Zenith Economic Quarterly

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Reforms:

The Journey, the Milestones

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Zenith Economic Quarterly

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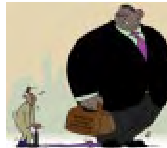

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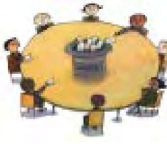

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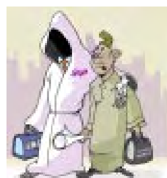

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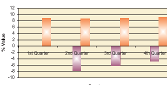

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Light at the End of the Tunnel

The state of the economy, how it is structured or re-structured to make for improved wellbeing of the people remain the central concern of every government in all climes. Even in the international arena, the state or strength of national economies has remained a critical factor in forging diplomatic relations. Thus, government of all shades always put in place strategies, plans or blueprints for managing the economy, both for the wellbeing of the people and to assure its place in the comity of nations. However, inequality of nations, global interdependence and competition have combined to expose some countries, especially most developing ones, to the whims and caprices of 'external forces' in determining the content and shape of their economic roadmaps. Yet, others have managed to package purely 'home grown' strategies or some hybrid of structural adjustment programmes with doses of foreign inputs to drive their economies.

In Nigeria, successive governments, both military and civilian, have put in place one blueprint or the other for managing the economy. However, most of those roadmaps failed to achieve much of the desired results—a situation that has left the citizenry with doubt and disillusionment over such packages prepared by governments. Apparently, in recognition of this reality, the Federal Government in 2003 drew up a 'home grown' roadmap—the National Economic Empowerment and Development Strategy (NEEDS), anchored on credible initiatives to reform all aspects of the economy. The effectuation of these initiatives in the past three years has resulted in 'revolutionary' developments that astound even the authors of the roadmap.

Inequality of nations, global interdependence and competition have combined to expose some countries, especially most developing ones, to the whims and caprices of 'external forces' in determining the content and shape of their economic roadmaps.

Therefore, as Government sets out to package NEEDS 11, it is quite apposite to analyze the strides and milestones achieved by the pervasive reforms carried out under the elapsing roadmap. Thus, in this edition, under the section—***Issues***—we present three insightful and incisive essays on the telecommunications, financial services and oil and gas sectors of the economy. Crafted by persons who are versed and versatile in each of those fields, the write-ups x-ray the shape of reforms as well as the ramifications of their impacts in the focus areas. Specifically, the topic: "*Driving reforms through financial sector consolidation*" presents a panoramic analysis of reforms in the financial services sector; the evident and potential gains and benefits. "*Domiciliation in an era of high hydrocarbon demand*" explores the progress made so far and challenges facing the upstream sector of the Nigerian oil industry in the light of the reforms. Successes made with the drivers of the reforms in the industry—National Content Programme and Oil Reserves Build-up—are also highlighted and analyzed. The growth of the telecommunications industry since the dawn of the GSM revolution and its multiplier effects on other sectors of the economy is expertly analyzed under "*The Nigerian telecom revolution and economic growth*".

Since reforms have become the veritable route to the economic development of every modern day economy, our ***Global Watch*** presents a comparative analysis of the reform efforts currently sweeping through developing nations, by highlighting the differences between 'home grown' reform initiatives and those imposed from outside. From this, it is evident that the most successful economic reforms today are 'domestic reforms' that are designed and implemented by the people, for the people and with minimal external interference and zero foreign control.

Our ***Foreign Insight*** section focuses on the disadvantaged position of minority shareholders in transition economies with weak capital market structures. Another piece highlights the similarities between Nigeria and South Africa as regional 'superpowers' while also focusing on the trade relations existing between the two nations. Other regular sections: ***Periscope, Expression, Policy and Facts and Figures***, equally contain informative works on their various focus areas.

On the whole, this edition with the theme—Reforms: The Journey, the Milestones—shows that there is 'light at the end of the reform tunnel'. The package is our usual collector's item. Explore the rich content and grow ***richer.*** Cheerio!

Marcel Okeke

Articles Wanted

- As the baton of political leadership changes hands in few months, Zenith Economic Quarterly (ZEQ) is packaging a bumper edition for the first two quarters of 2007. Articles are hereby solicited from major players in diverse sectors of the Nigerian economy whose writing skills meet the ZEQ standard.
- Articles of not more than 10 pages (MS Word, type size 12, Times New Roman font type) are welcome from proven experts in macro economy, ICT, Oil & Gas, manufacturing, power, education, aviation, maritime, agriculture, housing & real estate, etc. Data from authoritative and credible sources (charts, tables and graphs) MUST be used to support pungent points.
- Articles must be focused, relevant, precise, and based on current economic developments, especially in relation to fallouts and impacts of ongoing economic reforms. Articles short listed for publication in ZEQ would attract some honorarium. Please contact ZEQ on 01-278-1047-9 for more details. Articles must be submitted in soft copies and/or emailed to: marcel.okeke@zenithbank.com.

The Honourable Minister appreciates your well-articulated ZEQ magazine and encourages the management to continue to keep it up as it serves as an enlightenment tool on the Economic prospects of our dear nation." - ***Hon. Zanilani Mohamme, Special Assistant to the Hon. Minister***

"Thank you for the April 2006 edition of ZEQ forwarded to the British Council. We greatly appreciate it and found it interesting and educative." - ***Amarachi Nkechika, Communication Assistant – British Council, Lagos.***

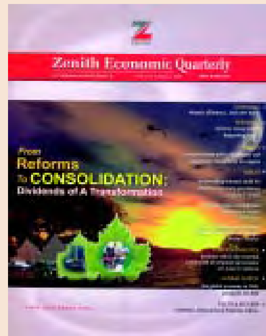
"We wish to acknowledge with thanks the receipt of your letter dated June 23, 2006 and the enclosed quarterly journal of your bank. Congratulations for a job well done." - ***Doris Onyejeose, PA to the Vice Chancellor – Pan African University***

"Thank you for your letter dated 23 June 2006 accompanying the April 2006 edition of the quarterly. After four sessions, I ceased to be the Dean of my Faculty at the end of the last session. In view of this I wish you could put on your mailing list in my personal capacity as a teacher in the Department of Finance for the future receipt of this valuable addition to our local literature in Banking and Finance." - ***Prof. Wole Adewunmi, University of Lagos.***

"This acknowledges with immense appreciation the receipt today of your memo of June 23, 2006 forwarding to me the April 2006 edition of ZEQ."
Yours sincerely,
H.R.H. Eze Prof. G. O. Nwankwo, Evergreen Associates Ltd.

We wish to express our appreciation to the Management of Zenith Bank Plc and the Editorial Board of the magazine, ZENITH ECONOMIC QUARTERLY, on their effort in sending us a copy of the magazine for some time now. Such kind gesture is commendable and goes a long way (to endearing you to the hearts of your admirers and partners-in-progress like ourselves.

While the quality of the magazine is good and standard, including the write-ups, however, we are of the view that the space/page allocated to Capital Market reporting and happening is inadequate. If you consider the scope of the Capital Market and its impact on the economy it becomes necessary that more space/pages be allocated to this very important sector of the Nigerian economy. While assuring you of our partnership at all times, we use this opportunity to wish you COMPLEMENTS of the Season and Prosperous Years ahead of you.
Kasimu G. Kurfi
MD/CEO, APT Securities and Funds Ltd



I acknowledge with thanks a copy of your publication "Zenith Economic Quarterly (ZEQ)" which you sent to me. Your gesture is appreciated and I thank you most sincerely for it.Rest assured that the publication will be put to good use.
Yours faithfully
Anthony Nnonike, Channels Television

I am directed to refer to your letter dated June 23rd, 2006 on the above subject matter and to acknowledge the receipt of a copy of the April 2006 edition of Zenith quarterly. Please accept the highest regards of the Honourable minister.
Agbonle, A. Z. (Ms), Ministry of Co-operation and Integration in Africa (Department of Planning, Research and Statistics)

I write on behalf of the Minister of Education, Obiageli Ezekwesili, to acknowledge with thanks the July 2006 edition of your Zenith Economic Quarterly Magazine. Please accept the assurances of the Minister's best regards.
Ikechi Okorie,
Special Assistant to Minister

I am directed to acknowledge with thanks the receipt of your letter dated 18th August, 2006 with its enclosure (Zenith Economic Quarterly (ZEQ) to Mrs. Mina B. Benebo, the Solicitor-General and Permanent Secretary, Ministry of Justice, Port-Harcourt. Thank you.
V. H. Braide
Office of the Solicitor-General/Perm. Sec.
Ministry of Justice

Economy: Reforms Yet on Front Burner

* By Marcel Okeke

The ongoing efforts of the Federal Government of Nigeria to institutionalize reforms in the country before the emergence of the next administration in 2007 manifested, in the last quarter 2006, as initiatives in form of policies, programmes and projects in virtually all sectors of the economy. In fact, there were deliberate fast-tracking, jumpstarting and consolidation in a number of areas to achieve the desired objectives. Thus, reforms in sectors like financial services, solid minerals, power and energy, oil and gas, telecom and maritime proceeded with renewed impetus. Reforms in public service, tax, privatization, agriculture, physical and social infrastructure, among others equally received improved attention. Specifically, the second phase of consolidation in the banking sector which began early in the year, gathered momentum all through the fourth quarter. Similarly, the ongoing recapitalization exercise in the insurance industry (with February 2007 as deadline) attained a feverish pitch as 2006 drew to a close.

All these translated into bustling activities in the economy—leading to macroeconomic stability which reflected in the healthy conditions of most economic indices. Thus, during the quarter, stable exchange rates and generally declining inflation and interest rates prevailed in the economy. Inflation rate, for instance, which on year-on-year basis, got to a single digit level by mid-2006, maintained the

trend to the last quarter, standing at nine per cent at end-December.

The Naira exchange rate against major foreign currencies remained stable as in previous quarters; the local currency even gained some strength against the US Dollar and a few other currencies. In fact, average exchange rate which stood at N133.00 to a US$ in 2005, came down to N129.00 to a US$ by fourth quarter 2006, and is projected to further firm up to N127.00 to US$ in 2007. The cheering trend was due, in part, to the foreign exchange market liberalization policies applied by the monetary authorities earlier in the year (including the introduction of the Wholesale Dutch Auction System—WDAS) as well as the high and steady foreign exchange inflow from crude oil sales. The inclusion of Bureaux De Change in the official wing of the foreign exchange market and the effective monitoring of these BDCs also helped in sustaining the strength of the naira against other major currencies. All these equally led to the near-convergence of the naira exchange rates in the official and parallel markets by mid-2006—the minimal gap between them was sustained all through the second half 2006.

Budget: Key Budget Assumptions & Targets

KEY ASSUMPTIONS & TARGETS	2005	2006	2007
Production capacity (in mbpd)	2.50	2.59	2.90
Production quota (in mbpd)	2.29	2.35	2.40
Production (in mbpd)	2.51	2.00	2.50
Projected price - Market (in USD)	51.10	60.40	55.00
Projected price - Budget (in USD)	30.00	35.00	40.00
JV cash calls (FGN share) in US$ bns	4.00	4.20	4.50
Technical cost of oil companies			
Operating expenses (T1) - in USD	2.41	2.12	2.94
Capital expenses (T2) - in USD	5.37	5.82	5.48
Weighted average rate of PPT	83%	81%	81%
Weighted average rate of Royalties	19%	18%	18%
Average exchange rate (NGN/USD)	133	129	127.1
VAT rate	5%	5%	5%
CIT rate	30%	30%	30%
Weighted average duty rate	28%	17%	17%
Target inflation	11.6%	10.9%	9.0%
Target interest rate (weighted average)	13.0%	13.0%	9.0%
Target growth in real GDP	6.2%	6.9%	10.0%

The presentation of the 2007 Appropriation Bill by President Olusegun Obasanjo to the National Assembly, the prompt approval of the Bill as well as the granting of Presidential assent were some of the key developments during the last quarter 2006. For the first time in the life of the administration, all these were concluded (within three months) before the end of the subsisting financial year. The N2.30 trillion budget which is tailored towards the attainment of the objectives of the National Economic Empowerment and Development Strategy (NEEDS) as well as the Millennium Development Goals (MDGs) is 21 per cent bigger than the 2006 figure of N1.78 trillion. The budget is premised on crude oil production of 2.50mbpd (2.00mbpd 2006) and price of $40 per barrel ($35pb 2006). Some ministries, departments and agencies (MDAs) that got substantial allocations in the budget include power, agriculture, education, health, works, water and security among others.

BANKING & FINANCE

The impact of the consolidation exercise in the banking industry as well as other new policies combined to dictate a number of phenomenal developments in the financial services sector all through 2006. Specifically, the banking industry has remained the dominant sector in the Nigerian Stock Exchange, accounting for a huge chunk of the blossoming indices of the NSE—-market capitalization, turnover volume and value. In fact, 20 out of the 25 Nigerian banks have been ranked among the top 100 banks in Africa, and indeed, 17 out of the top 40 by *The Banker* magazine. Really, 17 of the 25 were already among the top 1000 banks in the world by the end of 2006.

The Central Bank of Nigeria statistics show that the 25 banks in the country are now jointly the size of the first and second largest banks in South Africa combined—as against the 89 banks in 2003 being the size of only the 4th largest bank in South Africa. The Nigerian banking industry has also been rated as the fastest growing on the African continent, according to the Central Bank of Nigeria statistics. Apparently, this phenomenal growth has began to attract awards, alliances, patronages and partnerships for most of the 25 operating banks. Thus, Standard Bank of South Africa's bid to acquire IBTC-Chartered Bank would be consummated during the first quarter 2007. Both banks have been in a merger

talk since early 2006, and which the larger South African Bank says would enable it consolidate its operations in Nigeria through its subsidiary, Stanbic Bank Limited.

Growth by acquisition also continued among the banks all through 2006. United Bank for Africa acquired Trade Bank (in-liquidation) by way of 'purchase and assumption'. Under the arrangement, UBA acquired the assets of Trade Bank among which are its 39 branches, and assumed responsibility for the deposit liabilities of its former private sector customers. Under similar deals, Ecobank Nigeria acquired AllStates Trust Bank while Afribank acquired Assurance Bank and Lead Bank. A number of Nigerian banks are also making in-road into neighbouring West African states—either by overtures to acquire existing banks or to set up brand new subsidiaries. Some have either opened branches or are in the process of doing so in key financial centres of the globe.

Sequel to consolidation, more lines of credit are now being extended by a number of reputable global financial institutions to Nigerian banks. In this regard, Zenith Bank and Access Bank were offered lines of credit totaling $135 million (N17.56 bn) by the African Development Bank (ADB) under its private sector lending window. While Access got $35 million, $100 million went to Zenith Bank which had earlier in 2005 secured $70 million from the same source. First Bank of Nigeria also secured such a facility from the European Investment Bank for the development of the private sector in the country.

In a similar vein, Zenith Bank and Guaranty Trust Bank during the period under review, secured partnerships with the USAID and IFC respectively to fund specific mortgage and housing development projects. Under the arrangement, Zenith Bank is expected to on-lend the $10 million line to low and middle income earners in specified locations in the country, with the partial guarantee of the US Government on a 'true-risk sharing' basis as contained in the Development Credit Authority (DCA) programme of USAID. Also, the American EximBank has established a $300 million dedicated financial facility with 14 Nigerian banks, to assist Nigerians in ship acquisition. The banks act as guarantors for the beneficiaries of the facility.

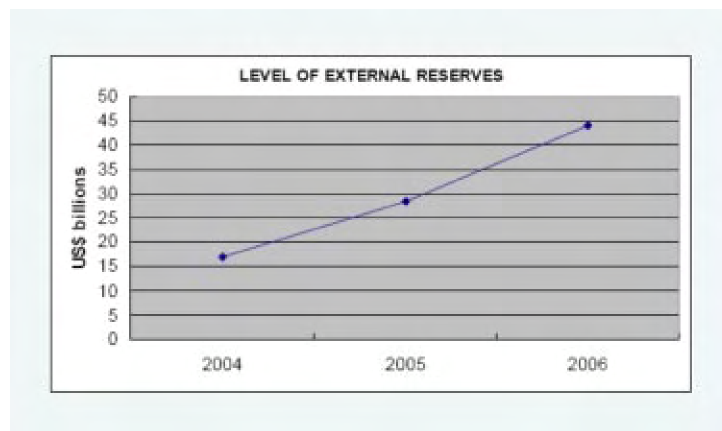
In its effort at deepening the gains of consolidation and strengthening the banking system, the Central Bank of Nigeria in 2006 came up with a number of policies and programmes. Specifically, the apex bank introduced a new interest rate regime—Monetary Policy Rate (MPR)—which replaced the Minimum Rediscount Rate (MRR) as the nominal anchor of all interest rates in the country. According to the CBN, the new rate which became effective December 11, 2006, was introduced to move the economy towards a

Statistical Summary of Market Performance In 2006

	2005	2006	% Change
Market Capitalization	₦2.9 trillion	₦ 5.12 trillion	76.55
The NSE All-Share Index	24,085.76	33,189.30	37.8
Total Turnover Volume	26.7 billion shares	36.7 billion shares	37.45
Total Turnover Value	₦262.94 billion	₦470.253 billion	78.84
Average Daily Volume	107.6 million Units	150.9 million Units	40.24
Average Daily Turnover	₦1.06 billion	₦1.94 billion	83.02
New Issues Approved	₦730.53 billion	₦1.41 trillion	93.01
Number of Listed Companies	214	202	(5.61)
Number of Listed Securities	288	288	0.0

market-driven interest rate era and enhanced efficiency in the conduct of monetary policy.

The MPR was set at 10 per cent, using the extant level of inflation and the expected inflation rate outcome of nine per cent for fiscal 2006 "as guide to ensure that interest rates remain positive in real terms". Furthermore, there will be a spread of 600 basis points around the MPR, that is, 300 basis points below and 300 basis points above. This



further translates into an upper limit of 13 per cent, which will be the *Repo rate* and a lower limit of 7 per cent, representing the rate at which the CBN will take deposits from the banks.

The CBN, in its efforts at the liberalization of the foreign exchange market, launched a revised Foreign Exchange Manual which among other things includes the 'definition of demurrage', 'currency swap transactions', 'Form M' revalidation and Letters of Credit (LC) validity extension and revised import regulations. With the emergent dispensation, under currency swap transactions, banks are permitted to engage in derivative activities—the required documentations are however subject to international standards for swaps and other derivatives-agreements.

The 'second phase' of consolidation in the banking sector as well as the ongoing re-capitalization in the insurance industry combined to ginger activity in the capital market during the period under review. Following the trail-blazing success of Zenith Bank's offer for subscription (which fetched over N50 billion) early in the year, a number of banks and insurance companies accessed the capital market to raise fresh funds. Intercontinental Bank, for instance, made a hybrid offer (public offer and rights issue) of 2.27 billion shares, subscription for which opened September 28 and closed on November 7, 2006. Insurance companies moved to the capital market in droves, especially to beef up their pre-merger capital base. This scenario which induced stock switching by investors, impacted significantly on the primary and secondary segments of the market.

Thus, by year-end 2006, secondary market turnover on the Nigerian Stock Exchange stood at N470.25 billion, up by 79 per cent on the N262.90 billion recorded in 2005. Market capitalization (of the 288 securities listed on the NSE) increased by 76.55 per cent from N2.90 trillion in 2005, to stand at N5.12 trillion by year-end 2006. The NSE All-Share Index rose by 37.80 per cent to close the year at 33,189.30 as against a rise of only 1.01 per cent and figure of 24,085.76 in 2005.

EXTERNAL DEBT/ FOREIGN RESERVES

During the last quarter 2006, the Federal Government paid $1.4 billion of the London Club debt. The outstanding $900 million will be paid during the first quarter 2007, according to a directive by President Obasanjo. The President had in November directed the Finance Minister and the Debt Management Office (DMO) to put the machinery in motion for the payment of all London Club debts. Government had earlier in the year, set up a stakeholders' panel which took stock of the debt and worked out strategy for its repayment. The London Club debt which is made up mostly of oil warrants, promissory notes and par bonds, by third quarter 2006, accounted for 49.5 per cent of Nigeria's outstanding external debt put at about $4.85bn. At its eventual exit from the London Club debt, the nation's external debt will drop to about $3.3 billion, the lowest in almost 30 years—Nigeria's external debt as at 1978 was $3.4 billion.

During the last quarter 2006, the nation's gross external reserve maintained the significant growth it has been recording since the beginning of the year. As at end-September, it stood at $40.46 billion; rose to $41.39 billion in October, hitting $43.01 billion in November. It is estimated to have risen to about $45.00 billion by year-end 2006. This steady growth of the reserve is attributable to a number of factors, including huge earnings from the consistently high crude oil prices in the international market all through the year. Prudence in external reserve management by monetary authorities as well as Nigeria's exit from much of its external indebtedness also partly accounted for the quantum and steady accretion in foreign reserves.

POWER SECTOR

In furtherance of the arduous reform in the power sector, the Nigerian Electricity Regulatory Commission (NERC) took a revolutionary step in the last quarter 2006, when it issued licenses to five independent power producers and distributors—bringing the number of such licenses to nine. NERC had earlier in the third quarter, granted licenses to four IPPs. The five recently licensed IPPs are: Ewekoro Power Limited to generate 12.5MW; Ikorodu Industrial Power Limited (39 MW); Mabon Limited (39 MW); Geometric Power Limited (140MW) and Aba Power Limited. The four earlier licensed include: Farm Electric Supply Limited; ICS Power Limited; Ethiope Energy Limited and Supertek Nigeria Limited.

Apart from these IPPs, the Federal Government equally took other steps to tackle the problem of power generation and supply in the country. Thus, in the last quarter 2006, it imported gas turbines worth $404 million to serve the seven power generating stations across seven locations in the Niger Delta region. The seven stations which are being constructed under the National Independent Power Project (NIPP) have the combined capacity to generate 2,500 megawatts of power—a significant part of the government's 2007 target of 10,000 megawatts.

Several state governments have also come up with their own power generation initiatives. The River State Government, during the last quarter 2006, completed and commissioned its N60 billion 150 Megawatts capacity power plant at Omoku. North China Power Engineering Company is also currently executing some contracts to construct a 330KV transmission line and sub-station between Jos and Makurdi, while the Japanese government is providing counterpart funding for rural electrification projects in Cross River, Akwa Ibom, Nassarawa, Bauchi and Gombe. Under the nation's rural electrification programme, about 1,500 communities are to be connected to the national grid by end-2007. In this regard, the Federal Government has proposed to source additional power generation capacity of 3,500MW from the development of over 200 potential sites of small hydro-power plants located around the country. The facilities are found in 12 states of the Federation—Rima River (Sokoto), Katsina, Niger, Kaduna, Kwara, Kano, Borno, Bauchi, Gongola, Plateau, Benue and Rivers.

By December 2006, the NERC had commenced the processing and issuance of electricity generation and distribution licenses to prospective investors. Similarly, the Bureau of Public Enterprises (BPE) also began the reform and privatization of the companies created pursuant to the unbundling of the erstwhile National Electric Power Authority (NEPA). These include the distribution companies with operational bases in eleven locations in the country as well as the three thermal power generating stations at Egbin (Lagos), Ugheli (Delta State) and Geregu (Kogi State).

Power Generation Adequacy: Nigeria & the Rest of the World

	Country	Population	Electricity Generation	Percapita consumption
1.	USA	250 million	813,000MW	3.2KW
2.	Cuba	10.54 million	4000MW	0.38kw
3.	United Kingdom	57.5 million	76, 000MW	1.33kw
4.	Ukraine	49 million	54,000MW	1.33kw
5.	Iraq	23.6 million	10,000MW	0.42kw
6.	South Korea	47 million	52,000MW	1.09kw
7.	Nigeria	120 million	4000MW	0.03kw
8.	Ghana	19.7 million	1000MW	0.265kw
9.	Egypt	67.9 million	18,000MW	0.265kw
10.	South Africa	44.3 million	45,000MW	1.015kw

Private refineries, expiry of ATC and proposed Capacity				
Amakpe International Refinery	-	expired April 8, 2006	-	12,000bpd
Resource Petroleum and Petrochems	-	expired January 9, 2006	-	100,000bpd
Badagry Petroleum Refinery Limited	-	expired November 27, 2006	-	100,000bpd
Clean Waters Refinery	-	expired April 8, 2006	-	60,000bpd
Niger Delta Refineries and Petrochemicals Company Limited	-	expired April 8, 2006	-	100,000bpd
NSP Refineries and Oil Services Limited	-	expired April 8, 2006	-	100,000bpd
Ode Aye Refinery Limited	-	expired April 8, 2006	-	100,000bpd
Orient Resources Petroleum Limited	-	expired August 10, 2006	-	55,000bpd
Qua Petroleum Refinery	-	expired April 8, 2006	-	100,000bpd
Rivgas Petroleum and Energy Limited	-	expired February 11, 2006	-	30,000bpd
Sapele Petroleum Limited	-	expired December 10, 2005	-	100,000bpd
SouthWest Refinery and Petrochemical Company Limited	-	expired May 5, 2006	-	100,000bpd

OIL, GAS & PETROLEUM PRODUCTS

The Nigerian National Petroleum Corporation (NNPC) during the period under review, signed a deal with eight Nigerian banks to formally commence the operation of the $350 million (N44 billion) special funding scheme for indigenous oil service companies. The eight banks jointly floated $250 million under the deal while six major oil companies operating under the NNPC Joint Venture oil and gas business—Shell, Chevron, Total, Agip, Mobil and Addax—backed the fund with $100 million.

The establishment of the support fund was an off-shoot of the Federal Government policy on the domiciliation of key project services and operations to ensure that a significant portion of engineering and fabrication works are carried out in Nigeria. According to the NNPC, about 50 indigenous companies have indicated interest in benefiting from the fund that has a maximum lending portfolio of $10 million.

Crude oil price which hit a record high of $78.40 a barrel in the international market in mid-July 2006, made a downward trend all through the last quarter of the year. The price drop was so consistent that members of the Organization of Petroleum Exporting Countries (OPEC) cut production by 1.2 million barrels per day early November, to help shore up oil price. Yet, at its 143rd extraordinary meeting in Abuja mid-December 2006, OPEC agreed to another 500,000 barrels per day production cut, effective February 1, 2007. From about $60 per barrel at November ending, the price of crude came down progressively to hit $56 per barrel by the close of the year.

The steady fall in the price of crude was attributable to a number of factors, including a mild US winter, decline in global demand owing, especially to a high stock inventory in the US. Markets also reacted less dramatically to geopolitical factors –such as risks in Nigeria (Niger Delta crisis) and the fear of sanctions against Iran—than they did earlier in the year.

