kaikati (2003) however neglected the effect of the never-ending spate of changes in the environment, which are equally capable of leading, in future, to multiple changes in Accenture's corporate brand.

Muzellec et al. (2003) provides a useful exploratory insight into corporate rebranding defining it and analysing its main drivers. According to Muzellec et al. (2003), corporate rebranding refers to "the renaming of a whole corporate entity, often signifying a major strategic change or repositioning". They argued that some important factors influence or drive corporate rebranding exercises, namely – change in ownership structure, mergers and acquisition, spin-offs and demergers, conversion from private to public ownership, change in competitive position, outdated image, erosion of market position, and reputational problems.

Throughout their work Muzellec et al. (2003) disregarded the never ending issues that could change corporate brands ongoingly. Similar works led by Muzellec (see Muzellec, et al, 2004; Muzellec, 2006; Muzellec and Lambkin, 2006) disregarded this all important subject.

Daly and Moloney (2005) credited the notion of rebranding as a continuum exercise that begins from revitalising a current brand, to a full name change involving alterations in brand values and promises. In spite of this however, this work takes corporate rebranding as a one stop exercise. The paper failed to situate corporate rebranding within the context of ongoing changes that often have profound never-ending impact on the personality of corporate brands.

Working from the premise of limited attention to the management of corporate brand names in the face of merger and acquisition process, Jaju et al. (2006) considered the reactions of consumers to a typology of alternative brand redeployment strategies. They argued that corporate brand equity is often decreased following a merger and acquisition exercise and that consumers react differently to a variety of

The terminology 'first generation bank' is a general name or catchall term that is commonly used by banking operators and their stakeholders alike to describe or in some cases characterise the first set of financial institutions that commenced banking and financial services ....

Figure 1: Shift from Standard Bank Limited to First Bank Plc

Source: Developed by Author

Standard Chartered Bank China in Guangzhou Tianhe

http://upload.wikimedia.org/wikipedia/commons/4/42/Standard_Chartered_Bank_China_in_Guangzhou_Tianhe.JPG

brand redeployment strategies. Jaju et al. (2006) called for the need to evaluate the corporate branding element of mergers and acquisition exercises as part of the conscious process of managing corporate brands. Whilst these typologies and their influences on consumer reactions increased scholarly understanding of corporate rebranding as it relates to merger and acquisition, it nevertheless disregarded the ongoing changes in the business environment, which are quite capable of changing, rather endlessly, the visual and non visual personalities of corporate brands.

Lomax and Mador (2006) provide an analytical framework of the complex process of rebranding through a qualitative study of seven UK-based organisations. The study offers a matrix-based typology that can help to map changes in brand name against changes in brand values – thus highlighting how this can be used to identify the branding choices being made.

However, in 1965, Standard Bank, now Standard Chartered Bank, acquired the controlling shares of BWA, which as of then had well over sixty branches throughout Nigeria.

Lomax and Mador's (2006) work though insightful in bridging the knowledge gap on the complex process of rebranding, however paid no attention to turbulent changes, which may lead a corporate brand to the pursuit of a range of rebranding exercises over time.

Gotsi and Andriopoulos's (2007) work on corporate rebranding identified four issues (1- disconnecting with the core; 2-stakeholder myopia; 3-emphasis on labels, not meanings; 4-*one company, one voice: the challenge of multiple identities*) as factors that explain why rebranding exercises sometime fail. Unfortunately, this paper gives no credit to the ongoing changes in the environment and how these can trigger endless changes in corporate brands.

Merrilees and Miller (2008) drew six principles of corporate rebranding through a case analysis of a Canadian leather goods retailer that pursued a corporate rebranding strategy. The principles point to the need for firms that aim to pursue rebranding exercise to maintain core values, cultivate the brand, link the existing brand with the revised brand, target new segments, get stakeholder "buy-in", achieve alignment of brand elements and create an understanding of the importance of promotion in awareness building. Whilst Merrilees and Miller's (2008) work gives a useful, informative, highly educative and knowledge advancing insight into rebranding to life, it nevertheless failed to recognize market turbulence, which may trigger never-ending changes in corporate rebranding exercises or activities. Unlike other authors, Tevi (2011) came very close to the subject of discourse by examining how the multiple corporate rebranding activities of Airtel, the second largest mobile telecommunications operator in Nigeria, influences customer retainership. Although Tevi's work gives a detailed analysis of this subject as occurred in the telecommunications industry, the work is nevertheless limited to an understanding of customer reactions and attitudes towards these changes. More importantly, the study could not say how or why the concept of multiple corporate rebranding is also occurring in the Nigerian banking industry.

Summary of review of literature: it is obvious from the review that truly a lot of effort has been devoted to the concept of rebranding. However, what appears to be missing in literature is the recognition that the pursuit of a corporate rebranding is never a singular exercise. The business environment is governed by never ending turbulent activities that force corporate brands to respond at all times. Thus, in the course of responding to these turbulent events, corporate brands are forced to reconsider their identities ongoingly. Furthermore, the review of literature suggests that Tevi's (2011) work stands out because it gives insight into how multiple corporate rebranding comes to live in the telecommunications industry. This study takes Tevi's (2011) work a step further by addressing it from a banking industry perspective.

