ZENITH

Zenith Economic Quarterly

A Publication of Zenith Bank Plc
Vol. 1 No.1 January, 2005 ISSN: 0189-9732

Leapfrogging Nigeria Through Information Technology

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Zenith Economic Quarterly

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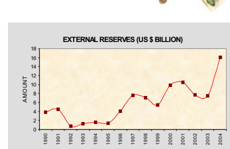

ZENITH ECONOMIC QUARTERLY
is published four times a year by
Zenith Bank Plc.

The views and opinions expressed in the journal however do not necessarily reflect those of the Bank.

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ISSN: 0189-9732

Printed by: ***PRINTSERVE LIMITED*** *01-4973361, 4970628, 5820558*
E-mail: info@printserveltd.com

ZENITH
ZENITH BANK PLC

www.zenithbank.com

Superior Economic Performance, Not By Chance

Nigeria's recent economic history especially the last few decades is replete with 'seasons' of economic reform. From the austerity measures of the late 1970s through the economic stabilization era of the Third Republic, the structural adjustment programme of the 1980s, the regulation/guided deregulation that marked the peak of military rule in Nigeria at the close of the millennium and the now famous National Economic Empowerment And Development Strategy, (NEEDS), the epitome of President Olusegun Obasanjo's economic legacy, one fact stands out clearly: that superior economic performance cannot be wished into existence.

It takes careful and painstaking effort to articulate and implement a regime of economic policies that would help deliver a strong and viable national economy. We cannot but agree with the legendary Lee Kuan Yew that stability, economic growth and prosperity cannot be taken for granted. It is indeed very true that public order, personal security, social progress and prosperity are not the natural order of things; rather they depend on focused and persistent effort and attention from a transparent, responsible, honest, committed and effective democratically elected government.

Nigeria's failed quest for economic growth and development seemed to have reached its nadir in 1999 when, at the assumption of office by the present administration, all indices of economic performance were very low and clearly indicated the parlous state of the economy. State-of-affairs commentators have described the era as reminiscent of a post-conflict economy.

> *It is therefore not surprising that this maiden edition of the Zenith Economic Quarterly (ZEQ) focuses on the significant changes that have taken place in specific sectors of the Nigerian economy*

Recent data on national economic management clearly suggest that the trend has been stopped, reversed and things are now looking good. The wide ranging economic reforms initiated by the President Obasanjo regime have begun to yield dividends. Indeed the President's post election speech in 2003 at which he committed to serious economic reforms and a special focus on Agriculture clearly pointed to the remarkable achievements of the Administration in the recent past. The private sector and indeed the international community were reassured when the new "economic team" was put together.

The shape of the 'good things to come' was signalled by the articulation and eventual launch of the government's new package of economic reforms, NEEDS which has now become the most important doctrine of government reforms.

Really, but for the recent directive by the Central Bank of Nigeria that banks should raise their shareholders' funds to a minimum of 25.0billion naira, most banks might not have gone to the capital market to raise funds. Indeed when Zenith Bank Plc went to the capital market, it did not expect the very high level of public affirmation of faith in the Zenith Bank brand, through the historic subscription level of 556%. More importantly the capital market has shown its tremendous capacity to receive stocks and proven that the quality of the instrument can 'drive' the depth of the market to a higher level.

It is therefore not surprising that this maiden edition of the Zenith Economic Quarterly (ZEQ) focuses on the significant changes that have taken place in specific sectors of the Nigerian economy that have transformed the economic outlook into a bright one. The hope is that this trend would be sustained and that the economic team and the leadership would remain focused in spite of the temptation to 'soft pedal' due to the understandable pain the reforms have wrought on the citizenry.

This hope is borne out of the fact that deregulation of the telecommunications industry has proven that tremendous opportunities exist for investment and employment creation in the Nigerian economy once the right policies are meticulously pursued. It is also gratifying to note that significant constraints to private sector investment flows and therefore economic growth and development, (corruption, inadequate infrastructure and insecurity) are equally receiving high attention.

ZEQ, the flagship publication of the Zenith Bank Plc is committed to providing adequate and reliable information on the performance of the Nigerian economy to help inform and foster better understanding while facilitating decision making by top policy level executives in the public and private sectors in Nigeria and the world at large. There is also a segment on financial, business and national economic data. Together we believe it will also serve as a useful reference material for business minded executives.

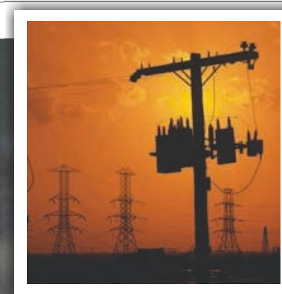
Our effort in the quest to achieve this vision would be based on a faithful commitment to global best practices in terms of reliability, quality of content and frequency of this publication.

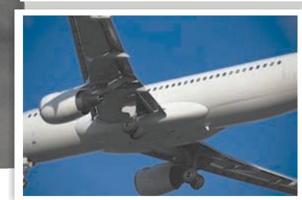
We wish you a happy reading and as we celebrate the debut of this publication, we gracefully invite you to reach out to us as we partner in this venture, because without you, we would cease to exist. Thank you.

Chris 'E Onyemenam

Editor-in-Chief

Economy: Some Growth Prospects





* By Marcel Okeke

Slowly but steadily, the Nigerian economy in the last quarter, 2004, moved in directions that clearly indicate some measure of stability and therefore, prospects for real growth in the months ahead, *ceteris paribus*. During this period, virtually all-macroeconomic indicators inched towards the desired direction. External reserves, inflation, exchange and interest rates, all achieved improvements that either evidenced recovery, stability or growth in the economy.

Specifically, the persistent increase in oil prices in the international market impacted the nation's external reserves, causing a quantum leap from US$13.3billion at end-September, 2004 to US$16.1bn (in gross terms) by year-end. This is almost double the US$8.4 bn or seven months imports target set by the Federal Government in the 2004 budget. As at the end of 2003, Nigeria's foreign reserves stood at US$7.5billion, approximately seven months of imports.

As shown in the table, the external reserve at year-end 2004 is more than double the level a year ago ($7.5billion); it has also overshot the NEEDS projections for the next three years ($10.69billion for 2007). The reserve, which can finance about 15 months of the nation's imports, is also higher than the $15 billion (external reserves) projected in the 2005 budget.

EXTERNAL RESERVE

Year	2003	2004	2005	2006	2007
NEEDS Projections	$7.187bn	$7.687bn	$8.687bn	$9.687bn	$10.687bn
Actuals	$7.82bn	* $16.32bn December	*$15bn Budget Projection		

** As against $8.46 budget projection and $15bn for 2005*

Source: Research & Economic Intelligence Group/NEEDS

GALLOPING OIL PRICES

Crude oil prices which averaged US$30 per barrel as at end-2003, rose to double this price level by the beginning of the quarter under review; but remained in the US$40 to US$45 per barrel range for the greater part of the period. This is almost double the US$25 per barrel oil price benchmark on which the 2004 budget was premised. This, in the main, accounted for the quantum excess crude proceeds that accrued all through the year. By end-October, 2004, Nigeria had made N641.265billion (about $4.8billion) savings from "excess crude sales", as against the projected N609billion for the whole year. This represents a surplus of N32.26 billion.

A combination of factors was responsible for the high and persistently rising prices of crude oil in the international market throughout 2004. Factors such as the build up of

United States' strategic reserves, anxieties over the winter season, unrest and disruption of production in Norway and in the Niger Delta fields of Nigeria (the world's sixth largest exporter), the damage from Hurricane Ivan in the Gulf of Mexico (which wreaked havoc on vital supplies there) as well as fear of supply disruption in the Middle East .Worries about rise or drop in OPEC total production, quota allocations to member countries as well as their "clout" in the global oil politics also affected oil price movement.

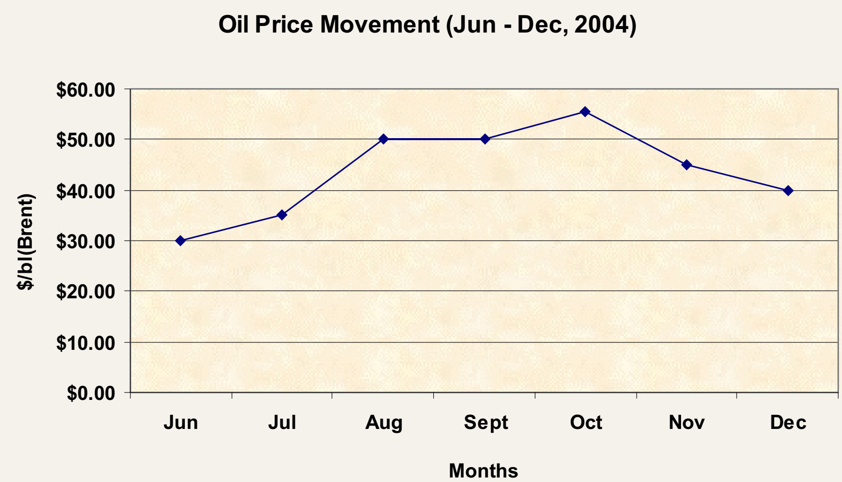
OIL PRICE MOVEMENT

The strong oil prices, which translated into huge foreign exchange earnings and current account surpluses for the Government, did not, however, lead to a drop in the exchange rate of the Naira. This could be attributable to the extant foreign exchange and exchange rate management, which has largely checkmated frivolous demands and other malpractices in the foreign exchange market. Another key factor was the fiscal discipline adopted by the FG which ensured that the usual spending spree was discouraged. The exchange rate (especially, the Naira against the US$), which was stable early in the year (2004), maintained the streak during the last quarter. In the same vein, the premium between the parallel market and the Dutch Auction Market (DAM) rates also remained relatively stable and narrow at about five per cent during the quarter. The usual seasonal drop in the demand for foreign exchange also played out during the period .At the DAS, the exchange rate (average) was N132.75:$1 in June; N132.87:$1 in October and N132.85:$1 in December. In the bureaux de change segment of the market, the Naira traded at an average rate of N140.50 to a dollar in the review period.

INFLATION DECLINES

Remarkably, the inflation rate which was at 15% in January 2004, and peaked at 19.70% in June, maintained a downward trend in the rest of the year , closing at about 16.2% in November.This is, however, much higher than the single digit inflation targeted in the year's budget. The downward trend in inflationary pressure in the last quarter, 2004, could be attributable to the decline in prices of some food items due to the harvest period as well as the relative stability in (the reduced) prices of petroleum products during the period.