However, while the above scenario played out in the global oil market, petroleum products scarcity and hike in prices (even if unofficially) prevailed in the country towards the close of the year. Yet, Government spent an average of N20 billion per month as petroleum products subsidy all through the year—although it had set aside only N150 billion under the Petroleum Support Fund (PSF). Also, according to the Federation Account Allocation Committee (FAAC), in 2006, the Petroleum Products Pricing Regulatory Agency (PPPRA) spent an average of N8.33 billion monthly to support independent petroleum products marketers. About N360 billion has been appropriated in the 2007 budget to go into the PSF—FAAC says N30 billion would be used on a monthly basis to subsidize fuel consumption in the country in 2007.

Even with these arrangements, refining by local refineries remained low and kept dropping by the last quarter 2006. Some of the four refineries in Kaduna, Warri and (two in) PortHarcourt were either shut or performed at very low capacity. Not even one of the private refineries granted licenses since 2004 had commenced production. In fact, the Federal Government by the last quarter 2006, had suspended the operations of those refineries and withdrawn the licenses of 12 out of the 18 which had since expired. Almost all the companies short-listed by the Department of Petroleum Resources (DPR) for Approval to Construct (ATC) refineries since 2004 had been experiencing hitches owing to their inability to source sufficient funds for the acquisition of required equipment/machinery.

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

The issue with innovation is that it is rarely one of creativity or finding new ideas .... Innovation is more than just the next good idea. In reality, innovation is the outcome of an environment that fosters and embraces new thinking" ... Gap International Inc, (USA) winner of the Corporate Vision Award 2006.

Empowering Nigerian Technopreneurs

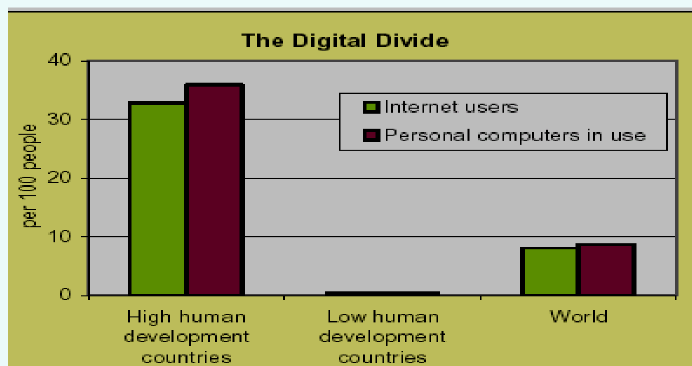
*** By Jim Ovia**

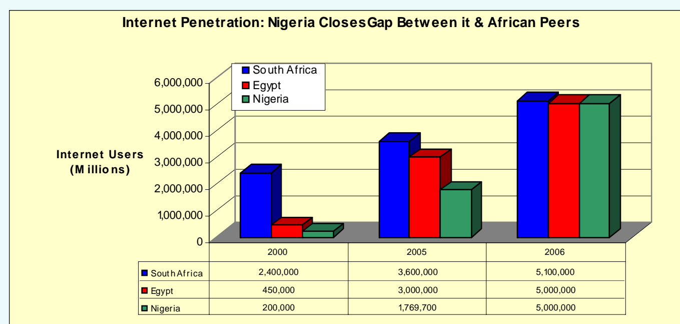
Who is a Technopreneur?

A technopreneur is a new breed, somebody who is both innovative as well as enterprising. A technopreneur is some one whose business is high technology but who is possessed of the entrepreneurial spirit, two personal attributes that were hitherto thought to be antithetical. The image of the innovator used to be closely allied to that of the mad scientist, head in the clouds and buried in the lab, appearing out of his warren only for light and sustenance.

Today, the picture has changed. The innovator has become business savvy. Welcome to the exciting new world of the technopreneur, a compound word derived as is now evident from the yoking together of technology and entrepreneur.

A technopreneur in that sense is therefore an entrepreneur whose business involves high technology or to put it more succinctly, a technology innovator and business man.





	2000	2005	2006
South Africa	2,400,000	3,600,000	5,100,000
Egypt	450,000	3,000,000	5,000,000
Nigeria	200,000	1,769,700	5,000,000

Internet Penetration – Nigeria & the World

We can find that unusual mix in Bill Gates, Steve Jobs, Ralph Ellison as well as Michael Dell. Technopreneurs are also beginning to emerge in Nigeria but what we have is an emergent class of entrepreneurs, men and women working assiduously hard to assist in actualizing the laudable dream of bridging the yawning digital divide.

The Emerging Nigerian Technopreneur: Who are they?

The emerging Nigerian technopreneurs are distinguished by a marked characteristic; they are naturally gifted. They are also smart, highly creative and have the potential to compete favourably in any part of the world if provided with the enabling environment in which to thrive. Nigerian technopreneurs are at times assemblers of components that make up the whole; and at other times, they are innovators of highly rated technology hardware and software.

Where are they found?

The technopreneurs are denizens of our bustling and sprawling commercial centers that dot towns and cities in Nigeria. A few examples that come to mind are Otigba and Ladipo in Lagos as well as markets in Aba and Nnewi.

These technopreneurs are the foot soldiers leading the charge in the on-going war to bridge the digital divide separating Nigeria and other African countries from their more developed peers and thrusting the nation into the thick of the blossoming knowledge economy and information super highway.

It is pertinent to point out however that the efforts of these foot soldiers are being felt and this is evident from the fact that Nigeria has made significant progress in bridging the digital divide between it and developed economies.

A consideration of available data and statistics will bear out the fact, that though much work still needs to be done, there is a gradual shrinking of the yawning divide.

Telephony comes to mind as the best illustration of Nigeria's rapid progress in bridging the digital divide:

Figures obtained from the Nigerian Communications Commission (NCC) indicate that Nigeria has moved from a mere 400,000 lines in 1999 to 27 million lines as at October 2006. This incredible surge shows a 6000% growth in 6 years and an annual growth rate 1000%. Tele - density has also recorded a very significant leap from 0.5/100 to 25/100 person within the same period. Today, about 1 out of every 10 Nigerians has access to telephone.

The Operating Environment

Accelerated progress in bridging the digital divide lies primarily and in many respects on the provision of an enabling environment for technopreneurial efforts to thrive. To succeed, Nigerian technopreneurs have to overcome considerable odds and surmount significant hurdles that impede their progress.

The odds stacked against them include inadequate infrastructure, inadequate funding, low patronage, poor

marketing and promotion, policy/legislative constraints, stiff foreign competition as well as high cost of production

Empowering Technopreneurs:

To become a technopreneur, you require much more than technological savvy because Technopreneurship is a combination of both technological know-how and business acumen and for the business side of things to succeed the technopreneur needs to be empowered with adequate funds.

In more mature and advanced economies, technopreneurs face a less daunting task with regard to accessing funds to see their innovative ideas to fruition. This is because there are available for the really deserving, grants which could be in form of manpower grants, academic grants as well as Research and Development Grants for companies.

Aside from grants, technopreneurs are usually encouraged with incentives that could be in the areas of taxation, Development & expansion, investment allowances, R&D & Intellectual Property Management Hub Scheme as well as protectionist incentives like pioneer status/patent rights/national recognition

The advent of venture capitalists has also proved beneficial to technopreneurs who now have another means of accessing much needed long-term funds to prosecute their ideas. Venture Support can be in form of venture capital, incubation and commercialization

Practical examples:

To establish and illustrate the importance of such incentives and development grants as catalysts for jumpstarting technopreneurial initiatives, it will be pertinent to consider examples of other developing economies where these schemes have worked.

India

1998, The Indian Ministry of Science & Technology in conjunction with related agencies launched a novel programme known as "Technopreneur Promotion Programme (TePP)."

Under the programme, the government extended an open invitation requesting any Indian citizen with an original idea/invention to apply. Selected proposals/ideas were then converted into working prototypes and eventually, profitable businesses were generated, with the inventor enjoying patent rights.

The objectives of TePP included tapping the vast innovative potential of Indian citizens in order to promote individual innovators into technology based entrepreneurs by helping them source for finance & other needs

Regions/Countries	Internet users	Access per 100 inhabitants
America	276,455,000	31.55
Europe	269,605,000	33.71
Asia	368,437,000	9.78
Africa	32,753,000	3.72
Countries	**Internet users**	**Access per 100 inhabitants**
US	185,000,000	63.00
UK	37,000,000	62.88
SA	5,100,000	10.75
Singapore	2,421,800	57.87
India	60,000,000	5.44
Nigeria	5,000,000	3.8

The TePP initiative has helped establish thousands of Indian Technopreneurs whose dream and vision would have died but for the support of the government through such a laudable initiative.

Malaysia

A similar initiative was launched in Malaysia in November 2001 when the Ministry of Science, Technology & Innovation, in conjunction with private sector partners, launched the Technopreneur Development Division (TeDD).

The objectives of TeDD included, facilitating the development of technopreneurs, start-ups and existing ICT companies. It also had as its terms of reference catalyzing and nurturing a cluster of ICT SMEs to assist and facilitate the growth of ICT SMEs into world-class companies.

Due to the TeDD initiative, about 19 incubators in Malaysia are currently providing funding, facilities, mentoring, training, etc. The government believes that developing technopreneurship is crucial in placing Malaysia amongst world-class, high-tech nations, while also enhancing wealth and employment creation.

Why Empower Technopreneurs?

On a daily basis, mankind's dependence on ICT tools and the myriad processes that it enables for almost all their daily activities continue to show that technology has become an indispensable part of our daily existence.

But there is a more fundamental reason which goes to the heart of the Technopreneurship. Technology has now become synonymous with wealth. To put it simply: Technology = wealth

Name	Position on Rich List	Company/Country	Worth ($bn.)
Bill Gates	1st	Microsoft/USA	$46.5
Carlos Slim Helu	4th	Telmex/Mexico	$23.8
Paul Allen	7th	Microsoft/USA	$21
Lawrence Ellison	12th	Oracle/USA	$18.7
Dell	18th	Dell/USA	$13

Annual figures released by Fortune and Forbes chronicling the world's rich list continue to buttress this assertion. At least 5 out of the 20 richest people in the world are technopreneurs and their names and the companies they lead have become household names and epitomes of technological innovation and wealth creation.

On a global level, the global IT market which is currently valued at over $1trillion offers a huge goldmine of opportunity and Nigeria must tap into this huge ocean of potential wealth.

To extend our mathematical analogy, Technology = Employment generation because the industry has the capacity to absorb the vast army of unemployed youths who would be better served using their newly honed ICT skills in writing software instead of 419 letters.

Once employment is generated, economic productivity would be boosted thus enhancing GDP growth. The viability of ICT has been proven in economies like India where ICT contributes over 30% of GDP.

On another score, encouraging technopreneurs will signal a major step in the drive to globalize the Nigerian economy while helping to narrow the digital divide which is a key criterion in meeting the Millennium Development Goals.

Challenges

Aside from the already identified constraints hampering the blossoming of technopreneurial initiatives a few others remain. They include lack of collateral even where it is possible to access funding. There is also the issue of the inability to quantify or put a value on Intellectual property as well as massive intellectual rights violation. Other challenges which technopreneurs have to contend with include inadequate entrepreneurial skills and the difficulty in determining gestation period for ROI.

Way Forward

In order to make progress and begin to reap bountifully from the huge potentials for growth, Technopreneurs should be encouraged to form co-operatives to take care of the problem of collateral. A further boost will come from establishing incubator centers following the Indian/Malaysian model (Government facilitating; private sector funding) as well as the provision of government guaranteed-loans.

Government in collaboration with the private sector should initiate a periodic fair for technopreneurs, a local variant of the CeBit if you will. There should also be a policy directed at government patronage of local ICT firms while evidence of patent and intellectual property rights should automatically guarantee pioneer status.

Finally, these technopreneurs should be fully insured against violation of their Patent Rights.

Conclusion"

In concluding, the words of *Randy Weckman, a US based Professor of Leadership Development should shock us into action:* "Technopreneurs: These scientists mean business."

(This paper was presented at the NEPAD Business Group SME conference 2006 at the Abuja Sheraton Hotel & Towers, Abuja, November 20-21, 2006)

BRIEFING ON THE NEW FRAMEWORK FOR MONETARY POLICY IMPLEMENTATION IN NIGERIA

PROF. CHUKWUMA C. SOLUDO
GOVERNOR, CENTRAL BANK OF NIGERIA

It is indeed, my great pleasure to deliver this important briefing as part of the way forward in attaining the right policy mix that will usher in our desired goal of a stable financial system, as well as one that should hold its own in the global financial arena.

I will not like to bore you with the analyses of the various monetary policy regimes that we had experimented with in the past, as these are quite obvious to all. Nonetheless, suffice it to say that the past regimes, including the current dispensation (although to a lesser extent), have been characterized largely by liquidity surfeit and the arduous tasks of mopping it up. Other features included regimes of highly volatile inter-bank interest rates and high money market interest rates, lopsided credit by the banking sector, and crowding out of the private sector by public sector borrowing. All of these have also contributed in no small measure to the erstwhile distress in the Nigerian banking sector; a situation that informed the recent reforms in that sector, and subsequently, in the Nigerian financial system as a whole.

Distinguished ladies and gentlemen, you will all agree with me that the banking sector consolidation programme is still at a critical stage, in the light of many challenges that still remain to be tackled by all the stakeholders in the integration process. What this translates to, therefore, is that, to concretize the current gains, efforts should continue to be made to explore all available options to address the outstanding challenges and institute appropriate and sustainable frameworks that will make the transition period less stressful, and the medium to long-term horizon, more assuring.

In more specific terms, efficient management of liquidity is at the heart of the current transition in the banking sector and for the periods ahead. Nonetheless, there are still signs that the current conditions are less than efficient. For instance, soon after the end of the first phase of the consolidation exercise in December 2005, a few of the new banks started failing the liquidity ratio test, and borrowing was done at distressed rates at the inter-bank market.

In essence, going forward, deposit money banks as well as other players in the money market need to ensure that they manage their liquidity effectively in order to avoid the illiquidity condition and the distress borrowing of the past.

This assurance can be established if the new banking operation practices move away from the era of substantial dependence on public sector funds and official allocation of foreign exchange for survival. The traditional banking service of mobilizing deposits from the public and investing same in viable and development projects should now be the vogue, while at the same time operationalising and managing a more realistic interest rate regime, and reducing the existing wide gap between the deposit rate and lending rate.

On the part of the Central Bank, we have found it expedient to continuously apply due diligence exercise in the management of liquidity through the application of appropriate policy instruments in the money market. In addition, the Bank's introduction of the Real Time Gross Settlement (RTGS) system for large value transactions is expected to support the consolidation exercise and engender a more effective liquidity management when the system goes live.

In spite of these efforts, the challenges of liquidity management in Nigeria remain daunting, although it is

not insurmountable. The use of government and Central Bank's debt instruments to mop up liquidity has become more frequent than ever, while the cost of debt management operations continues to rise to a worrisome level. In addition, conditions in the money market and other macroeconomic indicators, such as the level of and trends in market interest rates, the inflation rate, as well as lending to the productive sectors of the economy, have not given much room for celebrations. This, in essence calls for a fine-tuning of the current policy environment.

In view of the persisting unsavoury conditions, and the need for the Central Bank to execute its mandate of attaining bank soundness and effective liquidity management, the Bank has decided to introduce a new framework for monetary policy implementation in the market place, using the short-term interest rate as its "Operating Target". The ultimate goal of the new framework is to achieve a stable value of the domestic currency through stability in short-term interest rates around an "Operating Target" the interest rate, which will be determined and operated by the central bank. The "Operating Target" rate, otherwise called the ***"Monetary Policy Rate" (MPR)***, will serve as an indicative rate for transactions in the inter-bank money market as well as other DMBs' interest rates .

The main operating principle guiding the new policy is to control the supply of settlement balances of banks and motivate the banking system to target zero balances at the Central Bank, through an active inter-bank trading or transfer of balances at the Bank. This will engender symmetric treatment of deficits and surpluses in the settlement accounts, so that for any bank the cost of an overdraft at the Central Bank would be equal to the opportunity cost of holding a surplus balance with the Bank.

> ***The Central Bank intervention in the market will take the form of a*** standing lending facility ***that will ensure orderly market operations or behaviour by attenuating avoidable interest rate volatility.***

While the framework is not entirely new as it is already applied in other parts of the world, mostly in developed economies and some emerging market economies, different features exist in different countries. In the USA, the FOMC expresses its operating target as a specified level of federal funds rate and the trading desk attempts to foster conditions in the market to be consistent with maintaining the funds rate at an average around the target rate. There are no standing facilities to set an upper limit on money market rate, in effect, all refinancing is provided by repurchase agreements and outright open market operations.

The Canadian framework encourages market participants to deal with one another, rather than with the Reserve Bank. The core of the framework is a 50 basis points operating range for the overnight interest rate in the market, which is applied in paying interest to banks with surplus balances at the end of the Large Value Transfer System day. Deficit banks can obtain funds from the Bank at the Bank rate using a collateralized overdraft, thus, effectively placing a cap on the rate they would be prepared to pay on any loan from the market. If the overnight rate is trading outside the upper or lower range of the band, the Bank will intervene in the market as appropriate.

The Australian and New Zealand frameworks are similar. Both countries target an intermediate target, that is, the price (the 'cash rate'), at which central bank funds are made available to banks for overnight settlement, and not on the quantity of funds, i.e. the money base. Open Market Operations are used to influence the 'cash rate' and keep it as close as possible to the target rate by influencing the supply and demand of funds, called Exchange Settlement Funds, which are made available to banks at 25 basis points above the target cash rate, but paid for at 25 basis points below the cash rate. However, in the case of New Zealand, the official cash rate is reviewed every six weeks.

The Central Bank of Chile uses the real daily rate paid on overnight inter-bank loan (real overnight interest rate) as its policy rate. The Bank announces publicly its policy rate and influences the interbank rate through Open Market Operations. In recent times the difference between the policy rate and the actual inter-bank rate is just 5 basis points. In South Africa the Reserve Bank conducts its monetary policy leveraging on Repo Rate and Cash Reserve Requirement. The Repo Rate is the benchmark for all other rates. Standing facilities are available at the repo rate plus 50 basis points for credit facility and minus 50 basis points for deposit facility.

In adopting the new framework, we are conscious of the peculiarities of the Nigerian environment and have made necessary adjustments in that regard. In the new framework, the discount window operations in its present

form will be modified, which will preclude outright discounting of debt instruments at the CBN. Instead, the Central Bank discount window will be accessed by market operators (Deposit Money Banks and Discount Houses) that are in need of liquidity to tidy up their books, while those with surplus liquidity can deposit the funds overnight. It is however, in the interest of participants to trade with each other rather than rely on central bank when they adjust their surplus or deficit position.

The Central Bank intervention in the market will take the form of a ***standing lending facility*** that will ensure orderly market operations or behaviour by attenuating avoidable interest rate volatility. The potential for this facility to calm the money market and ensure that stability in the rates is not in doubt as demonstrated recently in a test-run of the new policy.

The standing lending facility will be available as an overnight lending to banks with deficits, at a fixed interest rate, that is, the upper band of the CBN standing facility. The Bank will stand ready to supply any amount the banks may require at the lending rate. The Central Bank will also set up a ***standing deposit facility*** that pays banks with surplus funds, a fixed interest rate in their deposits or reserves which they keep with the Bank. This arrangement will allow the Bank to keep the overnight inter-bank interest rate in between the corridor with an upper and lower limit on interest rate.

The ultimate goal of the new framework is to achieve a stable value of the domestic currency through stability in short-term interest rates around an "Operating Target" the interest rate

A "*Monetary Policy Rate (MPR)*" that will replace the MRR will be set at 10 per cent, using the current rate of inflation and the expected inflation rate outcome of 9.0 per cent for fiscal 2006 as a guide to ensure that interest rates remain positive in real terms. There will be a spread of 600 basis points around the rate, i.e. 300 basis points below and 300 basis points above. This translates into an upper limit of 13 per cent, which will be the *Repo rate* and a lower limit of 7 per cent, representing the rate at which the CBN will take deposits from the banks.

The new monetary policy framework will take effect from the 11th of December, 2007. It is expected that the Deposit Money Banks will use the intervening period to ensure their staff understand the new system and retool their process to conform with its requirements.

The CBN will set the indicative MPR on a bi-monthly basis, save when there is compelling need for the CBN to intervene within the said time frame.

The Bank recognizes this gathering as important partners that should support the new framework and give effect to the attainment of the set objectives of a more stable and predictive monetary policy implementation process. I am convinced that the new framework will usher in a new era of rationale market behaviour on the part of money market operators and, indeed, encourage more trading between operators while trading with the CBN is seen as a last resort. I envisage that operators should be able to share information rather than engage in an unhealthy competition that hurts the development of the market and creates artificial system-wide shortages that culminate in unrealistic inter-bank interest rates. Given our vision to be the financial hub of Africa by 2020, all hands must be on deck to flow with the tide. In the face of globalization and financial integration and with the banking sector consolidation as well as reforms going on in the other subsectors, it is no longer business as usual in our financial markets. We must continue to search for new ways of doing things to ensure greater efficiency and effectiveness in our monetary and financial operations and the new framework is one of such initiatives.

Finally, the CBN is concerned about the increasing rate of complaints by banks customers in respect of certain spurious charges on their various transactions. I would like to seize this opportunity to strongly advise banks to strictly adhere to the charges contained in the "Guide to Bank Charges" which became effective in January, 2004, following its adoption by the Bankers' Committee. However, since the Bankers' Committee is presently working out a harmonized set of charges in the industry, banks are enjoined to promptly notify the Standing Sub-Committee on Bank Charges of any new charges being introduced by them for its consideration. Meanwhile, in the spirit of transparency, and in order to sustain the sanity already attained in the market, banks are enjoined to clearly state in the letters of offer to customers all cost, charges and expenses to be borne by them.

In conclusion, I solicit for your support and cooperation to ensure that the new policy framework succeeds since the long-term collateral benefits for all stakeholders far outweigh individual short-term gains.

Thank you.

Driving Reforms Through Financial Sector Consolidation

*By Vincent Nwanma

Despite initial resistance, even downright rejection by some of those who really needed it most, the first phase of the banking consolidation has successfully worked its way through. At the end of a tortuous journey, the process has given Nigerians a foundation on which to build a financial system for today and tomorrow. The patient is now back on its feet, but only those close to the doctors know how near to the brink the entire financial system had come. They admit that only a timely intervention such as the consolidation exercise could have averted a catastrophe that stared the nation in the face.

Flash back to, say, March 2004. In Nigeria's banking industry, things appeared normal to the unsuspecting bank customer. There were 89 banks with branches strewn across the country. But not all were banks in the true sense. Although they were still opening shop and conducting banking business, some of them were in fact dead- technically speaking, and their continued existence posed a threat to the entire banking system.

The systemic problem, a tsunami of sorts in the financial sector, was imminent because the industry was already experiencing a form of 'cannibalism', with the drowning banks desperately hanging on to life by feeding on the less-diseased ones. Thus, while the terminally sick banks managed to postpone their inevitable demise, they prepared the ground for the failure of the entire system. A snapshot of the system

at that time shows this was real.

The 89 banks in existence were at various levels of soundness, with none of them having an A-grade score based on CBN's grading system. None of them fell within the highest grade as measured by the CBN. The apex bank, using several criteria, classifies banks into different categories, indicating their degree of financial soundness.

On the basis of these, CBN ranks the banks into these categories: Very Sound, Sound, Satisfactory, Marginal, Un-sound.

For capital adequacy, this is measured as the ratio of shareholders' fund to total assets:

= Shareholders' fund
Total Assets

The international standard is that this ratio should be a minimum of 8%.

On liquidity ratio, this is measured as the ratio of total liquid assts to total current or short-tem liabilities.

= Total liquid assets
Total current or short-term liabilities

The requirement is that this ratio should be at least 40%, but many of the banks could not meet this. Some, according to CBN, had 20%, others 30%. The implication of this is that the banks had no ability to meet their obligations. These were signs of distress.

On governance, the regulator says there was poor corporate governance in the banks. This manifested in several board room squabbles, poor loan portfolios that were non-performing, which in some cases was as high as 90%. This meant that both interest on the loans and the principal were not being repaid. To stay afloat, many of the banks were engaged in "distress borrowing" – where they had to borrow from the short-term money market at high interest rates, just to meet short-term obligations due, so they would not close shop.

But rather than help them, this indeed helped to pile up more obligations on them, and which further compounded their problems. Perhaps, unknown to many of their customers, these banks were just digging one hole to fill another, but the CBN says it was only a matter of time before the bubble would burst. The banks were therefore not generating revenue because debtors were not paying.

Before the commencement of the consolidation, no bank in Nigeria was rated **Very Sound** by the CBN, based on the stated criteria. To be rated Very Sound would mean that they must score very high on these criteria. And no bank in the country ranked high on all the criteria, despite their apparent large sizes.

As at the end of March, 2004, CBN classified only 62 of these banks as **sound/satisfactory**. There were also 14 rated **marginal**, while 11 were classified as **unsound**. Two banks, according to CBN, did not render any returns during that period, and thus could not be classified.

According to the CBN, the 11 unsound banks had no capital to operate. In fact, some of them had negative

shareholders' funds. This meant that their shareholders' funds were less than the assets they were carrying in their books.

It was this Augean Stable that the current CBN Governor was called upon to clean up and map the way forward. Before his appointment, Prof Charles Chukwuma Soludo (then Economic Adviser to President Olusegun Obasanjo) was already an integral part of the government's economic team that crafted the nation's reform programme. He had, while serving in that capacity and as head of the National Planning Commission, produced the National Economic Empowerment and Development Strategy (NEEDS), which is the nation's homegrown development blueprint.

Once, in an interview this writer, while still serving as the President's Economic Adviser, Soludo had said, of the reforms and the criticisms that trailed them:

"Sometime in the future, this era will be seen as the time when Nigerians turned the bend. We are not expecting any applause, and probably, none will come."

For the Nigerian banking sector, July 6, 2004, is a date that the operators, both present and future, will look back to and recognize as the turning point in the industry. On that day, and barely a month into his appointment as the CBN governor, Soludo delivered his "Consolidation Manifesto" tagged "**Consolidating the Nigerian Banking Industry to Meet the Development Challenges of the 21st Century**".

Soludo spoke at a "Special Meeting" of the Bankers Committee; but this was an unusual meeting in the sense that also in attendance were chairmen of the boards of these banks. What he had to say was of such a fundamental nature that all who owned or directed the affairs of banks needed to hear him firsthand.

For many of those in attendance at that meeting, the most significant part of Soludo's announcement was the increase in banks' capital base from N2 billion to N25 billion.

Yet, significant as the new amount was, it was just a part of the entire reform package for the banking industry. Consolidation was not simply about raising banks' capital base; it was not just about shrinking the number of banks in the country – which had ballooned over the years- although that was part of it. And, despite their apparent large sizes, Nigerian banks were small indeed, by African and world standards. This also was part of their inability to function effectively as banks.