Three types of multiple corporate rebranding in the Nigerian banking industry

Multiple corporate rebranding has occurred in the Nigerian banking industry mainly at three levels. At the first level are multiple corporate rebranding exercises conducted by first generation banks established by foreign interests during the colonial era, which lasted between 1859 and 1960. These are composed of the British Bank for West Africa, now First Bank Plc; the Colonial Bank, now Union Bank Plc; Agbonmagbe Bank Limited, now Wema Bank Plc; and the British and French Bank, now UBA (United Bank for Africa) Plc. The second level is dominated by multiple rebranding exercises orchestrated by second generation banks created just around the period of independence. These are dominated by Banque Internationale Pour L'Afrique Occidental (BIAO), now Mainstreet Bank Plc and several defunct banks. At the third level are multiple corporate rebranding exercises conducted by third generation banks. These are composed of banks such as Habib Bank and Platinum Banks Plc, which later fused into Bank PHB, now called Keystone Bank Plc. The third level of multiple corporate rebranding also include defunct financial institutions such as ACB International Bank Plc; Citizens International Bank Plc, Fountain Trust Bank Plc, Guardian Express Bank Plc, Omega Bank Plc, and Trans International Bank Plc, all of which were fused into one – and known today as Enterprise Bank Plc. The multiple rebranding exercises constructed by the three dominant types of banks in Nigeria are discussed below:

Multiple rebranding activities of first generation banks and the factors that trigger them: The terminology 'first generation bank' is a general name or catchall term that is commonly used by banking operators and their stakeholders alike to describe or in some cases characterise the first set of financial institutions that commenced banking and financial services business in Nigeria, during the period of British imperial colonisation of the country.

Four major banking institutions are known to dominate this group of banks. These are First Bank Plc, Union Bank Plc, UBA

Figure 3: **Multiple Rebranding Occasioned by Triggers from the Environment**

Source: developed by author

Figure 4: **Multiple rebranding occasioned by triggers from the environment**

Source: developed by author

Figure 2: **Shift from BIAO to Mainstreet Bank Plc**

Source: developed by author

(United Bank for Africa) Plc, National Bank Plc, now fused into Wema Bank Plc and Wema Bank Plc. However, only the multiple rebranding activities of First Bank Plc will be discussed in this paragraph, for the purpose of publication in this journal. A more robust narrative, which describes all the multiple rebranding activities of the four banks, will be published later in a journal. First Bank Plc, previously British Bank for West Africa (BBWA), is the first of the first generation banks to set foot on the Nigerian banking and financial services terrain. BBWA as it was then called was incorporated on March 31, 1894, with head office in the city of Liverpool by Sir Alfred Jones, a successful shipping magnate of Welsh origin, who equally served as its chairman (Chisholm, 1911). BBWA started business in the Lagos office of Elder Dempster & Company with a paid up capital of 12,000 pounds sterling (First Bank Plc, 2011), in the aftermath of a consolidation exercise that lead to the acquisition of African Banking Corporation, which had earlier been established in 1892 (Fry, 1976).

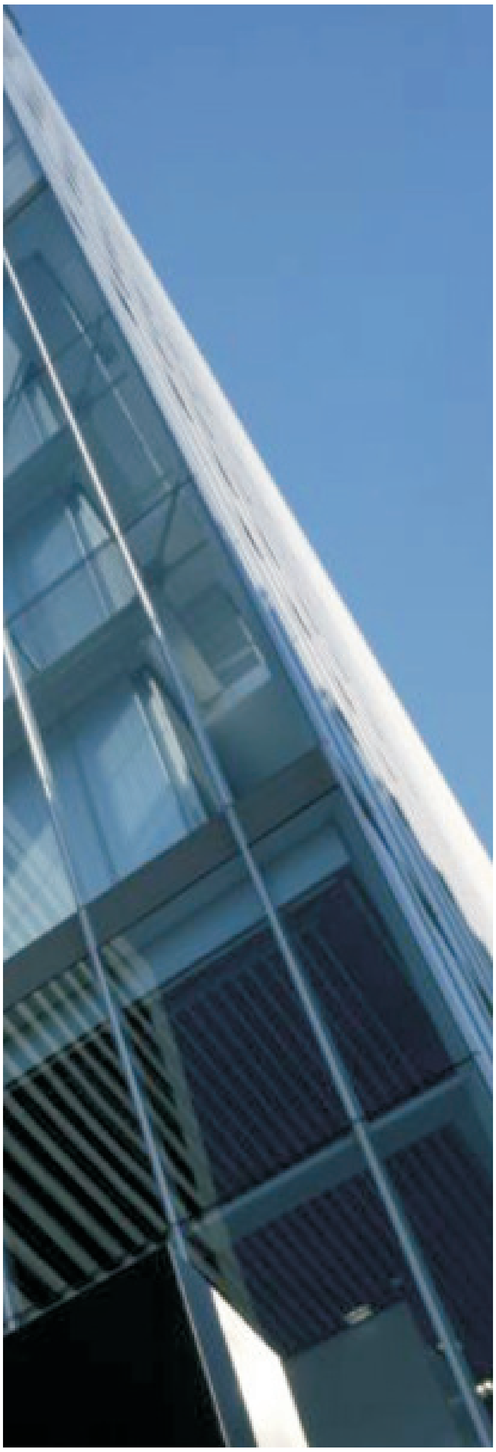
In 1957, BBWA rebranded, becoming Bank of West Africa (BWA). By the mid 1950s however, the business reputation of BBWA experienced a downturn as it was accused by notable businessmen and leading nationalist politicians like Dr. Nnamdi Azikiwe of colluding with Dominion, Colonial and Overseas (DCO), now Union Bank Plc, to fix interest rates on loans at levels that are far beyond the reach of ordinary Nigerian businessmen (Austin and Uche, 2007). In addition, BBWA also began to experience some level of competition from indigenous banking institutions led by National Bank of Nigeria Limited, a financial institution, which had earlier been established by powerful local political protectionists and dissident businessmen in 1933. Essentially, increased competition, especially the rise in the number of indigenous banks, which rose from twenty-three to forty-seven between 1952 and 1957 (Austin and Uche, 2007), together with its poor business reputation appear to have, among other things, forced BBWA to review its corporate brand, reconstructing it as Bank of West Africa (BWA). However, in 1965, Standard Bank, now Standard Chartered Bank, acquired the controlling shares of BWA, which as of then had well over sixty branches throughout Nigeria. Consequently, given the change in its ownership structure, BWA rebranded itself as Standard Bank of Nigeria Limited in 1969. In consonance with the dictates of the indigenisation decree of 1977, which empowered the Federal Government of Nigeria to acquire controlling shares in all foreign owned banks (Uche and Ehikwe, 2001), limiting foreign participation in banking to forty percent equity, controlling shares of Standard Bank Limited was acquired and as such it had to rebrand in 1979, changing its name to First Bank Nigeria Limited. Similarly, following the passage of the Companies and Allied Matters decree of 1990, and the bank's compliance to the dictates of this decree, First Bank Limited rebranded once again to First Bank Plc, to reflect its membership of the Nigeria Stock Exchange. Following the commencement of a total re-engineering exercise in the early 1990s (Otubanjo and Melewar, 2008), First Bank Plc embarked upon a process that led towards the transformation of its personality, with the introduction of a new corporate identity on Tuesday, April 27, 2004; grounded on the pillars of its brand essence, which is themed "dependably dynamic". Put together, First Bank Plc has between the time of its incorporation and now, experienced a movement from BBWA to BWA to Standard Bank to First Bank Limited to First Bank Plc and finally towards a brand strategy themed "dependably dynamic". In all, First Bank Plc has gone through a total of six rebranding exercises. Arguably, the rebranding of First Bank Plc six times over a century cannot be termed as rebranding. It has to be addressed properly as multiple rebranding to denote the numerous nature of these exercises.

