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The Britain-Nigeria Educational Trust

(formerly The Alhaji Sir Abubakar Tafawa Balewa Memorial Trust)

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NIGERIA DIGEST – October 2009

□ Education Update

Since the last Digest was published in July there have been several developments affecting education in Nigeria, which are detailed below.

➤ University Staff Take Strike Action

The Academic Staff Union of Universities (ASUU) has been on an indefinite strike since July over the Federal Government's apparent refusal to sign an agreement with the ASUU, which dates back over two and a half years. The agreement, according to the Union, covers four distinct matters namely a) adequate budgetary allocation for education, b) improved conditions of service, c) university autonomy and d) academic freedom. It is claimed that in the original agreement it was agreed that 26% of the Federal and State Government budgets should be allocated to education and the Senate has called on the government to honour its agreement to allow under-privileged children to attend school. Also, it would motivate pupils and students to remain in Nigeria (thus halting an alleged brain drain) to teach; undertake research and do community service.

Negotiations were resumed in early August between the Federal Government and the ASUU but these quickly broke down which led the Government to declare a no work no pay policy and to halt further negotiations until the strike is suspended. It then emerged that the improved level of conditions sought by the ASUU includes a 40% pay rise for academic staff and 20% of non-academic staff at universities. The main problem, apart from an inability to agree to these demands, is that the Federal Government can only make a commitment on behalf of Federal Universities and the 36 State Governors have agreed to take legal action against the Federal Government if it signs an agreement on their behalf.

In short, the sectoral allocation and pay demands are completely unfeasible at this time and, entering the second week of October the stand-off continues. The Union has the full support of the Nigerian Labour Congress.

➤ Federal Ministry of Education

According to the Ministry, in 2008 it completed 62% of its capital budget targets and in the first six months of this year that figure has risen to 66%. The Director of Finance and Administration at the Ministry has predicted that by the end of the year 90% of capital expenditure projects will have been achieved involving some N40 billion.

➤ Independent Corrupt Practices and other Related Offences (ICPC)

In late August it was announced that the ICPC is investigating an alleged misappropriation on N1 billion from the Education Reform Programme during the period between June 2006 and May 2007. The following week, a senior executive officer at the Ministry was arrested by the ICPC relating to unauthorised payments from the fund although no charges have been brought so far. According to *This Day* in its edition of 31st August "The anti-corruption agency said its preliminary findings showed signs of gross abuse in payment of huge sums of money running to hundreds of millions of Naira allegedly granted as cash advances to officials of the Ministry for onward payment to corporate organisations.

The agency also said investigations showed that two of the Ministry of Education's top officials were beneficiaries of a series of cash advances totalling N229 million and N188 million respectively between August 2006 and May 2007". The investigation is continuing.

➤ **The Joint Admission and Matriculation Board (JAMB)**

Four days after students set their matriculations exams at monotechnics, polytechnics and colleges of education throughout the country, JAMB released their results. Some 343,000 students sat the exams of which 97% results were declared while over 11,000 papers are being investigated and 4,700 results were withheld.

□ **NIGERIAN NEWS**

During the last quarter, Nigeria has been hit by, and dealt with a series of crises, which are covered in this report. On the positive side there is excellent news to report about the situation in the Niger Delta.

➤ **Religious Riots**

An Islamic sect known as Boko Harum, which was founded in 2002 and which calls for the imposition of Sharia Law throughout the whole of Nigeria, and not just in the 12 existing Northern States, was the cause of religious riots in the North in July and August.

In response to a refusal to allow a “peaceful gathering” in Bauchi, the sect led by its leader Mohammed Yusuf, attacked a police station there which resulted in the deaths of 39 people. The unrest quickly affected other states in the North including Adamawa, Bauchi, Borno, Gombe, Kaduna, Katsina, Kano and Yobe. In total it is estimated that not less than 300 people were killed whilst unofficial sources puts the number as high as 600 and there were hundreds arrested. A real tragedy.