"Even the largest bank in Nigeria has a capital base of about US$240 million, compared to US$526 million for the smallest bank in Malaysia. The small size of most of our banks, each with expensive headquarters, separate investment in software and hardware, heavy fixed costs and operating expenses, and with bunching of branches in few commercial centres – lead to very high average costs for the industry," Soludo said.

Beyond these, Soludo's announcement was about creating a banking environment where competitive financial institutions could be nurtured to thrive. It was about eliminating the obstacles that had impeded the emergence of competitive forces in the local banking industry as the first step towards its integration into the global economy.

"It is about positioning Nigeria and Nigerians to become competitive in the 21st century," he told his audience.

A country's march toward economic greatness depends on the appropriateness of its industrial policy, based on the foresight of those responsible for its formulation. It depends also on effective implementation of the policy so formulated.

Those who saw the declaration in a different light missed the point, which of course explained the initial resistance by even the Bank Directors Association. As this author argued elsewhere in the course of the debate on consolidation:[1]

The current debate on the proposed 25 billion naira capital base for banks provides an ample opportunity for an appreciation of the soundness or otherwise of Nigeria's industrial policy that can translate into the strong economy of our dream.

A country's march toward economic greatness depends on the appropriateness of its industrial policy, based on the foresight of those responsible for its formulation. It depends also on effective implementation of the policy so formulated. Without this, the country's efforts would amount to nothing but mere groping in a dark tunnel.

Industrial policy is the set of policies that result from people/government asking the question: What can the government do for the economic system to perform better than it's doing now?

This point has been stressed succinctly by Prof Michael E. Porter, a leading authority on the theory of competition when he said: "A nation's competitiveness depends on the capacity of its industry to innovate and upgrade. Companies gain competitive advantage against the world's best competitors because of pressure and challenge. They

benefit from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers."[2]

Most, if not all of these elements that engender competitiveness, were absent in the Nigerian banking industry that Soludo described. For many of the banks, there was little pressure and no challenge. As Soludo noted, many of them had become so dependent on government funds that they had actually neglected their primary job of savings intermediation. Savings intermediation implies that the banks serve as the pipeline through which surplus funds are channeled to areas of need in the real sector. But because banks did not or could not play this role, there was a weak link between the financial sector and the real sector of the economy, as funds were more or less merely stashed away from the banking system. This in part led to the high cost of funds in the financial system. But while the banks justified the high costs as reflecting the paucity of funds in the system, in truth, they were actually an indication of the inefficiency of the banking system.

Thus, as Soludo noted, some banks had become traders, engaged brazenly in importation of goods as well as rent collection through the sale of foreign exchange at no cost at all to them, again without regard to the real needs of the productive sector of the economy. These considerations therefore provide an appropriate platform for the analysis and assessment of the consolidation exercise, not only to see which banks met the N25b hurdle but also to explore the implications and impacts of the reform.

Insurance Companies' New Capitalisation

Description	Old Capital Base	New Capital Base	% increase
Life Insurers	N150m	N2 billion	1,233
General Insurers	N200m	N3 billion	1,400
Composite	N350m		
Reinsurers	N350m	N10 billion	2,757

INSURANCE SECTOR REFORM

Before that, let's look at the insurance industry, the twin brother of the banking industry, which right now is undergoing the same consolidation experience. Clearly, for the objectives of the banking sector reform to be achieved, Nigeria must have a strong, viable insurance industry that can play its traditional, complementary role. The economy needs strong insurance companies that can protect the risks that companies and individuals suffer in the normal course of carrying out their business activities.

Besides, the insurance companies, like banks, are also involved in financial intermediation, especially life insurance, through which funds are mobilized on long-term basis for investment.

However, as with the banking sector, so it has been with the insurance sector. Just as size was a constraint on the banks, so also has it been a major constraint in the insurance industry, where miniature companies dot the landscape – at least before the last recapitalization exercise in the industry that began in 2003. Currently, there are 107 insurance companies in Nigeria.

For the insurance industry, the consolidation in the banking industry has become even a blessing: the banks, with increased or enhanced liquidity, became eager to invest in insurance companies. In fact, many of the 25 banks have either established subsidiary insurance companies or substantially bought into some of the re-capitalizing insurers.

This move should not be a surprise to those conversant with expected developments in the insurance industry. Bigger, stronger, and better-capitalised insurance companies are expected to play more active roles in such sectors as aviation, oil and gas, construction, mining, and power. In these industries, local insurance cover for risks has been very low, and as a consequence the nation loses as a lot of the insurance premium leaks out of the country through offshore reinsurance.

The Nigerian Insurers Association (NIA),the umbrella body of all the insurance companies in the country, admitted this in a statement:

"The NIA is convinced that increase in the capital base will strengthen the market and give insurance companies greater financial capacity to underwrite risks emanating from all sectors of the economy."[3]

Thus, as in the banking industry, the insurance industry is also undergoing its restructuring, as the companies strive to meet the new capital base requirements set by the Ministry of Finance. Insurance companies have February 28, 2007 as the deadline. That date would be almost three years after the last recapitalization by operators in the industry.

As seen from the table, the new capital base is a quantum jump from the previous levels set only three years ago, under the Insurance Act of 2003. This shows the difference between the current capacity of the companies

and what the industry demands from them.

It is clear from the table that there is no place for composite insurance companies post-consolidation. This will lead to a fundamental change in the Nigerian insurance industry. Of the 107 insurance companies currently in existence, only six underwrite life risk solely; the 99 others are composite insurance, offering both life and non-line cover. In the new dispensation, no insurance company will have this status. The deadline for this separation is April 2007, two months after the deadline for the industry's consolidation.

Why do the authorities not want composite insurance companies any more? "In the past, composite insurance companies used their life fund to service non-life obligations which affected the growth of life business in Nigeria in the sense that they wouldn't have funds to invest long term ," said an official of the NIA.

Premium from life insurance covers provide long-term funds that the companies in turn should invest in projects with similar tenors. However, part of the malaise of the industry, just as in the banking sector, has been the willful mismatch of maturities of assets and liabilities by the insurance companies.

Instead of investing such funds in long-term projects or securities, the companies use a significant proportion of them to meet claims arising from such risks as fire and accident. This practice does not only rob the industry and indeed the economy of long-term funds, it also reflects the inability of the companies to align the duration of their liabilities with that of their assets, including their investments. This imposes a cost on the society.

As Udensi J. Nduka has noted, "investment plays a very important role in the operation of life insurance business as anticipated investment earnings are taken into account in the calculation of life premiums, thus reducing the cost of the insurance cover."[1]

Elton and Gruber point out clearly why this is so. "If the insurance company invests in a long-term bond, the interest earned on the bond is known, and if it exceeds what was promised on the insurance contract, it substantially reduces the insurance company's risk,"[2]

Figures by the NIA, and reported by Nduka, show that life insurance companies in Nigeria hold about half of their assets in shares and bonds. The percentage of this has ranged from 53.7% in 2000, to 49.2% in 2002, and 49.7% in 2004. It was 38.7% in 2003.

Thus, as it is with the banking sector consolidation, the ongoing consolidation in the insurance sector is designed to ensure optimum allocation of financial resources. Why should funds meant for long-term investment be used to service short-term obligations?

In the oil and gas industry, government's policy of local content development is expected to boost insurance business and, therefore, premium income for the insurance companies. By 2007 government says the local content in the oil and gas – defined as the value of goods and services utilized by the oil and gas industry provided by Nigerians and Nigerian companies – should be at least 45%. This is projected to rise to 70% by 2010. This includes provision of insurance cover for the equipment, facilities and personnel in the upstream and downstream sectors of the industry.

At present, the insurance industry estimates that only about 5% of the insurance cover for these items is pro-

vided locally. The remaining 95% is ceded out. This is about to change, for good, as the nation sets out to implement the local content policy in the oil and gas industry, which is already provided for in guidelines in the Insurance Act of 2003. "The guidelines proffer that the engagement of insurance for any oil and gas operations associated with the exploration, development, production, refining, processing, and marketing of hydrocarbon in Nigeria shall be contained within the Insurance Act, 2003," Emmanuel Chukwulozie, Commissioner for Insurance and the CEO of Nigerian Insurance Commission , said recently.

The proposals, Chukwulozie said, provide that "all insurance policies for the Nigerian oil and gas operations shall be issued by a duly registered Nigerian insurance company."

While full local insurance cover has not be possible for the oil and gas industry, the local content policy is certainly set to boost the domestication of these classes of insurance business.

As in the banking industry, the insurance industry has also witnessed a number of activities as the companies seek either to raise their capital base or merge with others to meet the requirements. Many have gone to the stock market to raise funds, to meet the requirements or shore up their capital base preparatory to merger with others. NAICOM says insurance companies can capitalize debts up to N300m of unpaid premium, or 10% of the new paid-up capital for general insurers. While this will help the companies meet the new requirements, industry observers say it could amount to just mere paper work. This is because more often than not, when the risk expires, most policyholders don't fulfill their obligations. This means that the companies might just be carrying the figures on their books after one year.

Consolidation helped raise capital market awareness among Nigerians. There are many who heard about the stock market for the first time during the exercise, thanks to the advert blitz mounted by all the operators.

Role of the Capital Market

In both the banking sector recapitalization and the ongoing exercise in the insurance industry, the capital market has played and continues to play a key role. In both cases, all the agencies involved in the process collaborate effectively. Mergers and acquisitions are under the purview of the Securities and Exchange Commission, as provided by the Investment Securities Act. Since the banks had to raise funds through public offers, IPOs, and Private Placement, the Nigerian Stock Exchange was pivotal in the whole process.

To reduce the transactions cost on the banks, CBN pleaded with and got the cooperation of SEC and the Nigerian Stock Exchange. Thus, instead of charging their fees on the market value of the offer, they, as requested by the central bank, based those fees on the nominal value of the shares.

CBN also needed SEC's cooperation in yet another area: the determination of how long the offers would last before the shares would be allotted. This was needed to enable the CBN verify the sources of the funds coming in through the consolidation process.

Although the banks needed desperately to attract funds, the CBN did not shirk its responsibility of ensuring that the funds were not "tainted." Therefore, it verified the sources of funds that came into the banking system in the course of the consolidation. It ensured, for instance, that people did not borrow money from the banking system to buy shares.

Beyond the inflow of fund through the capital market, however, the consolidation exercise played a significant role in the development of the market. Consolidation helped raise capital market awareness among Nigerians. There are many who heard about the stock market for the first time during the exercise, thanks to the advert blitz mounted by all the operators. This has robbed off on the banks in the secondary market where they have remained the dominant stocks. Out of the 20 most active stocks on the exchange in 2006, 17 were banks. The reason is not far-fetched, says Ndi Okereke-Onyiuke, Director-General of the NSE. "The average Nigerian believes that if he must be a shareholder, then he must invest in banks," she said at a media briefing on January 4, 2007 on the performance of the Nigerian stock market in 2006.

Consolidation must also be seen in the light of government's desire to restructure the bond or debt market. This segment of the capital market had been dormant for long, because of misalignment in the pricing of fixed-income securities, both corporate and government. Therefore, part of the aims of the reforms in the capital market was to restructure the bond market so that the term structure of rates could reflect the maturities of securities. This is helpful to both issuers and buyers of securities, in the

20 Most Capitalized Companies on the NSE, at the End of 2006

	Company	Market Capitalisation
1	First Bank of Nigeria Plc	N347.052 billion
2	Nigerian Breweries Plc	281.705
3	Zenith Bank Plc	226.079
4	Union Bank of Nigeria Plc	221.077
5	Transnational Corporation of Nigeria	180.16
6	United Bank for Africa Plc	178.689
7	WAPCO Plc	162.056
8	Guinness Nigeria Plc	159.277
9	Ecobank Transnational Incorporated	156.649
10	Intercontinental Bank Plc	145.857
11	Guaranty Trust Bank Plc	145.2
12	Oceanic Bank International (Nigeria) Plc	143.336
13	Nestle Nigeria Plc	124.182
14	Ecobank Nigeria Plc	108.488
15	Flour Mills Nigeria Plc	100.718
16	Benue Cement Company Plc	91.575
17	IBTC Chartered Bank Plc	88.125
18	Spring Bank Plc	81.06
19	Ashaka Cement Plc	80.44
20	PZ Industries Plc	66.018

pricing of such securities, and for effective sequencing of portfolios with varying maturities.

This realignment is being driven by the Debt Management Office, which has striven to develop the long-term debt market in Nigeria. It has restructured the term structure of government's debt instruments, phasing out those that caused the misalignment and hence impeded the development of appropriately priced debt instruments. As part of this, the DMO issued a series of bonds in 2006. During the year it listed on the stock exchange 11 bonds worth N186.26 billion, with maturities stretching between 2009 and 2013. This is unprecedented in the annals of the Nigerian capital market.

The average Nigerian believes that if he must be a shareholder, then he must invest in banks

Also, part of the reforms in the financial sector is the introduction of the contributory pension scheme, which commenced in 2006. By its nature, the scheme has come to provide long-term funds, which the Nigerian economy needs. Already, the National Pension Commission, which supervises the scheme says that part of the funds contributed under the scheme must be invested in the capital market. Therefore, as the Pension Fund Administrators adhere to this directive, the Nigerian stock market is set for further boost in the level of activities coming from this development.

The mortgage sub-sector, the community banks as well as the finance houses segments of the financial system are all also undergoing reforms. Each of these segments has been issued with some guidelines, detailing their capital requirements and mode of operation in the emerging economy. The community banks are transforming into microfinance banks, with substantially enhanced capital base and properly delineated scope and types of permissible activities. Mushroom primary mortgage institutions are similarly being removed from the system via the new/more stringent requirements set out by the CBN.

Funds Raised

By the close of the re-capitalization process in the banking sector, ₦406.4 billion naira, $652m, and 162,000 Pound Sterling had been mobilized. But, after the screening of the funds by the CBN, only 360 billion naira was allowed. However, since the exercise ended in December 2005, some operators in the industry had gone back to the capital market to raise more funds in what is now regarded as the second phase of consolidation.

Today, the problem of capital inadequacy is no longer a feature of the Nigerian banking industry. While the minimum capital base is 25 billion naira, some of the banks actually have close to 100 billion naira. On the stock market, 11 of the 20 most capitalized companies in 2006 were banks, with First Bank Plc in the first place, and Zenith Bank Plc in the third place (see table). The first position on market capitalization had for long been taken by Nigerian Breweries, which has now been pushed to the second position. Even with their current position, many of the banks are still making plans to further raise their capital base.

Banks and Post-consolidation Competition

Evidence shows that the emerging competitive environment in the banking industry has compelled the operators to be creative and entrepreneurial in their approach to banking. Perhaps more than any other thing, this is the

greatest factor that will drive the performance of the banks in the post-consolidation era. It's farewell to the days of armchair banking, where bank executives sat in their cozy offices and expected deposits to flow in. The banks have become good marketers, churning out various products aimed at attracting and retaining corporate and individual customers. Now they go after potential customers through various products targeted at them. A look at some of the products shows that now, unlike in the past, the high networth individuals and the artisans at the street corners, matter to the banks because in the world of finance, every naira counts.

New Corporate Governance Code

Before consolidation, most of the banks were not playing by the rules, a situation that reflected in gross abuse of professionalism and the tenets of good corporate governance. Now, the CBN is monitoring virtually all aspects of banking activities, including people issues. For instance, under the new code of corporate governance, the central bank expects the banks to comply with its directive on the composition of their boards. Now, no bank is allowed to have on its board, two members of a nuclear or extended family.

Similarly, out of the maximum number of people that are allowed to be on a bank's board as non-executive directors, the CBN requires that two of them must be independent members. These are supposed to be individuals who are not related to the bank in any way – maybe as customers, consultants, major shareholders, creditors or debtors. These independent directors are expected to act as counterweights to the opinions of other directors on issues in which some of the directors might have vested interest. The CBN says it has a zero tolerance for breaches of these regulations.

Nigerian Banks and Their Offshore Subsidiaries

Bank	Location of Subsidiary
Afribank Plc	Dublin, Ireland
Diamond Bank Plc	Republic of Benin
First Bank Plc	London
GTB Plc	Ghana, Sierra Leone, The Gambia
Intercontinental Bank Plc	Ghana
UBA Plc	New York and Caymans Island
Union Bank Plc	Ghana, London, South Africa, Republic of Benin
Zenith Bank Plc	Ghana

Banks' Profitability on the Rise

No bank has made a loss since the conclusion of the exercise. Indeed, profitability in the industry is soaring, as seen in reports presented by some of the banks so far. CBN insisted that where a bank is carrying goodwill as a result of the consolidation – the difference between the purchase price and the real value- the goodwill should be amortized over a period of five years.

This is in line with the provisions of Banks and Other Financial Institutions Act, which says that where a bank is carrying goodwill in its books, it should not pay dividend until the goodwill has been completely amortized. This is already playing out in the industry, as some of the banks have not paid dividends to their shareholders.

More Branches, Wider Reach

Since the end of the first phase of the consolidation programme in 2005, the branch network of the banks has been expanding at a very rapid pace. In this respect, consolidation has helped the banks redefine their strategy. While in the past many of them were largely "urban banks", it is no longer so today. Through the alliances that emerged, some of them that concentrated in the urban areas are now fast extending their presence in the country's semi-urban and rural areas. This was part of the consideration by banks in choosing who to acquire or merge with; those that lacked presence in some parts of the country sought banks with visible presence in those areas as partners. This has indirectly helped the central bank achieve its programme of rural banking in the country, which aims to take banking services to Nigeria's rural communities.

Besides local branches being opened by the banks, many of them are also venturing offshore, in search of greater opportunities for improved performance. The table above shows some banks' presence offshore.

Emerging Global Connections

Just as their improved status has enabled banks in the country to venture beyond Nigeria's boundaries, so also has their enhanced global rating made them beautiful

brides of choice in the eyes of international banks. A good number of foreign banks now show interest in the Nigerian banking system. In fact, a new wave of market-driven consolidation/alliances between the 25 banks and foreign banks – especially those that want to jointly manage Nigeria's foreign reserves have commenced in earnest. Some of the foreign banks may even end up acquiring stakes in their local partners. In fact, IBTC-Chartered Bank has signed a Memorandum of Understanding (MoU) with Stanbic Bank Nigeria as an exploratory step to a merger—which will culminate in the Standard Bank of South Africa, the parent company of Stanbic Nigeria buying into IBTC-Chartered Bank.

Nigerian Banks and their Foreign Partners

ASSET MANAGER	LOCAL PARTNER
1. Black Rock	Union Bank of Nigeria Plc
2. J. P. Morgan Chase	Zenith Bank Plc
3. HSBC	First Bank of Nigeria Plc
4. BNP Paribas	Intercontinental Bank Plc
5. UBS	United Bank for Africa Plc
6. Credit Suisse	IBTC-Chartered Bank Plc
7. Morgan Stanley	Guaranty Trust Bank Plc
8. Fortis	Bank PHB Plc
9. Investec	Fidelity Bank Plc
10. ABN Amor	Access Bank Plc
11. Cominvest	Oceanic Bank Plc
12. ING	Ecobank Plc
13. Bank of New York	Stanbic Bank Plc
14. Crown Agents	Diamond Bank Plc

The banks are also beginning to enjoy some goodwill in the international market. Now, more than ever before, they are getting access to credit from international credit agencies, including the AFRIEXIM Bank, ADB, EIB, IFC, etc.

Also, the promise by Prof. Soludo to allow the new, better capitalized banks to partake in managing Nigeria's foreign reserves has since been realized. Most of them have entered into agreements with some of the world's best financial institutions to jointly manage the reserves. The CBN has appointed 14 reputable foreign asset managers, with 14 banks approved as partners for the management of a portion of the country's foreign reserves.

Besides local branches being opened by the banks, many of them are also venturing offshore, in search of greater opportunities for improved performance.

The 14 banks and their partners would manage $7 billion, representing about 18.4% of Nigeria's foreign reserves, which stood at $38 billion by the end of July 2006.

According to the central bank, the award to foreign managers was made "in order to allow for professional management, diversification of investment and to leverage on the expertise of the foreign banks to transform Nigerian banks into global financial institutions."

"The CBN has traditionally kept the external reserves as deposits with foreign banks. This is the first time that it is appointing foreign assets managers to manage the part of its reserves, in line with global practice," the bank added in its statement that announced the appointments.

CBN announced further that the effective takeoff of each mandate depended on the strength of the partnership between the local banks and their foreign partners, although it explained that it would send "specific suggestions" to each of the groups to help them strengthen their partnership.

Under the universal banking system adopted by the Central Bank, the bigger banks now have wider areas to operate, but each has a leeway to decide in which areas to operate and carve a niche for itself, for instance the capital market, insurance industry, etc.

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*[1] **Banks' New Capital Base: A Test of Nigeria's Industrial Policy** By Vincent Nwanma, published in BusinessDay **newspaper, Lagos, Monday August 16, 2004, P. 31**[2] Michael E. Porter, in "Competitive Advantage of Nations," reprinted as Chapter 6 in **On Competition**, by the same author, published by Harvard Business School Press.[3] From a press statement issued by the NIA in September, 2005, and quoted in **Issues In Mergers and Acquisitions for the Insurance Industry**, p 2, 2005, Edited by Ezekiel O. Chiejina, and published by the NIA. [4] Udensi J. Nduka, in "Investment Principles of Life Insurance Funds and Their Application in Nigeria," published in **Nigeria Insurance Digest 2006**, A Statistical Journal of the Nigerian Insurers Association, p.90 [5] Edwin J. Elton and Martin J. Gruber in, **Modern Portfolio Theory and Investment***

This is the dream of the CBN, which wants to promote an environment where such mega financial houses can flourish and in turn support the emerging competitive economy. Already, Nigerian banks are becoming players to reckon with both in the sub-regional and global context. According to a recent ranking by *The Banker* magazine, a good number of banks in Nigeria now number among the top 100 in Africa, by shareholders' funds and other indicators. In fact, nine of them made the top 1000 global banks as ranked by the same journal late last year.

The 14 Banks That Failed The Hurdles Race

1. Allstates Trust Bank
2. Lead Bank
3. Trade Bank
4. Assurance Bank
5. City Express Bank
6. Metropolitan Bank
7. Hallmark Bank
8. African Express Bank
9. Fortune Bank International
10. Gulf Bank
11. Eagle Bank
12. Societe Generale Bank
13. Liberty Bank
14. Triumph Bank

The 14 failed Banks

The CBN is now selling the 14 unsuccessful banks under what it calls "Purchase and Assumption" option, where any bank that buys the failed banks also takes over the deposits of all their private depositors. With this, customers of the failed banks are able to resume normal banking operations with the new buyer. Under this arrangement, the central bank asks the purchasing bank to pay the difference between the failed bank's assets and liabilities. CBN in turn issues promissory notes to the purchasing banks, which are to be repaid over five years.

Cost of consolidation

The central bank is yet to announce the overall cost of the programme. Indeed, the bank and its officials are still working hard to put a final figure on this. But the total cost will include various items: monetary costs as well as the foregone costs, such as those arising from the reduced fees charged by SEC, the NSE, and the Corporate Affairs Commission. For these agencies, they had to give a lot of concessions, on the prompting of the central bank, to ensure the success of the exercise. "We gave a lot of discount, varying from 50% to 98%," says Okereke-Onyiuke. When the banks came to the market to raise funds, she said, the Exchange charged them fees based on the nominal or book – normally fixed at 50k- not on the market values of the equities they raised. Even on this amount the Exchange granted up to 50% discount to the banks on their transactions. In the same vein, when the banks came to the Exchange to consummate their mergers and acquisition plans, the authorities granted them up to 98% discount on the amounts they should otherwise have paid.

According to the NSE boss, a bank that was supposed to pay the Exchange about N360m, for instance, ended up paying just N20m! "We did this, not because the banks didn't have money to pay, but because they were not prepared for the consolidation. They came to the market by force," she explained.

For these agencies, this was a display of enlightened self-interest: to lose a little now and gain much more in the long run. "We believe the important thing is to have as many solid quoted companies as possible. Later on, we can make our money through transactions in those shares on the secondary market," she explained.

The CAC had the responsibility of registering the emerging new companies. Also to be included in the cost are the foregone tax revenues that government let go, as part of the incentives to encourage the restructuring banks. The cost will also include the fees paid by the merging banks to the multitude of professionals they engaged: accountants, mergers and acquisition experts, corporate finance experts, and lawyers. It will include also the media and publicity costs that sustained the advert blitz that kept the print and electronic media busy during the period of consolidation. While the costs are yet to be determined, industry operators say no cost is perhaps too much for the purpose of the exercise.

(* Author of Creating Wealth Through The Stock Market, Nwanma is Nigeria Correspondent for Dow Jones Newswires.)

***Analysis**, 3rd edition, 1987, p. 459.* [6] *From "A Review of The Nigerian Stock Exchange in 2006," by Dr. (Mrs.) Ndi Okereke-Onyiuke, OON, Director-General/Chief Executive Officer, January 4, 2007.*

Domiciliation In An Era Of High Hydrocarbon Demand

*** By Fred Akanni**

Nigeria delivered 2.58 million barrels of oil per day on average to the market in 2005, the highest daily production since the first export vessel left Nigeria in February 1958.

The figure is in sync with the increasing trend in sale of raw hydrocarbons that has characterized the Obasanjo years. The president commissioned the country's first large sized gas export project; the Liquefied Natural Gas Plant in Bonny, in the country's deep south in September 1999, four months after he was sworn in. On his watch, the facility has grown from initial production of 3million Tons Per Annum (MMTPA) of gas to 17MMTPA. Crude oil production was on a general increase for much of his tenure, from 2.066MMBOPD at the end of 1999 through 2.502MMBOPD in 2004, shooting to 2.580MMPD in 2005. The sales have moved up with revenues. The last two years have seen a dramatic rise in hydrocarbon prices globally, with crude oil prices reaching $70 at some points.

Things have been less stellar in the downstream, where the impact on the citizenry is more direct. Whereas the long queues at petrol stations had thinned out because of relative abundance of white products, the rise and rise of the price of a litre of gasoline, to half a dollar (or 65naira) –as the government tried to match pump prices with the surging prices at the well head -has rankled a significant portion of the population. The sub-optimal level of performance of the refineries and the inability to increase refining capacity with new builds, even at the private sector level, have reinforced the need for importation.

None of the 11 planned gas-fired plants, expected to deliver 4,000MW of electricity to ameliorate the shortfall in power generation has come to commissioning.