Multiple corporate rebranding has occurred in the Nigerian banking industry mainly at three levels. At the first level are multiple corporate rebranding exercises conducted by first generation banks established by foreign interests during the colonial era, which lasted between 1859 and 1960.

Multiple rebranding activities of second generation banks and the factors that trigger them: the terminology 'second generation bank' is an idea that is used to characterise the identity of the second set of banks that entered the industry between the end of the British imperialist rule in 1960 and towards 1980. During this period, twenty six banking institutions composed of twenty commercial banks and six merchant banks entered the banking industry.

Banque Internationale Pour L'Afrique Occidental (BIAO), now called Mainstreet Bank Plc, dominated the second generation set of banks in Nigeria, given its large asset base, which placed and secured it in the 1960s, 1970s, 1980s and 1990s as the fourth largest bank (Brownbridge, 1996) after the trio of Union Bank Plc, First Bank Plc and UBA Plc. In view of the companies' decree of 1968, which required all foreign owned banks to incorporate in Nigeria, BIAO was incorporated as a limited liability company under the name International Bank for West Africa (IBWA), the English version of BIAO (Afribank, 2006).

IBWA remained as the name of the bank until the late 1980s. In 1989,



BIAO went into liquidation – selling off its equity in IBWA. Similarly, in its drive towards free market economy, the Federal Government of Nigeria gave up ten percent of its equity holding in the bank to staff (Afribank, 2006). Running on the heels of market economy, the Federal Government went a step further conveying its intention to divest its stocks fully at all banks including IBWA. As such, IBWA during this period started to get ready to become a quoted member of the Nigerian Stock Exchange. These factors put together might have encouraged the bank to rebrand and change its name to Afribank Nigeria Limited on January 1, 1990. On its entry into the Nigerian Stock Exchange in 1992, it was renamed Afribank Nigeria Plc. Owing to its failure to meet the set standards of the Central Bank of Nigeria (CBN), Nigeria's apex regulatory bank, Afribank was acquired in September 2011 by the Asset Management Corporation of Nigeria (AMCON) and renamed as Mainstreet Bank Plc (Thisday, 2011). Similar to previous paragraphs, Mainstreet Bank's multiple rebranding activities alone were discussed in this journal. Limited space is often devoted to such journals. A more robust analysis, which describes all the multiple rebranding activities of banks in this category, will be discussed in a book to be published later.

Multiple rebranding activities of third generation banks and the factors that trigger them: following the deregulation of the banking industry in 1986, many privately owned local banking institutions were floated. The growth of these banks was rapid, so much so that by 1992 there were at least twenty-six privately owned – newly established commercial banks and fifty-one privately owned – newly established merchant banks in operation (Brownbridge, 1996). Today, these banks, defunct or existing, make up what is generally called third generation banks. However, by January 1, 2006, many of these banks had gone into extinction, become defunct or fused into new, old or existing banks through a forced consolidation exercise that pruned the banks down to nineteen. By September 2011, new generation banks were further pruned to fourteen following another round of consolidation.