Banks' deposit and lending rates which rose in September, 2004, owing to the lingering effect of the partial recall of N74.5billion public sector deposits by the Central Bank of Nigeria, dropped



Source: OPEC Data Services

BUDGET 2004: OUTLOOK FOR 2ND HALF

2004 BUDGET IMPLEMENTATION	Half Year Actual Nbn	3rd Qtr Nbn	4th Qtr Nbn	Full year Estimates Nbn	2004 Budget Nbn
Total Revenue	554	300	314	1168	1124
Expenditure					
Transfers	21	11	11	43	43
Debt					
LCY	84	46	41	171	171
FCY	97	48	40	185	196
Recurrent	273	135	135	543	540
Capital	200	91	66	357	355
TOTAL EXPENDITURE	675	331	293	1299	1305
BALANCE	(121)	(31)	21	(131)	(181)

Source: Budget Office, Federal Ministry of Finance gradually all through the last quarter. The call money rate in the inter-bank market did not, however, make a smooth decline. The average inter-bank call rate which stood at 16.6% in September, dropped to 11.3% by October but rose thereafter. The injection of huge monthly Statutory (Revenue) Allocations (SRA) into, and withdrawals from the system resulted in undulations in rates. The three tiers of government shared the sum of N289billion in October, N219billion in November and N244billion in December.

BANKS THAT RAISED MONEY IN THE CAPITAL MARKET

BANK	OFFER	PRICE	OFFER OPENED	OFFER CLOSED
Zenith Bank	6 billion ordinary shares of 50 kobo per share	N10.9 kobo per share	July 1, 2004	July 29, 2004
Guaranty Trust Bank	1 billion ordinary shares of 50 kobo per share	N10.6 kobo per share	June 30, 2004	July 28, 2004
Afribank	2.5 billion ordinary shares of 50k per share	N6.80k per share	October 25, 2004	November 22, 2004
Access Bank	3 billion ordinary shares of 50 kobo per share	N2.90 kobo per share	October 11, 2004	November 12, 2004
Oceanic Bank	3.2 billion ordinary shares of 50 kobo	N5.30 kobo per share	September 16, 2004	October 5, 2004
Intercontinent al Bank	2.75 billion ordinary shares of 50 kobo each	N6.00 kobo per share	November 16, 2004	December 14, 2004
Wema Bank	5 billion ordinary shares	N3.5 kobo per share	November 25, 2004	December 23, 2004

Source: Compiled by R & EIG

FEDERAL BUDGET, 2005

The presentation of the 2005 Appropriation Bill by President Olusegun Obasanjo to a joint session of the National Assembly, on October 12, 2004, was one of the key events of the last quarter. The N1.65 trillion proposed budget, made up of N531 billion capital spending and N651billion recurrent expenditure, and based on an oil price benchmark of $27 per barrel (later moved to $30 per barrel), is yet undergoing deliberations by the lawmakers. The budget has its focus on building physical and social infrastructure, namely: power, water, roads, education, health and national security, etc.

The budget came a day after the commencement of the Nigeria Labour Congress (NLC)- led nationwide strike against recent increases in the prices of petroleum products. The strike which lasted from Monday, October 11 to Thursday, October 14, started sequel to the expiration of a 14-day ultimatum given to government by a coalition of Labour and Civil Society Groups to reverse the prices to their levels before the latest increases. The strike was "suspended" when the government set up a 33-man committee led by the Deputy President of the Senate, Alhaji Ibrahim Mantu, to come up with ways and means of cushioning the effects of the petroleum products price increases. This committee succeeded in bringing the price of petrol down to between N50 and N55 per litre, in addition to other "palliative measures" which it recommended to the government.

BANKING & FINANCE

The actions and reactions generated by the reform policy of the Central Bank of Nigeria, announced on July 6, 2004, remained the dominant feature of the banking sector during the review period. Major among these were the activities heralding mergers and acquisitions among the banks, in line with the consolidation focus of the CBN policy. Virtually every operating bank engaged in frantic efforts to achieve the N25billion new minimum shareholders' funds, either singly or in a group, before the December 2005 deadline.

During the last quarter 2004, most quoted banks either began or completed the process of raising fresh equity capital through (public) offers for subscription and/ or rights issues. Some embarked on private placements; others made initial public offerings (IPOs) while a few others, in addition, sought foreign equity investment. During the period under review, no less than seven banks raised equity funds from the capital market in pursuit of the re-capitalisation agenda. This is apart from the few banks like Zenith Bank Plc, who were already in the market just before the consolidation policy was unfolded.

In the area of merger arrangements, no less than eight groups of banks had emerged by year-end, out of which five have so far signed Memoranda of Understanding (MoU). They include the First Consolidated Bank made up of five banks; Intercontinental Group comprising four banks; AstraBank, which incorporates four banks; the Wema Group made up of three banks; and the Sterling Bank, which is made up of five banks. Apart from these 21 banks involved in merger talks, six others (two each) have announced outright acquisition plans.

By the close of the quarter under review, only five banks had achieved shareholders' funds of up to or above the N25billion minimum capitalisation mark.

About four others were also almost making the target through hybrid offerings in the capital market .The CBN on its part, has been working on guidelines for perfecting the business combinations (mergers & acquisitions) necessitated by the consolidation process. One of the guidelines (see full text on POLICY section) gave the merging/consolidating banks up to January 7, 2005, to furnish the apex bank with "detailed plans" for achieving their objectives. The apex bank also hired four top accounting firms to assist it with "technical" issues that would be thrown up by the consolidation process. The firms are Akintola Williams Delloitte, KPMG Professional Services, and Dafinone & Co.

The CBN similarly appointed Phillips International Consulting to carry out a study on the Nigerian Security Printing and Minting Company (NSPMC) with a view to affecting a turnaround of the Mint to cope with local printing of Nigeria's currencies. The consulting firm has up to January 18, 2005, to submit its report to the CBN. At present, according to the apex bank, owing to the inadequacies of the Mint, the country spends over US$100million (about N1.3billion) on the importation of finished currency/notes.

The CBN during the last quarter also carried out an in-house re-organisation aimed at equipping it for the emerging challenges in the consolidating banking industry. The effort involved cutting down its number of divisions / departments, from 24 to 17; reshuffling of its deputy governors and directors as well as staff rationalisation.

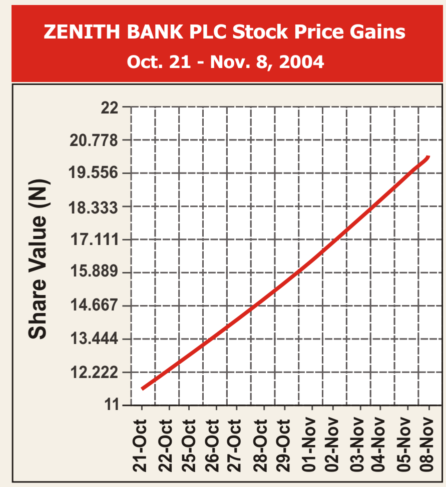
BULLISH CAPITAL MARKET

Activities in the capital market in the last quarter, 2004, turned out a testimony to the largely unexplored high capacity, immense depth and breadth of the market. Within the period, not only did some banks raise humongous sums (via a hybrid of offerings) totalling about N125billion, other sector operators equally sourced huge amounts from the market contemporaneously. Altogether, five banks made public offers; two others were listed by introduction while several others did private placements. Many others are yet putting finishing touches to their plans to enter the market in 2005.

Capital market data also show that the Bank, at end-December, 2004, had the second highest market capitalisation figure among all the banks quoted on the Nigerian Stock Exchange.

ZENITH BANK IPO

It was also during the quarter that the results of the most successful Initial Public Offering (IPO) in the history of the market were announced. Specifically, Zenith Bank IPO which lasted from July 1 to 29, 2004, generated a total of N48.5billion, the highest of such proceeds from any public offer in the Nigerian capital market. The IPO recorded a 554% subscription level; again the highest in the market. The bank subsequently got listed on Thursday, October 21, 2004, with its share price making the 5% maximum gain (per day) allowed in the market. Two weeks later on October 29, the share price hit N20.00 from the listing price of N10.90.



Altogether, the IPO recorded 288,780 subscribers and today, this is the largest number of shareholders of any company in Nigeria. Allotment documents from the Securities and Exchange Commission (SEC) indicate that the subscribers comprise investors from the 36 states of the Federation, the Federal Capital Territory (FCT), Nigerians in Diaspora as well as Institutional investors and Foreign Direct Investors (FDIs). A further breakdown shows that out of the total subscribers, 256,905 or 88.75% fall within the 500-10,000 shares range, and were allotted in full.

Although the IPO generated N48.5billion, extant capital market rules allowed Zenith Bank to absorb only N20.38billion, an amount that shot up the bank's shareholders' funds to N36.4billion from its pre-IPO level of N16billion. Capital market data also show that the Bank, at end-December, 2004, had the second highest market capitalisation figure among all the banks quoted on the Nigerian Stock Exchange.

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Apart from the banks, not a few operators in other sectors sought funds from the market during the quarter. Some of them include Flour Mills Nigeria Plc, Oando Plc, Vitafoam Nigeria Plc, etc. Trading activities in the secondary segment of the market remained bullish for a better part of the period under review. All these reflected in the state of virtually all market indices which (expectedly) made improvements.

The All Shares Index (NSE), which stood at about 22,800 mid-October, rose to an average of 23,500 in November and further to 23,600 in December, with some occasional drops. Market Capitalisation was almost steady, at an average of N1.85trillion during the quarter. From all indications, activities will even be more upbeat in the market in the coming months, as more banks seek funds to meet the December, 2005,(N25billion) deadline.

Crude Oil Production (Tb/d)

Production: Secondary Sources	Jul-04	Aug-04	Sep-04	Oct-04
Algeria	1247	1259	1264	1278
Indonesia	957	959	959	954
Iran, I.R.	3933	3947	3954	3956
Kuwait	2373	2393	2426	2444
Libya, S.P.A.J	1557	1584	1585	1595
Nigeria	2395	2391	2332	2297
Qatar	797	796	800	802
Saudi Arabia	9318	9443	9454	9506
United Arab Emirates	2414	2473	2492	2499
Venezuela	2591	2613	2606	2638
Total OPEC - 10	**27581**	**27857**	**27871**	**27968**
Iraq	1936	1864	2249	2310

Source: OPEC Data Services

NIGERIA/SAO TOME: JDZ BIDDERS

BLOCK	BIDDERS	OFFER
Two	Ventage Oil & Gas	$135 mln
	Continental Oil & Gas	$120 mln
	A-Hartman Ltd	$80 mln
	Forbid Engineering	$73.4 mln
	Equity Exploration and ONGC	$65 mln
	Momoh Petroleum	$65 mln
	Devon (Dev.N) & Pioneer Oil	$50 mln
Three	Energy Equity Resource	$80 mln
	Devon Energy & Pioneer Oil	$40 mln
	Anadarko Petroleum (APC.N)	$40 mln
	Sahara Energy Field	$37.5 mln
	Ofia Energy	$36 mln
	Equinus	$35 mln
Four	ECL International	$175 mln
	Conoil Producing	$105 mln
	Herculus	$81 mln
	Anadarko petroleum (APC.N)	$70 mln
	Atlas Petroleum	$70mln
	* Energy Equity Resources & Dangote Group	$67 mln
	Godsonic Oil Ltd	$ 60mln
	* Equity Exploration & ONGC	$ 60 mln
	Overt Oil & Gas	$ 60 mln
	* ERHC (ERHC.OB) & Noble	$57.2 mln
Five	* Int'l Commerce & Communications Oil Exploration Consortium	$37 mln
	Sahara Petroleum	$35.5 mln
Six	Filgim Huzod	$45 mln

Note: Joint bids are marked "". Chairman of the Nigeria-Sao Tome Joint Development Authority said winners would be announced in February, 2005.*

OIL AND GAS

The Nigerian oil and gas industry has remained significantly competitive over the years and, since 1999, investment inflow into the sector has continued to improve — especially in the gas segment. This trend continued last year during which a milestone was achieved: sixteen indigenous oil companies formally took possession of marginal oil fields. This marked a concrete move towards "indigenisation" and local content improvement in the exploration and production (E & P) oil business. The 16 onshore and shallow water oil fields, estimated to hold between 150 and 200 million barrels of crude oil, were in November handed over to the beneficiary companies by Shell Petroleum Development Company (SPDC). They were part of the 24 marginal fields offered to 31 indigenous companies in February 2003, under the Federal Government's Marginal Field Programme.