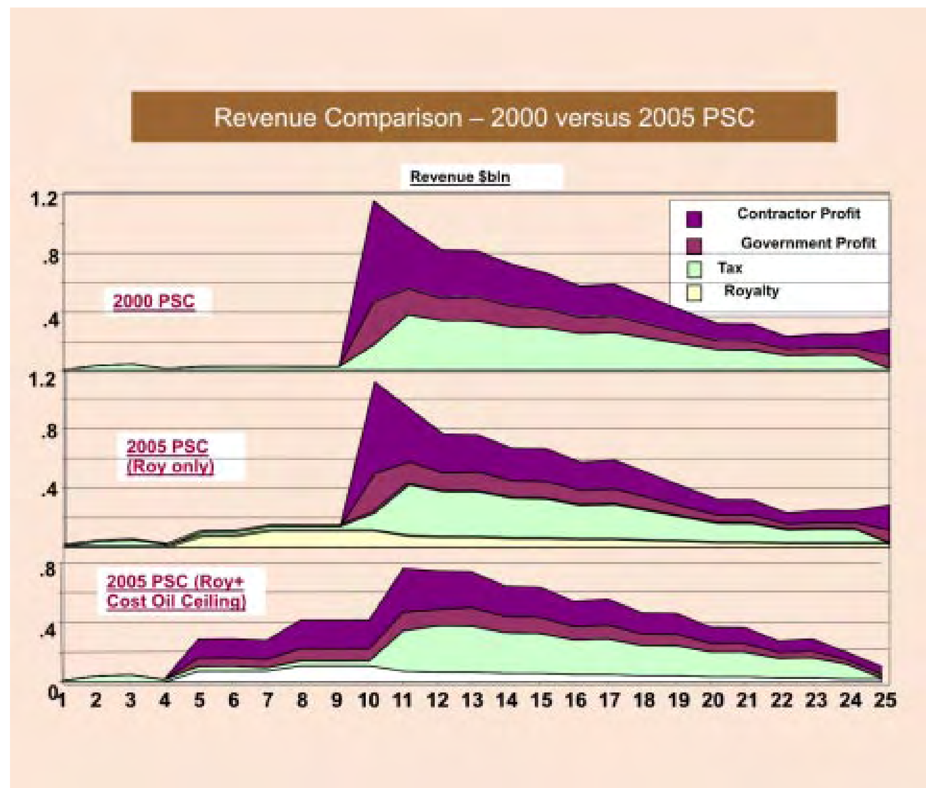
But while the key challenges of successive Nigerian governments, since independence, have remained turning raw hydrocarbons into processed products for the benefit of the populace, it has been much easier to increase economic rent from the raw commodities. The Obasanjo years have been responsive to this mould, even if, admittedly, a lot of investment has been made in breaking the jinx of inability to convert hydrocarbons in their raw form to higher products for Nigeria's teeming population.

The key targets for accessing and producing crude oil were inherited from the military. Reserves were to be increased to 40 billion barrels (BBOs) by 2010, with production capacity expected to rise to 4MMBOPD.

The government has vigorously pursued two more objectives: one is to increase economic rent as much as possible through upward review of taxes in as many areas as legally allowed; the other is the launch of a national content programme, the largest domiciliation effort in the oil industry anywhere on the continent. We must examine these three upstream objectives one by one.

Data on ground point, in general, to significant progress made towards increasing reserves and enhancing production capacity. Obasanjo met the country's crude oil reserves in 1999 at 29Billion Barrels, with a daily production of 2.066MMBOPD. By the end of 2005, the reserves were 35.9Billion while the country produced 2.58MMBOPD. On closer scrutiny, however, it is clear that-at the prevailing rate of production, reaching 40Billion Barrels by 2010 requires better luck than the country has had with the drill bit.

The challenge, however, is that the oil that is being produced is not being replaced as quickly as it is being pumped. Just do the math: the 2.58 Million barrels a day add up to 942 Million barrels a year. This can be rounded up to 1 billion barrels a year. So, if current demand persists, or heightens, Nigeria takes out one billion barrels of oil from the ground every year. The fact is that the country has not discovered –on average-up to 1 billion barrels of oil per year in the last three years.



The pace of discovery of new oil in the country in the last four years has been quite sluggish. Deepwater discoveries don't come in the sizes they were coming between 1995 and 2002. Discoveries from the shelf (shallow offshore, swamp and land) have not been significant. The latter fact is an issue that worries the minister of energy, Edmund Dakouru, himself a petroleum geologist and oil finder by training. In every public meeting with oil and gas professionals, in the last 27 months, he has stated his wor-

ries.

The need to boost reserves and increase production capacity is at the core of government's enthusiasm for bidding rounds for concessions. But it has also served the objective of increasing economic rent.

In July 2005, the Ministry of Petroleum put on auction some 75 oil prospecting blocks and called on operators from all over the world to bid. Interested parties came from Asia, the United States and Europe. A large group of Nigerian investors weighed in. Some of the leases on offer were in deepwater, but a large number were in shallow water, swamp and onshore Niger Delta. Some leases are ensconced in the inland basins where, in many cases, there have been no proven working crude oil generating engine. Less than a year after the 2005 bid round, another bid round was organized, to which a few, select companies were invited and by the end of 2006, the government was planning another big, open bid round, featuring 60 leases.

The 2005 bid round included several leases that had been revoked from some of the oil majors, allegedly because of lack of adequate work on them. The prevailing feeling is that new and smaller players would do a more robust job of finding new oil in many of these blocks and thereby increase the country's crude oil reserves base. There are, in some of those revoked leases, prospects that could hold oil reserves, but which the majors considered too little to justify their attention, the government argued, betting that those prospects could add up to substantial reserves that would top up the national tank.

The need to boost reserves and increase production capacity is at the core of government's enthusiasm for bidding rounds for concessions.

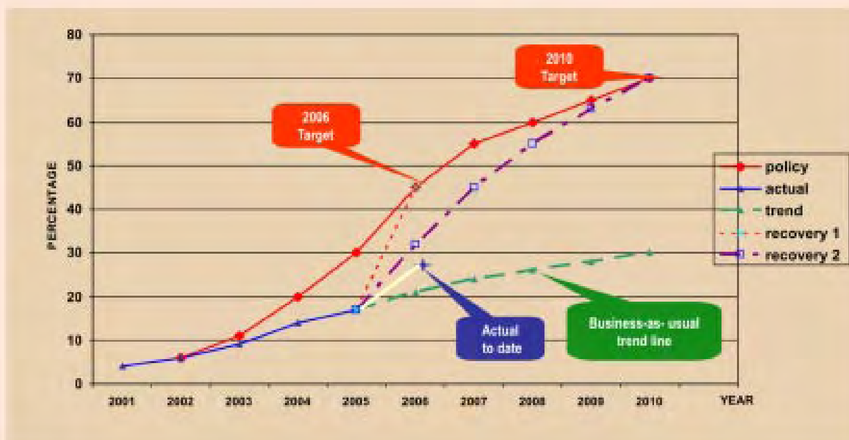
But there are frontier areas too; a separate bid round was also concluded in the Joint Development Zone(JDZ). This carpet shaped zone, shared between Nigeria and the islands of Sao Tome and Principe, is located in the "golden triangle", so called because the area, comprised of the prolific south east offshore Nigeria and the rapidly improving oil province of Equatorial Guinea. Note that, in the Nigerian part of this triangle, the south east offshore area constitutes roughly 10% of the Niger Delta basin, and yet delivers close to 35% of the total output.

The two governments have awarded leases in this zone to five consortia of companies, hoping that new oil of at least two billion barrel sizes could be discovered in the next few years.

Part of the reason why two more bid rounds were planned in rapid succession after the July 2005 effort was that the event was not quite conclusive. Only 20% of the leases (15 blocks) were sold, but the exercise netted over $1.2 billion, meaning that, on average, operators paid $80million per acreage. This was far higher than any previous round, or concessionary grant ever made for the country. Sceptics like to point to Angola, which routinely makes more than $150 million per deepwater acreage of

the same size as Nigeria's, or at least $300million, per deepwater acreage of a size twice Nigeria's deepwater acreage, but judging from where Nigeria's coming from, this government has captured more revenue.

One programme that grew slowly but surely in significance throughout this tenure was the National Content Programme, which aims to integrate the petroleum sector into the rest of the economy. In order to stifle the joke that a three billion dollar project could be started and completed in the Nigerian oil industry without the economy "feeling" it, the NNPC created a sort of Nigerian content czar, with the high position of a Group General Manager, to police the largely multinational operators to ensure greater National Content by making sure that a large percentage of work in upstream projects are done in country. By NNPC's definition, National Content refers to the ***quantum of composite value added or created in the Nigerian economy through the utilization of Nigerian human and material resources for the provision of goods and services to the petroleum industry.*** Such goods and services, the corporation insists, must be within acceptable quality, health, safety and environmental standards in order to stimulate the development of indigenous capabilities. Through the National Content, the Nigerian government seeks to improve job creation via investment in local facilities as well as stimulate development of indigenous capabilities. NNPC officials have been at pains to explain, however that this is not about indigenization, which transfers ownership of key enterprises in the industry to locals. Government also stresses that it is not about protectionism; Nigerian locals do not have to get the job if they can't perform.



The hard thing is how to measure the progress.

The President's GDP Growth Mandate through National Content is as follows:

• Domicile significant portion of Oil and Gas derivatives

• Increase contribution of O&G sector to GDP growth in relation to the huge investments and revenue earnings

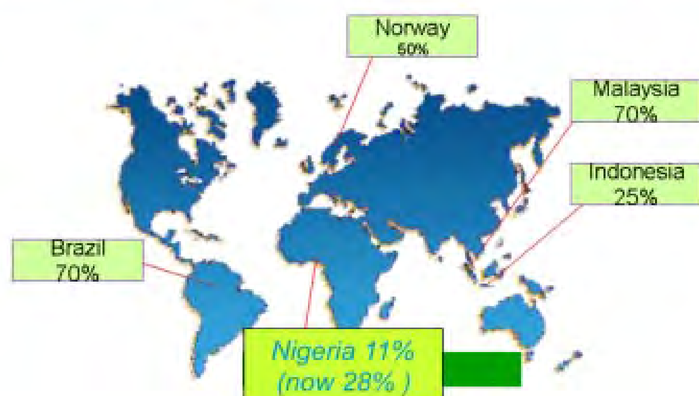
• Achieve Government targets of 45% by 2006 and 70% by 2010

Again, to use NNPC's statistics, there has been an increase in National content by 17 percentage points, since the "transformation began; i.e., the Nigerian input in Nigeria based upstream oil and gas projects has increased from 11% to 28%, in the last three years since this phase of National Content programme has been lauched. This is a shortfall of 18% from the 45% target for 2006, but NNPC believes that the structure is being firmly constructed. The NNPC believes that, if this trend continues, the 70% target for 2010 will be met.

Some of the recent success stories that NNPC likes to cite include:

The fabrication of the Shell Bonga CALM buoy at Nigerdock by SBM. Since then, NAPIMS and NCD now require that all CALM buoys be fabricated in Nigeria. Chevron's Agbami project has committed to the fabrication of approximately 6000 tones of equipment and structural modules at fabrication yards in Nigeria. The fabricated modules would then be transported to Korea for integration into the FSO. This is a landmark development. Shell's Southern Swamp Re-development project has outlined a very aggressive Nigeria Content plan, including the design and construction of whole new flowstations, and integration of substantial module in Nigeria. This is a marked departure from token structural fabrication that have been done in the past.

Three cable manufacturers in Nigeria are in discussions with various project teams of the major companies



Relative to other jurisdictions, national content level in Nigeria was very low pre-transformation

that could lead to supply of electrical cable for projects. This is a clear testimony of the persistence of the NCD, which has insisted that companies look at the locally manufactured cables and work out any quality deficiencies. Once all the technical and quality issues are addressed, these companies will supply the cables required for projects and thereby retain millions of dollars within the Nigerian economy. Other quick gain areas being targeted include paints, barite and bentonite.

Engineering design services have continued to increase in Nigeria. One engineering contractor recently completed over 50,000 man-hours of engineering design in country. Though there is still a lot of skepticism about the ability of these companies, a few of them continue to demonstrate improvement in the quality of their designs. Upcoming projects are committing to doing more engineering in Nigeria, especially in areas around shallow water development.

Nigerdock has acquired the ASME stamp for quality fabrication of pressure vessels and are now receiving lots of enquiries from companies for the supply of pressure vessels. This aspect of the company's business will grow as they have completed projects under their belt and built confidence in their customers. Dorman Long is already supplying vessels to NLNG and is in the process of acquiring the ASME Stamp. Even in the highly technical LNG area, the multi-company contractor TSKJ has been informed that all engineering for future trains of the Bonny LNG plant must be completed in Nigeria.

Nigerian government agencies should keep up the pressure on increasing Nigerian content. The improvements of the last two years are directly attributable to near-consistent and incessant pressure from the government, NNPC, NCD and NAPIMS. It would be instructive to imagine what Nigeria would have become if this kind of pressure was consistently applied 30 years ago.

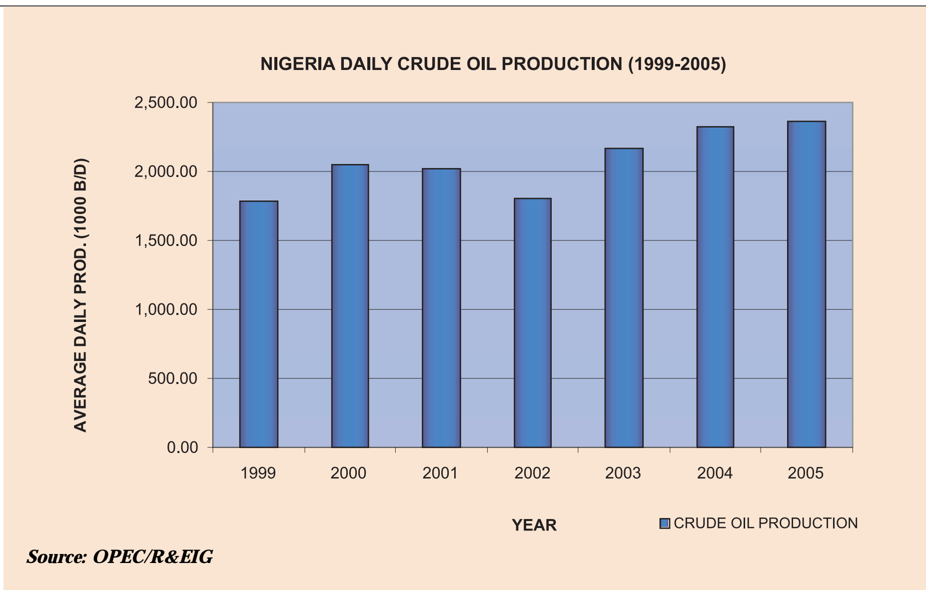
NCD has identified key focus areas as reflected in the NNPC directives. The focus areas should be gradually widened. Field development plans and contracting strategies

DESIGN CAPACITY BUILDING INTERVENTIONS
24 Projects identified

FOCUS AREA		NIGERIAN CONTENT PROJECT	SCOPE & TARGET	OUTCOME
FACILITIES AND INFRASTRUCTURE				
	13	Gap Analysis on Facilities & infrastructure for Industry	Fabrication Scope including FPSO Topside	8 potential locations investigated
	14	Conduct study and promote development of deep sea port	Port development and Integrated Facilities	Herema of Holland, NigerDock
	15	Establish Demand for Galvanised steel Products	Obtain specs & Quantities for LNG projects	Work in Progress
	16	Develop plan & PromoteStandard Galvanizing plant in Nigeria	One or 2 Standarfd size facilities	Freezone, Dormanlong planning investment
	17	INTSOK/NNPC/PTDF Upgrade Program For Local Fabrication	Processes of 4 - 6 Yards to ISO standards	Commence Q2 06
INSTITUTIONS AND SYSTEMS				
	18	Development of A Nigerian Content Support Fund	300-500m Dollar fund in Phase 1	Launch set for June 06
	19	Develop incetives and tariff reviews to boost manufacturing	Work with Customs and Ministry of Finance	Internationa lbanks backing obtained
	20	Enterprise development Program	Develop Program with LBS	Program model being developed
	21	Empower Nigerian Institute of Welding	Provide International certifier partnership revamp governance	SPDC is supporting initiative
	22	Develop Nigerian Tanker fleet to carry equity crude	Patrtnership with Int'l shipping companies	
	23	Market the Nigerian Content Program	Build Local and International Awareness	Continuous awareness packages
	24	Review University and Polytech curricula	Engineering, Geology and other technical courses	

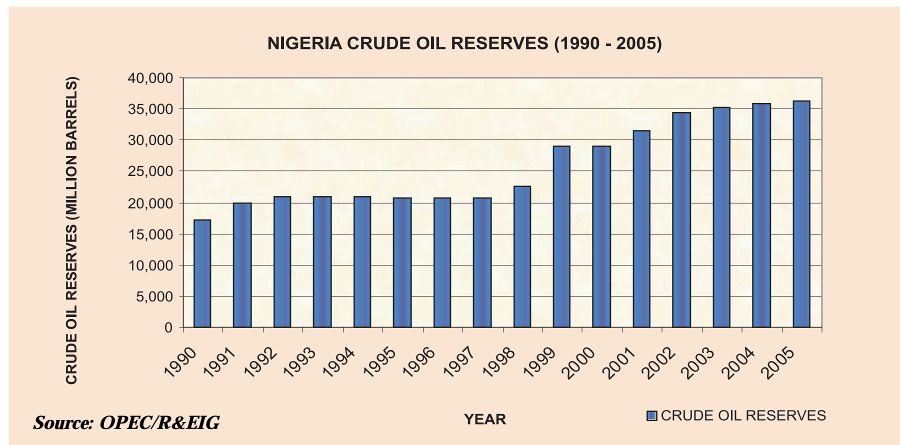
should be reviewed early to ensure that adequate provisions for improving Nigeria content are included.

Abuja should also deliberately favor operators and contractors that are committed to improving Nigerian content. Processes should be put in place to demonstrate to all involved that the favors are due to visible and measurable commitment to Nigerian content improvement. For example, design work can be preferentially channeled to companies that build standard design offices in Nigeria from where they will do Nigeria work and target work from other regions. The Nigerian government should take proactive steps to further the careers of Nigerians in the operating companies and help them get to decision-making positions. Nigerian content can best be promoted by Nigerians especially those in decision making roles in operating companies.



Source: OPEC/R&EIG

The high occurrence of community disruptions and sometimes unnecessary labor disputes make work done in Nigeria the biggest schedule risk to most projects. This causes a lot of companies to move the work overseas as a means of managing project schedule risk.



Source: OPEC/R&EIG

There are a lot of engineering graduates, but most do not have relevant experience. This is borne out of the legacy of doing work abroad. For too long, oil companies have done all the work they need to in Houston, Paris or London. Training in areas like diving services, welding and testing should be promoted as these commonly overlooked areas continue to employ a large number of people. The government should ensure that our immigration laws are enforced and companies are not allowed to flood the industry with expatriate workers for positions that Nigerians can fill. There have been suggestions for NNPC to insist that a Nigerian be attached to understudy every non-Nigeria in every position. This has been done successfully in other parts of the world including China. Improved Nigeria content may be the key to improving the educational system in Nigeria. If students know that they have a chance of securing a good paying job on graduation, they will be more eager to make good grades and graduate on time.

The Obasanjo years may not have delivered refined, made in Nigerian products direct to the Nigerian populace; it may not have succeeded in making power available in abundance, but it has enjoyed the highest revenue from raw hydrocarbon in the country's history, provided a better framework for generating economic rent from concession licences and, perhaps most importantly, it has, through the National Content, created a link between what was once an enclave industry and the overall Nigerian economy.

(****Akanni is Editor in Chief, Africa Oil+Gas Report)***

The Nigerian Telecom Revolution and Economic Growth

* By Calixthus Okoruwa

The Nigerian Communications Commission has recently announced the sale of a universal access license to Mubadala Development Company of the United Arab Emirates for the sum of USD 400 million. That amount, when it is eventually paid, will be unprecedented in the annals of telecom in Nigeria. A little over a year ago when Orascom made a bid for the combination of government-owned fixed operator, NITEL and its mobile arm, Mtel, its offer was a little higher than half of what Mubadala has offered to pay for a fresh license. Initial GSM licenses were auctioned for USD 285 million in 2001. Two years later, Globacom, Nigeria's second national operator got its combined fixed and mobile license for USD 200 million.

Mubadala, will be following what is gradually becoming a well-beaten path into the heartlands of Africa's biggest market for telecom. Before Mubadala, Transcorp, the Nigerian conglomer-

TOTAL CONNECTED LINES AND TELEDENSITY FROM 2005- AUGUST 2006

OPERATOR	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	% Change over Previous Month
Fixed	1,223,258	1,242,549	1,315,141	1,395,786	1,424,084**	1,481,641	1,503,030	1,538,215	1,589,026	3.67
Mobile	18,587,000	19,888,772	20,577,732	21,517,131	22,396,078	23,596,542	24,375,705	25,361,423	26,360,868	3.96
Total	**19,810,258**	**21,131,321**	**21,892,873**	**22,912,917**	**23,820,162**	**25,078,183**	**25,878,735**	**26,899,638**	**27,949,894**	**3.94**
Teledensity	**16.27**	**17.62**	**18.24**	**19.09**	**19.85**	**20.89**	**21.57**	**22.42**	**23.29**	**3.94**

*Source: NCC * Teledensity was calculated based on population estimate of 120 million people.*

ate had bought the combined NITEL/Mtel for USD 750million, of which USD 550 million has so far been paid up. Similarly, Celtel, a pan-African mobile operator and subsidiary of MTC of Kuwait, bought majority shareholding into V-Networks (then trading as V-mobile) at a cost of a little over a billion US dollars, with a promise to invest another USD 700million in the business over the next few years.

Starcomms, Nigeria's leading fixed wireless provider has attracted offshore financing to the tune of several tens of millions of US dollars. In the same light, MTN Nigeria has attracted significant offshore financing from major financial institutions and indeed currently has the International Finance Corporation the private sector development arm of the World Bank as one of its equity owners. The IFC's purchase of 3 percent equity in MTN Nigeria in 2003, represented at the time, the IFC's second biggest investment in Africa.

The Nigerian Communications Commission estimates that investment in the telecom industry in the years since the GSM auction of 2001 is in excess of USD 10 billion.

The foregoing gives an insight of sorts into the kind of inflow of foreign direct investment which the telecom sector continues to stimulate. This is, itself a direct fallout of the deregulation and privatization of the telecom sector, the two key components of the reform process of the telecom sector which the Nigerian Government initiated in 2000. Overhauling the regulatory regime of the telecom industry and opening up the market to private sector participation and competition have in turn become huge growth incentives for the telecom sector, with huge spin-offs for the wider economy.

Given the importance of a vibrant media to the sustenance and robustness of democracy, it may be argued that the Nigerian telecom industry has played a significant role towards sustaining Nigeria's nascent democracy.

Telecom infrastructure growth and development

A significant chunk of investment by telecom companies is reflected in the steady growth of telecom infrastructure across a considerable part of the country. In October 2006, MTN announced the completion of a nationwide fibre-optic transmission backbone. Built at a cost of some USD 70 million, the fibre-optic backbone complements an earlier nationwide microwave radio backbone erected at the cost of USD 120 million by the company. Celtel and Globacom, respectively, are at different stages of completion in the construction of similar transmission backbones across the country.

Indeed the big challenge, which the telecom operators face is the potential of a huge glut in transmission capacity in the next few years when the three operators may have concluded the construction of their respective transmission infrastructure.

In addition, mobile switching centers (the mobile equivalent of the traditional telephone exchanges) continue to spring up across the country, helping to facilitate the ability of the telephone networks to provide service to a growing number of Nigerians.

And while the sight of thousands of masts dotting the landscape of Nigeria's cities may portend an environmental nuisance of sorts, they signpost the immense effort of the telecom operators in installing base stations across the country, in a bid to take service to as many Nigerian

locations as possible. Even though a significant proportion of Nigeria, especially the rural areas remains uncovered, a Herculean effort has been made so far to take telecom coverage to all of Nigeria's 36 states as well as major road highways. Well over a thousand cities, towns and villages are currently connected.

At the last count, there are dozens of small Nigerian companies which have in the last five years, developed the competence to construct base stations and other installations for the telecom companies.

Stimulation of associated industries

Prior to 2001, the commonest form of advertising in Nigeria's newspapers was the 10inch by 5 column segment in black and white. A rather unique advertising space, it is slightly larger than half a page and its uniqueness lies in the fact that in leaving some bit of space for editorial matter, the probability of a reader spending time on the page and therefore more time with the advert is enhanced. Of course ads predominantly came in black and white, which besides the low aesthetic appeal meant significantly lower revenues for the media. Only the wealthiest companies dared to advertise in the much more expensive colour. Colour ads, naturally, were a tiny sprinkling, far between each other.

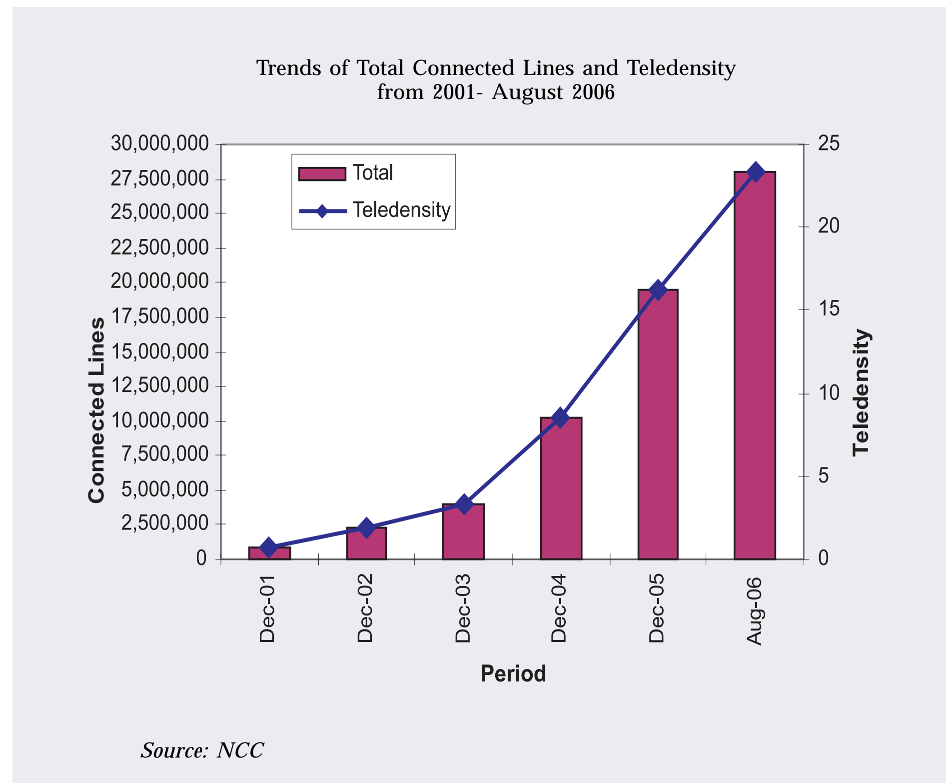
The telecom companies, GSM companies especially, helped to change all this. With the GSM companies, colour advertising has been the rule, since 2001. Today, the predominant advertising space in a typical national newspaper is the full colour page. Indeed there have been days when GSM companies would sponsor up to 8 pages of colour advertising in each of several newspapers. Today, no day passes without on average, a minimum of three colour page advertisements in Nigeria's national newspapers, sponsored by telecom companies. Taking a cue from the GSM companies, many major corporations – public as well as private – now advertise in colour in newspapers.