Today, these banks, defunct or existing, make up what is generally called third generation banks. However, by January 1, 2006, many of these banks had gone into extinction, become defunct or fused into new, old or existing banks through a forced consolidation exercise that pruned the banks down to nineteen.

Of the fourteen new generation banks currently in operation, Enterprise Bank Plc and Keystone Bank Plc appear to have gone through more rebranding exercises than others.

Starting with Spring Bank Plc, this bank emerged in 2006 through a forced merger exercise of six financial institutions: ACB International Bank Plc, Citizens International Bank Plc, Fountain Trust Bank Plc, Guardian Express Bank Plc, Omega Bank Plc, and Trans International Bank Plc. Recently, Spring Bank Plc rebranded the third time to become Enterprise Bank Plc. Prior to this, it rebranded as Spring Bank Plc following a forced consolidation exercise that brought the aforementioned banks together. Prior to the formation of Spring Bank Plc, each of the component banks had at one time or the other engaged in a variety of rebranding activities. For instance, the defunct Fountain Trust Merchant Bank took advantage of the universal banking code popularly enjoyed by commercial banks to reapply to the CBN for commercial banking license. Immediately the licence was granted, Fountain Trust Merchant Bank rebranded and became Fountain Trust Bank Plc. Details of how neverending changes in the business environment forced other banks in this category to pursue multiple corporate rebranding activities will appear in a book to be published later.

Multiple corporate rebranding: triggers and the ongoing character of rebranding

An important issue that dominate the narrative analysis of how the concept of multiple corporate rebranding emerged in the Nigerian banking industry resides in the never-ending environmental changes that trigger the rebranding of business organizations over and over again. Indeed, events such as the introduction of new legislation, change in government policy, change in ownership structure, poor image arising from scandals are identified from the narrative as important factors that drive businesses towards the reconstruction of corporate brands ongoingly. It is noteworthy to state at this point that the ongoing nature of the reconstruction of corporate brands and the factors that trigger these personality changes provide clear and unambiguous insight into how this concept might be defined.

The meaning of multiple corporate rebranding

The narrative analysis of numerous corporate identity change exercises articulated in the previous paragraph provides some useful insights into the nature of multiple corporate rebranding and the peculiarities of the factors that trigger them. In spite of the pursuit of this phenomenon in real life, no statement has been advanced in literature to define it. What is apparent in literature is Tevi's (2011) work, which examined the relationship between multiple corporate rebranding and customer retainership. There is no bold statement in Tevi's work underscoring what this newly emerging concept means. Given the absence of academic literature in this regard, the author in the following sub-paragraphs makes an attempt to theorize the meaning of multiple rebranding by doing two things. First is to give recognition to environmental changes and how these drive businesses ongoingly towards multiple

corporate rebranding exercises. Second is to review works on the meaning of rebranding (see for instance Muzellec et al., 2003; Muzellec, et al., 2004; Muzellec, 2006; Muzellec and Lambkin, 2006) – to gain insight into the issues that characterize this concept originally.

Defining the notion of multiple corporate rebranding

In an exploratory study of the concept, Muzellec et al. (2003) defined corporate rebranding as "the renaming of a whole corporate entity, often signifying a major strategic change or repositioning". Corroborating the 'change' or 'repositioning' aspect of this viewpoint, Merrilees and Miller (2008, p.538) proposed that corporate rebranding is "the disjunction or change between an initially formulated corporate brand and a new formulation. The change in brand vision can be referred to as brand revision" Muzellec et al (2006, p.32) observe that corporate rebranding is the practice of building anew a name representative of a differentiated position in the mind frame of stakeholders and a distinctive identity from competitors." Stuart and Muzellec (2004, p.473) argue that corporate rebranding connotes the notion of branding done the second time and that it is a representation of a brand that has been reborn. They avowed that a reborn can only take place when the name of the brand changes.

One thing that appears missing in these definitions is the ceaseless, never-ending or ongoing turbulence that often dominate the business environment. Evidence from the narrative analysis presented in the previous paragraphs indicates two things. First is that change occur ongoingly in the business environment. Second is that business organizations respond to these changes not just once, but as many times as the ongoing changes in the environment demands. Given this insight and the ideas generated from the literature on the meaning of corporate rebranding, the author submits that multiple corporate branding is: *a phenomenon reflective of the ongoing changes in the visual and non visual representations of the personality of businesses in relation to ongoing changes in the business environment.*

Recent events at Intercontinental Bank strengthen the proposed definition of multiple corporate rebranding. The first major change in Intercontinental's corporate brand (see figure 1) occurred in 2005. The change came in the wake of CBN's recapitalization drive, which forced the bank to acquire its subsidiaries (i.e. Equity Bank, Global Bank and Gateway Bank) to meet the new recapitalisation policy. The fusion of the subsidiaries into Intercontinental Bank Plc triggered the construction of a new corporate identity that represents the fusion.

The second major change in the bank's corporate identity came in September 2011, following the acquisition of the bank by Access Bank Plc. The change in ownership structure led Intercontinental Bank towards the adoption of an endorsed branding strategy, which presents Access Bank as Intercontinental's parent brand (see Figure 4). It must be noted at this point that Intercontinental may be put through another round of rebranding once again to reflect its parent identity. This is likely to happen once Access Bank acquisition of Intercontinental Bank is fully completed in the fourth quarter of 2012 (Intercontinental Bank, 2011).