Similarly, 26 E&P oil companies, made up mainly of indigenous firms, entered bids for five oil blocks in the Nigeria and Sao Tome and Principe Joint Oil Development Zone (JDZ) in the last quarter, 2004. The winners of the bid would be announced in February, 2005.

South Atlantic Petroleum Limited (SAPETRO), a Nigerian E&P oil company was also allocated an oil block in Benin Republic during the period under review. The offshore oil block which covers a surface area of 551 square kilometres, encompasses the previously produced and currently shut-in Seme oil field.

Despite intermittent E&P disruptions in the Niger Delta in the last quarter, 2004, crude oil production level generally remained high. All through the period, Nigeria's crude oil production, including condensates and natural gas liquids was estimated at an average of 2.40 million barrels per day (mbd) or 72 million barrels per month. Her OPEC quota at year-end stood at 2.24million barrels per day.

In the downstream/gas sector, major activities took place during the quarter, especially in the area of gas gathering/utilisation where many projects were being simultaneously executed. These include the Nigeria Liquefied Natural Gas (NLNG) Trains Four and Five, Escravos Gas Gathering Project(EGGP), the Offshore Gas Gathering Project(OGGP), and the($590million) West African Gas Pipeline(WAGP), which attracted a $50millionWorld Bank loan.

Specifically, the Nigerian National Petroleum Corporation (NNPC), ChevronTexaco, ConocoPhillips and Eni during the period under review, jointly awarded a contract for the front-end engineering design for the $3billion Brass Liquefied Natural Gas (LNG) project. This marked the formal take-off of the project, which has been on the drawing board for a long time. The contract was awarded to Bechtel, a San Francisco-based gas engineering company.

Similarly, the NNPC/Mobil Natural Gas Liquids (NGL) project also took off during the quarter. The gas project owned 49% by the NNPC and 51% by Mobil Producing Nigeria (MPN), when completed, is expected to produce about 42,000 barrels of NGL per day. The NNPC and MPN are executing the project in partnership with foreign firms and agencies like the US Government's Overseas Private Investment Corporation (OPIC) and Credit Suisse First Boston, and some local banks.

STATE OF TELECOMS INDUSTRY IN NIGERIA

	Dec-00	Dec-02	June-03	Dec-03	Mar-04	Dec-04
Number of Connected Fixed Lines	450,000	702,000	724,790	850,000	888,854	1.5m
Number of Connected Digital Mobile Lines	None	1.6m	2.05m	3.1m	3.8m	7.5m
Number of National Carriers	1	2	2	2	2	2
Number of Operating ISPs	18	30	30	35	35	36
Number of Active Licensed Fixed Line Operators	9	16	19	30	30	30
Number of Licensed Mobile Operators	1	4	4	4	4	4

Source: Zenith R&EIG/NCC data

FIRMS PRE-QUALIFIED FOR RECHARGE CARDS MANUFACTURING

S/N	Company Name		
1	Controcards Ltd	15	SNECOU Group of Companies Ltd
2	Nitecrest	16	Royal Alliance Ltd
3	Masterstroke Packages Ltd	17	Airtel Ltd
4	Security Printing & Allied Solutions (SPAS)	18	Alfa Juliet Mangler Ltd
5	Hemnugg Ltd	19	Exxis Facility Management Ltd
6	Value Trust Inv Ltd	20	HeyGate Press Ltd
7	NIC Systems & Graphics In-Line Ltd	21	Advantel Ltd
8	Austine Brooks Nig. Ltd	22	Nelag & Company
9	Prudence Business Solutions Ltd	23	NamITech Ltd
10	Smart City Plc	24	Gijima Technologies Ltd
11	Kalila Nig. Ltd	25	Premiumideas Ltd
12	Southbeach Company Ltd	26	Orga Cards System
13	Cards Technology Ltd	27	Xcard Ltd
14	Intergra Telecomms Ltd		

Source: NCC data

LOCAL REFINERIES

Government's effort to effectively tackle the problem of petroleum products scarcity was given further impetus in the last quarter, 2004, when 13 companies were granted Approval To Construct (ATC) refineries. The refineries with a combined capacity of about 1.25mb/d are located in various parts of the country. State governments own seven of them while six belong to private organisations.

By the tail end of the quarter, the resumption of "full" operations by the refineries in Port Harcourt, Warri and Kaduna led to some improvement in the local supply of petrol. This in turn, moved the Petroleum Products Pricing Regulatory Agency (PPPRA) to officially effect a slight cut (one Naira) in the price of fuel. Thus, the pump price of fuel came down to N48.50 from N49.50 per litre earlier approved by the Senator Ibrahim Mantu-led committee on the cushioning of the effects of recent fuel price increases.

According to NNPC statistics, as at December 2004, the Kaduna refinery ran at 75% of its installed capacity, Port Harcourt refinery 70% and Warri 70%. Thus, for the first time in recent years, the country's reserve for all major petroleum products hit 900million litres or a 30-day strategic reserve level. Reserve level has in the past three years hovered around 600million litres or 20-day level.

TELE COMMUNICATIONS

Almost one year after the approval of the Nigerian Communication Satellite-1 (NIGCOMSAT-1) by the Federal Executive Council, contract for its design, manufacture and launch was signed in the last quarter, 2004. The contract was awarded to China Great Wall Industry Corporation(CGWIC). And to fast-track the long-proposed privatisation of the Nigerian Telecommunications Limited (NITEL), the Federal Government during the quarter, set up a six-member committee to drive the process. The tripartite panel comprises an official of the Bureau for Public Enterprises (BPE) and representatives of NITEL management and labour unions.

In a similar vein, the Federal Government during the quarter inaugurated a special committee, which it charged with the responsibility of ensuring local manufacture of mobile telephone handsets by some telecommunication firms. Headed by the acting permanent secretary in the ministry of Communications, Dr. Sani Sufi, other members of the committee were drawn from the Ministries of Industry and commerce, the Manufacturers Association of Nigeria and the Nigerian Investment Promotion Council. Others were from the Association of Telecommunications Companies of Nigeria, the Nigerian Communications Commission and Special Advisers to the President on Manufacturing and Project Monitoring.

To tackle the problem of low Internet penetration in the country, the Federal Government, during the last quarter, 2004, inaugurated a new body, the Nigerian Internet Registration Authority (NIRA). Essentially, the body which is to handle the regulation of the country's Code Top Level Domain (the domain name) is being promoted as a Non-Governmental Organisation, with the Government as a stakeholder.

Competition among the GSM operators heightened during the quarter, leading to some sort of "price war" in the range of items/services they offer. Some developed new products/services to help them secure wider share of the market. Almost all the operators announced cuts in their connection fees and some "free" airtime to win more customers. All these impacted significantly on the subscriber-base which is now over eight million. However, the high incidence of stolen handsets and influx of inferior or substandard accessories remained unabated.

The Federal Government during the quarter remained resolute in its policy to stop the importation of recharge cards, with end-December, 2004, as deadline. The deadline has however been shifted to end-March, 2005. In its preliminary efforts at carrying out the Government's policy, the NCC pre-qualified 27 companies among those that applied to commence recharge cards manufacturing in the country. The NCC also during the quarter, produced guidelines for the operation of voice over Internet protocol (voip) or Internet telephony—a technology permitting the transportation of voice traffic over

TRANSPORTATION BASIC DATA (1999- 2004)

Air Transport	1999	2000	2001	2002	2003	2004 (Est)
Loaded Freight (000tonnes)	12,279	11,923	12,726	18,052	19,972	20,430
Unloaded Freight (000tonnes)	8,306	15,302	15,266	20,758	55,160	58,125
Passengers departing (No)	475,073	533,585	624,174	652,019	646,777	672,512
Transiting Passengers (No)	239,369	163,776	139,503	91,944	31,261	30,189
Arriving Passengers (No)	469,895	519,987	609,984	611,307	614,770	629,312
Aircraft Arriving (No)	6,442	6,996	7,009	6,930	7,869	9,750

Source: Nigerian Statistical Facts sheets the Internet. The guidelines are yet awaiting approval by the industry stakeholders.

AVIATION

The formal liquidation of the erstwhile national carrier, the Nigeria Airways Limited (NAL), and arrangements for the take-off of its successor (Virgin Nigeria) were the major activities in the aviation sector in the last quarter, 2004.

Agitation by former workers of the liquidated NAL against the exercise continued, even after an Abuja Federal High Court ruled in favour of the move earlier in the year. However, a liquidator appointed by the Federal Government to carry out the winding up of the airline (Messrs Babington Ashaye & Co.) struck a peace deal with the former workers and pensioners which facilitated the commencement of the settlement of their benefits.

By the end of December, 2004, however, part of the debts had been settled by the liquidator, from the proceeds of some assets of NAL (in liquidation) that were disposed of. However, the deal between the Nigerian aviation authorities and Virgin Atlantic (UK) airline for the establishment of Virgin Nigeria was dogged by series of controversies and hitches throughout the quarter. In fact, barely seven days after its take-off plans were unfolded, one of the creditors of the liquidated NAL, Air Atlanta of Iceland, on October 1, asked a Federal High Court, Lagos, to put the proposed airline on hold until the $10,651,467 allegedly owed it (by the liquidated NAL) is paid.

The Federal Executive Council on September 1, 2004, approved Virgin Atlantic Airways as the strategic / technical investor for Nigeria's flag carrier. The new flag carrier is to have a share capital of $50million at the equity ratio of 51%($25.5m) to Nigerian institutional investors and 49%($24.5m) to Virgin Atlantic.

Although a Chief Executive Officer in the person of Mr. Simon Harford, a Briton, was appointed for the proposed airline, it could still not take off. Instead, as the take-off date approached, the United States government barred the airline from flying into its airspace. The Economic Counsellor, US embassy, Abuja, Mr. Joseph Gregoire, who conveyed the ban, said such flights into the US would be a violation of the Open Skies agreement reached between his country and Nigeria. Mr. Gregoire explained that the United States opposition to Virgin Nigeria stemmed from the fact that its operator, Virgin Atlantic, benefits from restrictions in US/UK bilateral relations. Although the Federal Government took steps to protest the US measure, the ban was still in place by end-December, 2004.

