



POLITICS AND POLICIES

New Administration; Implications for Businesses
over the next 4 years

June 2011

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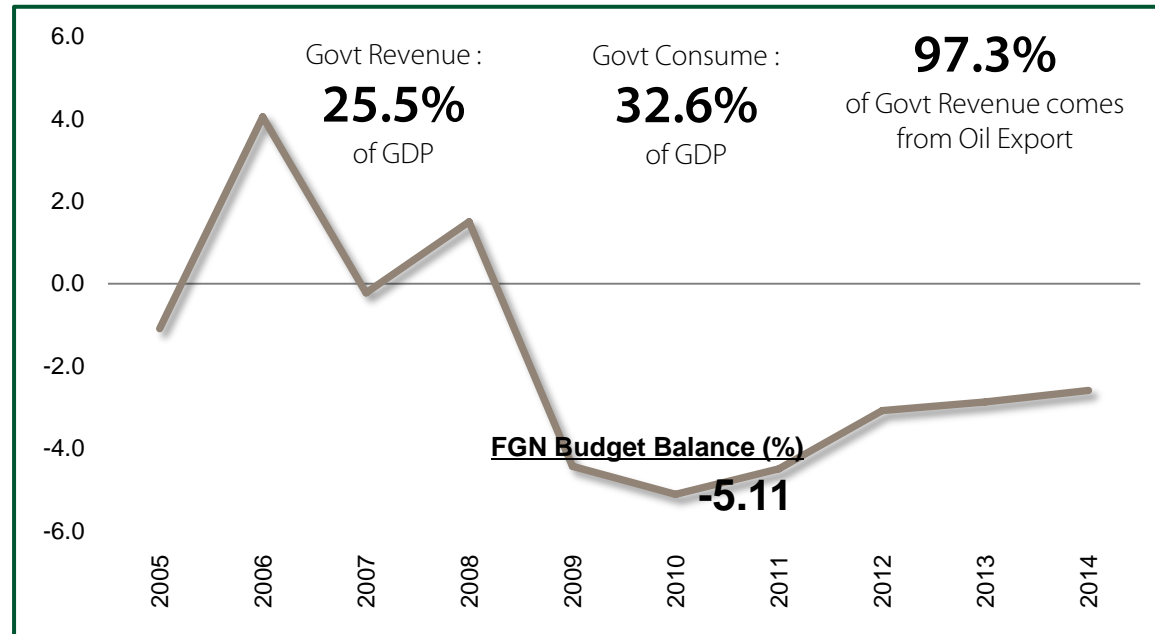
Political Landscape

- ❑ 12 years into a third attempt into partisan democratic governance, Nigeria is tugging along. In April 2011, the country was able to conduct historically successful elections into the different political offices across the land.
- ❑ The presidential election was won by the incumbent, Dr. Goodluck Ebele Jonathan (GEJ) of the Peoples' Democratic Party (PDP) as widely expected. The party is the only one with the political machinery to reach all parts of the country amongst the 64 registered political parties. GEJ is from the minority group of the oil producing areas of the Niger Delta.
- ❑ Beyond the underlying issue of the country's diversity with over 150m people from about 250 ethnic groupings, corruption, lack of electricity, dire state of infrastructure and insecurity are the main issues the political class must address.
- ❑ The government officials have unregulated access to huge government funds, 98% of which comes from oil, and are disbursed without accountability. This is also responsible for the difficulty the country faces electing credible leaders, with politicians' constant attempts to swing the results in their favour.
- ❑ The Elections revealed the North- South divide as all the Northern states voted against Jonathan in the bid to retain power in the North while all the states in the south voted for him promoting the radical change required to move the country forward.
- ❑ The experience of the democracy thus far indicates that with the right policies, reduced government, lasting investment in infrastructure and commitment to combat corruption, the Nigerian economy could deliver competitive return on investments relative to global peers.