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Discussion and conclusion

This paper examines the notion of '*multiple corporate rebranding*' through a narrative analysis of how this concept emerged in the Nigerian banking industry. Thus, the multiple rebranding activities of defunct banks that failed to consolidate or fuse into any of Nigeria's mega banks are disregarded. Importantly, the study examines the peculiarities of the factors that lead banks to seek and pursue multiple corporate rebranding. Additionally, it suggests a working definition that could further enhance an understanding of the concept. These objectives were accomplished first by making a case for the dearth of literature on the subject through a review of corporate rebranding and corporate identity change literature. Second, an analysis of how multiple corporate rebranding occurred in some dominant banks was discussed. More importantly the factors that led to this new concept were discussed.

Two important findings emerged

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from this study. First, the paper identifies three dominant types of multiple corporate rebranding witnessed in the Nigerian banking industry between 1984 and now. The fist type is *multiple corporate rebranding of first generation banks,* which describes the multiple corporate rebranding activities of the first set of financial institutions that commenced banking and financial services business in Nigeria during Britain's imperialist rule. Second type is *multiple rebranding of second generation banks*.

This term used in defining the multiple corporate rebranding activities of second set of banks that entered the industry between the end of the British imperialist rule in 1960 and towards 1980. The third type is *multiple rebranding of third generation banks*. This represents the multiple corporate rebranding activities of local and foreign privately owned banks that were established in the aftermath of the deregulation of the Nigerian banking industry in 1986.

Second, in order to further understand the meaning of the concept of multiple corporate rebranding, this paper suggests a definition, which gives recognition to the ongoing changes in the turbulent business environment and how these changes impact greatly on the ongoing reconstruction of a corporate brand. The paper submits that multiple corporate rebranding is a phenomenon reflective of the ongoing changes in the visual and non visual representations of the personality of businesses in relation to ongoing changes in the business environment.

The narrative analysis of numerous corporate identity change exercises articulated in the previous paragraph provides some useful insights into the nature of multiple corporate rebranding and the peculiarities of the factors that trigger them.

Existing works (Olins, 1995; Baker and Balmer, 1997; Balmer and Dinnie, 1999; Kaikati, 2003; Muzellec et al., 2004; Muzellec, 2006; Gotsi and Andriopoulos, 2007) on this subject addressed it as a singular exercise in the life of a corporate brand. This study makes a departure from this by presenting multiple corporate rebranding as a phenomenon that is likely to occur ongoingly for as long as the business environment remains turbulent. The study is limited to the examination of multiple corporate rebranding activities of defunct banking institutions that were unable to consolidate or fuse into existing banks. Nevertheless, this opens a gap that creates opportunities for further academic research in the near future.

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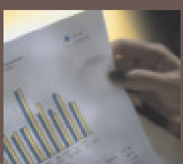
Facts & Figures

Ibrahim Abubakar

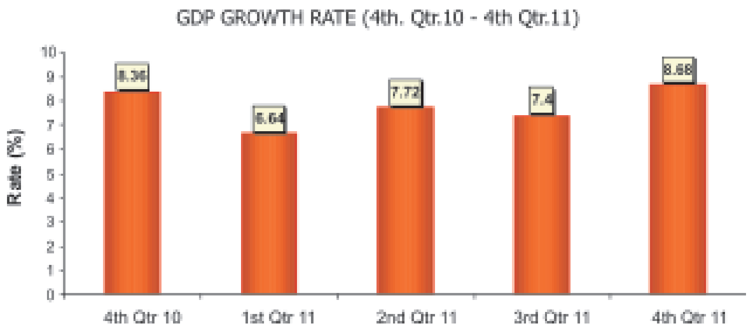
MACROECONOMIC ENVIRONMENT

In several parameters, the Nigerian economy maintained its growth momentum in the fourth quarter 2011. Some of the indicators grew remarkably while others faltered. Inflation figure, for instance, remained steady, inches from the authority's single digit target. Gross Domestic Product (GDP) expanded at a faster pace than in the preceding quarter. The foreign exchange reserves witnessed some improvements, mainly driven by higher prices of crude oil. However, the nation's currency, the naira, lost grounds against other major currencies. The Monetary Policy Rate (MPR) was raised more than expected in efforts to curb rising inflation. In the capital market, stock prices remained firmly in the bearish camp. Crude oil prices in the international markets wobbled at several points, but ended the period on a positive note for oil exporting economies.



GROSS DOMESTIC PRODUCT (GDP)

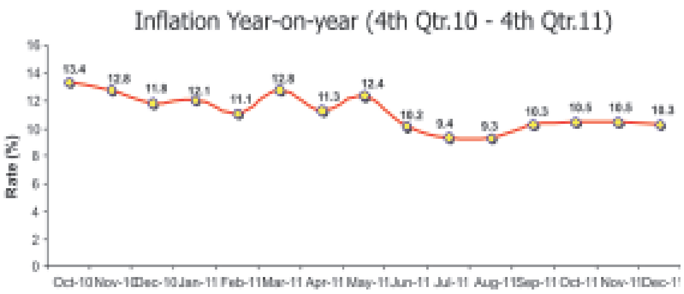
Gross Domestic Product (GDP) in the fourth quarter was estimated at 8.68 percent, a marked improvement when compared with the preceding quarter. Real GDP growth continued to be driven by the non-oil sector of the economy. Despite some hiccups caused by natural elements in the far North and severe flooding in some coastal states, favourable weather conditions in the North Central region ensured a bumper harvest. Agriculture continued its dominance as a major contributor to GDP. For the oil sector, the fruits of the Amnesty Deal with the Niger Delta militants continued to push crude oil production in the right direction, with output jumping 5 percent between October and November. The outlook for 2012 remains favourable with real GDP forecast remaining robust at 7.6 percent.