Also during the quarter under review, a leading American airline, and one of the largest in the world, Continental Airlines, was given approval by the governments of Nigeria and the United States, to begin non-stop flights between Lagos and New York. The airline which was rated the "Airline on Ground, 2004", is billed to commence this intercontinental service in the second quarter, 2005.

Another issue that featured in the aviation industry during the last quarter, 2004, was the controversy over increases in airfares by local airlines. Sequel to the intermittent hikes in petroleum products prices (including those of aviation fuel), many operators of local airlines arbitrarily raised their fares at various times. The price of aviation fuel rose from about N50 per litre to around N75 per litre during the quarter, before declining in late November. The situation is yet normalising.

SOME POWER GENERATING PLANTS & THEIR CAPACITIES

PLANT	INSTALLED CAPACITY
Kainji hydro power station, Kwara State	760 MW
Jebba hydro power station, Kwara State	579 MW
Shiroro hydro power station, Niger State	600 MW
Sapele thermal station, Delta State	1020 MW
Egbin thermal station, Lagos State	1320 MW
Lagos Independent power project	270 MW
Abuja Independent power project	50 MW
Ajaokuta generation plant	110 MW
Ijora generation plant	65 MW
TOTAL	**4774 MW**

Source: Zenith R & EIG data

POWER SECTOR

The main issue in this sector during the last quarter, 2004, was the "packaging" of the National Electric Power Authority (NEPA) for privatisation in early 2005. Towards this end, Government effected the "unbundling" of NEPA in November as a follow up to the "unbundling" of the transmission and distribution sub-sectors which commenced earlier in April and January 2004 respectively. With this, NEPA was split into six power- generating companies (GENCOS) with operational bases at Niger (Kainji/Jebba), Shiroro, Egbin, Delta, Afam and

Sapele. Chief Operating Officers have accordingly been appointed for the six GENCOS, which would generate and sell power to TransysCo (the transmission company) at bulk unit cost.

The deployment of prepayment metres on a pilot basis to replace the much discredited subsisting metering system was equally pursued with vigour during the quarter. The Federal Government part-financed the exercise which is taking place in seven NEPA business units with N70million.The involvement of private/independent power generators was also pursued seriously; thus, by year-end, work had commenced on five such power plants. In fact, the Independent Power Plants (IPPs) by Rivers and Lagos states meant to generate 120megawatts and 270megawatts respectively were completed, and the requisite power purchase agreements signed with the Federal Government. Akwa Ibom, Kwara and Bauchi states are still on with their IPP efforts.

Purely private IPP efforts during the period (ongoing construction) include: Shell—900mw at Afam, Agip—960mw at Kwale, Energy Company of Nigeria—120mw at Ota in Ogun State and another 120mw at Ikorodu, Lagos. Government on its part had also embarked on the construction of three new power stations with a combined capacity of 1400mw on completion. These include Papalanto in Ogun State—670mw; Omotosho in Ondo State—670mw; and Geregu in Kogi State—414mw.

In spite of these efforts, the power generation level hit an all-time low of 2060mw as at October, 2004 .This is against the 4164mw peak power generation capacity attained by NEPA three years ago in December, 2001. Although the capacity stood at about 3330mw by end-December, 2004, NEPA authorities blamed the fluctuating power generation on low water levels at the hydro-electric power stations and the breakdown of some units at Egbin Thermal Station.

MARITIME SECTOR

Security, cabotage regime, Customs reforms, port concessioning, among others, were the key issues that dominated the maritime sector, even up to and during the last quarter, 2004. Although a Presidential panel headed by the Minister of Transport, Dr. Abiye Sekibo, worked on the nation's maritime safety and security to ensure that the country met the International Maritime Organisation (IMO) requirement earlier in the year, certain events in the last quarter challenged Nigeria's maritime security. Specifically, the disappearance of an arrested illegal oil bunkering vessel, *MT Africa Pride* and subsequent efforts to recover her, exposed serious security lapses in the sector. Trial of some Navy top brass suspected of playing roles in the incident was yet ongoing as at end-December. The rescue operation in respect of two trucks that plunged into the sea at Berth 11 at the Apapa port also threw up the safety and security challenges in the maritime sector.

Although the cabotage regime commenced mid-2004, indigenous maritime operators, by the last quarter of the year, were still grappling with the real import of the new law. Apart from the heavy investment needed to cope with the challenges of the regime, the shipping entrepreneurs were also confronted by "accumulated" and current waivers granted some operators by Government and its agencies. Thus, the potentials of the new law remain unexplored.

The controversy generated by moves to introduce destination inspection of goods at Nigerian ports lingered all through 2004. Although the destination inspection contract was purportedly awarded earlier in the year, it was revoked during the last quarter, because, according to the Minister of State for Transport, "Nigeria did not get a good deal". The Presidential committee that worked on destination inspection had made its recommendations, on the basis of which Government elected to open fresh bidding to pick about three or four inspection firms. Tender for the supply of equipment preparatory to the destination inspection was concluded in October.

During the quarter under review, the port concessioning process formally took off, with a formal consultation between Government representatives and pre-qualified bidders for the control of the Apapa port terminals. This is in view of the planned hand over of the port terminals early 2005 to the successful (bidders) private port management companies. Both local and foreign private companies have submitted bids for the ports.

Aerial view of Tinapa, Calabar

TOURISM: SOME STRIDES

The tourism industry was marked by some strides in a few of its sub-sectors in 2004. Although as a service industry, made up of tangible and intangible components (including transportation systems, hospitality services, rest and relaxation, culture, adventure, etc.), it is difficult to capture all that should appertain to it. Specifically, however, the inauguration of a Presidential Committee on Tourism (PCT) by the Federal Government was a key development in the sector last year. The setting up of the council which comprises state governors, federal ministers as well as the President and Vice President underlines the rising profile of tourism in the national scheme of things. The body headed by the President himself has held a number of meetings in several places, including Kaduna , Jos , Abuja and Lafia.

The Cross River State government as part of its efforts to make tourism a prime sector of its economy, took the pioneering step of accessing the capital market to raise fund for the development of tourism projects in the state.

Also, during the year, the Nigerian Tourism Development Corporation (NTDC), for the first time in recent years , actively participated in the World Travel Market (WTM) in London, a move that boosted the morale of tourism stakeholders in the country. During the outing, Nigeria exhibited its rich variety of traditional arts and crafts, including ivory and woodcarving, leatherwork, hand weaving, and pottery, among other handicrafts. The country also participated in a few other international tourism fairs and exhibitions, including the West Africa Travel and Trade Show (WATTS), in Accra, Ghana .

However, the most significant of events in the sector in 2004 was the entry and impact of some operators in the industry in the capital market. The Nigerian Stock Exchange (NSE), following the listing of the Tourist Company of Nigeria during the year , created a new sub-sector in the Equity Section of the Daily Official List—Hotel and Tourism—which brought to 27 the number of sub-sectors on The Exchange .

The Cross River State government as part of its efforts to make tourism a prime sector of its economy, took the pioneering step of accessing the capital market to raise funds for the development of tourism projects in the state. The State Government in 2004 floated the First Cross River State Fixed Rate Redeemable Tourism Development Bond 2004/2007 at the Nigerian Stock Exchange. The bond was to raise N4billion for the development of tourism projects, especially the *TINAPA* Business Resort, in the state. According to the prospectus for the bond issue, the tourist resort, the first of its kind in Nigeria, is expected to attract over 1.5 million tourists to the state every year. Located on the Calabar River, and contiguous to the Calabar Free Export Trade Zone (Calabar FTZ), Tinapa is reputed as the first integrated business and leisure resort in Nigeria.

It is planned to provide international standard wholesale emporiums, integrated shopping complexes and product distribution elements supported by business tourism and entertainment facilities. The location of these , in close proximity to a free port on the east- west trading routes , equips the resort to serve as : the distribution point into Nigeria and the growing economic hub of West Africa; centre for retail and wholesale commercial activities with the ECOWAS sub-region ,taking advantage of the international agreement on free movement .

Agriculture

In line with the Federal Government's drive to transform agriculture towards the attainment of massive food production and food security in the country, the sector witnessed several activities and policy initiatives in 2004. As a demonstration of its seriousness towards improving food/cash crops production, the Federal Government set up a Presidential committee on cassava to explore how best the country could maximise its export potentials of the commodity. Several state and local governments also took a cue, and set up similar bodies. It was also during the year that what is now known as Presidential Initiatives on Rice, Cassava , and Vegetable Oil took shape .

Specifically , under the initiatives, the goals for cassava are: *To earn about US$5billion annually from the export of cassava products such as pellets, chips, starch, alcohol, etc.

*To make the Nigerian farmers aware of opportunities that exist in the cassava market worldwide.

The targets under the rice initiative include : the cultivation of about 3 million hectares annually; the cultivation of about 6 million tonnes of milled rice within 12 months; and ensuring the satisfaction of local demand in two years time. Regarding vegetable oil, the target is to meet local demand in three years and commence export of the commodity.

The Federal Government during the year also gave effect to the pursuit of the initiatives by taking steps to substantially replace the quantity of wheat used in making bread with cassava flour. This is being pursued in collaboration with the International Institute for Tropical Agriculture (IITA), Ibadan, which has developed improved varieties of cassava, some of which are capable of producing 30 tonnes per hectare. The Federal Government continued the promotion of the production of eight industrial crops namely: groundnut, soybean, cotton, cocoa, cashew, rubber, gum Arabic and oil palm through the Agricultural Development Projects (ADPs) and other relevant agencies at the State and Federal Government levels under the National Accelerated Industrial Crop Production Programme (NAICPP).

The Federal Government also in 2004, played active roles in facilitating the arrangement for displaced white Zimbabwean farmers to settle in some states in the country and engage in mechanised / commercial farming. Consequent upon this effort, the foreign farmers have settled in Kwara state and a few other locations. By this move , the Federal Government intends to use the alien farmers to boost the production of some food crops as well as create the opportunity for local farmers to learn from the white farmers who are known to possess better skill/experience .

Credit facilities for farmers, especially the Agricultural Credit Guarantee Scheme Fund, recorded improvements in 2004. Available data show that between January and November 2004, about 400,000 loans valued at over one billion Naira were guaranteed by various state governments. Kwara and Lagos states came tops, accounting for 7.5 and 6.5% respectively, of the total loan sum. In addition to the ACGSF, local and foreign funding agencies such as the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB), ECOWAS Fund, the World Bank, Food and Agricultural Organisation(FAO), UNDP, USAID and a few others were also active in the financing of agricultural activities in the country in 2004.

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

Leapfrogging Nigeria Through Information Technology

* By Jim Ovia

Knowledge Economy is the economy of the future and to play an active role in it, nations must produce workers skilled in ICT. In this piece, Jim Ovia, highlights the key steps in equipping the youths with ICT skills in preparation for Nigeria's active participation in the blossoming knowledge economy.

When CD-ROM came to the market in 1990, it made nonsense of printed Encyclopaedia business.