The disturbance was finally quelled by the intervention of the army and other security services which led to the capture of the sect leader who was then handed over to the police. According to the BBC, he was subsequently reported to have died in custody which led President Yar’Adua to order the Nigerian Security Services to investigate the circumstances concerning his death. The NSS was requested to report back to the President within seven days but there has been no announcement on the subject since then. 184 suspected members of the sect have been indicted in court on an eight-count charge including treasonable felony, criminal conspiracy, and unlawful possession of firearms and homicide. The sect has vowed to commence violence in the South of the country.

➤ **Banking**

August saw the Governor of the Central Bank, Mallam Sanusi Lamido Sanusi dismissing the Chief Executive officers of five Nigerian banks each of which had failed the CBN’s audit and launch of US\$2.6 billion rescue package.

In an address the Governor said

“The audit was conducted by a joint team of CBN and NDIC officials. The major findings on the 5 banks included:

1. Excessively high level of non-performing loans at the five banks which was attributable to poor corporate governance practices, lax credit administration processes and the absence or non-adherence to the bank’s credit risk management practices. Thus the percentage of non-performing loans to total loans ranged from 19% to 48%. The 5 banks will therefore need to make additional provision of N539.09 billion.
2. The total loan portfolio of these five banks was N2,801.92 billion. Margin loans amounted to N456.28 billion and exposure to oil and gas was N487.02 billion. Aggregate non-performing loans stood at N1,143 billion representing 40.81%.
3. From 1 and 2 above, it is evident that the five banks accounted for a disproportionate component of the total exposure to capital market and oil and gas, thus reflecting heavy concentration to high areas relative to other banks in the industry.
4. The huge provisioning requirement has led to significant capital impairment. Consequently, all banks are undercapitalised for their current levels of operations and are required to increase their capital. Indeed one is technically insolvent with a capital adequacy ratio of 1.01%. Thus a minimum capital injection of N204.94 billion will be required in the 5 banks to meet the minimum capital adequacy ratio of 10%.
5. The five banks were either perennial net-takers of funds in the inter-bank market or enjoyed liquidity support from the CBN for long periods of time, a clear evidence of illiquidity. In other words, these banks were unable to meet their maturing obligations as they fall due without resorting to the CBN or the inter-bank market. As a matter of fact, the outstanding balance on the EDW of the five banks

amounted to N127.85 billion by the end of July 2009, representing 89.81% of the total industry exposure to the CBN on its discount window while their net guaranteed inter-bank takings stood at N253.30 billion as at August 02 2009. Their liquidity ratios ranged from 17.65% to 24% as at May 31 2009 (regulatory minimum is 25%).

It is important to note that at least three of the banks are systemically important (accounting for more than 5% of assets and deposits in the banking system) and together the five banks account for 39.93% of loans, 29.99% of deposits and 31.47% total assets as at May 31 2009.

Given the extent of the asset quality problem leading to liquidity stresses, the variety of stress points on the banks' balance sheets, failure to act to secure the financial health of these banks will clearly place the system at risk. The Central Bank has a responsibility to act to protect all depositors and creditors and ensure that no one loses money due to bank failure. The Bank also needs to move decisively to remove this principal cause of financial instability and restore confidence in the banking system.

Consequently, having reviewed all the reports of the examiners and the comments of the directors and deputy governors, I am satisfied that these 5 institutions are in grave situation and that their management have acted in a manner detrimental to the interest of their depositors and creditors".

The affected banks are Afribank Plc, Intercontinental Bank Plc, Union Bank of Nigeria Plc, Oceanic International Bank Plc and Finbank Plc. In addition various executive directors have been dismissed and replacements have been appointed by the Central Bank. Whilst it is possible to say that it comes as no surprise that Oceanic International Bank is one of these banks, in the case of Union Bank which is the 9th largest company in Nigeria in terms of market capitalisation, it comes as a major shock, particularly when it was revealed that N30 billion out of its total loan book of N70 billion was lent to one company alone, Transcorp.