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Fiscal & Economic Policies

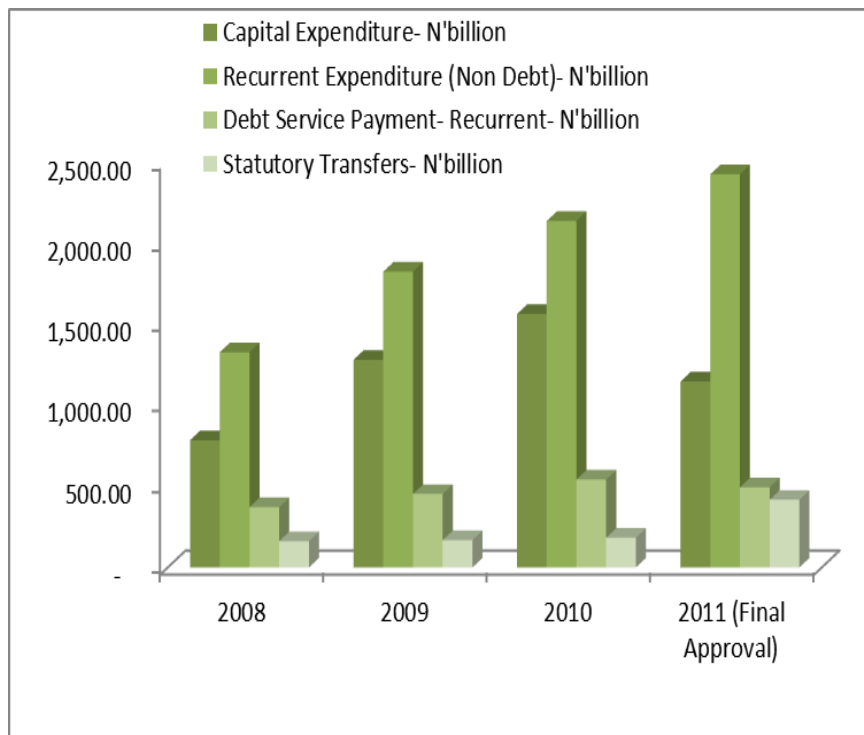
Burden of Government Finances



- ❑ The much touted diversification of Nigerian economy's from reliance of oil exploration has eluded the nation.
- ❑ large size of government also kept public consumption very high as a percentage of GDP
- ❑ After much debates the current government commenced winding down on the level of deficit which reached a 5 year low of -5.11% in 2010.
- ❑ The Nigerian fiscal rule- Fiscal Responsibility Act of 2003- ceils fiscal deficit at -3% of GDP
- ❑ Planned deficit in budget 2011 is -2.55%

Government Budgets

OVER THE YEARS, GOVT BUDGETS HAVE BEEN CONSUMPTION ORIENTED



Budget Trends 2009-2011

Expenditure	2009B	2010B	2011
Approved Budget	3558.00	4427.00	4484.74
Supplementary I	102.27	644.75	?
Supplementary II	353.60	87.72	?
Total	4013.87	5159.47	4484.74
Revenue			
Budgeted Revenue	2265.21	3179.87	3350.00
Actual Revenue	1704.99	N/A	?
Budget Ratios			
Capital Expenditure- N'billion	36.00%	35.32%	25.57%
Recurrent Expenditure (Non Debt)- N'billion	51.28%	48.28%	54.07%
Debt Service Payment- Recurrent- N'billion	12.74%	12.25%	11.04%
Statutory Transfers- N'billion	4.74%	4.15%	9.32%
Deficit (% of GDP)	-4.43%	-5.11%	-2.55%

- Higher proportion of the budget has been utilized to finance large government and personnel which largely benefit lower proportion of people in government
- hence recurrent expenditure continue to rise while capital expenditure decreases further in the 2011 budget
- Federal government is estimated to spend over N1 trillion annually on personnel costs
- Government officials- appointed and elected are unwilling to reduce high recurrent and overhead costs due to personal gains

Policies and Politics

- Petroleum Industry Reform via the Petroleum Industry Bill (PIB) to unbundle and commercialise the NNPC appropriately as well as set new hurdles for crude explorations.
 - The failure of the last National Assembly to pass the bill is a failure on their parts
 - The delay is costing the Nation loss of competitive as IOCs relocates their investment to other similar markets – Ghana, Uganda, Tanzania
 - The passage of the Local Content Bill before the PIB is putting the cart before the horse.
 - Deregulation of downstream oil sector to plug leakages via subsidies (now worth up to US\$2bn) depend on the PIB
- Sovereign Wealth Funds (SWF) to efficiently save for rainy days as well as channel national resources to infrastructure development. The NSIA Bill is passed and signed to law
- Wholesale adoption of Public Private Partnership (PPP) approach to infrastructural funding will expand markets and deepens the financial system.
- Specified in the 2011-2013 Fiscal Framework and 2011 budget. e.g. Power Sector Reform, strengthened ICRC for efficient infrastructure concessioning.