It is common knowledge that Nigeria and the rest of the world are now in an era of digital revolution. Some historians have labelled this new phenomenon the Third Industrial Revolution. Computers, telecommunications, microelectronics and biotechnology are transforming and influencing our lives and how we live. The discovery of the commercial use of the Internet a little over 10 years ago has encouraged faster and cheaper dissemination of information.

The deployment of Information and Communication Technology (ICT) in Nigeria has metamorphosed through several developmental stages. But each successive stage did not exactly mimic events in IT activities in other developing economies.

Professor Abhulimen R. Anao alluding to Nigeria's ICT complacency in his essay, *Positioning Nigeria for Effective Response to the Challenges* of *Emerging Technologies and Globalisation* has noted that "Nigeria has only played the role of user of the finished products and often very many years after they came into existence elsewhere.

Nigeria's participation in the advancement of technology has been lacking; indeed absolutely nil."

To understand the danger we face, let us consider the sad story of the Encyclopaedia Britannica, which lost its business because it did not think the threat posed by the IT revolution was a serious one.

As Phillip Evans and Thomas S. Wurster have noted in their book, *Blown to Bits: How the new economics of information transforms strategy,* "the decline and fall of Encyclopaedia Britannica is more than a parable about the dangers of complacency" The Encyclopaedia Britannica which was first printed in 1768 and which evolved through 15 editions and contained about 40 million words was almost forced to file for bankruptcy because of the emergence of new innovations in Information Technology.

Encyclopaedia Britannica which had maintained its reputation as the world's most prestigious and comprehensive compendium of information was almost obliterated by a new product of the digital revolution -the CD-ROM.

When CD-ROM came to the market in 1990, it made nonsense of printed Encyclopaedia business. The huge cost of printing the Encyclopaedia made it uncompetitive. It was much cheaper to buy CD-ROM Encyclopaedia such as Encarta, which sold for about $50 compared to the printed version of Britannica that had a price tag of about $2000. Naturally the sale of printed Encyclopaedia plummeted and wiped off almost 80% of its revenue. Because the publishers of Encyclopaedia did not react promptly and had failed to adapt to the digital market place, they recorded losses; and in 1995, the Benton Foundation, the publishers of Britannica finally put the company up for sale after sustaining huge losses over the years. Nobody was interested in buying the company until in 1996 when Encyclopaedia Britannica was eventually sold for less than half of its book value.

However, Britannica under its new management has gone beyond CD-ROM and has connected directly to the World Wide Web. The new Britannica aims to become the Internet portal to a universe of high quality, objective and scholarly material.

"Nigeria has only played the role of user of the finished products and often very many years after they came into existence elsewhere. Nigeria's participation in the advancement of technology has been lacking; indeed absolutely nil."[1]

HISTORICAL PERSPECTIVE

The first general-purpose computer for commercial use came into being in the United States of America in the late 1940s.

In 1963, the electronic digital computer made its first appearance in Nigeria specifically for the purpose of analyzing the 1962/63 national population census figures. By 1973, Nigeria could boast of more than twenty computers, mostly owned by the multinational companies. As at late 1970s, the hardware vendors were still very few, notable among them were IBM, JCL and NCR.

In 1988, the total number of computers installed in Nigeria had risen to 754. By 2002 there were about 1,980,247 computers in the country for 1.65% of the country's population.

The paucity of this figure is underlined when you realize that as at June 2003 over 1 billion personal computers had been sold in the 25 years since the PC was introduced.

Today, we have in addition to the IBMs, Compaq, Hewlett Packard, Toshiba and DELL indigenous made in Nigeria computers like Omatek, Zinox, Unitec, etc, helping to launch us into a new IT frontier.

Progress of Computer Installations in Nigeria

Year	Number of Computers
1977	115
1980	235
1983	390
1985	496
1988	754
2002	1,980,247

(Source: Nigeria Information and Communication Technology Handbook. Compumetrics Solutions Ltd ; 2003. p.19)

TELECOMMUNICATIONS AND ICT

To launch Nigeria fully into the IT revolution, we need a viable and effective telecommunication infrastructure. This has constituted a major setback in the development of Information Technology in Nigeria.

The evolution of the telecommunications sub-sector in Nigeria dates back to the colonial era. It started in 1886 when the colonial

> ***With these giant strides in telecommunications and the increasing teledensity, what Nigeria requires to become a global player in ICT is a deliberate and well-articulated ICT policy that will encourage the youths to tap into the tremendous opportunities open to them via the Information Super Highway.***

administration embarked on the installation of telecommunication facilities in some major cities in the country. At Independence in 1960, the country had 18, 724 telephone lines for a population of about 40 million. By 1995, the number of telephone lines had increased to about 405,000, with 10,000 mobile phones for a population of about 120 million.

The recent deregulation of the sector and the rollout of GSM phones to Nigerians in August 2001, has dramatically altered the situation. Within a period of two years, the GSM operators (MTN, Econet and NITEL) and other Private Telecom Operators (PTOs) have attracted no less than a combined total of three million subscribers for their networks. A new entrant, Globacom started operations in August, 2003 increasing the number of GSM operators to four. The number of fixed lines has also risen sharply. Nigeria's teledensity was 0.004 (250 people per 1 phone line) in 1997. This statistic was quite dismal compared to South Africa, which had a ratio of 10 people per phone line. By 2003 the figure had however risen to 100 people per 2 phone lines, well above the International Telecommunications Union (ITU) recommendation of 100 people per 1 phone line for there to be meaningful technological and economic development in an emerging market. Today, Nigeria's teledensity is rated by ITU as one of the fastest growing in the world.

With these giant strides in telecommunications and the increasing teledensity, what Nigeria requires to become a global player in ICT is a deliberate and well-articulated ICT policy that will encourage the youths to tap into the tremendous opportunities open to them via the Information Super Highway.

NIGERIA TO REPLICATE INDIA'S SUCCESS

India has become an ICT hub for the US. Taking advantage of its large and educated population as well as low income levels, India has become not just a major software producer for American IT companies, but also a human resource pool for sourcing efficient IT personnel.

India achieved this feat thanks to "their government's policy of encouraging their citizens to integrate with the emerging technology while taking advantage of their cheap labour".

Today, according to Business Week Magazine, the US market consumes 70% or $6.75bn worth of India's software services export; India's premier software company, Infosys has liquid assets worth over $350million; and US Law makers in Maryland, Washington, Connecticut, Missouri and New Jersey are putting forward a bill to stop American IT firms from outsourcing jobs to Indian consultants because of the dominance of Indian software experts.

In Malaysia, the government has aggressively pursued a three-pronged ICT policy:

- Increase efficiency, effective management processes and productivity through ICT.
- Emphasize the role of ICT in education as a learning and teaching tool
- Get students involved in ICT as a means of bridging the digital divide.

The approach has led to Malaysia's emergence as a great ICT nation.

Singapore's success story is a good example of how our youths should be e-empowered. Lee Kuan Yew, the former Prime Minister of Singapore has stated in his book ***From Third World to First: The Singapore Story: 1965 -2000*** that he pursued a deliberate government policy in which all schools and homes in Singapore were connected to the Internet via broadband technology. Every two students had a computer. Naturally, Singapore blossomed from a Third World nation to a First World.

DIGITIZING THE YOUTHS AND DIGITIZING NIGERIA

Borrowing from these success stories, it is clear that Nigeria's future in ICT lies in the hands of the youths. The youths could be e-empowered in multi-dimensional ways. We should concentrate on enabling and mobilizing them through digital revolution.

Let us 'digitize' the Nigerian youths. By this we mean, let us provide our youths with the necessary resources, the necessary digital tools, which will enable them spend more time browsing internet websites instead of watching television or playing in the streets. Let us also e-enable our youths to begin to acquire the skills with which to function in the digital world; this we can do by providing them with the necessary (ICT) infrastructure.

Statistics from the National University Commission (NUC) on university enrolment by Sex and Discipline indicate that our universities are enrolling young men and women who will form the vanguard of the ICT revolution.

Enrolment by Sex for science Courses in 6 Federal Universities 2001/2002.

UNIVERSITY	MALE	FEMALE
UNN	7,769	3,993
UNILAG	7,035	3,121
ABU	10,853	3,124
BAYERO	5,928	1,382
UNIPORT	7,237	2,608
OAU	10,566	3,634

Source: *National Universities Commission (NUC)*

From this data, it is clear that we have an emergent work force, which should be further encouraged to tap into and take advantage of opportunities in the information super highway. It is also gratifying to note that the Federal Minister of Education has said that henceforth ICT knowledge will be a pre-requisite for university admission.

NIGERIA: LOW ON TAI

The UNDP Human Development report 2001 rated Nigeria low on the Technology Achievement Index (TAl) largely as a result of spectacularly poor human skills and low technological capacity. Given this scenario, the Internet-in-School initiative should be encouraged to improve Internet penetration aimed at diffusing technology and developing human skill base. This will be realized by building capacity through mobilization of our youths and creating ICT infrastructure and digital network tools for the youths and thus empowering them to take charge of their own development and destiny.

The government should focus on the actualisation of its vision statement in the National IT policy. Our youths are expected to be functionally and digitally literate to succeed in the new global knowledge-based economy, as the disparities in information technology between them and their peers in other digitised economies will ultimately limit their opportunities. Our youths should be trained in Information and Communication Technology in order to make them globally competitive.

President Obasanjo with Jim Ovia, MD/CEO Zenith Bank Plc and others during the launch of the Bank's ATM at Nigerian Breweries, Ama, Enugu State.

IT: DRIVING EFFICENCY

As Bill Gates noted in his book ***Business @ the Speed of Thought***, ICT is the key driver of business processes because "the successful companies of the next decade will be the ones that use digital tools to re-invent the way they work. These companies will make decisions quickly, act efficiently, and directly touch their customers in positive ways. Going digital will put you on the leading edge of a shock wave of change that will shatter the old ways of doing business."

In October 2000, Madeline Albright, the then American Secretary of State paid a historic state visit to North Korea in a move aimed at rapprochement. She was shocked when the North Korean leader Kim Jong II asked her for her email address.

Madeline Albright's shock is

understandable because North Korea was in a cocoon and had a strong aversion for everything Western. Kim Jong II had however realized that information is not only essential but also necessary.

It is heartwarming to note that President Obasanjo is also a keen follower of the ICT revolution. It was a personal and first hand experience as well as a profound and overwhelming feeling for me to personally excite the President with the wonders of the ICT revolution when President Obasanjo found time to personally commission the Zenith Bank's Automated Teller Machine (ATM) located at the Nigerian Breweries Plc ultra modern plant in Ama, Enugu state. The President's presence at the event was a confirmation of the high regard the Federal Government has for ICT, and judging by his short remarks at the occasion it was clear that the President would welcome the pervasiveness of such ICT initiatives -the first of its kind in a Nigerian factory -to help leapfrog Nigeria into a new era of technological advancement.