After agreement by the Attorney-General, the Economic and Financial Crimes Commission has charged four former chief executive officers on three counts of economic sabotage, threats to the economic health of the nation and the granting of loans without adequate security. Those charged are Mrs Celia Ibru (Oceanic Banking Plc); Mr Adigwe (Afribank Bank Plc), Mr Barthomlew Ebong (Union Bank of Nigeria Plc) and Mr Erastus Akingbola (Intercontinental Bank) whilst the former CEO of Intercontinental Bank is presently abroad and believed to be in the UK. Charges have also been brought against both other former executive directors and some of the bank debtors and the EFCC have so far recovered nearly N100 billion from bank debtors. In a separate move the organisation has summoned the chairmen and directors of Transcorp for "discussions". The four former CEO's have been granted bail on very stringent terms totalling N1.8 billion and there was a considerable delay between obtaining the courts approval and their actual release from custody.

Whilst all this has been going on, Mallam Sanusi has said that the five banks concerned will not be nationalised and that no bank will be allowed to fail. He is on record as saying that next year he expects the number of banks to be reduced from the present number of 24 to about 15 through a series of mergers and an article in 'Vanguard' on 18th September has suggested that there are to be merger talks between First Bank and Ecobank although this may be considered as pure press speculation.

The audit being conducted on the bank by the CBN is expected to be completed by the end of September and the outcome will be reported in the next edition of the 'Digest'. So far it is known that the audit has been completed on 10 banks including the five who have been rescued whilst the other five who have received approval are First Bank of Nigeria Plc, United Bank for Africa Plc, Diamond Bank Plc, Guarantee Trust Bank Plc and Sterling Bank.

It is worth stating that both the International Monetary Fund and the World Bank have both given their backing to the measures and reforms undertaken by the Central Bank Governor.

➤ Foreign Exchange Rates

Since the re-introduction of the CBN's Wholesale Dutch Auction System in July the Naira has depreciated steadily against the US dollar falling from N146.75 = US\$1 to N151.37 = US\$1. At the auction on 23rd September, details of which are the latest available, the Naira stood at N151.01 = US\$1. In the parallel market the Naira was being offered at N158 = US\$1 widening the gap between the two rates by 0.7% and economists expect that parity will be almost reached by the end of the year. Before this it can be expected that the inter bank market rate currently N156.7 = US\$1 will converge with the parallel market rate. Against sterling the rate is N248.35 = GB£1.

Increasing oil reserves and production (see below) led to the Central Bank offering to sell US\$3.1 billion in August, a 60% increase in the July level whilst it is believed that because of a rise in the excess crude account, foreign exchange reserves are now slightly in excess of US\$44 billion.

➤ **Hilary Clinton's Visit to Nigeria – 11th-13th August**

The USA Secretary of State who was on a seven country tour of Africa arrived in Nigeria for talks with President Yar'Adua and federal government ministers. She was heavily critical in her appraisal of Nigeria's current situation as reported on 13th August's edition of *Business Day*, which said

"US Secretary of State Hillary Clinton on Wednesday blamed failed government for Nigeria's huge poverty gap and urged Africa's most populous nation to toughen up on corruption and fix a "flawed" electoral system. Clinton said Nigeria – the continent's biggest economy – should rank among the world's most important developing nation but its reputation for graft undermined its international standing.

"The most immediate source of the disconnect between Nigeria's wealth and its poverty is a failure of governance at federal, state and local level", she said in a speech at a town hall meeting of several hundred civil society leaders. "Nigeria should be in a position to be part of the G20 but – a big but – the corruption reputation...it is a problem" she said in the capital Abuja, after meeting earlier with President Yar'Adua and his foreign minister.

Mismanagement and graft over decades have imperilled Nigeria's development, deterred investment, undermined democracy and deepened conflicts such as the insurgency in the southern Niger Delta and bouts of religious violence in the north. Clinton said the World Bank had concluded in a recent report that Nigeria had lost more than \$300billion over the past 3 decades as a result of corruption and other problems. Citing United Nations figures, she said the poverty rate had risen to 76% from 46% over the past 13 years alone despite the country pumping 2 million bpd of oil. Clinton said Washington was keen to support efforts to increase transparency and bolster democracy before national polls in 2011 and said the two countries planned a commission to tackle issues from Niger Delta violence to electoral reform.