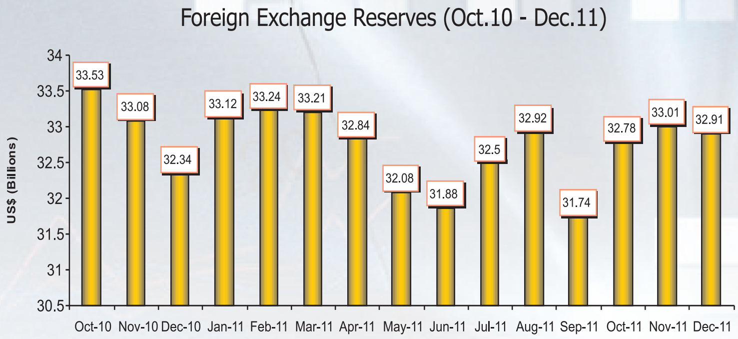
Source: National Bureau of Statistics

INFLATION

The Year-on-Year inflation rate held steady in the fourth quarter 2011, inches off the CBN's privately watched single digit target. The headline inflation rate ended the quarter at 10.3 percent in December. Inflationary pressures had resurfaced in earlier October, led by soaring prices of some food items like yam, cooking oil, meat, fruit, vegetables and beverages. However, the sharp increase in the prices of some imported food items was moderated in November by greater availability of some locally produced staples, especially during the harvest season. Inflationary pressure eased slightly in December due to holiday travels and a slowdown in energy demand during the period. Core inflation also dropped slightly in December. Despite the slowdown, higher prices of transport fares, kerosene, diesel, electricity, hotel and restaurant charges resurfaced in December due to the festive period. Inflationary risk remains a threat in the months ahead due to the partial deregulation of Premium Motor Spirit (PMS) pump price; new tariff regimes on certain food imports and the anticipated fiscal injection from the proposed 2012 budget.



Source: National Bureau of Statistics



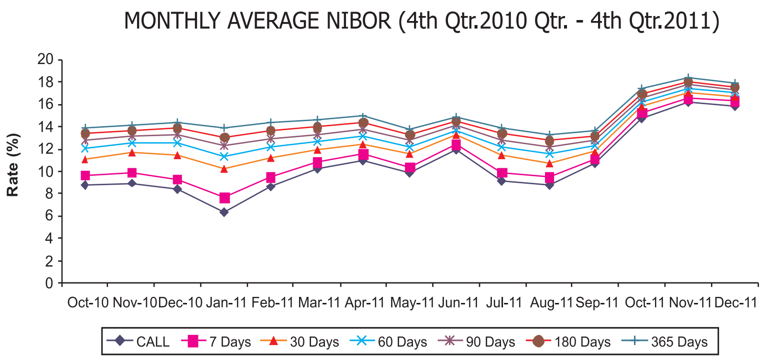
Source: Central Bank of Nigeria

EXTERNAL RESERVES

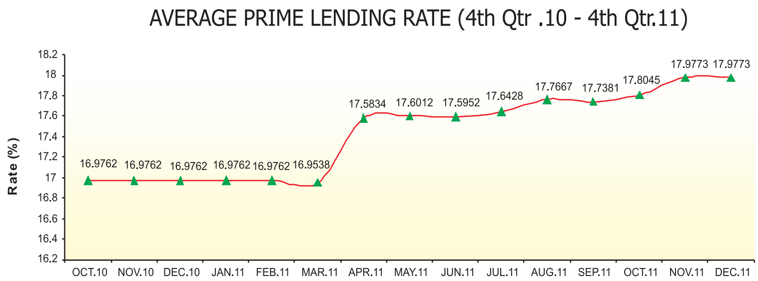
The nation's external reserves rebounded in the fourth quarter 2011 despite a nervy start to the period. External reserves recorded impressive gains earlier in October, clawing back about $4.5billion to $34.5billion despite nose-diving to a 5 year low amid continuous withdrawals. The buildup was due to stronger control on foreign exchange practices, pickup in crude oil receipts and reduction in arbitraging opportunities in the oil marketing sector. Unable to plug all the loopholes, the upsurge was however short-lived as the external reserves plunged back to $32.9billion as at end December 2011, capable of financing about 6 months of imports. The authorities attributed the drainage to higher demand for foreign exchange as a result of import dependency and activities of speculators. In the short to medium term, the authorities project improvements in the stock of external reserves as result of higher crude oil prices and output, and a reduction in foreign exchange demand occasioned by the recent partial deregulation of the downstream oil sector.

INTEREST RATE

In a proactive move that surprised analysts, the CBN maintained its hawkish stance and raised its key interest rate during the fourth quarter. The Monetary Policy Rate (MPR) was lifted by a whopping 275 basis points to 12 percent in response to what the apex bank referred to as 'unusual developments in the global and domestic economy'. It was the sixth consecutive hike in 2011, in efforts to hold back inflation.