No doubt this translates into significant business for Nigeria's press, helping to enhance their sustainability. The electronic and outdoor media (billboards and other hoardings) have also had their earnings positively impacted by the heavy advertising of the telecom companies.

Given the importance of a vibrant media to the sustenance and robustness of democracy, it may be argued that the Nigerian telecom industry has played a significant role towards sustaining Nigeria's nascent democracy.

As it has been with the media, so has it been with a plethora of other industries. A handful of advertising agencies, public relations consultancies, events management agencies, modeling agencies, script writers, actors, comedians and singers have also benefited from the massive budgets that characterize the frenetic brand building efforts of the telecom companies.

The property market especially in high brow Victoria Island and Ikoyi in Lagos, has been significantly impacted



Source: NCC

by the renewed demand by telecom companies, enabling owners command good premiums on their property but also benefiting property developers, builders, engineers, architects and the like. Telecom companies have their operations scattered around dozens of properties across Lagos and to a lesser extent, other parts of the country, many of which have had to be redesigned and re-configured to the exacting customized demands of the telecom industry.

The engineering industry is yet another example. At the last count, there are dozens of small Nigerian companies which have in the last five years, developed the competence to construct base stations and other installations for the telecom companies. Many of these companies currently construct these installations for the telecom companies while at least one has developed the capacity to construct (rather than assemble) galvanized steel masts for the industry. For many of these companies, working for the telecom industry of today has also meant developing the project management skills and wherewithal to respond to the exacting needs of the activity-intense telecom industry.

Manpower recruitment and development firms have similarly been active. So have been banks and financial institutions, with attendant benefits on their bottom line.

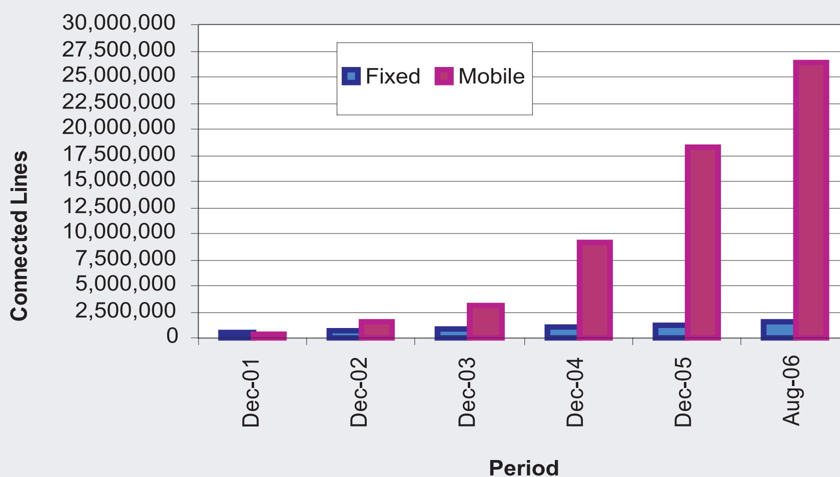
Corporate social investment

Corporate social investment has also been given a new momentum by the telecom companies. In 2006 Globacom signed a Memorandum of Understanding with the Nigerian Football League that will see the operator sponsor the Nigerian Premier League, now renamed the Globacom league to the tune of N4.315billion over the next four years. That sponsorship, it is expected, will help create an economic ripple effect in the country's potentially vibrant soccer industry.

Celtel, on the other hand, is spending huge sums of money to revive basketball in Nigeria, sponsoring annual tournaments, while MTN has revived and sponsors the annual Lagos International Half Marathon. The latter regularly brings world class marathoners to Nigeria and is now a fixture on the annual International Athletics Federation calendar.

Mtel has also been a regular sponsor of the annual Argungu Fishing Festival among others.

Trends of Fixed and Mobile Connected Lines from 2001- August 2006



Source: NCC

In sponsoring sports, these operators not only help fast-track the identification and development of sporting talent but also help Nigeria benefit from the conviviality and social cohesiveness which sports in the long run stimulates.

Besides sport, the telecom operators have also been very much involved in education. MTN is best known in this area where it has helped to establish Internet connectivity in a number of schools among other interventions such as the establishment of a digital library in the University of Lagos. Ericsson Nigeria, has similarly built GSM simulation laboratories in the University of Lagos and the Federal University of Technology in Yola respectively.

Other critical areas of social intervention include Celtel's emergency response partnership with Critical Rescue International with which quite a number of critical situations have been remedied, and the areas of HIV/AIDS awareness.

In all, the telecom companies have invested heavily in areas outside of their core businesses as a demonstration of support and appreciation to the communities in which they do business and to the benefit of the country.

Stimulating technological development and sophistication

In one month alone, April 2006, three multinationals, namely Cisco, Nokia and Intel Corporation, formally opened their Nigeria offices. Other multinationals that had similarly been attracted to Nigeria before them include Huawei Technologies, a Chinese telecom infrastructure firm which set up shop in 2002, Harris Communications an American headquartered transmission infrastructure provider, Microsoft, IBM, Hewlett Packard and many more.

Not only has superlative financial performance by the GSM companies, notably, MTN helped to draw positive and more circumspect attention to Nigeria's economic prospects, but the deepening of telecom capacity across Nigeria has also helped to provide an enabling environment for associated industries to thrive.

eTranzact, a Nigerian-led operation, for instance, embodies perhaps the world's only multichannel payment platform, enabling subscribers to make transactions and pay via their mobile phones, the Internet or indeed via point of sale terminals. The company took root in the wake of the telecom revolution in Nigeria and is quietly revving up interest by Nigerians in mobile commerce.

In the banking sector, SMS banking is only one among a handful of new services which are regularly offered to customers.

Telecom companies have invested heavily in areas outside of their core businesses as a demonstration of support and appreciation to the communities in which they do business and to the benefit of the country.

Growing adoption of the mobile phone and increasing savvy in its use have tended to yield the benefit of gradually demystifying technology. On a typical weekend, for instance, it is common to find a small band of Nigerians withdrawing cash from ATM machines located in banks and a growing number of key locations across major cities in Nigeria. Little by little, the habit of employing the use of cards in order to access some money is catching on in Nigeria. In capitalizing on this trend, a handful of banks in the country, have come up with variants of credit and debit cards, which Nigerians are gradually adopting.

Growing technological sophistication has tended to have a mutually reinforcing effect. Whereas SMS was practically the only service besides voice available to the telecom subscriber at the onset of GSM service a few years ago, his choices have since grown. Thanks to the emergence of ever more sophisticated phones, today's telephone subscriber can take a picture with his phone and share same with friends and family. Indeed with today's phones he could even do a video recording. All the major networks now enable subscribers to access the Internet from the comfort of their mobile phones.

Even though promotion by telecom companies of these newly introduced value added services and consequent adoption by the public remain low, they signpost growing sophistication by Nigerians in the adoption of technology.

Manpower development

For such a knowledge- and technical-intense industry as telecom, the growth imperative of Nigeria's telecom industry did unearth the inadequacies and challenges of Nigeria's manpower. Telecom companies in turn, took a creative way round this, bringing skilled expatriates experienced in running massive telecom projects abroad, to work in closely knit teams with Nigerian counterparts, and in so doing, sharing and transferring knowledge and expertise. In many cases, dozens of skilled Nigerians working in the telecom industry abroad were head-hunted and motivated to take up positions in the local telecom industry. The mix has significantly helped to improve local capacity and competence. Today, it is common to find young Nigerians in full charge of running major installations in the telecom companies.

And as an aid to the manpower development needs of the industry, the Nigerian Communications Commission has since established a telecom post-tertiary training institution, known as the Digital Bridge Institute. Located in Abuja, its objective is to impart knowledge and training in telecommunications. Commissioned in 2003, the institute has since trained dozens of engineers and telecom industry operatives.

Telecom infrastructure providers have also played a key role in the area of manpower development. Ericsson Nigeria, for instance, has a vibrant training facility in Nigeria, out of which it regularly trains dozens of telecom industry operatives. At other times these operatives are

trained in any of Ericsson's several training facilities across the world.

Beyond core training in telecom and technology has also been ongoing training in business and commercial skills for which training institutions like the Lagos Business School stand out.

Efficiency, productivity, growth

Research led by Economics professor, Leonard Waverman of the London Business School has found a direct correlation between the number of a country's telephone users and economic growth. Indeed, Waverman's research indicates that every ten percent mobile phone penetration leads to 0.3 percent increase in country GDP. According to Waverman, the impact is even much greater in developing countries where the mobile phone helps to unleash previously inconceivable opportunities and possibilities.

Job creation evidences one of the more significant impacts of Nigeria's telecom revolution. It is practically impossible to find a major street in today's Nigeria, devoid of the umbrella telephone call center. Spread all over Nigeria, these entrepreneurial creations, in providing a means of making cheap phone calls to millions of the less-affluent Nigerians provide a livelihood to several hundred thousand others. Elsewhere, dozens of thousands more, make a living selling airtime vouchers on the streets.

Making airtime vouchers accessible to roadside retailers has spanned the development of simple yet complex distribution networks by the telecom companies. Comprising distributorships, sub-distributorships and the like, airtime distribution is a big business of its own that is responsible for hundreds of thousands of jobs. The jobs continue to increase as telephone subscriptions soar.

More phones in the hands of Nigerians continue to translate to more empowerment. According to the Nigerian Communications Commission, well over 20 million Nigerians had their own telephones as at September 30, 2006.

Telephones translate to more efficiency in the execution of business, less time wastage and ultimately, more economic productivity.

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Constraints, challenges

But the strides so far taken in the telecom industry have not been without their challenges. Was public power supply for instance, robust enough to support the telecom industry, much of the investment which has so far been deployed to providing and maintaining two electricity generators each for the over 6,000 base stations now spread across Nigeria would have been better deployed to taking coverage to more locations. And the investment in recruiting and maintaining virtual private security armies to protect their installations by each of the telcos could have been better deployed to further driving universal access, if the Nigeria Police was adequately

manned and equipped.

Even the investment in erecting transmission backbones may have been obviated if one existed in the country. Rather than construct therefore, telcos would only have needed to lease capacity from an existent transmission backbone, at much less cost in terms of cash and toil than building from scratch. As stated earlier, telecos suffer the additional disadvantage of possible immense redundancy on these backbones, constructed at huge costs to themselves, in the future.

Telcos have also suffered the problems and distractions of multiple taxation by various organs of government. Buoyed by what they assume are the jumbo profits of these operators, virtually every arm of government in the country has been up in arms against these operators, brandishing taxes and requests for payment in one form or the other. From local government to state government to airport authorities to the Consumer Protection Council to officials of the Federal Capital Territory in Abuja, it has been one long orgy of demands for payments in one form or the other even when the subsisting Telecommunications Act of 2003 is explicit on the organ of government with regulatory and tax oversight of the telecom industry.

More phones in the hands of Nigerians continue to translate to more empowerment. According to the Nigerian Communications Commission, well over 20 million Nigerians had their own telephones as at September 30, 2006.

Public support for the telecom operators was a huge issue in the initial years when disheartened by the poor services being rendered, the public subjected operators to constant criticism. As much of the poor service was capacity-related, criticism has tended to ease up as more operators (Mtel, Globacom, MTS First and a handful of fixed wireless operators) joined the fray and amidst the competition, enhanced their capacities accordingly.

The future is even more promising

In September 2006, Ericsson in conjunction with MTN and the GSM Association, the global umbrella body of GSM networks across the world, announced that they are currently partnering in developing a bio-fuel alternative to diesel, for powering base stations in Nigeria. The team is currently exploring the use of crops such as groundnuts and palm fruits in the development of bio-diesel.

The bio-diesel project is fairly advanced now with prototypes having been tested. When it eventually takes off hopefully over the next few years, it will help to create yet another positive ripple effect in Nigeria's economy. It will stimulate the production of massive amounts of agricultural products, eliminate waste of such products and also enable farmers command higher prices for their produce. All these, while fundamentally enabling GSM companies significantly reduce operational costs connected with the running and maintenance of electricity generators which run their base stations.

Still in 2006, Celtel in conjunction with Ericsson and Huawei Technologies successfully test ran its 3G operation. 3G which stands for third generation mobile technology is an evolution from analogue or 1G and second generation 2G and 2.5G. 3G represents a much broader bandwidth capacity and when it is eventually commercially deployed by the telecom networks in Nigeria will enable a much more robust voice quality than is currently available. But perhaps most importantly is the fact that 3G will help to make mobile broadband a reality. In a country where PC and Internet penetration are extremely low, it is expected that 3G will, by enhancing broadband Internet access via the mobile phone, help to dramatically redress the situation. 3G will by assuaging the current low Internet penetration, enable businesses, households and individuals derive much more value from mobile broadband Internet connectivity.

The Nigerian Communications Commission has recently announced its readiness to commence licensing of new frequency spectrums to accommodate the evolution to 3G.

The reforms in the telecom sector have helped to spark off what is now referred to as a revolution in the Nigerian telecom industry. But what has been witnessed in the last five years with mobile phones finding their way into the hands of millions of Nigerians may indeed pale to insignificance when placed side-by-side with what lies ahead in the ever vibrant telecom industry. No doubt, the revolution is very far from abating.

(* Calixthus Okoruwa is a staff of XLR8, a Lagos-headquartered firm of communications consultants)

Protecting Minority Shareholders in Emerging Markets

* Aleksandr Shkolnikov

Minority shareholders are often viewed as an unnecessary burden, a 'dead weight,' by majority owners of corporations. This view is widespread in many transitioning economies, where capital markets are weak, minority investors are not commonly viewed as a source of capital, and incentives for long-term value-creation are distorted. In such economies, majority owners often feel that while having comparatively little at stake, minority shareholders can slow down or sidetrack crucial investment-related decisions, be inactive at times when the need for restructuring is pressing, or place unreasonable demands on management. In other words, minority shareholders, in the eyes of majority owners, tend to increase transactions costs.

While widespread in transitioning economies, such sentiments are present in all countries. Majority owners feel that they should have the right to make the majority of all decisions because they have more at stake. Evidence shows that extremely concentrated shareholder structures have actually benefited firms in developed countries from the standpoint of performance.[1] Does this, however, mean that firms in many emerging markets should not worry about weak investor protection and widespread highly concentrated ownership models?

The reality is that regardless of the fact that studies show that concentrated ownership structures can have a positive effect on firms' profits, one should avoid jumping to conclusions, as there are also costs associated with such a model. These costs are explored in more detail later in this article. However, regardless of costs and benefits, one should never declare a certain ownership model as the 'best practice,' as there are larger issues at stake.

A common mistake often made by some development experts throughout the 1990s, when a wave of privatizations swept through many emerging markets, was to advocate that companies adopt a certain model of ownership. In reality, however, both – dispersed and concentrated – models have a track record of successful performance as well as failure in a myriad of countries.

Taking this fact into account would lead one to conclude that the development of ownership structures should

be looked upon as an evolutionary process – not as an transferable set of rules – that allows firms (as well as economies that those firms constitute) realize their goals of investment, wealth-generation, and sustainable growth. Ownership structures should be aligned with countries' market institutions, not transplanted across borders with the assumption that they will perform just as well in different economic, political, and social environments.

Take a closer look at privatization experiments, for example. In several former command economies, privatization advisors pushed for voucher-based processes, which provided the possibility of ownership to the majority of the population. In many cases, such strategies intended to cement the legitimacy of the privatization process by allowing the citizens to become property owners in the new market economy. However, the dispersed ownership voucher model failed in some cases because market structures were not in place to support such a process – investors' rights were not equally protected, stock markets were weak, corporate governance systems were not in place, the rule of law was lacking, etc.

In Russia, for example, voucher privatization resulted in employee-ownership structures, which led to more problems than benefits for companies. Among the consequences of insider ownership structures were the lack of incentives to restructure and the persistence of Soviet-style management, all of which resulted in the general inability of firms to attract investment and improve performance.[2]

Advocates of the Russian privatization model had originally hoped that employees would sell their shares and ownership structures would evolve according to the market process. However, numerous institutional barriers have prevented such a process from taking place. In the Czech Republic, on the other hand, voucher privatization worked quite differently. There, investment funds, which managed citizens' ownership in companies, became quite successful in directing investment towards more profitable com-

panies.[3] A similar investment program failed in Russia.

In environments where the legal system fails to protect minority investors as well as specify their rights and responsibilities, conflicts between majority and minority shareholders inject additional uncertainty into the business environment, increase risk, and drive away investment, both foreign and domestic. In economies where rules-based systems are not in place to resolve these conflicts, majority owners are more likely to resort to illegal measures to "squeeze out" minority shareholders.

Examples of such illegal techniques used to exclude minority shareholders from the decision-making process are abundant in developing countries. For example, in Russia in the 1990s, a simple way to prevent minority shareholders from "meddling in the affairs" of majority owners was to change the date and location of the general assembly meeting a day or two before the meeting would take place. Thus, minority owners would not get the information in time and could not adjust their schedules. Minority owners would show up at an empty meeting hall, while the actual meeting was held hundreds of miles away and decisions were made in their absence. Such blatant violations could be observed in Russia as late as 2001, when corporate governance practices were already being established, and are not uncommon in other countries today. Other techniques to reduce the power of minority owners and bar them from the decision-making process include changing registration procedures immediately prior to the meeting so that minority owners would not have the opportunity to vote, withholding financial information, and limiting minority shareholders' ability to hold the board accountable for violations.

In environments where the legal system fails to protect minority investors as well as specify their rights and responsibilities, conflicts between majority and minority shareholders inject additional uncertainty into the business environment

In addition to illegal or semi-legal techniques, there are often legal measures used by majority owners to eliminate minority shareholders. "Squeeze out laws," as they are called, passed in Russia in 2004 and in the Czech Republic in 2005, allowed majority owners controlling 90% of the shares to buy out minority owners at a fair market price. Under these laws, majority shareholders were given the right to initiate the process to force minority owners to sell their shares. According to such "squeeze out laws," the only disagreement permitted is over the fairness of the price, but not over the actual right to sell.

While similar laws exist in developed economies, the differences lie in how the process works on the institutional level. In developed countries, where courts are more efficient and independent from political influence, there is much more transparency in how the actual "fair" market price of shares is determined. Also, in many developed economies where such laws are present, the threshold is higher than 90%, which means that firms expropriating minority shareholders already have an extremely high concentration of ownership.[4]

The arguments against minority shareholders exist in both developed and developing countries. However, there is one key difference that separates the two and makes the need for minority owners in developing countries much more pressing. In weak institutional environments, majority owners can easily engage in self-dealing and asset-stripping, thereby driving firms into bankruptcy and denying dividend payments to minority shareholders. The minority shareholders, in turn, have little control over such actions. Incentive structures in these environments are such that short-term profit extraction (or asset-stripping) replaces long-term value-creation strategies, and institutions are not strong enough to control this extraction. In other words, political and economic uncertainty leads to the attitude that "to steal today" is better than "to build for tomorrow" – and the system rewards that attitude by not punishing those that hold it.

Defining minority shareholders in institutionally weak environments is also much more difficult, as the division between minority and majority owners is much more vague. There is a good example of this from Russia, where in the 1990s, a Russian shareholder with 25% ownership could have more influence on management decisions and board composition than a foreign shareholder with 75% ownership. The reason for this is that, at the time, a Russian owner could gain access to enforcement mechanisms – legal and illegal – that were unavailable to a foreign owner.[5] While the days of "wild west capitalism" in Russia are arguably over, such examples still echo in Russia and other countries.

Further, although compelling arguments for and

• ***A retail store in Russia***

against minority shareholders exist on both sides, one cannot lose track of the key role they play in developed as well as developing economies. Massive asset-stripping during Russian privatization, the 1997 financial crisis in Asia, and the limited ability of family-owned firms in the Middle East and Latin America to attract investment have all underscored the importance of having minority shareholders as an oversight mechanism over legal infractions and an assurance tool for investors.

Choosing the Right Ownership Structure

Debates continue as to which ownership structures are best. One study of 376 enterprises in Ukraine found that concentrated ownership has been positively associated with firms' performance.[6] The same study also found that firms with concentrated ownership by foreign investors have outperformed those where ownership is concentrated by local owners.

Another study of Czech firms, however, found that dispersed ownership structures have a greater positive effect on sales than concentrated ownership structures.[7] There is also evidence from a study of 156 firms in eight new member states of the European Union (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) showing that there is no positive relationship between performance and concentration of ownership.[8] Interestingly, the same study also showed that there are concrete benefits of foreign ownership for firm performance.

There are many other works in finance and economics that provide arguments for one ownership structure over the other. Before arriving at a final verdict, there is an issue that deserves more attention. It would be erroneous to compare developed and developing economies because ownership structures have often evolved over time in developed economies and concentrated ownership, therefore, is the outcome of the competitive market process.[9] In many developing countries, on the other hand, ownership structures have been imported or transplanted [along with the privatization processes, for example] and thus have a completely different impact on the market performance of firms. In developing economies, for example, laws protecting investors are often much weaker than in developed ones. Further, there are often deficiencies with the functioning of rule of law, where even if the laws protecting investors exist on paper, they may not be properly enforced. This is the issue that the earlier example of weak majority and strong minority owners in Russia illustrates well.

Therefore, the reason that companies with concentrated ownership sometimes outperform their competitors with dispersed ownership in developing countries may be that weak institutional structures limit the ability of firms with dispersed ownership to survive in environments where market and political players focus more on the present than the future. This may not necessarily mean that a more efficient firm performs better. A recent paper by the World Bank, for example, supports this point. The paper

takes an in-depth look at a number of countries, and, using the Business Environment and Enterprise Performance Survey (BEEPS), determines that in countries with a weak business climate, efficient firms tend to fail while inefficient firms remain.[10]

Without proper protection of investors' rights, minority shareholders are vulnerable, while firms with concentrated ownership run the risk of assets being expropriated by majority owners. So, the question to be answered is not whether firms with concentrated ownership structures outperform those with dispersed ownership in developing countries, but rather: How can the market structures be reformed to allow for fair competition among firms and the natural evolution of ownership structures? Fairness, in this sense, does not mean equalizing firms' endowments or designating equal market shares. Rather, it means creating a system of rules, where some firms are not favored over others, all have equal access to political and market institutions, and rules are consistently enforced.[11]

The Role of Minority Shareholders

Minority shareholders have a role to play in emerging markets. They can be a "watchdog" over the board's actions and help to create effective and well-governed companies. They can be instrumental in the development and sustainability of capital markets as well. For example, expropriation of minority shareholders in Asia has been linked to the 1997 financial crisis.[12] In short, the expropriation of minority shareholders from corporations in the mid-1990s resulted in concentrated ownership. As a consequence, conflicts of interest and a lack of transparency weakened corporations to the point where they found themselves at the center of the financial collapse.

As mentioned above, failed privatization across former command economies in Russia and some other Eastern European countries was partly due to a lack of protection of minority shareholders rights. Although people received vouchers that allowed them to become owners of privatized enterprises, the system functioned in such a way that those new minority owners had no voice in decision-making, which was done largely behind closed doors. As a result, many of the privatized enterprises plunged into a downward spiral of economic inefficiency and failure among countless asset-stripping schemes and misuse of corporate resources for personal gain. In some countries, privatization became synonymous with corruption, not ownership.

Simply put, in many emerging economies, a common consensus emerged over the past several decades that weak legal protection and the prevalence of relationship-based systems (where political access matters a great deal in economic decision-making) undermine the existence minority shareholders and, subsequently, their ability to fulfill their oversight role. However, this should not be used as an excuse, but rather as a motivation to put in place the measures that protect minority shareholders rights.

In all, minority shareholders can be a source of capital, they have the potential to drive transparency initia-

[1]*Andrei Shleifer and Robert Vishny, "A Survey of Corporate Governance," The Journal of Finance (Vol.52, No.2, June 1997), 737-783.* [2]*John S. Earle, "Privatization in Russia Offers Lessons for Others," Economic Reform Today: Privatization in the Digital Age, Center for International Private Enterprise (Number 2, 1999).* [3]*For more information, see CIPE's Prosperity Paper "Privatization State-Owned Enterprises," 2004, http://www.cipe.org.* [4]*William Browder, "The Threat of Minority "Squeeze Outs" in Russia," World Bank newsletter "Beyond Transition," http://www.worldbank.org/transitionnewsletter/december_2004/pg18.htm.* [5]*Andrei Shleifer and Robert Vishny, "A Survey of Corporate Governance," The Journal of Finance (Vol.52, No.2, June 1997), 737-783.* [6]*Alexander Pivovarsky, "Ownership Concentration and Performance in Ukraine's*

tives, promote ethics and good governance, and act as an assurance mechanism to other investors that there is no dominant insider-control in firms. This is essential in the absence of market mechanisms that provide such guarantees in developed countries.

In economies with weak corporate governance mechanisms and lacking rule of law, in cases of highly concentrated ownership and little protection for minority shareholders rights, investments (both foreign and domestic) are more likely to be misused. The lack of accountability and transparency mechanisms allows for discretionary decision-making on the part of majority owners, who may use the funds for their own personal benefit. In fact, a McKinsey study found that investors are willing to pay a premium as high as 40% for well-governed firms in emerging markets. The risk is clearly there, and so is the desire on the part of the investors to avoid that risk.

The problem of weak protection of minority shareholders' rights is becoming increasingly evident in the Middle East, where the majority of the firms are family-owned and corporate governance standards are often lax. As firms realize that to compete on the global scale they must tap into capital markets and attract foreign investment, they face the need to improve governance structures and develop mechanisms that ensure equal protection to all investors.

However, we also need to recognize the other side of the coin in many of the emerging markets. Minority shareholders can act as a burden on business if their rights and responsibilities are not clearly defined and if they themselves do not understand what they should and should not do. They can increase transactions costs if they are not aware of their responsibilities and if they make unreasonable demands. Thus, proper mechanisms can both protect minority shareholders and save majority owners from the 'tyranny of the minority.'

Protecting Minority Shareholders Rights: The Role of Associations

One answer to the minority shareholders rights problem is corporate governance. The implementation of corporate governance best practices can create transparent, responsible, and accountable businesses. In fact, corporate governance is not only about rules governing boards of directors or disclosure practices – significant attention is paid to minority shareholders. As the OECD's Corporate Governance Principles state, "Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress."[13]

However, while corporate governance mechanisms may put in place a set of rules, how does one ensure that shareholders have equal access to those rules? How are those rules created in the first place? Do minority shareholders have a say in the process or are they presented with a set of rules with which they have to comply? How does one ensure that those rules are enforced? How can violations be exposed and grievances be redressed? What will facilitate communication between minority shareholders, so that they can identify common challenges and solutions?