Nigerian Foreign Minister Ojo Maduekwe described the talks between Clinton and Yar'Adua as "candid, encouraging and mutually inspiring" and said the Nigerian president had acknowledged their were major issues to face. "Electoral reforms and commitment to the rule of law, the fight against corruption – the President acknowledged that we have serious challenges there," Maduekwe told reporters. Corruption has been a theme of Clinton's seven-nation, 11-day trip to Africa, echoing Obama when he visited Ghana last month.

She was given an update on a 60-day amnesty period in the Niger Delta, an effort to end years of militant attacks on the oil industry which have prevented Nigeria from pumping much above two-thirds of its capacity.

In a related development, the Afenifere Renewal Group (ARG) has called on Clinton to help convince government to adopt the Mohammed Uwais Committee report on electoral reforms. In a statement signed by Loadable Shun, ARG chairman Yank Domain, publicity secretary, the group urged the US Secretary of State to "lean on the Yar'Adua administration to carry out election reforms before 2011."

She is also reported as expressing concern about the anti-corruption policy saying that the EFCC had "fallen off in the last two years" but expressed her government's support for Nigeria's efforts and intention to curb such problems.

➤ **Economic and Financial Crimes Commission**

In fact the EFCC has been very active over the past two months reclaiming N44billion in assets and cash from the former State Governor of Bayelsa State, Chief Alamiyesigh. The assets seized included the Chelsea Hotel in Abuja which was valued at N21.8billion and another property in the same city whilst the cash came from accounts with balances of N3.1billion, US\$441million and GB£2million.

Immediately prior to the announcement, the Chairman of the EFCC, Mrs Farida Waziri stated that the organisation had recovered N55billion in the last year alone. In total, according to a report in *Business Day*, the EFCC had declared that former governors, senior government officials and other Nigerians were involved in fraudulent cases amounting to over N250 billion and at present there are 37 ongoing high profile cases being pursued.

In the last four weeks alone, in addition to the banking charges detailed earlier, the EFCC has shut down an airline, Wings Aviation due to tax avoidance whilst various companies allegedly owned by the former governor of Enugu State, Chimaroke Nnamani have been sealed following a court order.

➤ **The Niger Delta**

President Yar'Adua has announced an amnesty to all militants, groups and individuals who surrender their arms and ammunition which expired on 4th October. The amnesty, according to the President, extends to all persons currently being prosecuted for offences associated with militant activities. At the time of announcing the amnesty the President authorised the release from prison of Henry Okah, a leader of the Movement for the Emancipation of the Niger Delta and whose organisation welcomed the President's offer. The Government has budgeted N200million for disarmed militants, which works out at N20,000 per month for each militant together with a daily allowance of N1,500 during the amnesty period. The government has also established a Niger Delta Fund, which will be allocated N400 billion annually which is in addition of budgetary funding of the new Ministry for the Niger Delta and the Niger Delta Development Commission. In a speech the Minister of the Niger Delta said that jobs would be created for former militants in the oil and gas, information and technology and agriculture industries.

The amnesty has in the main been warmly welcomed by the leaders of and members of militant and literally tens of thousands of weapons and ammunition have been officially surrendered including one faction of Mend which in August alone surrendered 50% of its weapons including 7,000 AK47's and a further 1,000 machine guns. Initially Mend stated that it would only agree to a 60-day truce but in response to negotiations with the government and appeals from state governors agreed in September to extend its cease-fire by a further 30 days. One of its leaders known as Boyloaf has accepted the amnesty as has Ateke Tom the leader of the Niger Delta Vigilante Force. According to unofficial reports, negotiations with the two sides are progressing well and there is at last a genuine hope that these will lead to peace in the region. Nigeria's future really is at stake here.