Infrastructure

**Unemployment
& Poverty
Eradication**

Trade and Tariff

Agriculture

**Friendlier Tax System
& Structure**

**Security & Contract
Enforcement**

KEY ISSUES

- The PPP approach to tackling the challenge of infrastructure will be supported by efficient funding from the SWF as well as the huge Pension funds.
- With an unemployment rate of 19.7% and 43% youth unemployment, the government is adopting a frontal approach. N50 billion provision in 2011 budget to revive public works; target 500,000 jobs in the immediate future.
- Gradual shift in the use of import prohibitions to tariff based instruments. This is to balance the need to augment non oil revenue as well as ensure adequate protection for local industries.
- The use of government controlled input subsidies have largely been marred with corrupt practices. Government plans to promote the production of fertilizers locally and deregulate the distribution. Promotion of large scale farming along the export crops chain is also central to the administration's policy on Agric. Funding via the CACS and NIRSAL is relevant here.
- Multiplicity and inconsistency in taxes are faced by businesses in Nigeria. Attempts to address these challenges remain weak.
- Insecurity is fast becoming the biggest challenge facing the nation. Higher incidence of sectarian violence- Boko Haram in the North. Amnesty was successfully used to curtail Niger Delta insurgences.

**JOB
CREATION- BUDGET
2011 PROVISION**

PIB BILL

**LOCAL CONTENT
ACT 2010**

KEY LEGISLATIONS & EXECUTIVE POLICIES

**POWER SECTOR
REFORM- ROADMAP**

**ANTI TERRORISM BILL
2011**

**REVISED IMPORT
PROHIBITION LIST**

FOI BILL 2011



Monetary Stance and Policies

FINANCIAL SYSTEM STABILITY

FINANCIAL SYSTEM (IN)STABILITY

- The global financial meltdown of 2008/09 exposed the weakness in the Nigerian financial system. Unregulated exposures to equities and downstream oil & gas activities, as well as excessive risks led to huge NPL in the banking system and capital erosion of many banks.
- In addition to monetary ease aimed at sustaining the viability of the financial system during that period, immediate regulatory reforms include:
 - Establishment of AMCON to absorb the toxic assets of the banks
 - Promotion of the use of Credit Bureau in credit processes
 - Improved risk management frameworks and prudential regulations
 - New banking regimes aimed at protecting core banking activities
 - Tenor limits for banks' CEOs and Directors to improve corporate governance

ELECTRONIC AND MOBILE BANKING

- Universal banking was scrapped and replaced with specialised banking structures with jurisdictional constraints- International, National and Regional Banks. Hold Co structure is allowed.

Monetary Policy Stance-Tight!



MACRO- MONETARY ISSUES

INFLATION & PRICE STABILITY

At 11.3% and 12.9% headline and core inflationary respectively remain high

Threat of imported inflation on the back of higher global commodities and energy prices

Monetary policy target is focused at bringing inflation down to single digit in 2011

Recent moderations in headlines suggests effective policy actions

Forward Exchange Market created and promoted to offer forward stability of the market

EXCHANGE RATE VOLATILITY

The pursuit of price stability is linked to exchange rate stability

CBN target +/-3% volatility band around N150/US\$1

Focused use of managed float with foreign reserves depletion

Recent MPR increase to attract independent inflow to the FX market

Banks however continue to hold higher liquidity and play in the shorter end of the market

The use of macro-prudential tools such as CRR became imperative as a result

MONETARY GROWTH

Weak banking system and contractionary policy kept credit low

Economic agents are also deleveraging

Government however remains high liquidity driver

CBN hence embarked on gradual increases in the MPR as a tool to curtail inflation

The frontloading approach to tackling inflation resulted in 200 bps rise in MPR to 8% in April 2011.

High price expectation and volatile exchange rate market suggest sustained high MPR

INTEREST RATE DYNAMICS

Tighter monetary policy environment may persist FX and Fiscal dynamics will determine this

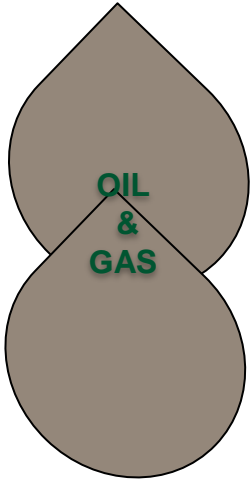
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Implications for Businesses & Investments