Through associations, minority shareholders can pool their resources together and work with the business community and policymakers to improve the legal and regulatory environment, and ultimately position countries as more investment-friendly destinations.

Associations and institutes that focus on corporate governance problems provide some answers to these questions. Once the collective action problem is solved, minority shareholders will have the will and capacity to combine their resources to become an integral part of a country's capital markets. In this manner, majority owners will no longer be able to ignore the rights – and input – of minority shareholders. Through associations, minority shareholders can pool their resources together and work with the business community and policymakers to improve the legal and regulatory environment, and ultimately position countries as more investment-friendly destinations.

Privatized Enterprises," International Monetary Fund, IMF Staff Papers (Vol.50 No. 1, 2003). [7]*Stijn Claessens and Simeon Djankov, "Ownership Concentration and Corporate Performance in the Czech Republic," William Davidson Institute, Working Paper Number 227 (April 1999).* [8]*"Ownership Structure and Firm Performance in Transition Countries: The Case of European Union New Members." Presented at Financial Management Association International (FMA) 2005 European Conference.http://www.fma.org/Siena/Papers/140384.pdf.* [9]*Harold Demsetz and Kenneth Lehn, "The Structure of Corporate Ownership: Causes and Consequences," Journal of Political Economy (Vol. 93 No.6) 1155-1177.* [10] *Mary Hallward-Driemeier, "Who Survives – The Impact of Corruption, Competition, and Property Rights Across Firms." Presented at the 10th Annual Conference of*

CIPE partner the Corporate Governance Center in Kenya is an illustrative example. It set out to conduct an awareness-building campaign on corporate governance rules to ensure that shareholders know their rights and to ensure that their rights are properly protected.

The Corporate Governance Center prepared and distributed guidelines (20,000 copies) on the rights of shareholders and their roles and responsibilities in the corporate governance framework, with emphasis on the rights of minority shareholders and how they can organize to promote good corporate governance. These guidelines constituted the first attempt to codify, translate into a local language, and widely disseminate detailed materials on the rights and obligations of shareholders.

The Corporate Governance Center also held a national convention to educate the public on the pillars and values that underpin good governance; the reasons why these principles are formulated and promulgated; the benefits that accrue from the implementation of those values, principles, and practices; and the role of the community in ensuring business' compliance with corporate governance best practices.

The Association for the Protection of Shareholders' Rights (Akcioner), a CIPE partner in Macedonia, has been instrumental in protecting the rights of minority shareholders in that country. In emerging markets, it is not enough to put the rules in place – much work remains to be done to ensure that the rules are properly enforced. Such work is very difficult, yet necessary when the rule of law is lacking.

Akcioner was created to educate small shareholders on their rights and responsibilities and to facilitate collective action in order to advocate for their interests. Upon joining the association, members recognized that they were not alone in their struggle for better shareholder protection. They came to believe that through united efforts, they could achieve substantive changes in the way companies are managed and operated in Macedonia.

Over the past several years, Akcioner has worked to build a more robust capital market environment in Macedonia through education of shareholders about the protection of their rights, free legal aid and counseling, representation and advocacy, mediation between companies and shareholders, and education of judges and lawyers.

the International Society for New Institutional Economics. http://www.isnie.org. [11]For more information, see F. A. Hayek, "The Constitution of Liberty." [12]http://www.adbi.org/book/2005/02/02/884. corporate governance asia evaluation of shareholders rights and effectiveness of boards of directors/ [13]See http://www.oecd.org for more information.

Akcioner's activities to protect shareholders rights, promote investment, and help business to stand up for its rights have been quite successful. Over the past several years, Akcioner has established itself as a credible and reliable organization that can protect shareholders' rights and take legal action when needed. Increasingly, company managers respect the efficiency of Akcioner's legal department to persuade the courts to enforce the 2004 Company Law. The legal expertise of Akcioner and its growing public status act as a deterrent to violations of shareholder rights.

Conclusion

Reformers should be careful not to draw direct linkages between the performance of companies in emerging markets and their performance in developed ones. The conditions under which companies operate can be quite different. This fact has a number of implications that should be taken into account when thinking about ownership structures and company performance. Most importantly, ownership structures should be viewed as a process, not as a rigid set of rules that can be carried over borders and put in place overnight. While there is value to international experience and a set of 'best practices,' these experiences must be combined with local realities to create companies that can meet today's challenges and join the global economy – while doing so in a manner consistent with ethical behavior and rule of law.

Protection of minority shareholders rights is an issue that lies at the core of this debate. In many emerging economies, minority shareholders are often dismissed as unnecessary, yet, they are instrumental in creating robust capital markets and sustainable companies focused on long-term value creation. Good corporate governance plays a major role in protecting the rights of minority shareholders and defining their responsibilities. At the same time, voluntary associations and institutes are also instrumental in protecting shareholders rights, creating awareness, exposing and combating abuses, and, overall, ensuring the implementation and enforcement of corporate governance standards.

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Nigeria-South Africa Trade

*** By Toni Kan-Onwordi**

It is amazing how two countries which share a lot of similarities in terms of economic size, prominence and influence can be so radically different in many other ways. South Africa, which in 1991 contributed just 4% of Africa's global export trade, has today become the continent's largest economy while Nigeria, on account of its huge population remains the continent's biggest consumer nation.

As nations, Nigeria and South Africa occupy positions of political influence both on continental as well as regional levels. While South Africa has emerged as a veritable subregional hegemon in the South of the continent where, according to the ADB, she accounts for 80% of the total output of Southern African countries, a similar picture emerges in West Africa where Nigeria is reck-

oned to account not just for 60% of the sub-region's economic output but for half of its population. What these mean is that both countries are regional powers of sorts.

In extending the similarities, one notices that their clout is not only felt economically. On the political level, both nations are continental super powers with a shared history of active political engagement. Nigeria was instrumental in attracting a regime of sanctions against the apartheid regime. Post-apartheid, Nigeria and South Africa have been in the vanguard of regional and continental integration as champions of the AU as well as the New Partnership for African Development (NEPAD) initiative, amongst others.

It is difficult not to trace the trade between the two nations to the political relations between them in terms of Nigeria's support for the emergent black-led government in post-apartheid South Africa

These similarities pale into insignificance when other indicators which highlight the differences between the two nations are considered. While Nigeria has a population of 140 million people according to 2006 estimates, South Africa has a population of 44 million.

Economically, where the GDP and per capita income of South Africa are put at $187.3billion and $12,200, Nigeria's is put at $77.33billion and $1,400. On another score, while Nigeria operates what is predominantly a mono-product economy with agriculture and oil contributing over 70% of GDP with Services bringing in a paltry 27%, the South African economy paints a contrasting picture with services contributing almost 70% while the other sectors bring in the remainder.

	NIGERIA	SOUTH AFRICA
GDP (purchasing power parity):	$175.5 billion (2005 est.)	$540.8 billion (2005 est.)
GDP (official exchange rate):	$77.33 billion (2005 est.)	$187.3 billion (2005 est.)
GDP - real growth rate	6.9% (2005 est.)	4.9% (2005 est.)
GDP - per capita (PPP):	$1,400 (2005 est.)	$12,200 (2005 est.)
GDP - composition by sector	agriculture: 26.9% industry: 48.7% services: 24.4% (2005 est	*agriculture:* 2.5% *industry:* 30.3% *services:* 67.1% (2005 est.)
Inflation rate (consumer prices	13.5% (2005 est.)	4% (2005 est.)
Public debt	11% of GDP (2005 est.)	35.8% of GDP (2005 est.)
Oil - production	2.451 million bbl/day (2005 est.)	216,700 bbl/day (2003 est.)
Oil - consumption	310,000 bbl/day (2003 est.)	484,000 bbl/day (2003 est.)
Debt - external	$32.45 billion (2005 est.)	$29.97 billion (2005 est.)

www.cia.gov/cia/publications/factbook

The economies are also defined by two contrasting features. While the Nigerian economy has a huge informal sector, the South African has a large formal sector.

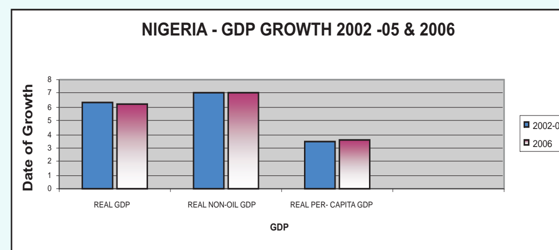
The future outlook for both countries however offers an interesting scenario as suggested by the growth rates of the two nations. While Nigeria recorded a 6.9% GDP growth rate in 2005, South Africa recorded a 4.9% growth rate for the same period. Analysts say that Nigeria's economy circa 2005 was at the same level as the South African economy in 1985. While the past and present do not paint a very flattering picture the future as envisioned by analysts at Goldman Sachs indicates that Nigeria's GDP is expected to reach $3.7 trillion by 2050 surging ahead of South Africa's which is expected to be in the $1.2 trillion level. These estimates are based on projected growth rates of 6% and 3.5 respectively for Nigeria and South Africa during the period.

But while Nigeria's GDP is projected to eclipse South Africa's, the former is expected to remain ahead in terms of income per capita. South Africa is projected to remain ahead at $35,000 while Nigeria is projected to be at $10,000 by

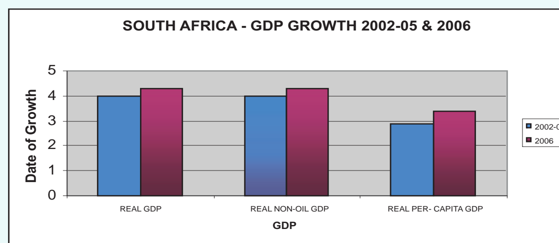
2050.

It is difficult not to trace the trade between the two nations to the political relations between them in terms of Nigeria's support for the emergent black-led government in post-apartheid South Africa. In 1999, in what seemed like a move to cement that relationship, Nigeria and South Africa signed a bilateral trade agreement which has been significantly responsible for the improved trade relations between the two nations. In 2002, a Bi-national commission was inaugurated and the efficacy of these two initiatives can be measured against the fact that four years after the bilateral accord was signed South Africa's exports to Nigeria soared by over 540%.

Presently, there are almost a hundred South African companies operating in Nigeria. This state of affairs implies that South Africa has become one of Nigeria's largest sources of Foreign Direct investment (FDI). But it is not a one-way traffic. Analysts continue to point to what they see as the considerable capital flight from Nigeria to South Africa arising from the huge profits, which South African owned companies continue to post from their Nigerian operations.



Source: R&EIG/Business Day



Source: R&EIG/Business Day

		NIGERIA	SOUTH AFRICA
	FDI INFLOWS (2004)		
1	$ Millions	2127	585
2	% of Gross Fixed Capital Formation	20.4	1.7
3	% of LDs FDI Inflows	0.912	0.251
	FDI STOCK (2004)		
1	Inflows ($ Million)	31402	46283
2	% of GDP	44	21.7
3	Outflows ($ Million)	4826	28790
4	% of GDP	6.8	13.5
	FDI INFLOWS PERFORMANCE RANKING		
1	2002-2004	44	126
2	1999-2001	82	114
	FDI INFLOWS POTENTIAL RANKING		
1	**2003**	97	73
2	**2000**	90	74
	NUMBER OF TNCs AMONG TOP 50		4

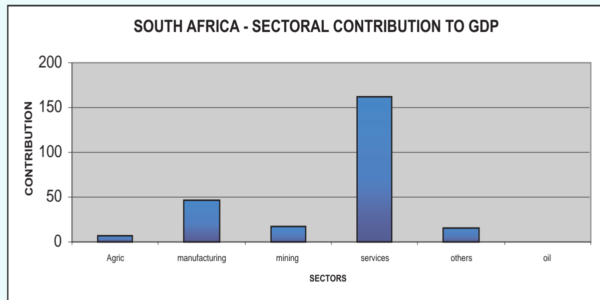
Source: World Investment Report 2005

The FDI outflow from South Africa is, however, not uni-directional. With the signing of several bilateral trade agreements with other African nations, South Africa has actually become the largest source of FDI to the rest of the continent as South African companies continue to set out roots in sectors as varied as mining, telecommunications, entertainment services, aviation, retail and financial services.

While South Africa continues to remain a major source of FDI to Nigeria, Nigeria is surging ahead of its South African peer in terms of FDI inflows. A 2005 report by UNCTAD indicated that in terms of FDI inflows, Nigeria's performance improved from the 82nd position in the period covering 1999 -2001 to 44 in 2002 – 2004 while South Africa declined 114 to 126 in the same period.

A more recent FDI report from the UN indicates that while Foreign Direct Investment increased for the 3rd consecutive year in 2006 to $1.2 trillion pointing to a 34% increase over that of 2005 but still below the 2000 record figure of $1.4trillion, Nigeria remained among the top recipient countries which include Italy, Poland, Russia, Singapore, Thailand, Turkey and the US.

The reason behind the influence and reach of South African companies is not difficult to understand



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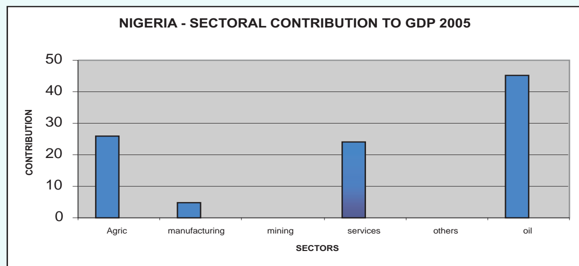


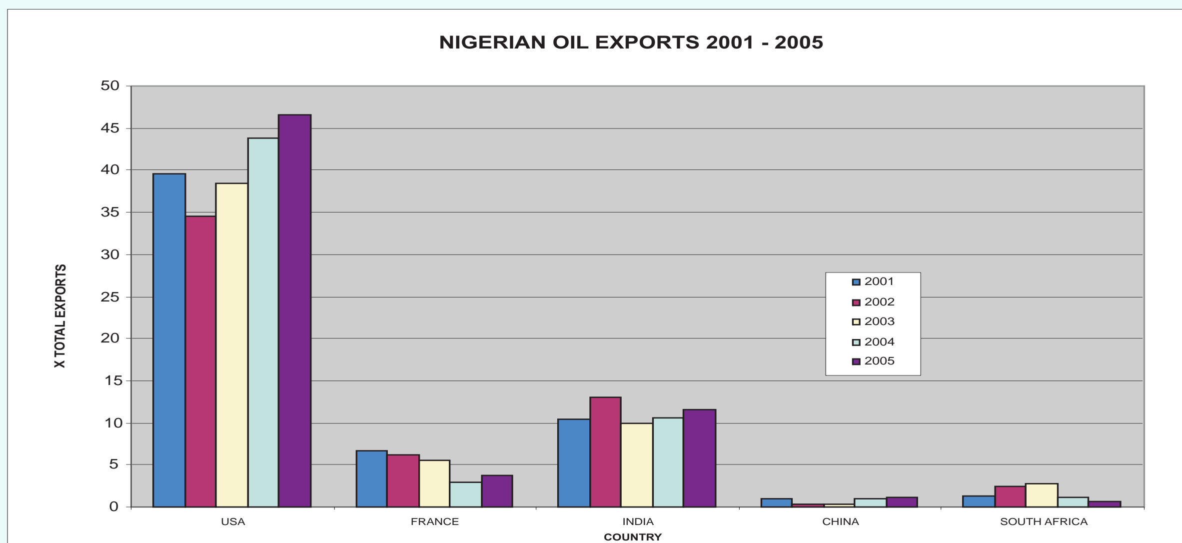
Source: R&EIG/Business Day

when its well developed economy is taken into acount. Before the banking consolidation exercise in Nigeria in 2004, the 89 banks in Nigeria were, according to the Governor of the Central Bank of Nigeria, equal in size to the 4th largest bank in South Africa. Today, post consolidation, the 25 banks that now exist are equal in size to the 1st and 2nd largest banks in South Africa.

A comparative analysis of the Stock markets of the two nations shows that the market capitalization of the Nigerian Stock Exchange (NSE) is less than10% that of the Johannesburg Stock Exchange (JSE) and while the stock market capitalization amounted to 20% of GDP in Nigeria, in South Africa the market capitalization of the JSE amounted to 214% of GDP in 2004. These examples help to point to the wide gulf existing between the South African economy and the rest of Africa.

In terms of trade, Nigeria's major export to South Africa remains oil with South Africa accounting for 0.7% of Nigeria's total oil exports in 2005. There has been a decline in real terms in the volume of oil purchased by South Africa with the figure rising from 9.7 million barrels in 2001, to 22.1 million barrels in 2003 then declining rapidly to 6.05 million barrels in 2005.

This fluctuation in demand levels bears out analysts' prognostications to the effect that while the balance of trade may be in Nigeria's favour in the present, it would ultimately tilt in favour of South Africa in the near future because of its basket of offerings. In 2003, two-way trade flows between SA and Nigeria amounted to R5,3 billion (about N100bn). Of that, South Africa's exports were valued at R2,3 billion (about N43.7BN) while its import share,



Source: CBN Annual report 2005

98.4% of which was made up of oil , amounted to R2,7 billion (about N51.3bn)

The need to diversify exports to South Africa is borne out by an analysis of non-oil exports from Nigeria to South Africa which has grown in value from N37bn in 2002 to N107bn in 2005 showing a growth of 189%

Of the close to 100 South African companies currently operating in Nigeria, MTN remains the biggest and most profitable. The company which cashed in on Nigerian's hunger for communications in 2001 has turned into the MTN Group's cash cow. In 2003-04, MTN recorded a profit after tax of R2.4 billion (about N45.9bn) from its Nigerian operations, representing 55.8% of its total profit from its non-South African ventures. MTN Nigeria Communications Limited (MTN) announced a profit before tax earning of N65 billion on revenue of N199 billion for the period April 1, 2004 to March 31, 2005. "Over the same period, the mobile telecommunication company said its subscriber base also increased by 123 per cent to cross the 7 million mark while a capital investment of over N118 billion was completed."

The company also reported gross earnings of N119 billion (R5.87 billion) for the six month period ended September 30, 2005 and recorded a profit after tax of N41.3 billion (R2.03 billion) from its operations in Nigeria. A statement from the Group's Headquarters affirmed that "the Group derives a growing portion of its earnings from its non-South African operations, accounting for 36% of its revenue, 50% of its EBIDTA and 46% of its adjusted headline earnings during the year."

Due to its Nigerian operations, MTN which also has its tentacles spread across Cote d'Ivoire, Zambia, Cameroon, Uganda, Rwanda, and Swaziland, since it was founded in 1994, overtook arch-rival, Vodacom on all parameters including subscriber base, revenue and profits. MTN Group's revenue was R17.2 billion as opposed to Vodacom's R16.18 billion announced November 14, 2005. Also, MTN Group's profit of R4.5 billion nearly doubled Vodacom's profit of R2.36 billion. And while Vodacom signed on its 20th million subscriber in November, MTN already had 20.6 million subscribers as at September 2005. Today the figure has grown considerably with its Nigerian operations contributing over 10 million subscribers.

These huge returns haven't gone down too well with MTN Nigeria's critics who, despite the company's claims to have spent N140.92 billion of its considerable earnings in Nigeria since it started operations five years ago, continue to allege that much of the money continues to fly abroad thus exacerbating the capital flight syndrome perpetrated by many multinationals operating in the country.

There is however an upside to MTN's success. It has helped attract other multi-million rand projects from a slew of South African investors which include Game, Shoprite, Nu Metro, Johnnic Communications, V&A Waterfront, and JHI Real Estate. Others are Standard Bank, Protea Hotels, Shoprite Checkers, Southern Sun, and the Industrial Development Corporation.

But not all South African companies have done well in Nigeria. South Africa Airways lost out in its bid for the national carrier to Virgin Atlantic, while Vodacom's alliance with Econet was very short-lived.

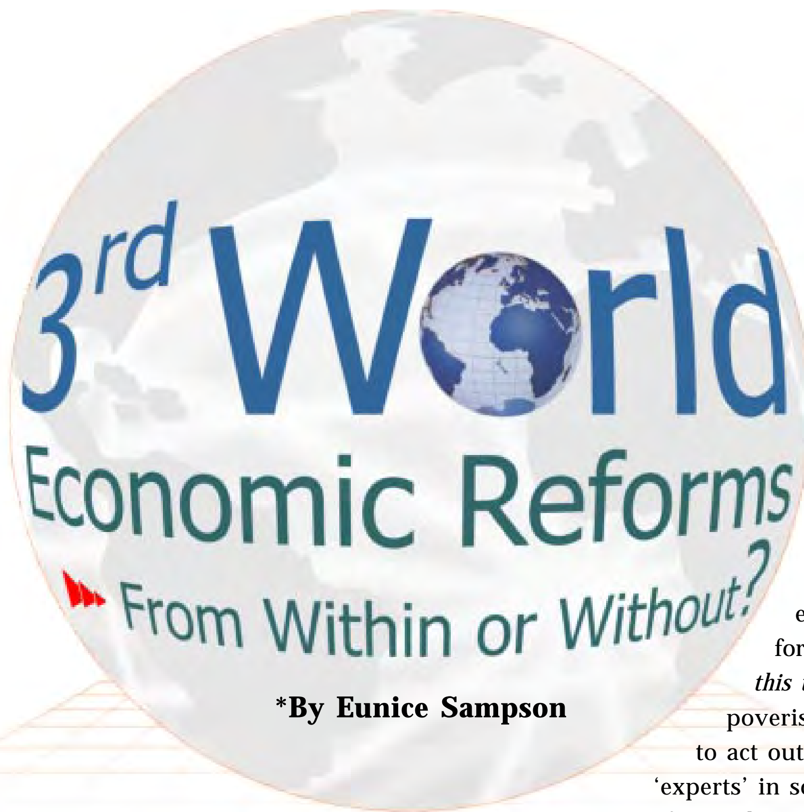
A comparative analysis of the Stock markets of the two nations shows that the market capitalization of the Nigerian Stock Exchange (NSE) is less than10% that of the Johannesburg Stock Exchange (JSE)

While the South African companies who made it to Nigeria continue to reap bountiful returns, Nigerian companies haven't fared well in South Africa. Thisday Newspapers, Nigeria's most high profile investment in South Africa had a very short run. Oando is however listed on the JSE in a cross listing concluded in 2005.

The dearth of easily identifiable Nigerian business in South Africa is seen as not being really representative of the true state of affairs because according to Dianna Games, Managing Editor of the *SA Journal of Inter-national Affairs*, this paucity of companies only "masks the vibrant business relationship that Nigeria has with South Africa". Continuing, she explains that, "Many Nigerian entrepreneurs have invested millions of rands in South Africa and source products from the country. Training companies, particularly in the area of IT, get a lot of business from Nigerians and there are thousands of Nigerians working in a wide range of fields such as academia, human resources, property, accounting and the medical field."

As trade between the two nations continue to grow, there is the urgent need for the Nigerian government to diversify its export portfolio to South Africa because in time oil may no longer bring in as much returns as it is doing at the present time.

(* Toni Kan Onwordi is the deputy Editor, Zenith Economic Quarterly)



3rd World Economic Reforms: From Within or Without?

*By Eunice Sampson

Pressure from global financial institutions and donor nations have compelled many developing countries to embark on far-reaching economic reforms since the 1980s. The "*you must do this to get this*" syndrome has driven impoverished economies, despite themselves, to act out structural reform scripts written by 'experts' in some remote parts of the globe. Reasons for such external economic interference can of course be narrowed down to Third World quest for foreign aid and or favourable debt arrangement.

In a post communist world dominated by the capitalist North, one of the key goals these economic reform programmes are meant to achieve is a 'free market' economy – the dominant force that has shaped European civilisation since the 19th century and the very heart of the capitalist ideology. Developing economies have been made to believe that their growth depends on the attainment of a free market economy subject to global economic rules and practices. As David Korten puts it:

"This faith in the free market rests on the premise that human beings are motivated by self-interest and will seek to benefit themselves. Therefore this will yield the greatest benefit to individuals and society. It follows then that individuals will compete with each other to seek their interests. Thus competition among people (as against cooperation) is rational".

Bretton Woods Institutions & Third World Economies

The World Bank and the International Monetary Fund were created at Bretton Woods, New Hampshire in 1944 to manage immediate post-war global economic recession and help in the development and economic expansion of Third World countries.

Third World countries have in the last 4 decades borrowed massively from the developed economies to fund developmental projects. By the 1970s, it was obvious that a debt crisis was looming. In 1977, Third World countries were spending 60-90 per cent of their new lending to service old debts. The debt crises were further heightened by socio-political uprisings, civil wars, border wars, and corruption among public office holders. It is believed that over $30 billion left Africa in 1990 through money laundering, funds which ended up in European bank accounts.

The first major intervention role played by the World Bank was on August 1982 when Mexico declared that it was unable to service its crippling debt. For fear that the development could encourage other debtor nations to default, the World Bank designed a Structural Adjustment Policy (SAP) through which indebted Third World nations could continue the servicing of debts owed Northern creditors.

Between 1982 and 1989, the total amount paid to Northern banks was $615 billion in interest and amortization. Between 1983 and 1989, and as part of the SAP arrangement, the World Bank and IMF lent about $32.7 billion to indebted Third World countries to enable them service their old debts. By the mid 1980s, Third World countries were sending more money to the North than they received from loans, foreign investments and aid. In 1997, the total Third World debt reached a staggering $2.2 trillion.

The Structural Adjustment Policy (SAP)

Ideally, structural reform entails adjusting an economy in order to properly manage the balance of payments, reduce fiscal deficits, increase economic efficiency and encourage private sector investments and export-oriented production.

Through SAP, the World Bank and IMF collaborated with creditor and donor nations to determine the development agenda of the Third World. Loans were given to debtor countries to 'help them adjust'. But these monies were tied to strict conditionality and granted only when the countries agreed to adopt a comprehensive programme of macro-economic stabilization and structural economic reform. Instead of being channeled into sustainable investments, the adjustment loans diverted resources away from the domestic economy and encouraged countries to keep on importing large quantities of consumer goods and staple foods from the North.

Economically strangled and gasping for breathe, many Third World economies had no alternative but to succumb, hoping that succor would follow soon after.