➤ **Oil and Gas**

In July, Nigeria's oil production fell to a 30 year low when only 1.2 million bpd, exactly 1 million bpd below the budget forecast, was produced. The loss of production has to some extent been offset by higher oil prices, which during the last quarter averaged US\$65, which compares to the budget figure of US\$45. However with the improving situation in the Niger Delta, production in August increased by 0.5million bpd, slightly in excess of Nigeria's OPEC quota of 1.67mbpd. It is already known that the 2010 budget will be based on US\$50 and a production level of 2.25mbpd.

Business Day reported "Energy Intelligence Agency (EIA) has raised its forecasts of OPEC's oil export earnings by \$4billion to \$559billion this year and \$8billion to \$675billion in 2010. Unfortunately Nigeria, which is expected to benefit hugely from these earnings, is being crippled by the Niger Delta crisis. The Country, which is capable of producing about three million barrels of crude per day, has been brought down to its knees by the frequent damage to its oil facilities.

The insecurity in the Niger Delta has adversely affected oil flow. Before MEND started activities in 2006, Nigeria was exporting 2.5 million barrels of crude oil per day, but as of July this year, militant attacks on oil installations had brought Nigeria's oil output down to less than half of that. Such a drop in oil output certainly has significant impact on a country that relies on oil sales for more than 90% of its export earnings. To bring an end to the situation, government declared amnesty that will end by October 4, so there can be a peaceful resolution of the crisis, but the militant leaders are asking for more time. The forecast is however coming amid serious issues that dwell more on global recovery and the degree to which high levels of speculation continue to influence oil prices. The issue of speculation has been of great concern to OPEC and its member countries lately, which continue to wonder why some governments and other authorities have done nothing concrete, since the intention to introduce regulatory guidelines is yet to materialise.

According to Jose Maria Botelho de Vasconcelos, President of the organisation and minister of petroleum, Angola, the general economic outlook has, to some extent, improved since OPEC's last meeting in May.

He stressed that although OPEC member countries have participated in and benefited from this recovery, there are still great uncertainties as far as price behaviour is concerned, not only for the remaining months of 2009, but also well into the second half of 2010.

There has been a general strengthening of oil prices, within a range of around \$60 to \$73 a barrel for OPEC reference basket. A situation that has provided welcome support for the industry's investment plans, after the gloomy outlook for much of the past year. Based on projections from the EIA's September 2009 Short-Term Energy Outlook (STEO), members of OPEC can earn \$559 billion of net oil export revenues in 2009 and \$675 billion in 2010, the agency statistics arm of the Department of Energy, said in a report recently. The agency, statistics arm of the Department of Energy, estimates OPEC's 2008 net export revenues at \$971 billion, 43 billion below the \$1.01 trillion OPEC itself said it earned last year.

In July last year, the EIA's forecast was that OPEC could earn \$1.25 trillion in 2008, and as much as \$1.322 trillion in 2009, at that time, the EIA was expecting the price of US West Texas Intermediate crude to

average \$127 per barrel in 2008 and \$133 per barrel in 2009. After hitting records of more than \$147/b in July 2008, prices however cascaded downwards over the subsequent months as the global economic downturn deepened, and forecasters slashed their expectations of world oil demand. Prices have been on a broadly upward trend since mid-February this year. WTI crude futures traded at \$39.44/b on February 18, their lowest level this year, but have since strengthened. WTI futures traded at \$68.40/b on Monday, as the EIA used the projections in its monthly Short Term Energy Outlook to forecast OPEC's revenues.

OPEC's figures, published in July in its Annual Statistical Bulletin for 2008, showed that the group's top producer, Saudi Arabia, earned \$283.2 billion last year, up from \$206.5 billion in 2007. The EIA estimates Saudi Arabia's 2008 earnings at \$288 billion. For the first eight months of 2009, the EIA estimates OPEC's earnings at \$340 billion, with Saudi Arabia's revenues at \$92 billion."