> ***Nigeria still ranks below other African countries, such as South Africa, Egypt and Zimbabwe in Internet penetration. For example, South Africa with a population of 44 million people has over 3 million Internet users; Egypt with a population of 71 million people has over 600,000 Internet users. Zimbabwe with 11 million people has about 500,000 Internet users while Nigeria with a population of about 120 million people has a pathetic 350,000 Internet users.***

INTERNET DIFFUSION IN NIGERIA

The Internet has brought a revolutionary change to the world in recent times. But its advent into Nigeria is just beginning to have some impact. The number of Internet cyber cafes in metropolitan cities like Lagos, Abuja, and Port Harcourt is growing by the day.

Major banks in the country now render e-banking services using Internet facilities, while some schools now have direct Internet connection, which gives their students access to the information superhighway.

In a survey carried out in June 2003, I was delighted to learn that 502 of the 728 lecturers at the University of Lagos have Personal Computers in their various offices connected to the Internet. I also presume that they have Internet access in their various homes. By extension, all University students in Nigeria must have e-mail addresses.

But the Internet advantage is still not fully exploited by Nigerian students. In a study conducted on the major information sources for students of the Obafemi Awolowo University (February 2003) it was discovered that the Internet came fourth on the list, while conventional libraries ranked first, followed by research institutes and CD-ROM database respectively.

This limited reliance on the Internet for academic research stems from insufficient Internet access in many institutions of learning. ICT budget in institutions of learning is inadequate to provide the necessary infrastructure for the school community. For example, while the University of Ibadan spends 0.24 percent of its budget on ICT, a typical U.S. University spends 8-10 percent of its entire budget on ICT. The University of Iowa in the United States allocates $25 million a year to maintain and upgrade its ICT system.

PERSONAL ENCOUNTER WITH BILL GATES

The major challenge for Nigeria and other developing countries is the huge cost of deployment of ICT, which makes bridging the digital divide a difficult task. And from all indications, the cost of Internet connectivity is likely to remain high because during the Microsoft Executive Summit, held in Vienna Austria, January 27-28, 2004, I was privileged to have a personal encounter with Bill Gates and the Q&A session that followed his speech afforded me the opportunity to enquire from him (the richest man in the world and the indisputable Guru of computer software) how Nigeria and Africa could bridge the digital divide.

His response was that the cost of communication would continue to be a major challenge for the foreseeable future because even though the cost of computers and software would crash, the cost of communication would still remain high.

Nigeria still ranks below other African countries, such as South Africa, Egypt and Zimbabwe in Internet penetration. For example, South Africa with a population of 44 million people has over 3 million Internet users; Egypt with a population of 71 million people has over 600,000 Internet users. Zimbabwe with 11 million people has about 500,000 Internet users while Nigeria with a population of about 120 million people has a pathetic 350,000 Internet users. In the last few years there has however been some remarkable improvement in the number of Internet Service Providers (ISPs) operating in the country. In early 1999, the country had 5 ISPs in operation. But four years later there are, according to the NCC website, 373 licensed ISPs in the country.

To encourage the use of computers and the Internet, the price of computers and cost of accessing the Internet must crash. Government should therefore, encourage more local manufacture of computers and direct all ministries and parastatals to patronise *made in Nigeria* computers. OMATEK and ZINOX are good examples of made in Nigeria computers, among others. The government should also encourage Nigerian software developers by requesting all ministries and parastatals to buy their products.

If Nigerian software developers were encouraged to write programs for salary payrolls of all ministries and parastatals, thousands of Nigerian youths would definitely go into the business of writing programs; and in no time replicate the success stories of Bangalore in India and Silicon Valley in California USA. It is instructive to mention that the Indian IT industry exports about $15 billion worth of IT products and services annually. This amount exceeded Nigeria's annual oil revenue in 2003, which was about $10.92 billion.

More Internet backbones / infrastructure should be built to make the Internet cheaper and easier to access.

The importance of ICT to a nation's prosperity and development is demonstrated by the fact that the top 10 information economies (Switzerland, Japan, US, Denmark, Singapore, Sweden, Norway, Netherlands, UK, Australia) represent 80% of the IT marketplace and the bottom 10 represent less than 1%. [18]

THE NIGERIAN IT POLICY

Stakeholders in the Information Technology sector have long debated the need for an IT master plan for the country. This call has intensified since the realization that Nigeria would be left behind in Global competitiveness. In 1999, Nigerian delegates participated in the first *Africa Development Forum* on the Challenge to African Globalization in the Information Age, held in Addis Ababa. Discussions at that event revealed the necessity for Nigeria to join the fast-moving globalization train through strategic IT planning.

A series of national workshops and seminars on ICT followed, resulting in the production of an "IT development master plan 2000". In March 2001 the first Nigerian IT policy was approved.

The National Information Technology Development Agency (NITDA) was established in April 2001, and was charged with the responsibility of ensuring the implementation of the nation's IT policy.

NITDA's vision statement is "to make Nigeria an IT capable country in Africa and a key player in the Information Society by the year 2005, using IT as the engine for sustainable development" and global competitiveness.

In the private sector, important regulatory players include the Nigeria Internet Group (NIG) whose objective is to promote and propagate Internet awareness in Nigeria. There are also other institutional stakeholders playing important roles. These include the Computer Society of Nigeria (CSN), which promotes the advancement of Computer Science and Technology, computer applications and professionals' practice. The Information Technology Association of Nigeria (ITAN) is working towards the rapid growth of information technology in the country.

Realizing the need for these ICT regulatory bodies to have a smooth operation without undue bureaucratic interference, the Federal Government recently took a bold step when it granted the NCC complete autonomy.

INFORMATION TECHNOLOGY AND THE LAW

The growth of the global information society, together with the borderless territories of cyberspace, creates the need to balance ICT with security and legal backing. Developments in ICT have in fact ushered in new legal challenges that were not thought of two decades ago.

Such issues as intellectual property protection, cyber rights, taxation of electronic transactions, online fraud, and the removal of barriers to competition require legal interpretation to ensure industrial sanity. A good instance is the ongoing debate in Japan, China and Korea on the replacement of Patented software (Windows) with Open Source System software (Linux OS). The extent of violation of patent rights or otherwise that this new Asian pursuit will generate can only be defined by existing IT laws.

To invest in Nigeria, investors need to be able to predict the decisions of the licensing and regulatory authorities. This is only possible if the legal framework contains clear guidelines on the decision-making criteria, and spells out punitive measures for regulatory offenders.

Legal Services

The phrase, *"The Digital Lawyer"*; was first coined by Professor M. Ethan Katsh in a series of articles and in his book "Law in a Digital World" published in 1995. Since then the concept has gained popularity in the legal profession. The Digital Lawyer is the lawyer who makes optimal use of networked computer technology in his practice. The Digital Lawyer applies information technology for administrative and knowledge acquisition purposes.

Information technology is fast changing the method that lawyers use in processing knowledge and delivering legal services to clients in the following ways:

- Online clients' servicing
- Rich source of legal knowledge and expertise
- Imaging technology for illustrative purposes
- Limitless client base access through the web
- Cheap and timely source of global update on legal developments
- Reliable and efficient record keeping
- Document assembly at the touch of a button

NIGERIA'S SUPERCOMM

The annual CTO (Computer Telecommunications and Office Equipment) exhibition organized by the United States' Commercial Services Department, Lagos is Nigeria's response to Atlanta's SuperComm or the CeBIT, which holds annually in Hanover, Germany. Having participated in CTO for the past four years, I do know that from the enthusiasm displayed by fellow participants, it is obvious that Nigerians are eager to partake in the digital world.

"Information is the predicate to everything we know. It is ubiquitous. It is the building block behind the human DNA, the chair you are sitting on, the building you are in, the car you drive. Look behind the wealth of nations and of individuals and —again —you will find information. Look behind the poverty of individuals and nations and you will find ignorance."

The importance of ICT to a nation's prosperity and development is demonstrated by the fact that the top 10 information economies (Switzerland, Japan, US, Denmark, Singapore, Sweden, Norway, Netherlands, UK, Australia) represent 80% of the IT marketplace and the bottom 10 represent less than 1%. The growth in the world's leading economies is attributed primarily to their investments in ICT. In these top 10 economies, Information and Communication Technology is applied to every facet of life.

Noah Samara underlined this point when he asserted that: "Information is the predicate to everything we know. It is ubiquitous. It is the building block behind the human DNA, the chair you are sitting on, the building you are in, the car you drive. Look behind the wealth of nations and of individuals and —again —you will find information. Look behind the poverty of individuals and nations and you will find ignorance."

The first time I visited the yahoo.com website was in 1996 when that Internet portal had just announced its IPO (Initial Public Offering) to raise capital. I was excited by the e-business model, which offered immediate links to e-bay, and amazon.com, two typical e-commerce sites.

In today's world, there is no limit to what can be achieved via the Internet. Buying and selling can be initiated and concluded on-line. This is the privilege of e-commerce.

E-commerce has the advantages of:

- Dramatic reduction in transaction costs
- Safe and secure means of electronic payment
- Accelerated increase in commercial and business opportunities
- Commerce across spatio-temporal limitations
- Increased volume of trade and rapid economic growth
- Increased competition for sellers, and bargaining power for buyers

THE CHALLENGE OF e-SECURITY: LESSONS FROM SOUTH AFRICA

As useful as the Internet revolution appears, there is still cause for concern with many suffering from what could be best described as cyber phobia. The reason for this is not far fetched. Tied to the advantages that accrue from the Internet revolution are other unsavoury side effects like hacking and other sundry cyber crimes. The world is still in thrall of hackers like Kevin Mitnick who broke into high security networks of major institutions including the FBI.

After causing cyber havoc for almost 15 years, Mitnick was finally captured and sentenced to five years in jail.

There are other stories of cyber crime though not as celebrated as Mitnick's. In South Africa, a syndicate of fraudsters

targeted the South African Reserve Bank by setting up a website for a bogus law firm that convinced victims to assist in shipping large amounts of cash out of the country. The bogus law firm then diverted the cell phone numbers, which the victims were made to call to their associates in Nigeria and the United States.

There is also a well-documented story of a South African fraudster who severed a deceased relative's thumb to fraudulently receive his pension payout without taking into account the security features of the e-payment system. The fraudster did not realize that the electronic reader also checked for pulse after verifying the fingerprint, obviously because of the use of the biometric verification technique.

These anecdotes illustrate a simple fact: there are serious security challenges for the cyber-phile but the good news is that no matter how smart those who seek to circumvent the e-security measures in place are, they usually get caught. And as technology advances, the nefarious activities of cyber criminals would be effectively curtailed.

RECOMMENDATIONS FOR RAPID *ICT* DEPLOYMENT

To achieve remarkable ICT diffusion in Nigeria, the country should pay attention to the following infrastructure and policy areas:

- **Educational Development** - Educational facilities at all levels of education and training should be strengthened. Technical education should be adequately funded, and youths encouraged and empowered to

There is need to develop the nation's ICT and energy infrastructure to meet global standards. This will encourage foreign investments to the sector and facilitate skills transfer from the expatriates to Nigerian workers.

face emerging technological challenges.

•**ICT Infrastructure** - There is need to develop the nation's ICT and energy infrastructure to meet global standards. This will encourage foreign investments to the sector and facilitate skills transfer from the expatriates to Nigerian workers.