The Structural adjustment polices compelled Third World economies to:

- Devalue their currencies
- Remove price controls and food subsidies
- Reduce spending on health care and education
- Reduce budget deficits
- Remove tariffs and import quotas
- Privatize state assets
- Deregulate commercial banking systems
- Liberalize foreign exchange movements
- Introduce user charges (cost-sharing) in education and health
- Democratize
- Adopt a western-style free market economy

These measures are demanded by the IMF, World Bank and donor nations as a pre-condition for aid and loans. But they have been strongly criticized by global observers because of so many limitations:

- Increased external debt obligations
- Characterized by severe economic hardship

• Implemented at great cost to the citizenry - increased poverty, unemployment, starvation and malnutrition, inflation, external dependence, etc

• Measures such as currency devaluation, social spending and salary cuts, lower corporate taxes, export driven strategies (of mostly agricultural products and natural resources) and removal of foreign investment restrictions are usually at the detriment of Third World economies

• The reform terms usually undermine wages, health and education

• Income disparities usually widens, especially due to privatization and deregulation. Resources are concentrated in fewer hands

• Almost all SAP initiatives fail to meet the set target

In most cases, SAP measures further impoverish the people and leave countries worse off than before the reform. In Peru for example, after the IMF/World Bank sponsored reforms in 1990, fuel prices shot up 31 times overnight and the price of bread increased 12 times; the real minimum wage declined by more than 90 percent compared to levels in the mid 70s.

In Mexico, health budget in the 1980s fell from 4.7 percent to 2.7 percent. Between 1980 and 1992, infant deaths from nutritional deficiencies tripled to rates higher than those in the 1970s as a result of cutbacks in social and health spending. In 1990, half of all Mexicans (42 million) were living in poverty, with 18 million living in conditions of extreme poverty and widespread malnutrition.

In Brazil, production of foodstuffs per capita like rice, black beans, manioc and potatoes fell by 13 percent from 1977 to 1984. Per capita output of exports like soybeans, oranges, cotton, peanuts and tobacco shot up by 15 percent; about 50 percent of Brazilians suffered malnutrition.

In Chile between 1980 and 1990, the proportion of families below 'the line of destitution' rose from 12 to 15 percent while those below 'the poverty line' (but above the destitution line) rose from 24 to 26 percent. (Reported by the People's Health Movement).

With these experiences, it is not surprising that SAP Programmes have been characterized by violent public

protests wherever and whenever they are proposed or introduced:

• Venezuela: In 1989, the President was compelled to declare a state of emergency to quell riots in Caracas sparked off by a 200 percent increase in the price of bread; men, women and children were fired at, and unofficial reports showed that at least a thousand people were killed

• Tunis, Tunisia: In January 1984, bread riots occurred as a result of the rise in food prices

• Nigeria 1989: anti-SAP student riots led to the closing of six universities by the military government

• Morocco 1990: There was a general strike and popular uprising against the government's IMF sponsored reforms

• Mexico 1993: Economic polarization and declaration of war by the Zapatista Army of National Liberation (EZLN) in Chiapas, and the assassination of a presidential candidate

• Bolivia 2000: World Bank pressured the sale of Cochabamba's water to the US firm, Bechtel. The company hiked water rates and citizens took to the streets and Martial law was declared (*The Ecologist,* June 2000)

SAP Experience of Select Economies

Egypt

Just before the commencement of the Gulf War, the Egyptian economy was in shambles – negative economic growth in the late 1980s; foreign debts amounting to about $50 billion by 1990; a debt/GNP ratio of roughly 150% (about the highest in the world at the time); drastic fall in foreign exchange earnings; 40% drop in real wages of unskilled workers; rising unemployment and a fall in health and educational services; and a 25% rise in inflation – these were all signals that the Egyptian economy was in serious trouble.

The Gulf War and the relative support the West enjoyed from Egypt brought up the option of debt relief but not without the usual conditionality – no reform, no debt relief. The economy was compelled to adopt a structural adjustment package endorsed by the IMF, in exchange for a considerable debt forgiveness proposal.

"The first component of reform, macroeconomic stabilization, did relatively well for most of the 1990s. The U.S. forgave the roughly $7 billion of military debt up-front. Some 15% of the remaining debt was forgiven in May 1991 following the IMF's approval of an 18 month Stand-By Arrangement, which was extended by another 6 months. A further 15% was forgiven in September 1993, when the IMF concluded that the first set of reforms had been successfully concluded, and agreement was reached on an Extended Fund Facility. The final tranche (about 20% of the original debt), was forgiven in 1996. Egyptian debt is now quite manageable, constituting $31 billion; its present value is estimated at 29% of GNP". (World Bank, 2001).

At the time, the country's international reserves also soared, rising from $2.68 billion in 1990 to $11.7 billion in 1993, and peaking at $26.7 billion in 1995. Reform of banking laws and a fixed nominal exchange rate stimulated an influx of off-shore money. Inflation dropped from over 25% in 1990 to 11.2% in 1992/93 and to 6% in 1994/95. Fiscal reform was also initially very successful. Government deficits had fallen from over 20% of GDP before the Gulf War to 2.5% during the 1993/1994 fiscal year.

Although Egyptian reform is often held up as an example of progress (particularly by the World Bank), in the long run, the initial success recorded was only superficial. Many have argued that the debt relief, which was Egypt's major benefit from the reform programme, was more political than economic. The 'Western gesture' was inspired more by Egypt's cooperation with the 'Big' powers during the Gulf War than by the outcome of the IMF-sponsored structural adjustment policy.

To date, the reforms have failed to reduce unemployment or to halt the decline in real wages; in 1999, merchandise exports were only 3% of GDP. Living standards have, at best, shown very modest improvement. Since 1998, the country's external reserve position has dropped significantly, from its peak of $27bn in 1995 to $15bn in 2000. Also by that year, deficits had risen to 3.6% of GDP, from 2.5% in 1993/1994. The privatization and deregulation exercise have been sluggish and so the much desired private-sector driven economy has not been achieved. These problems have combined to retard the attainment of the ultimate goals of reform – the acceleration of economic growth, job creation, export-led GDP advancement and real wage in-

Through SAP, the World Bank and IMF collaborated with creditor and donor nations to determine the development agenda of the Third World. Loans were given to debtor countries to 'help them adjust'.

creases.

Vietnam

The end of the Cold War and the demise of the Soviet Union had adverse effect on the Vietnamese economy. In 1986, the international financial institutions (IMF and World Bank) sold the idea of 'free market' reforms to the Vietnamese government with the usual recipes – privatization and deregulation, currency devaluation, removal of subsidies and tariff barriers, civil service downsizing, etc.

Vietnam had more than one problem. The economy had been blacklisted by the United States for its failure to pay the debt supposedly incurred by the American government in its prosecution of the Vietnam 50-year liberalization war. So, one of the conditions for the restoration of economic relations with the US was the settlement of this debt.

In the course of the IMF backed reforms, the Vietnamese economy relapsed almost to its position during the war years - more than 5000 out of the 12,300 State owned enterprises were closed down while the viable public companies were privatized. The mainstay of the economy, including oil and gas, natural resources and mining, cement and steel production were restructured and taken over by foreign investors, especially Japanese multinationals.

The economy lost its food sufficiency as the local farmers were encouraged to produce crops that were in high demand in the global market. In 1994, a severe famine occurred in its border province with China which affected 50,000 people; minimum wages fell; unemployment rose, and inflation reached an alarming level.

A report by an international financial institution on Vietnam during the period says:

'Vietnam has a higher proportion of underweight and stunted children (of the order of 50 percent) than in any other country in South and Southeast Asia with the exception of Bangladesh.... The magnitude of stunting and wasting among children certainly appears to have increased significantly.... it is also possible that the worsening macro-economic crisis in the 1984 – 1986 periods may have contributed to the deterioration in nutritional status'. —— World Bank.

Tanzania

In the late 1970s, Tanzania was confronted with persistent, severe economic crisis culminating in the country's decision to sign an agreement with the World Bank and the IMF in 1986 to adopt SAP.

But the phased economic reform measures never worked out as expected. Over a decade after the reforms were adopted, more than 60% of Tanzanians still lived in abject poverty; real income of most households declined sharply; malnutrition was rampant; food production had fallen relative to population; and social services deteriorated both in quantity and quality. As an analyst puts it:

"All these problems have been occurring at the same time that Tanzania has been implementing social and economic reforms prescribed by major donors and financial institutions like the World Bank and International Monetary Fund (IMF) as a necessary pill for curing socio-economic crisis" - - L. P. Lugalla;

University of New Hampshire

Peru

Debt crises compelled Peru to adopt SAP in the early 1980s with disastrous effects. Food intake is estimated to have fallen by 25% between 1975 and 1985; minimum wage fell by 45%; annual inflation rate rose to about 225%. And all the while, the country's debt profile was rising.

In 1985, the country unilaterally suspended the servicing of all external debts and was blacklisted by the international financial institutions as a result. In the face of rapidly deteriorating economic conditions, the Bretton Woods institutions had a solution: Peru's external debt could be renegotiated if the country adopts even more stringent economic restructuring measures.

The winner of the June 1990 election, President Fujimori had on assumption of office resumed debt servicing and speedily implemented another round of IMF-monitored austerity plan which led to huge reductions in public spending, a massive fall in real wages and an unprecedented slump – now popularly referred to as the 'Fuji Shock'.

As new loans were taken from the world bodies to finance old ones, Peru's debt servicing obligations more than doubled in 1991 from US$ 60 million a month to over $150 million. The economy was further liberalized to make way for massive imports from the West; a colossal layoff of public sector workers was implemented; local manufacturers were displaced by cheap food imports; the country's education system collapsed; there was a cholera epidemic in 1991 with about 200,000 declared cases and more than 2000 deaths in a six-month period.

On August 1990, just shortly before the 'Fuji shock', a state of emergency was declared in Peru following the collapse of civil administration in most regions of the country. In July 1991, an indefinite strike by teachers and health workers had closed down schools, hospitals and universities as monthly wages were on an average of $45-$70. In the mid-1990s, about 83% of Peruvians lived below the poverty line, with Peru ranked as having the second highest rate of child malnutrition in South America.

Somalia

Following severe natural disasters and heavy debt burden, the IMF and World Bank intervened in the economic crises in Somalia in the early 1980s. But like the Peru case, the intervention worsened the economic situation of Somalia. The country lost its self-sufficiency in food supply and became dependent on foreign food aid to curb grow-

ing malnutrition; purchasing power declined; inflation rose sharply following the devaluation of the Somali shilling in June 1981. The livestock industry, which accounted for about 80% of Somalia's export earnings at the time, went into recession with the privatization of animal health, the removal of subsidy on animal drugs and the scrapping of the Ministry of Livestock. Foreign exchange earnings dipped as the domestic economic productivity was completely eroded by externally imposed reform measures which served the interest of the global market more than that of the local economy.

Describing Somalia's SAP experience, an analyst says that:

"By 1989 health expenditure had declined by 78 percent in relation to its 1975 level. From 1981-1989 school enrolment dropped by 41 percent. Nearly a quarter of primary schools closed down. By 1989 real public sector wages had declined by 90 percent as compared to the-mid 70s. Average wages in this sector had plunged to US$3 a month, leading to a breakdown in the civil service. Debt servicing obligations represented 194.6 percent of export earning". - People's Health Movement.

The experiences of Vietnam, Tanzania, Peru and Somalia demonstrate that IMF/ World Bank economic reform measures in developing economies in the last three decades have been at best, near outright failures. Developing countries have since learnt their lessons, protecting their economies from external manipulations as much as possible and adopting homegrown reforms rather than those sponsored by international financial institutions and donor nations.

Third World & Home-grown Economic Reforms

While much of the tenets of home-grown reforms are theoretically similar to those imposed by international financial institutions (deregulation and privatization, currency devaluation, removal of subsidies, civil service reforms, Central Bank autonomy), the basic difference is that domestic reforms are structured in line with domestic economic realities; they are reforms designed for the people and by the people – not designed to satisfy external interests and expectations.

Most often, the opinion of different segments of the socio-economy are sought before implementation. Reforms are customized to meet the peculiar socio-economic and political needs of the local people. Especially in a democratic setting, the people have a voice in the implementation process.

IMF-World Bank-sponsored reforms in different developing economies are often abandoned and prematurely terminated as more countries realise their ineffectiveness in solving their peculiar economic problems. Homegrown reforms have proven more effective in achieving set goals – poverty eradication, increased economic growth, enhanced job creation and rapid infrastructure development. Some examples of domesticated reforms are discussed below.

China

From 1978, China embarked on series of phased reform programs aimed at generating sufficient surplus to finance the modernization of mainland China. In general, these reforms were not the results of a grand strategy, but as immediate responses to pressing problems. For example, the poor performance of some public enterprises forced the government to close them down.

While the economy is still relatively regulated, today, at least 70% of China's GDP is contributed by the private

sector. The State enterprises are now fewer – mostly the highly strategic firms which provide utility, energy and related essential services.

Some of the high points of China's gradual opening up of its communist economy include:

- **1978:** Deng Xiaoping launches China's Open Door Policy. First reforms take place in agriculture, as individual households are allowed to work land for up to 15 years. About 12 trading companies are allowed to engage in foreign trade; this number is gradually expanded
- **1980:** China becomes a member of the IMF
- **1980s:** Government allows the collectively-owned town-ship and village enterprises to operate outside the central plan
- **1986:** China applies to join GATT, the predecessor of the WTO
- **1993:** China eliminates its dual exchange rate regime
- **1997:** China agrees to phase out its trading monopoly and to grant full trading rights to all Chinese and foreign individuals and to fully implement the WTO intellectual property terms (TRIPs) on joining the group
- **1997:** China's Party Congress initiates a new phase of reform process by announcing an overall restructuring of the state enterprise sector, including elements of privatisation. (The sector before now employed over 120 million people and accounted for 70% of GDP)
- **1998:** China submits new tariff and services offers
- **November 1999:** China concludes bilateral market access agreement with the US
- **19 May 2000:** China concludes bilateral market access agreement with the EU
- **11 December 2001:** China becomes the 143rd Member of the WTO following the formal approval of the terms of its accession
- **December 2005:** China hosted the WTO ministerial meeting in Hong Kong
- **December 2006:** End of the 5 year implementation phase of China's WTO commitments. (http://ec.europa.eu/trade)

The admittance of China as the 143rd member of World Trade Organization WTO on December 11, 2001 is fallout of phases of successful domestic reforms – successful in that they impacted positively on the bottom-line, improved the economic wellbeing of the average Chinese citizen and enhanced China's rating in the comity of prosperous nations while also assuring sustainable growth.

The story of China's economic reforms and the attendant successes testify to the basic difference between externally drafted and doctored economic reforms and the homegrown. Unlike the story of Tanzania, Vietnam, Peru, etc, china's structural adjustment efforts achieved much of the set out objectives:

"Today, China is the new factor in global politics and economics, and the pride of its government and people – It now has more than $1 trillion of foreign exchange reserves, the world's largest. It is the single most important financier of the United States' enormous trade deficit. It is the world's second largest importer of oil. Before 2010, it will be the world's largest exporter of goods. It is, comfortably, the world's second largest military power" –.

Will Hutton; Guardian Unlimited, January 7, 2007.

In 2007, the Chinese economy will be about nine times its size in 1978 when the reform process was kicked off by Deng Xiaoping. China is now the fourth largest economy in the world - after the United States, Japan, and Germany - and has the potential to become the second largest in the next ten years. More than 150 million workers have moved to China's booming cities and 400 million people have been removed from poverty.

While China's phases of economic reforms could not have been totally devoid of external pressure and influences, it is significant that the scripts were not written and edited by external hands.

Western powers may be concerned that the Chinese economy has not been reformed to their 'specification' (e.g., the regularly cited case of the regulation of China's currency, the Yuan), yet it is commendable that an economy that was almost 100% communist few decades ago, has achieved this level of progress towards a 'free market' economy. But more significant is that the Chinese government has allowed only as much Western influence as it believes would flourish its economy and improve the wellbeing of its own people.

Nigeria

Nigeria's home-grown economic reform is still at its infancy. But the rapid progress it has recorded in the last couple of years makes it worth mentioning.

Like most of its peers, Nigeria is not a greenhorn in the business of SAP. In the early 1980s, Nigeria's mono-culture economy suffered a major setback with the collapse of world oil prices and the sharp decline in petroleum output which was a direct result of OPEC's reduction in the country's quota.

The country suffered all the symptoms of an economy in recession – export earnings was falling; there was dearth of foreign exchange; unemployment was on the rise; there was trade deficit; rising inflation, pilling debt burden, negative GDP growth and of course, decaying public infrastructure.

These called for an urgent reform. The President Shehu Shagari Government introduced the Economic Stabiliza-

Overview of Current Financial Services Sector Reforms In Nigeria

S/N	Sub sector	Reform programme	Current Status
1.	Banking	Recapitalization = from N2bn to N25bn	89 banks shrunk to 25 bigger, stronger banks
2.	Insurance	Recapitalization from about N150million to N2bn N10bn for various lines of insurance business	Public offer, mergers and acquisitions ongoing. The over 100 players expected to shrink to not more than 30-35 by the February 2007 deadline
3.	Pension	Pension Reform Act (2004) mandates a contributory pension scheme for payment of retirement benefits of employees in the public and private sector	PFAs/custodians licensed to manage the huge fund currently put at over N100bn (about $1bn). Ongoing developments promise to end the age-long woes of pensioners who are at times owed years of arrears
4.	Community Banking/Microfinance	On December 15 2005 , the CBN launched the microfinance policy with the introduction of MFIs to meet the credit need of the lower segment of the economy not served by conventional banks	CBN set deadline for the over 800 community banks in the country to recapitalize and transform into Micro Finance Bank (MFB) or seize to exist. About 8 microfinance banks have been licensed so far and set to commence operations
5.	Discount Houses	Recapitalization = from N500m to N1bn	The 5 discount houses are shoring up their capital base for more efficiency

NEEDs and Current Macroeconomic Developments:

S/N	Indicator	Reform/Policy Thrust
1.	External reserve	Deliberate policy to put aside as much foreign exchange reserve as possible. External reserve since 1999 has grown by about 500% - from $7bn to over $40bn
2.	External Debt	Deliberate policy to make Nigeria 100% debt free. Debt buyback arrangement saw the country exiting the Paris Club, parting with $12bn for a $30bn debt payoff. Plans to exit the London Club completely by March 2007. Debt profile currently about $2bn, down from over $37bn a year earlier
3.	Exchange Rate	Deliberate policy to stabilize the exchange rate of the Naira against other global currencies. The Naira has this year appreciated tremendously, from about N145:$1 during first quarter to about N127:$1 today. The disparity in rates between the official and parallel markets has been bridged for the first time in almost 20 years thanks to forex liberalization policies (WDAS, BGCs)
4.	Inflation	Fierce fight against high inflation has yielded some fruits, even though maintaining low rates has proven difficult. However, ongoing economic reforms are moving Nigeria closer to achieving single digits rates than ever before, from about 20% average as at 2002 to 10%
5.	Interest Rates	Relatively low inflation has helped to keep interest rate, if not stable, but at least lower than few years earlier
6.	Fiscal Policy	Stimulating the economy by enthroning fiscal discipline & applying conservative budgetary benchmark. Fiscal Responsibility Bill on the way

tion Act of April 1982 – a package of stringent policies and measures that entailed cut in public spending; lending rates regulation, restrictions on borrowing to the private sector and other severe measures, which unfortunately could not correct the economic downturn.

A military coup on 31 December 1983 brought in General Muhammadu Buhari who continued along the same line, but with little success. General Ibrahim Babangida came to power in August 1985 through another military coup and gave Nigerians (through an open public debate) the option of either maintaining the status quo or accepting the IMF-SAP offer. The debate was inconclusive even though all major segments of the economy agreed on the need for a restructuring.

The Government in June 1986 adopted a comprehensive SAP programme but without the IMF loan option. The IMF-SAP programme was meant to:

- Restructure and diversify the productive base of the economy so as to reduce dependency on the oil sector and imports
- Achieve fiscal and balance of payments viability over the medium term; and
- Promote non-inflationary economic growth

But these objectives were never achieved and the programme was eventually abandoned in 1988.

As a report by the National Centre for Economic Management & Administration (NCEMA), puts it, "the disappointing results of the adjustment effort were linked to two major factors: *"a product of misguided policies under the SAP, and an incoherent implementation of SAP policies"*.

Nigeria's economic problems continued into the 1990s and 2000s, with successive governments introducing new policy measures that either alleviated or aggravated them.

The most far-reaching economic reform after the SAP

experiment was the National Economic Empowerment and Development Strategy (NEEDS) - a home-grown reform agenda launched by President Olusegun Obasanjo in May 2004.

The Goals of the NEEDS Policy:

- Reorienting values
- Reducing poverty
- Creating wealth
- Generating employment

To achieve these goals, the reform policy was designed to address key obstacles like poverty and inequality, weak and inefficient public service, poor macroeconomic management. Financial services sector overhaul, privatisation and deregulation, and development of the non-oil sector of the economy were also top on the agenda.

About the most significant achievement of the reform effort so far has taken place in the financial services sector. The sector has been singled out as one of the most significant segments of the economy which condition could determine the success or failure of the entire reform process.

The first phase of the consolidation exercise which was completed in the banking sector in December 2005, has completely overhauled Nigerian banks. Today, 20 out of the 25 banks that emerged from the exercise are rated among the top 100 banks in Africa; 17 are in the top 40; and 4 in the top 10. In the global ranking, 17 out of the 25 banks made the list of the top 1000 global banks. This is unprecedented.

Nigeria's home-grown economic reform is still at its infancy. But the rapid progress it has made in the last couple of years makes it worth mentioning.

With the implementation of the NEEDS policy, over 70% the of the key state-owned enterprises have been successful privatized while deregulation is also taking place in ALL sectors of the economy. The deregulation of the telecoms industry for example has led to remarkable achievements, like the surge in Nigeria's tele-density from about 0.05/100 in 1999 to about 25/100 persons. From less than 500,000 telephone lines in 1999, Nigeria now has about 30 million lines. The country is now rated by the ITU as the fastest growing and most profitable telecoms market in Africa.

Some other far-reaching reforms include that in the energy sector and the 70% local content target set for 2010; the development of solid minerals and other non-oil sectors of the economy to diversify the nation's sources of income; the overhaul of government ministries, agencies and parastatals for improved efficiency; the fiscal discipline and prudent management of resources that has seen the country paying off over $32bn of its external debt within a 2-year period and in addition, achieving a foreign exchange reserve of over $43bn as at year-end 2006. These are indeed remarkable accomplishments.

If the pace and policies are sustained, Nigeria's ongoing homegrown economic reforms have the potential to leapfrog the country into the group of the top 20 economies in the world by 2020. The issue of sustainability becomes critical as the country prepares for a change of government in just about five months from now – May 29, 2007.

Conclusion

The experiences of the Third World in IMF/World Bank sponsored reforms are mostly tales of disappointment and dismal failures.

But reform in itself is a vital aspect of every day modern economy. The developed nations of the world are where they are today following centuries and decades of comprehensive reforms. Developing economies like China, India, Korea, Brazil, and a host of others, owe their current economic improvements to the design and implementation of a wide range of structural economic changes.

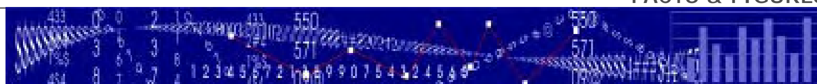
Reforms are not the problem per say, but the way and manner they are structured; how effectively they are implemented; and the interests they are designed to protect.

The most successful economic reforms today are domestic reforms that are designed and implemented by the people, for the people, and with minimal external interference and zero foreign control.

Reforms remain the way forward for developing nations in their quest to bridge the economic divide between them and the North, and achieve for their citizenry an improved standard of living.

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

ZEQ DATABANK



- **Tony Monye**

MACROECONOMIC ENVIRONMENT

The nation's macroeconomic indices experienced remarkable stability which brought about notable growth in 2006. The indices benefited immensely from the reduction of the debt overhang especially the complete exit from the Paris Club debt, favourable crude oil prices that stayed consistently above the budget estimates, prudent management of the economy, rising value of the naira against some of the major currencies and the improved inflow of foreign direct investments (FDIs). All these impacted greatly on the Gross Domestic Product (GDP).

Inflation showed a downward trend all through the year. At the close of 2006, inflation was estimated at below the 10 per cent mark, about 9 percent on Moving Average Basis (MAB). This is the first time this level of inflation has been achieved in the country in the past decade.

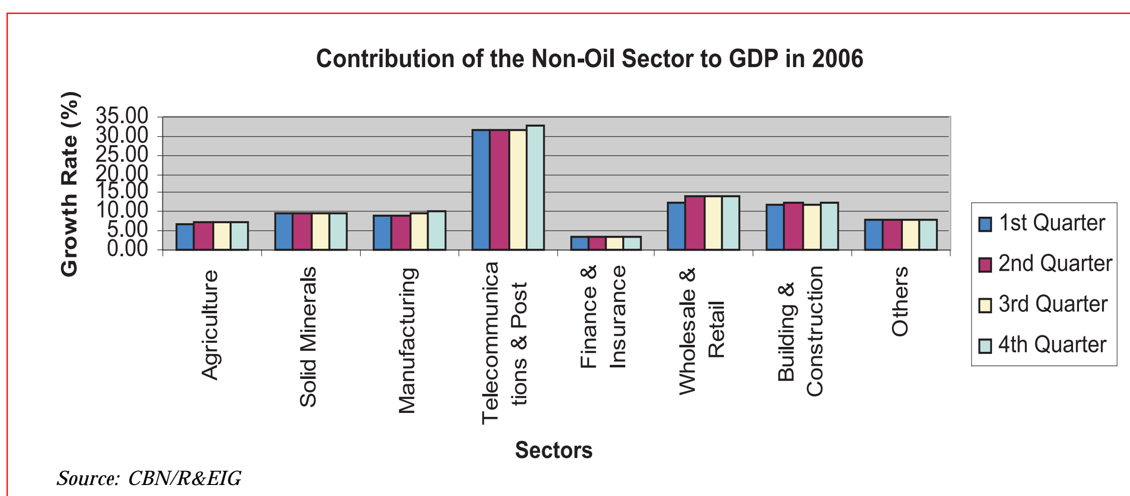
The industrial capacity utilisation of the nation's manufacturing sector showed a decline during the first and third quarters. There was however, some reversal in the trend in the fourth quarter of 2006 as consumer demands rose during the yuletide.

The nation's currency, the Naira, firmed up towards the end of the year against some of the major currencies from its weak position at the beginning of 2006. Infact, a convergence was achieved between unofficial and official exchange rates, consequently, eliminating the premium between both exchanges rates.