Nigeria's current production capacity is now 3.3mbpd so as long as there is peace in the Niger Delta, increased production does not present a problem even if it does mean breaching any OPEC quota – something that other members allegedly do with impunity.

In the meantime the Federal Government is to press ahead with its plan to de-regulate the downstream oil and gas market which includes the withdrawal of fuel subsidies, which in the last 4 years has cost N2 trillion, in November. This is expected to result in a substantial increase in the cost of domestic petrol from its present level of N65 per litre to possibly as high as N105, which will obviously have an effect on inflation.

At last it has been announced that the first private refinery at Ologbo in Edo State will come on stream in 2011 and this will be followed by similar refineries in other states. It should be remembered that under President Obasanjo's administration, licences were awarded for the construction of 18 private refineries.

➤ **Power**

This sector has also benefited enormously from the Niger Delta situation as electricity generated rose from less than 1,000 megawatts in July to its 'current' level of 2,500 megawatts. It is generally accepted that Nigeria's installed capacity is slightly in excess of 5,000 megawatts. The aim is to increase this to 6,000 megawatts by the end of the year although this still seems optimistic, but supply is less than half of this due to previous vandalism of gas pipelines and low water levels at the country's hydro plants. It will be late October at the earliest before any major improvement can be achieved.

The former Head of State, Chief Ernest Shonekan who is now Chairman of the Infrastructure Concession Regulatory Commission, has recently been quoted as stating that over the last ten years, Nigeria has spent over US\$10 billion on power projects.

□ **IN BRIEF**

- UK exports to Nigeria in 2008 totalled £1.3 billion, an increase of 30% on 2007. In the first five months of 2009 alone exports have risen by a further 23% and the UK is Nigeria's fourth largest trading partner. The UK is the largest investor in Nigeria accounting for 20% of direct foreign investment.
- According to the United Nations Conference Trade and Development (UNCTAD) Nigeria, with US\$12 billion and US\$20 billion in 2007 and 2008 respectively, ranks 19th in the world amongst the 20 strongest economies. However, in a separate report by the World Investment Report for 2009, foreign direct investment is expected to fall from US\$1.7 billion in 2008 to US\$1.2 billion this year.
- Inflation in August, which is the most up to date available, fell marginally to 11%. This is mainly attributable to falls in the cost of food. However, with the deregulation of the oil industry and the withdrawal of fuel subsidies in November, economists expect the rate to increase.
- Barnabas Atiyaye of the United Nations Habitat Programme support office has claimed that over 50 million Nigerians out of the total population of 140 million live in slums throughout the country. This is primarily the case in urban areas he said.
- *This Day* reported on 4th September that the Federal Government has approved expenditure of N27 billion for the rehabilitation and purchase of railway facilities including new locomotives. Apparently the Government has opted for a single standard gauge railway system and of the sum approved; N14.3 billion is for the procurement of 25 locomotives while N12.8 billion is to be spent on facilities and rehabilitation.

- The death has been announced of Gani Fawehinmi, the eminent lawyer and human rights activist who died on 7th September from lung cancer.

◀ STOP PRESS ▶

Since this Digest was prepared there have been significant developments in both the Banking sector and the Niger Delta, which are summarised below:

➤ **Banking**

The CBN has concluded its audit of the 14 remaining banks which has led to the dismissal of the Managing Directors and Executive Directors of the following banks: Bank PHB, Wema Bank, Spring Bank and Equatorial Trust Bank. Their shares have been suspended on the Nigerian Stock Exchange and it is now widely expected that Nigeria's Insurance companies may also face a special audit.

➤ **The Niger Delta**

Over the final weekend of the amnesty hundreds of followers of the militant leaders Atke Tom and Farah Dagogo surrendered their arms bringing the total number who have surrendered to almost 10,000. Also, in a major development, Government Tompolo accepted the terms of the amnesty, which was a real boost for the Government. There are believed to be some disaffected members of MEND who have not surrendered, possibly as many as 3,000 and they will now be pursued by the Joint Military Task Force.

Circulated October 15, 2009

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