- ❑ the administration intends to sustain the current reforms and policies. The current contractionary monetary policy is expected to remain in place until the inflationary threat is substantially subdued.
- ❑ The accommodative exchange rate policy is also expected to be sustained implying the continuous readiness of the monetary authority to sustain the naira exchange rate at +/-3% around N150/US\$1.
- ❑ Fiscal policy will be expected to complement the monetary stance to reduce the rising fiscal gap and bring it back in line with the Fiscal Responsibility Act beginning from the 2012 fiscal year.
- ❑ A contractionary fiscal policy beginning from 2012 signifies that the country would be able to rebuild the reserves buffer, and with the SWF in place, it would serve as an efficient conduit for government to efficiently support infrastructural development competitively in addition to support smoothed macroeconomic dynamics. Market based support for the exchange rate would be easier.
- ❑ The administration used special interventions at targeted sectors- agriculture, manufacturing, aviation, SME, power and Nollywood- to boost activities in the throes of the financial meltdown. This could continue in the bid to jumpstart domestic production.
- ❑ In line with the repositioning of the Infrastructure Concession Regulatory Commission (ICRC), we expect substantial private sector participation in infrastructure development across the nation especially in road, rail and aviation infrastructure.
- ❑ Improved investor confidence in the Nigerian economy and a lower risk profile is expected to ensure substantial foreign direct investment flow. The Nation's sovereign ratings should get a boost as reserves are rebuilt and public debt kept at minimal level.
- ❑ Like the amnesty programme, the government will speedily come up with a solution to resolve the Jos crisis, the Boko Haram insurgency and retooling the civil security agencies for optimal performance.

SECTORS OF IMPACT & OPPORTUNITIES

AGRICULTURE



**CONSTRUCTION &
BUILDING MATERIALS**

POWER & ELECTRICITY

MANUFACTURING

**FINANCE AND
INSURANCE**



About BGL



- We are one of Africa's leading Investment Banking, Securities Trading, Private Equity, Asset Management and Private Wealth Management Groups. Head-quartered in Lagos, Nigeria, we provide world class advisory services and products to clients that include Government, Corporations, Financial Institutions and High Net Worth Individuals.
- Since inception in 1993, we have expanded our Investment Banking business to become one of Nigeria's most successful Financial Institutions and emerged a very influential member of the Nigerian Stock Exchange.
- We have participated in several landmark transactions and won industry awards across all our business areas. We are respected for our in-depth research and product innovation; our ability to execute Investment Banking Mandates; our Securities Trading Platform and our unrivalled distribution capabilities.



- Corporate Finance
- Public Sector Advisory
- Structured Finance
- Principal Investments
- Investment Research



- Equity Trading
- Fixed Income Trading
- Propriety Trading
- Strategic Acquisitions and Advisory



- Private Wealth Management
- Fund Management and Advisory
- Specialty Asset Management and Advisory
- Institutional Asset Mgt. and Advisory



- Private Equity Funds
- Real Estate Investments
- Long-term/ Strategic Investments
- Business Incubation/ Investment Monitoring

BGL Selected History

BGL's involvement in Nigeria's landmark transactions has contributed to establishing its reputation as a leading regional investment banking firm. Since 2001, BGL has consistently ranked among the top 5 investment banking firms in West Africa.

1993
 Banc Garanti Limited incorporated on May 13, 1993. Asset and Investment management business commenced in 1995

1998
 Packaged the first ever supplemental Offer in the Nigerian capital market

1999
 Provided financial advisory and issuing house services in the first ever leasing company IPO on the NSE (C&I Leasing)

2002
 Acted as financial advisers to HANS Gremlin during the first hotel privatization in Nigeria (Abuja Sheraton)

2004
 Coordinated the N8.4bn IPO of Standard Trust Bank (STB), achieving a subscription level of 254%

2005
 Served as primary advisor in the first ever merger in the Nigerian banking industry (UBA/STB)
 Provided advisory services to United Alliance on acquisition of stake in Access Bank

2006
 Key advisor and issuing house in the unbundling of Dangote Ind.
 Issuing house to the first domestic bond issued by a Nigerian bank
 Financial advisor to Transcorp on the acquisition of NICON Hilton

2007
 Advised NNPC on setup of \$350m Local Content Fund
 Co-managed GTBank \$750m GDR listing. The first African GDR listing on London Stock Exchange
 Advised BPE on privatization of Ajaokuta Steel

2008
 Advised N2bn Longman special placing
 Lead advisor on first ever media and entertainment IPO (DAAR)
 Advised on Abuja Investment Park project

2009
 Participated in Lagos, Niger, Kwara and Imo state bond Issuances totaling N91.5 Billion

2010
 UBA Bond ₦20Bn
 Ebonyi State Bond ₦20Bn
 Kaduna State Bond ₦15Bn
 Bayelsa State Bond ₦50Bn

BGL today...*

Shareholders' Funds	NGN 10,405,925,000
Assets Under Management	NGN 4,801,283,000
	18

* as at Dec. 2009 audited accounts



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