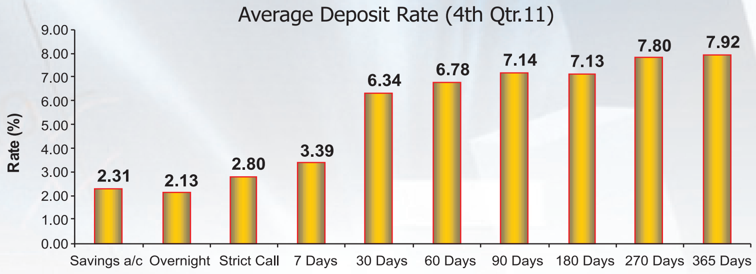


Source: Financial Markets Dealers Association of Nigeria (FMDA)



Source: Financial Markets Dealers Association of Nigeria (FMDA)

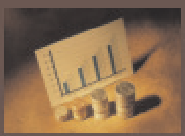
The average interbank rate witnessed significant rate swings during the quarter. For instance, rates on the call and 7 Days tenors rose as high as 18.62 percent and 18.77 percent in November, from 11.45 percent and 11.75 percent in October. Rates however eased in December as the market was awash with a mixture of liquidity trickling down from the N615billion Statutory Revenue Allocation and about $1.5billion shared among the three tiers of governments.

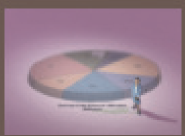


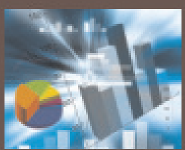
Source: Financial Markets Dealers Association of Nigeria (FMDA)

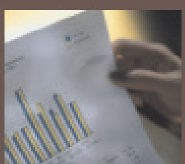
In terms of cost of borrowing, the average Prime Lending Rate (PLR) inched up slightly due to increase in the Cash Reserve Ratio (CRR) from 4.0 percent to 8.0 per cent in October 11, 2011. Generally, rates remained at elevated levels, hovering around 18 percent, reflecting the risk premium at which banks are prepared to lend.

Returns on the average deposit rate went up slightly across most investment horizons, with volatility higher on the 90 Days and 180 Days tenors.



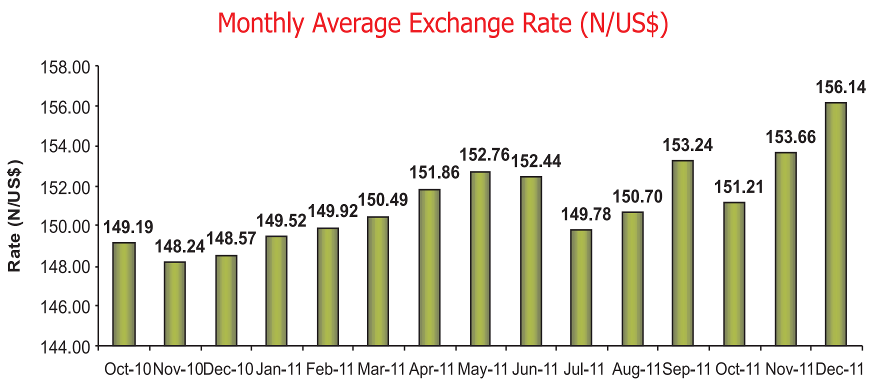






EXCHANGE RATE

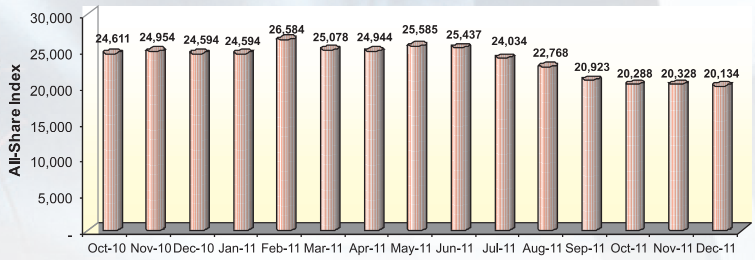
The nation's currency, the Naira, depreciated to fresh record lows in the fourth quarter 2011, losing grounds against major world currencies. It suffered big losses, finishing the period weaker at about N156/US$. The naira witnessed volatile movements against the US dollar, hitting all time low in the interbank market. Earlier in October, the nation's currency met severe head winds with some pressure coming from importers; downstream oil companies as well as speculators. It breached its trading band of N150 (+/-3 percent), sparking rumors of possible devaluation. In its twice weekly auction, the CBN offered about $5.6billion and sold $5.7 against the $8billion demanded during the period, resulting in unmet demand on several occasions. To ease the pressure, the CBN tightened the currency market by transferring transactions such as dividend remittances, proceeds of investments and capital as well as sale of international air tickets to the interbank market. To trim down speculations, the CBN reduced the Net Open Position Limit from 5 to 1 percent (later reversed to 3 percent) and shifted its trading range from N145-N155 to N150-N160. To that effect, the premium between the official and interbank rate narrowed to 1.8 percent as at end December 2011, compared to 3.2 percent in September. In the months ahead, the naira is projected to firm up in the short to medium term due to higher crude oil price in the international market and reduced demand from importers of refined petroleum products.