•**Government/Private - Sector Cooperation** - Government should solicit the commitment and cooperation of the private sector operators, and mobilize them for the actualization of its ICT plans.

• **Legal & Regulatory Framework** - A favourable regulatory environment should be created; ICT should be given legal backing. This would streamline ICT operations and bring discipline to the system.

In the past few years, it has become obvious to government and the private sector the world over that the role and impact of Information and Communication Technology is of immense significance for the socio-economic growth of any nation. Nigeria has the resources, both natural and human, to become a technological power.

• **e-Government Strides** - The federal and state governments should adopt e- government strategies through which specific public services will be rendered to the citizens electronically. This will inspire public confidence, interest, and participation in information technology.

• **ICT Action Plan** - A committee comprising IT professionals, legal practitioners and other stakeholders in the public and private sectors should be established to map out an ICT plan for the country that would define developmental priorities. This should be followed by impact evaluation procedures carried out routinely to ensure that the processes are going according to plan.

• **Aggressive Public Awareness Campaign** - With the present rate of ICT penetration in the country, and the high rate of illiteracy, an aggressive public awareness campaign is required to enlighten the citizenry on the positive role ICT can play in their desire for a better life.

• **Complete Deregulation** - Complete deregulation of the technology sector will provide a level playing field for all operators, increase competition, improve services, and reduce costs of ICT products and services. It will also eliminate bureaucratic barriers associated with monopoly markets.

• **Reduced Taxes and Tariffs** - To encourage local and foreign investment in the sector; all taxes and tariffs should be reduced to zero.

• **Increased ICT Spending** - Presently, government's spending on ICT is about 1% or less of its total annual budget. This should be increased to achieve speedy ICT development.

In the past few years, it has become obvious to government and the private sector the world over that the role and impact of Information and Communication Technology is of immense significance for the socio-economic growth of any nation. Nigeria has the resources, both natural and human, to become a technological power.

Fortunately, the government has shown commitment to ICT development in the country. If policies and programmes that would accelerate the pace of ICT growth are implemented with vigour, we can be sure of a Nigeria, which, ten years from now would be a major force to be reckoned with in the g1obal economy.

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

Banking Industry Reform Agenda

A reform agenda was born when President Olusegun Obasanjo recently appointed the renowned economist Professor Charles C Soludo as the new Governor for the Central bank of Nigeria.

The objectives

The objective of the reform agenda is to take proactive steps and positive measures to build a strong, stable and credible banking system designed to:

• Create a sound and more secure banking system that depositors can trust;

• Build domestic banks that investors can rely upon to finance investments in the Nigerian economy. Today major multibillion-dollar investments -especially in the oil, gas and telecom sectors - are increasingly reliant on foreign credit;

• Encourage industry consolidation and reduce systemic risk;

•Fight corruption and white-collar crime through improved transparency and accountability and insist on sound corporate governance practices in the financial services sector;

• Drive down the cost structures of banks, improve their efficiency and encourage competition, which will help lower interest rates and provide cheaper credit to the economy;

• Ensure Nigeria meets international benchmarks and minimum requirements for the integration of regional financial systems.

Prof. Charles Soludo, Governor, CBN

The elements of the reform agenda

• Consolidation of banking institutions through mergers and acquisitions and increase shareholders'funds in banks to a minimum ofN25 billion (about 8200 million);

• Adoption of a risk-focused and rule-based regulatory framework. We will always announce the proposed rules of the game and will stick to them.

• Adoption of zero tolerance of misreporting in the regulatory framework especially in the areas of data and financial reporting. All returns by banks must now be signed by the banks' CEOs. The so-called re-engineering or manipulation of accounts, especially in hiding of information under 'Other assets, liabilities and off-balance sheet items' will henceforth attract serious sanctions;

• The automation process for rendition of returns by banks and other financial institutions through the electronic Financial Analysis and Surveillance System (e-FASS) will be completed expeditiously;

• Establishment of a hotline, confidential Internet address *(governor@cenbank.org)* for all whistleblowers wishing to share any confidential information with the Governor of the Central Bank on the operations of any bank or financial institution.

• Strict enforcement of the contingency planning framework for any unlikely systemic banking distress;

• Work towards the establishment of an assets management company as an important element for the resolution of any unlikely distress;

• Enforce dormant laws, especially those relating to the issuance of dud cheques, and the law relating to the vicarious liabilities of the board members of banks in cases of failings by the bank. The laws that make directors and managers personally liable will henceforth be strictly enforced.

• Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU), and the enforcement of measures to combat money laundering and other economic crimes. Greater transparency, accountability and sound corporate governance practices will be the hallmark of the system.

Guidelines For Banks' Consolidation

1.0 INTRODUCTION

Following the Governor's address to the Bankers' Committee on July 6, 2004, on the Nigerian banking sector reform and the subsequent interactions with various stakeholders, the Board of the Central Bank of Nigeria has approved the guidelines and incentives to facilitate consolidation in the industry in order to assist banks in meeting the approved capital base of N25 billion by December 2005.

2.0 DEFINITION OF TERMS

For the purpose of the guidelines, the following definitions shall apply:

2.1 **Capital base:** paid-up capital and reserves unimpaired by losses.

2.2 **Reserves:** all reserves except asset revaluation surplus resulting from revaluation in the course of consolidation.

2.3 **Paid-up capital:** ordinary shares plus non-redeemable preference shares

2.4 **Parties to the Consolidation:** the banks that are merging, their boards and managements, financial/investment advisers, lawyers, accountants, auditors, shareholders and any other persons involved in the transaction.

3.0 CONSOLIDATION OPTION

The only legal modes of consolidation allowed are mergers and outright acquisition/takeover. A mere group arrangement is not acceptable for the purpose of meeting the N25 billion. Therefore, all banks that have other banks as subsidiaries or have common ownership are encouraged to merge.

4.0 INCENTIVES

The CBN intends to provide the following incentives for banks that consolidate and/or are able to achieve the set minimum capital base within the stipulated period:

4.1 Authorisation to deal in foreign exchange

4.2 Permission to take public sector deposits and recommendation to the fiscal authorities for the collection of public sector revenue.

4.3 Prospects of managing part of Nigeria's external reserves, subject to prevailing guidelines.

In order to ensure that banking institutions do not bear additional burden due to consolidation, which they otherwise would have not borne, and also to encourage consolidation, the following additional incentives are being worked out:

4.4 Tax incentives in the areas of capital allowances, company income tax, stamp duties, among others, the details of which will be released after the on-going consultation with the fiscal authorities.

4.5 Reduction in transaction costs, the details of which will be released after the on-going consultations with the Securities and Exchange Commission, Nigerian Stock Exchange, Corporate Affairs Commission and all other parties involved in the scheme –

- Financial Advisers
- Solicitors to the scheme
- Stockbrokers to the scheme (where applicable)
- Reporting Accountants to t he scheme
- Auditors to the scheme

4.6 The CBN will provide and pay for a team of experts to provide technical assistance to the banks from August 15, 2004.

4.7 There will be the CBN Governor's distinguished industry leadership award which would be based on the following:

4.7.1 Speed of completion of the consolidation exercise

4.7.2. Successful acquisition of marginal and unsound banks; and

4.7.3 The number of banks involved in each consolidated group

4.8 The CBN will provide a help desk to fast-track approvals.

5.0 FOREBEARANCE

5.1 The CBN will negotiate the possible write-down of its exposure to the distressed banks that would be acquired as a way of improving their balance sheets as well as the treatment of the distressed banks' bad assets. The negotiation will also address the interests of the current owners of the distressed banks in the new arrangement.

5.2 The CBN will encourage and facilitate the setting up of an Assets Management Company (AMC) in collaboration with other relevant agencies.

6.0 **LEGAL ISSUES**

6.1 The banks should comply with the legal requirements on mergers and acquisitions as contained in S.100 – 123 of the Investment and Securities Act No. 45, 1999 and all other regulatory requirements.

6.2 The banks should obtain the approval of the Governor of the Central Bank of Nigeria as required under S.7 of the Banks and Other Financial Institutions Act [BOFIA] as amended before any merger and/or acquisition is consummated and/or announced.

6.3 The legal and regulatory requirements for effecting a consolidation will be obtainable from the CBN Help Desk, team of experts, the Securities and Exchange Commission (SEC) and the Nigeria Stock Exchange.

6.4 The CBN will actively collaborate with all agencies to fast-track the process of mergers and acquisitions.

7.0 **ACCOUNTING ISSUES**

7.1 The valuation of the shares should be carried out by reputable and independent advisers registered by SEC.

7.2 The valuation method should be agreed to by all the parties for the purpose of determining the consideration.

7.3 The valuation principles must be consistently applied to all parties involved in the combination.

7.4 Any revaluation of fixed assets carried out in the case of a merger should not be incorporated into the financial records of the consolidated bank except as approved by the CBN.

7.5 Subject to 7.4 above, the revaluation of fixed assets carried out where one bank acquires the other bank should be incorporated into the financial statements as these assets would be acquired at fair market value

7.6 The valuation should be to the satisfaction of the CBN that such a revaluation represents the fair value of the assets acquired.

7.7 It is the responsibility of the parties to the transaction to ensure that they conduct due diligence of one another as a necessary step in the consolidation process.

7.8 All the capital of whatever form, shall be denominated in Naira.

7.9 Both ordinary and preference shares shall be recognized in making up the minimum capital base of N25 billion.

7.10 Consideration in respect of all mergers by banks should be by exchange of shares and not monetary payments except where dissenting minority shareholders are to be bought out under the law, provided that any such payment does not impair the financial condition of the surviving bank.

8.0 **CORPORATE GOVERNANCE**

8.1 All parties to the consolidation must have access to all material information.

8.2 Each party should have an independent adviser except where the acquired bank is a wholly owned subsidiary of the acquirer.

8.3 The structure of the emerging organization should reflect defined lines of responsibility and hierarchy. Co-Chairman and/or Co-Chief executive officer arrangements will not be allowed.

8.4 The number of non-executive directors in the enlarged bank should be more than the number of executive directors subject to a maximum board size of 20 directors.

9.0 SOCIAL SAFETY NET

9.1 The CBN and the NDIC will ensure that the banks protect the interest of the depositors

9.2 To ameliorate the effect of possible job losses or redundancies, any staff exiting as a result of the consolidation should be compensated by the consolidated entity in line with industry standards, but not below the terms of their sustaining employment.

9.3 In addition, the CBN will work with the Bankers' Committee to assist the staff that will be disengaged to access the SMIEIS Fund to set up their own SMEs and consequently create jobs and wealth.

10.0 **AMNESTY FOR PAST MISREPORTING**

10.1 Banks are enjoined to be open in their negotiations by placing the actual value of their assets on the table. Sanctions shall not be imposed for any previous misreporting detected in the course of consolidation.

10.2 However, if any of the parties to the consolidation is found, after the consolidation exercise, to have presented false or misleading information to the other parties and/or the regulatory authorities, such a party will bear the full legal and regulatory consequences of such misbehaviour.