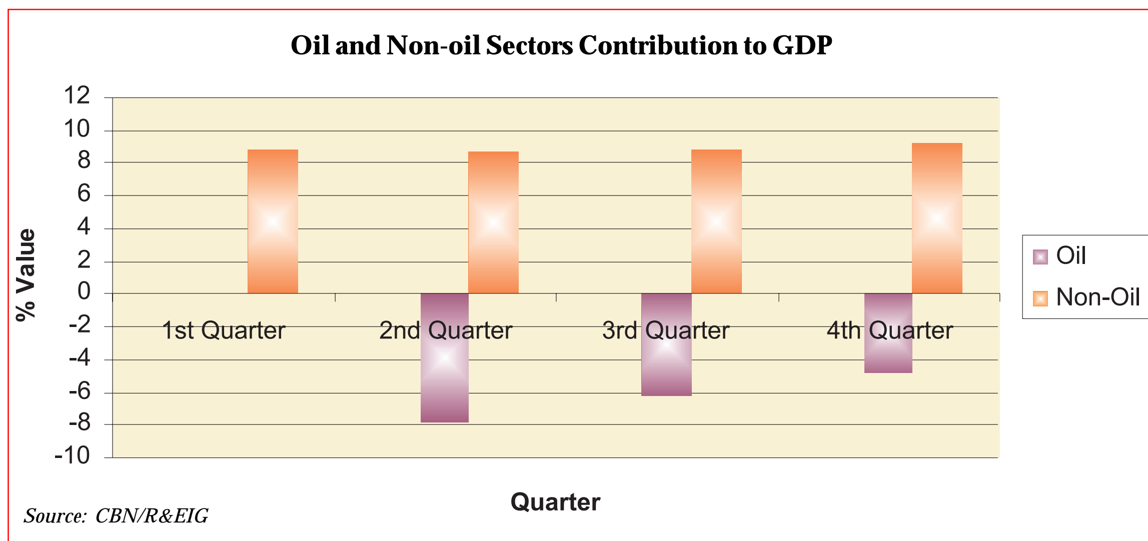
The expectations for growth in the nation's economy in 2007 are quite positive. Analysts and commentators, both local and foreign, predict that if the on-going reforms are sustained and backed by the in-coming administration, the Nigerian economy is quite capable of achieving its GDP growth rate target of 10 per cent for 2007.

GROSS DOMESTIC PRODUCT (GDP)

Real GDP continued its remarkable growth from the 2.7% achieved at the end of the first quarter to 7.5% per cent recorded for the second and third quarters. The last quarter experienced a decline as the real GDP showed 6.01% growth. On the average, the yearly growth rate for 2006 was estimated to be about 5.93%. This growth in the real GDP was largely as a result of growth in the non-oil sectors, which was put at 8.80%, 8.74%, 8.86% and 9.25% for first, second, third and fourth quarters, respectively. The year also witnessed continuous decline in the oil sector contribution to the GDP, starting from 0.08% in the first quarter and -7.80%, -6.23%, -4.82% for the second, third, and fourth quarters, respectively. Compared with the 6.2% growth rate achieved for the GDP in 2005, there was a mild decline in 2006.



Source: CBN/R&EIG



Source: CBN/R&EIG

The mild slump experienced by the economy in 2006 was as a result of some factors such as the unstable but downward slide in the prices of crude oil especially towards the last quarter due to excess supply by non-OPEC members and non-compliance with quota by OPEC members. In addition, the Nigerian case, was however, not helped by the activities of restive youths in the Niger-Delta and, dampened demand for the country's major agricultural commodities as a result of spiralling prices in the international commodities market occasioned by the rising value of the naira. The 2006 GDP in dollar terms is projected to be around US$142.27billion, about 24 per cent more than the 2005 figure put at US$114.74 billion.

Sectoral Growth in Gross Domestic Product (GDP) in 2006

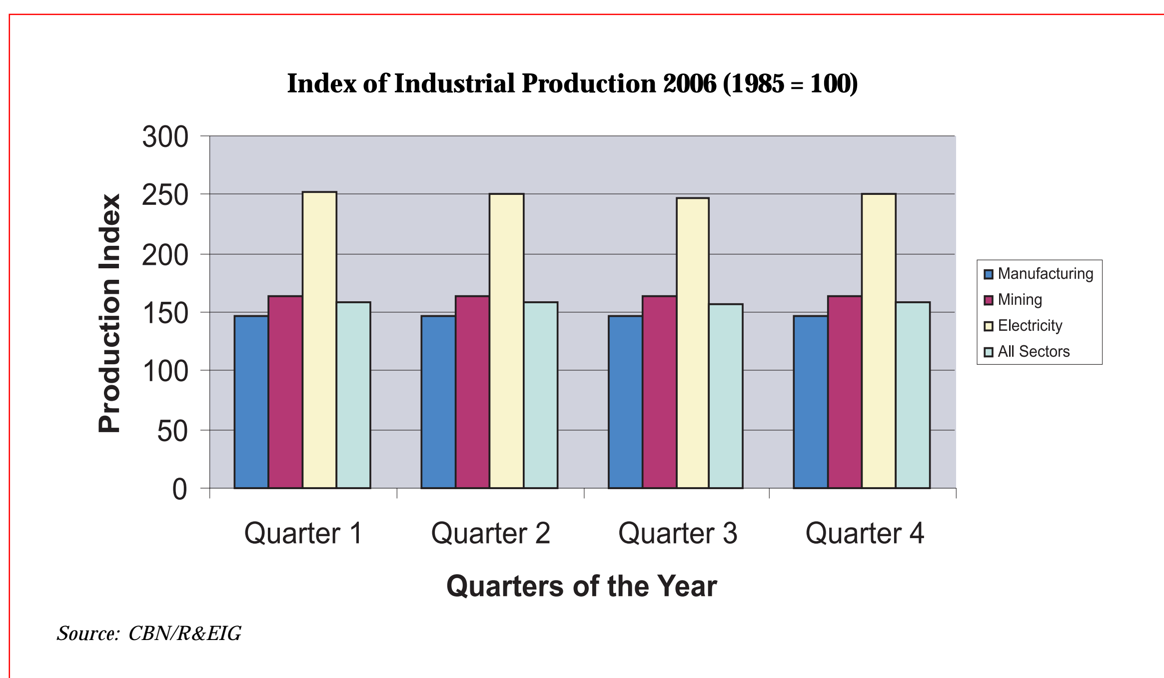
Sector	1st Quarter	2nd Qtr	3rd Qtr	4th Qtr
Agriculture	6.88	7.10	7.20	7.36
Solid Minerals	9.58	9.55	9.56	9.59
Manufacturing	9.17	9.04	9.83	10.02
Telecommunications & Post	31.49	31.64	31.81	32.58
Finance& Insurance	3.12	3.13	3.14	3.15
Wholesale & Retail	12.52	12.17	11.83	12.43
Building & Construction	12.07	12.17	11.83	12.43
Others	7.67	7.70	7.72	7.69

Source: CBN/R&EIG

It is hoped that the positive reversal witnessed in the contribution of the real sector to the GDP in the fourth quarter of 2006 will become more evident in 2007 given the real effects of the newly introduced Monetary Policy Rate (MPR). Furthermore, the anticipated improvements in the power sector as more state governments set up Independent Power Project (IPP) will also continue in 2007, thereby impacting on the year's GDP figures. It should be noted also that the huge cost of energy hampered the contribution of the manufacturing sector to the GDP in 2006 as energy supplied fell quite short of demanded.

MANUFACTURING CAPACITY UTILISATION

The manufacturing industry performance in 2006 was quite modest. Reports from stakeholders showed that the government's economic reforms in sectors such as power, financial services etc aimed at promoting real sector development, especially manufacturing, agriculture, solid minerals, and small and medium scale enterprises (SMEs) through private sector led initiatives are yet to make full impact on the real sector. As was the case in 2005, both cost of energy and the cost of doing business in the country still remained high in 2006; operators in the system are still experiencing high energy cost and unstable energy supply, two of the causes of low capacity utilisation.

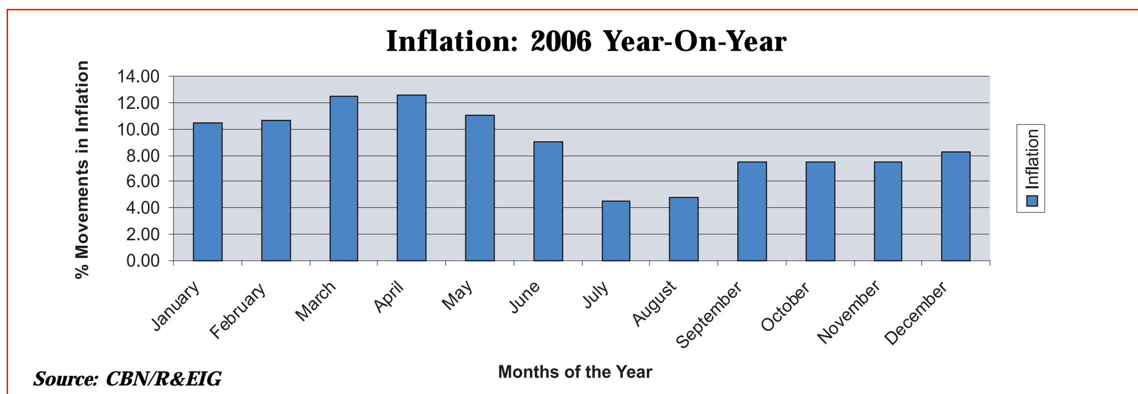


Source: CBN/R&EIG

However, in comparison to previous years, more especially in the life of the present administration, 2006 witnessed some positive improvements in capacity utilisation. This was due to the sustained stability in the exchange rate and falling interest rate regimes, particularly in the last quarter when the CBN introduced the Monetary Policy Rate (MPR), the new benchmark for interest rate in the economy in place of the age-long Minimum Rediscount Rate (MRR). The positive real effects of the MPR are expected to become more apparent in 2007.

INFLATION

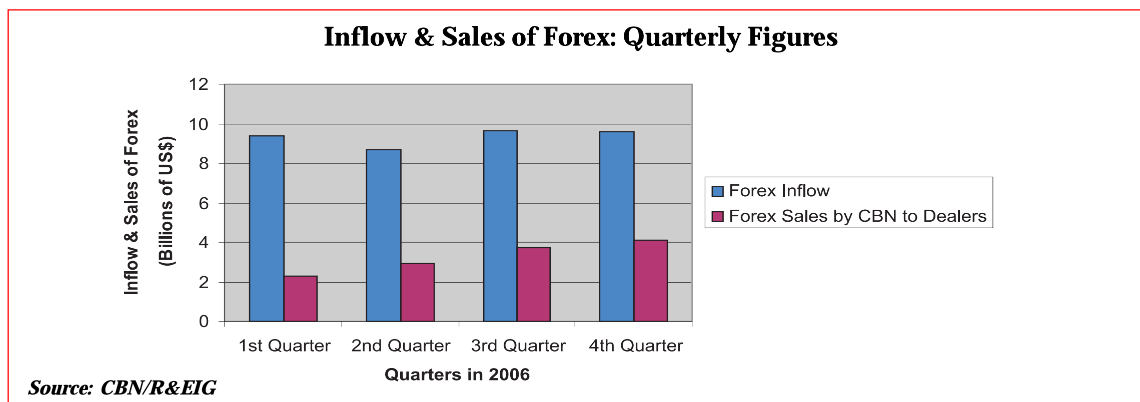
Inflation level in the economy, which had in the past witnessed some spiralling movements, was successfully managed in 2006. It has been maintained at single digits since mid-2006. The level of inflation has continued to witness steady decline from the beginning of the year, standing at 17.4 per cent at the end of the first quarter on Moving Average Basis (MAB). At second quarter-end, it declined to 15.5 per cent on MAB. Further fall in the inflation level continued in the third quarter, ending at 10 per cent at end-September. The CBN put the inflation figure for the last quarter below the 10 per cent threshold, largely attributed to the newly introduced Monetary Policy Rate (MPR), which movement is benchmarked on the prevailing inflation rate and its attendant effects on the real sector of the economy.



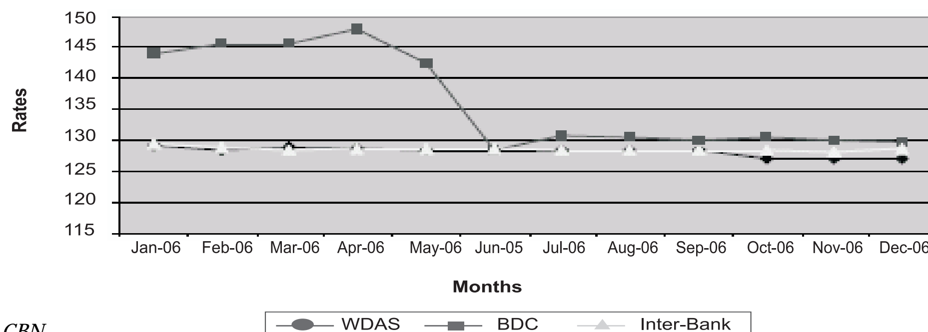
Furthermore, the decline in inflation during the year has been as a result of good harvest of agricultural produce, which had brought down food prices, as well as sound macroeconomic policies that were implemented by the authorities in 2006.

INTERNATIONAL TRADE AND FOREIGN EXCHANGE MARKET

There was a continuous and appreciable increase in the net inflow of foreign exchange into the coffers of the government in 2006 with regard to her international trade relationship. This net increase was as a result of the sharp decline in the debt service obligations of the Federal Government, rise in the price of crude oil, which stayed consistently above the budget estimates throughout the year and the demand of the nation's agricultural produce etc. The net earnings accruing to the government were largely used to reduce the nation's debt overhang. The Paris Club debt of $30 billion was cleared during the year; $18 billion was cleared in form of debt forgiveness while the sum of $12.2 billion was paid off by the government in cash. The government has already put machinery in place to ensure that the country exit the London club. The debt/ GDP ratio was brought down from about 30 per cent at the end of 2005 to less than 15 per cent at the end of 2006.



Nigeria Achieved Convergence In Exchange Rates After 20 Years



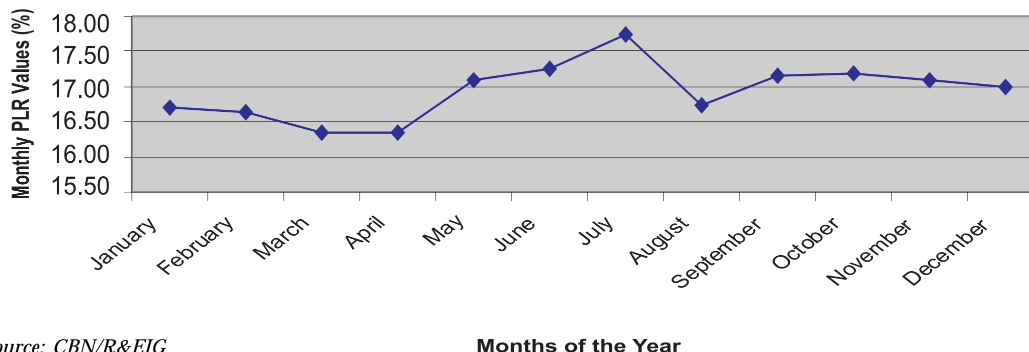
Source: CBN

In the Bureaux De Change (BDC) segment of the market, the naira suffered a slight depreciation in value in the first quarter 2006 from about N143.06/US$ in the fourth quarter of the previous year to N145.97/US$ at end-March 2006. Consequently, the premium between the official and the Bureaux De Change rates widened from 9.6 per cent in December 2005 to 12.2 per cent at the end of the first quarter. However, from this weak position, the naira clawed its way back in subsequent quarters, steadily appreciating from N145.97/US$ at end-March to N142.34/US$ at end-June and finally, to N130.26/US$ at the end of the last quarter caused largely by rise in remittances amounting to about US$4 billion by Nigerians in the Diaspora. With this over 12 per cent gain in value by the naira against the dollar even in the bureaux de change segment, the premium between the official and the parallel rates narrowed from 10.4 per cent at the end of the first quarter to less than 1.5 per cent at the end of the fourth quarter.

INTEREST RATE

Interest rate in the system moved downwards in 2006, distinctly reflecting the tightness or otherwise of liquidity in the polity. The weighted average inter-bank call rate which stood at 7.0 per cent at the end of the last quarter of the previous year, spiked sharply to 27.06 per cent at end-January. This was as a result of liquidity squeeze occasioned by the late release of statutory allocation for the month. However, by end-March, it had slumped rapidly to 7.8 per cent as a result of ease in the liquidity situation. The inter-bank call rate continued its downward slide throughout the remaining quarters of the year, as it went further down to 3.62 per cent as at end-June. The end-September figure experienced a marginal upward spike to 3.68%.

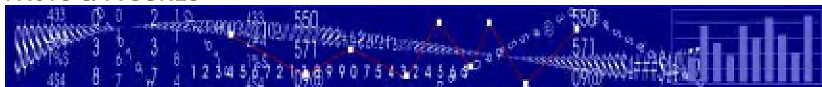
Prime Lending Rate (January - December 2006)

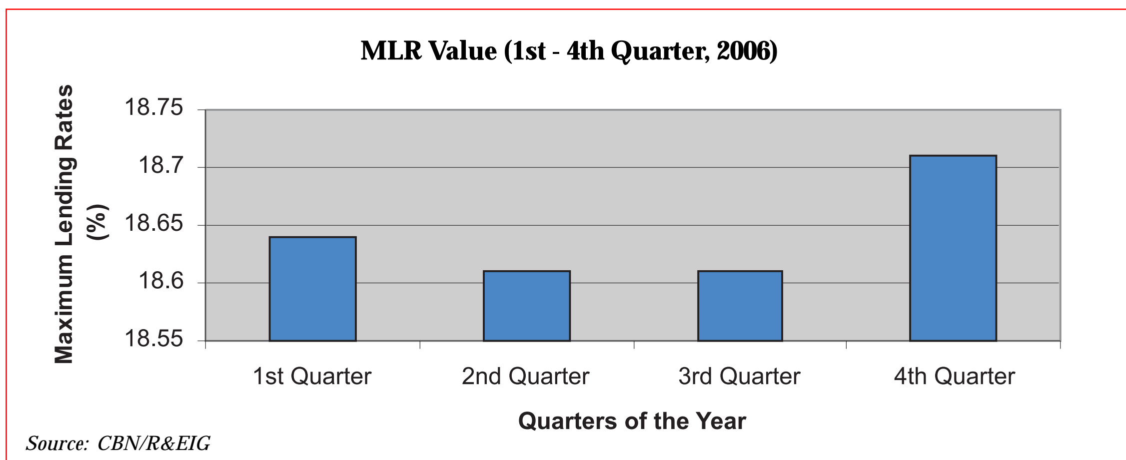


Source: CBN/R&EIG

Months of the Year

The introduction of the new monetary policy rate (MPR) has further pushed down the inter-bank call rate as the new policy meant to discourage banks from resorting to the CBN as a channel to invest their excess funds and at the same time to cover up their positions at short notice.





Source: CBN/R&EIG

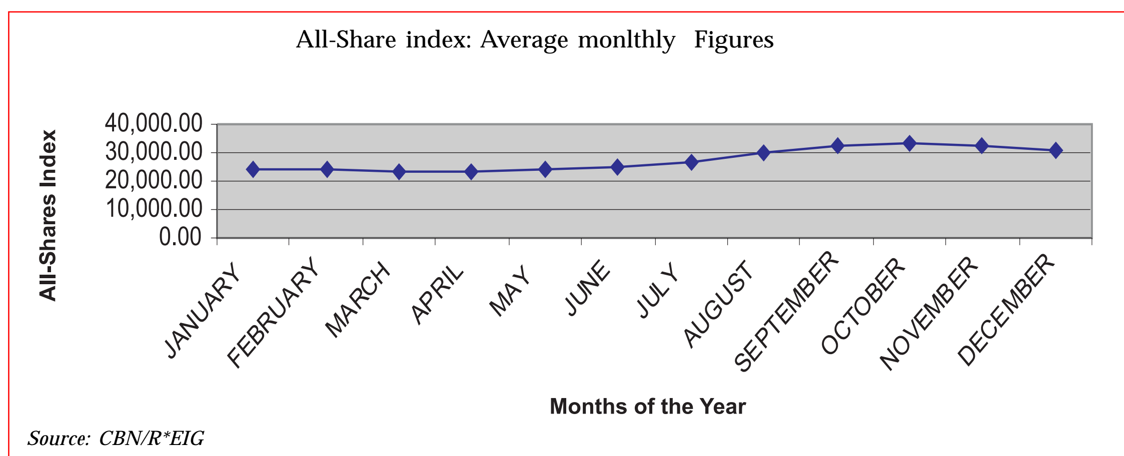
Throughout the period under review, both the Prime Lending Rate (PLR) and the maximum lending rate (MLR) experienced marginal rise in percentage terms. While the PLR went up by about 1 percent, the MLR upward movement was about 0.5 per cent.

CAPITAL MARKET

Developments in the capital market were combinations of downward and upward trends. While transactions in the first quarter were mixed, the second and third quarters were a bit bullish. Third quarter exhibited more bullishness in its transaction records as all the market indicators trended upwards. The banking sub-sector remained the most active on the Exchange throughout the year.

Apart from the first quarter where the aggregate volume and value of traded securities experienced a fall, by about 34.6% and 15.4% to 5.3 billion shares and N62.3 billion, respectively; for all other quarters, both aggregate volume and value of traded securities trended upwards from 6.9 billion shares and N98.5 billion to 11.8 billion shares and N162 billion respectively. The volume and value of traded securities for the last quarter are estimated to be 14.4 billion shares and N168 billion.

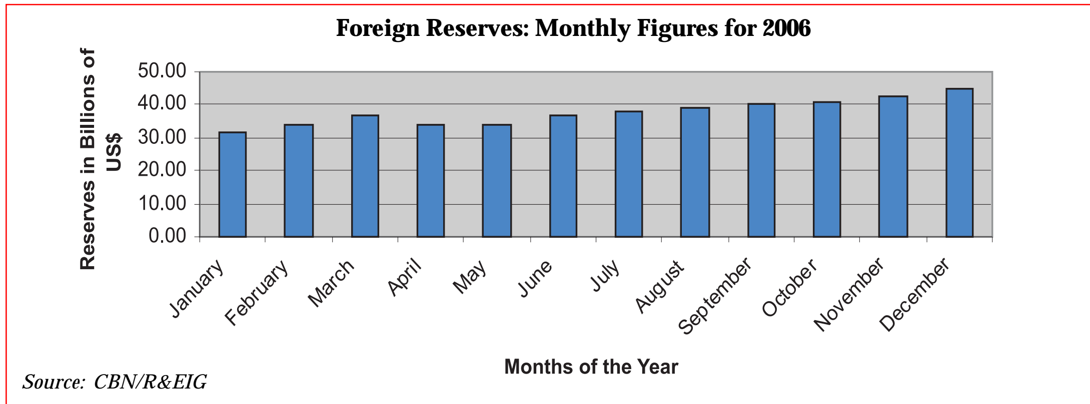
Market capitalisation in the Nigerian Stock Exchange rose dramatically by about 68 per cent; at N2.5 trillion at the beginning of the first quarter, ending with a value of about N4.2 trillion in fourth quarter. The positive developments were largely attributed to gains recorded by some blue chip stocks especially in the banking sub-sector, new listings such as in the conglomerate sector, Dangote Industries, Transnational Corporation (Transcorp) as well as the special FGN Bond for pension arrears.



*Source: CBN/R*EIG*

FOREIGN RESERVES

The nation's external reserves stood at US$45 billion at the end of December 2006. It is projected that the growth in the foreign reserves will continue in 2007 with improved oil production, favourable oil prices, and gains as a result of further diversification and prudent management of the nation's economy.



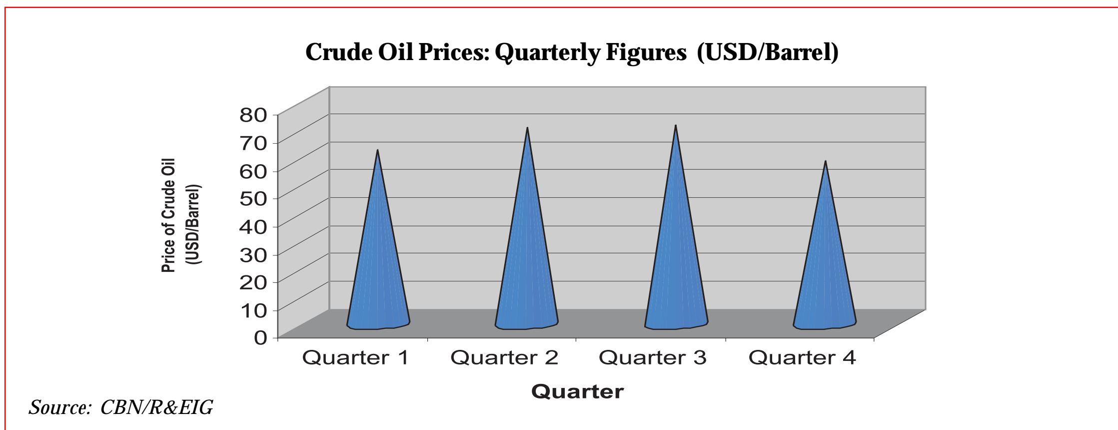
Source: CBN/R&EIG

At end-March 2006, the nation's foreign reserve was put at US$36.20 billion. At the end of the year, it had risen by over 24.3 per cent to US$45 billion. This was in spite of the fact that the nation kept to her debt payments and service obligations throughout the year and decreasing revenue from oil as a result of price fall. According to the CBN, this huge foreign reserves base can be used to finance about 35 months of the nation's imports.

OIL AND GAS SECTOR

Crude oil production rose 11 percent between the first and last quarter of 2006. It moved from first quarter value of 198 million barrels to 220.5 million barrels at the end of the last quarter of 2006. Compared with 2005, there was a significant drop. This fall in production might have been as a result of the activities of the militants in the Niger-Delta and other technical challenges.

On the other hand, crude oil prices fell significantly between January and December 2006 by about 16 per cent taking the period in a snapshot. However, there were quarterly variations in the price movements; as it went up from US$62.46/ barrel, the average value for the first quarter to US$70.5/barrel in second quarter. It went up marginally to about US$71.5/barrel for the third quarter. It then declined by about 18.3% for fourth quarter to about US$58.45/barrel. Analysts argue that the fall in price was as a result of over-supply by non-OPEC members as they took advantage of the high prices that prevailed mid-way in the year as well as failure of OPEC members to uphold their commitments regarding production quota.



Source: CBN/R&EIG

Editorial Guidelines for Contributions to the Zenith Economic Quarterly

Introduction

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

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

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

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

Manuscripts for publication should be unpublished unless the submitted version is materially differ ent from the original. Electronic copies of the manuscript should be submitted to the address below:

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

(ii) **Mode of Submission**

Potential contributors should submit diskettes or elec tronic copies by email.

The following regulations should be observed:

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

(iii) **Identification of Author**

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

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

Illustrations may be used (at author's sole responsibi ity).

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

(iv) **Preparation of Manuscript**

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

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

(v) **Citation Forms: Illustration**

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

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