Source: Central Bank of Nigeria

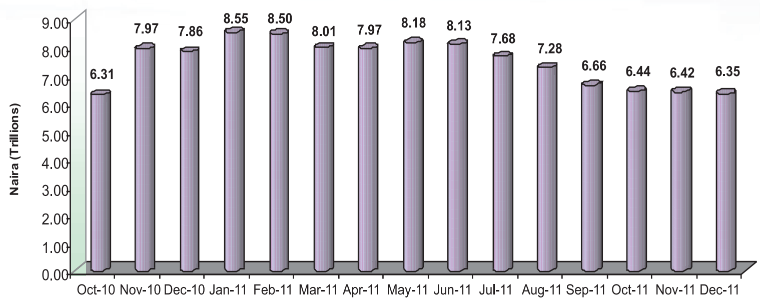
CAPITAL MARKET

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



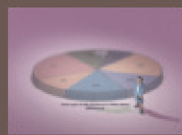
Source: **Nigerian Stock Exchange**

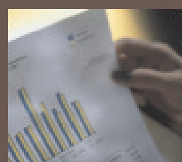
CAPITALISATION NSE MARKET CAPITALISATION (4th Qtr.10 - 4th Qtr.11)

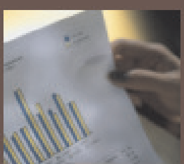


Source: **Nigerian Stock Exchange**

The capital market wrapped up the fourth quarter roughly where it began, unable to find any momentum despite relative improvement in market transactions. It was a dull end to the year as the All-Share Index (ASI) and market capitalization finished flattish at 20,730.63 and N6.53trillion, respectively, from 20,373.00 and N6.49trillion in the preceding quarter. After some solid gains in October, the market succumbed to excessive selling pressures in November as investors unwind their positions to meet their cash need during the festive period. There was a general feeling of caution as investors were content to just ‘sit and wait’. The market drew breath as the shares of three of rescued banks were delisted from the daily official list of the NSE in October as a result of ongoing mergers, reorganization and restructuring in the banking industry. On the positive side, the NSE listed the first Exchange Traded Fund (ETF) in the Nigerian capital market. Confidence was further boosted as a number of quoted companies such as Guinness Nigeria; Nestle; and Okomu Oil paid impressive dividends of N10; N1.50 and N1.00, respectively. Market fundamentals remained strong as the NSE admitted N8.01billion Dana Group bond; Delta State Government N50billion bond and Niger State N9billion bond on its daily official list. In the international capital market, Nigeria’s Eurobond yields continued to be positively impacted by renewed concern about Sovereign Debt in the Euro Zone.



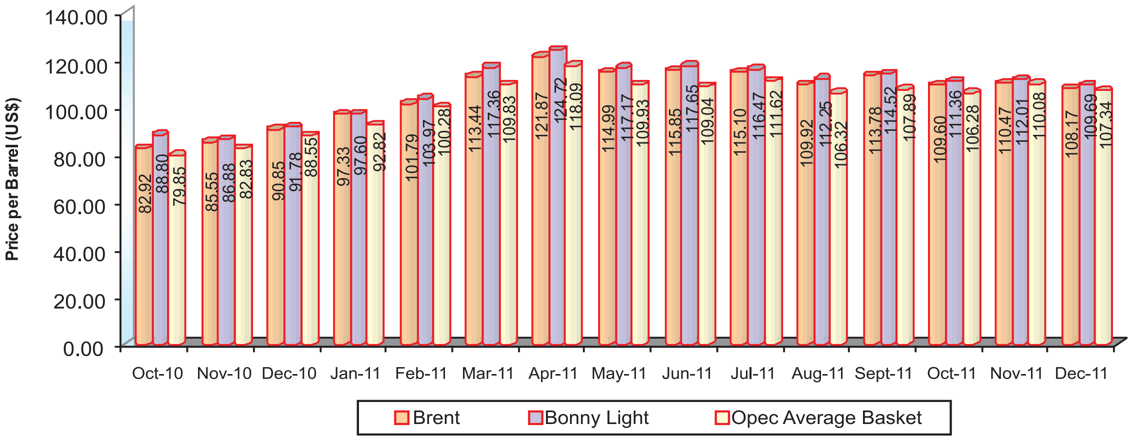




OIL & GAS

Crude oil prices remained stubbornly firm in the fourth quarter 2011 despite weakening global economic outlook. Oil prices gained about 7 percent during the period since dipping to $103 a barrel in early October. It was an up and down year for oil prices, peaking near $114 a barrel in May and tumbling 31 percent in October, back to where they were a year ago. Nigeria's brand of crude oil, bonny light, rebounded sharply by about $14, its second strongest quarterly performance in 2011. It traded within a band of $103-$117 per barrel. Industry analysts attribute the change in direction to soaring demand heading into the winter season, ongoing supply disruptions in Syria and Sudan, continued North Sea production problems and mounting concerns over the proposed EU embargo on Iranian crude oil imports. In their November 29th 2011 meeting in Vienna, Austria, the IEA, IEF and OPEC brainstormed to find a common ground on oil market drivers (fundamentals or speculation) with a joint report expected to be available to Ministers ahead of their next meeting in Kuwait in March 2012. Crude oil prices are projected to remain bullish in 2012, hovering around $115 a barrel.

Oil Prices: Monthly Average Price Movements (4th Qtr.10 - 4th Qtr.11)



Source: OPEC, Bloomberg, Energy Information Administration