Overview Of Global Economic Developments in 2004

* By Eunice Sampson

Reduction in trade barriers, the modernization of global financial markets, and remarkable advances in information and communication technology (ICT), have compacted the globe even further in 2004, bringing to the fore the vast investment opportunities in other economies outside Europe and the United States.

As the concepts of globalization and economic integration take firm root, the world is gradually shifting away from the old predictable global economic patterns, to new ones showcasing new investment opportunities and prospects in the developing economies. China in 2002, 2003 and 2004 overtook the United States as a recipient of foreign direct investment, a mainstay, for decades, of the United States' economy.

India has also recorded a remarkable improvement in its FDI inflow. The country received $4 billion in foreign direct investment in 2003 - up from about $3 billion in 2002, and is estimated to have received about US$5 billion in 2004.

The Chinese and Indian examples reflect companies' broadening investment goals in emerging markets, beyond simply gaining access to cheap labor and raw materials.

The new shape of the global economy, taking attention away from the age-long economic giants and focusing on developing countries with great economic, people-skill and technology prospects will impact greatly on global trends in 2005 and beyond.

GLOBAL ECONOMY IN 2004

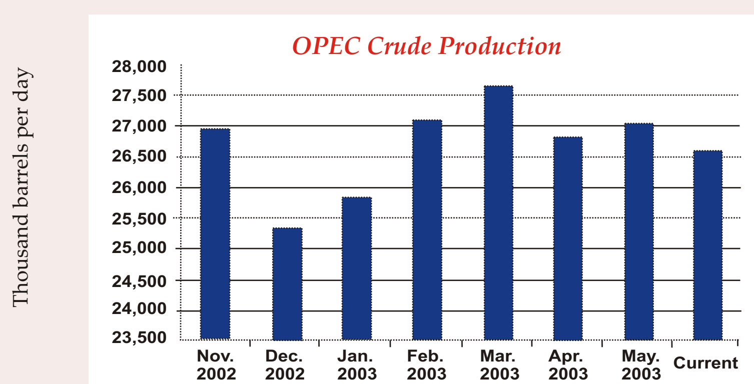
The Economist had predicted a healthy global (Gross Domestic Product) growth of 5% in 2004, the highest in 30 years. But this growth rate was predicated on four major factors:

- Crude oil prices
- American consumer Spending
- Cost of Housing
- China 's economy

Aside from these, other trends that determined the shape of global economy in 2004 include foreign direct investment, performance of major currencies, third world and foreign debt burden, ICT penetration and development, and socio-political issues like inter(national) conflicts, wars, and natural disasters.

Crude Oil Prices:

The sharp rise in the prices of crude oil in the last two quarters of 2004 contributed to the slow- down in global economic performance. Unlike previous price increases attributable to conflicts from major oil producing economies like Iraq, Iran, Nigeria, Saudi Arabia, etc, this time, the rise was a fallout of the imbalance between demand and supply. The oil reserve margin, or the difference between production capacity and consumption, has dwindled from a comfortable double-digit percentage a decade ago to about 2% today. Demand is up due to the sharp growth by energy-intensive developing economies such as China, coupled with the strongest global GDP growth in two decades.



Source: Petroleumiran.com/opec

In the United States, petroleum demand in 2004 was projected to average 20.5 million barrels per day, up 2.1 percent from the 2003 level. An additional 1.4-percent growth is anticipated for 2005.

Other reasons for the rising crude oil prices in the international market include, low Iraqi production capacity (currently between 2.2 and 2.8 million barrels per day); under investment in the industry, especially in developing economies; disruptions in supply from major oil producing countries such as Nigeria and Venezuela due to internal conflicts; and the inability of OPEC to effectively meet the rising world demand currently put at about 83 million bpd.

Crude oil prices breached the $54 mark in October to reach a new all-time high of $55, fueled by continuing worries over supply in Nigeria and reduced output in the hurricane-hobbled Gulf of Mexico, troubled Russian oil giant Yukos, and fears of disruptions in Brazil and Iraq. The voracious demand from China and India's expanding economies and continued demand in the United States also helped to fuel the rise in crude oil prices.

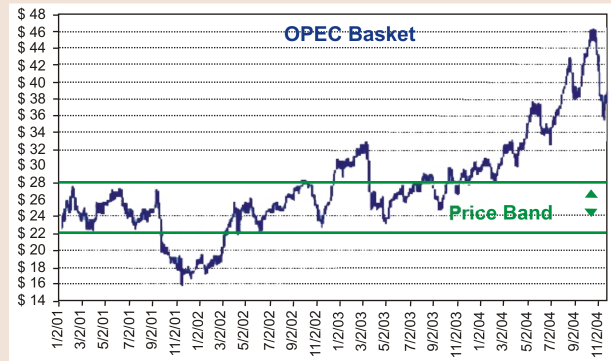
To stabilize the market, OPEC had in November increased production by nearly 4 percent, with an additional 1 million barrels a day, and this helped bring down prices.

Economic Impact of Rising Oil Prices

The IMF measurement of the impact of rising crude oil prices on world economic growth, shows that a $10 a barrel rise in oil prices knocks about 0.5 percentage points off world growth after 12 to 18 months.

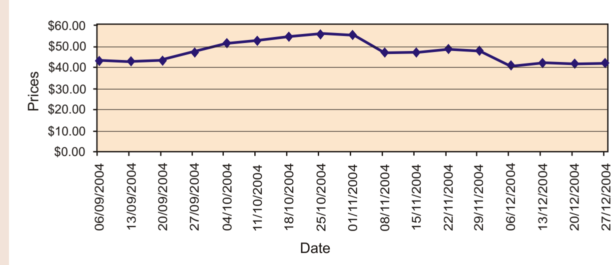
Rise in the International prices of crude has had negative economic impact on the heavy-consumer countries. In China, the trend has further exacerbated the rising inflation that has accompanied the economic boom. Several Asian governments, including Indonesia, India, Thailand and Malaysia, have tried to cushion the effect of the rising crude prices by raising domestic subsidies, while others have raised interest rates.

OPEC Basket Prices, January 2, 2001 - November 25, 2004



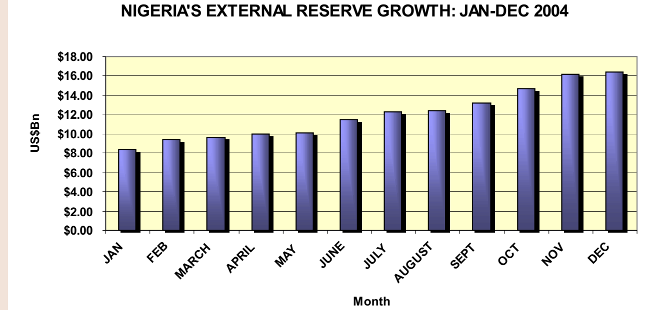
Source: EIA/OPEC News Agency (Official OPEC news source)
Primary source: Petroleumiran.com/opec

Crude Oil Prices (Light Crude): Sept. - Dec 2004



Source: R&EIG

NIGERIA'S EXTERNAL RESERVE GROWTH: JAN-DEC 2004



Source: Central Bank of Nigeria

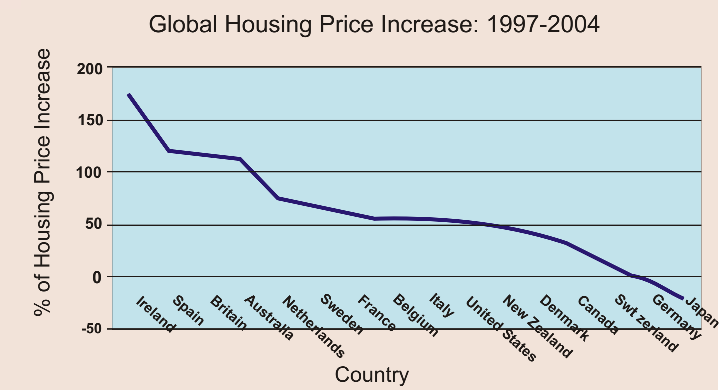
For the oil producing countries, crude oil price increase means economic boom. In Nigeria for example, foreign reserves grew from $8 billion in January to an all-time high of $16.13 billion in November, following increase in the international price of crude oil, an unprecedented 100 percent rise in external reserve within 10 months.

Cost of Housing:

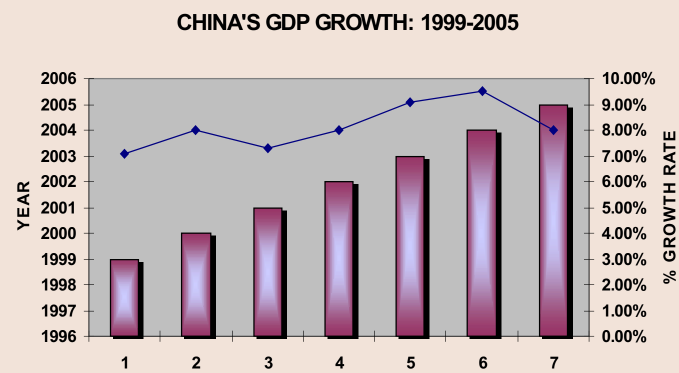
The developed world is experiencing an unprecedented housing boom. In the past three years, the total value of residential property in developed economies has increased by an estimated $20 trillion, to over $60 trillion. In Britain, home prices increased 116% between 1997 and 2004 and 53% in the US. However in Germany and Japan, cost of housing fell by an average of 3% in that same period.

The global housing boom has been attributed to low interest rates. For the US and other major economies interest rates fell from 13 percent to 4.4 percent between 1990 and 2004. World monetary policy has been extraordinarily relaxed since 2000, with interest rates of around 0% in Japan, 1% in the USA and 2% in the Eurozone.

The IMF had warned that the economic gains of the rising house prices are unjustifiable and should house prices dip, the global economy may suffer. Though it has contributed immensely to economic growth in 2004, over-valued housing markets pose substantial risks to the financial system and to macroeconomic polices in a number of countries, especially Australia, Canada, Ireland, Spain, Sweden, the United Kingdom and the United States in the coming years.



Source: The Economist, based on data from individual countries



Source: Reports & projections on China's economic performance

China 's economy

Since 1979, China has engaged in far-reaching economic reform programs, moving the country away from the sluggish Soviet-style centrally planned economy to a more market-oriented system with emphasis on increased productivity, foreign trade and technology as vehicles for economic growth.

The economy picked up in the 1990s following the introduction of more than 2,000 special economic zones (SEZs) and the influx of Foreign Direct Investment. China has since 2000 been the second largest economy in the world in GDP per capita after the United States, and has, since 2002, taken over the first position as the greatest recipient of FDI in-flows. In 2002, China's global trade earning stood at $616 billion, with $30 billion global trade surplus and $103 billion trade surplus with the United States.

China's yearly real GDP growth rate in the past 6 years is as follows: 1999, 7.1% ; 2000, 8% ; 2001, 7.3%; 2002, 8% ; 2003, 9.1% ; 2004, 9.5%. Projections for 2005 hover between 7.5% and 8% growth.

A significant development in China's economy was its entrance into the WTO in December 2001, after 15 years of negotiation. China was then expected to lower tariffs, abolish market impediments, and allow market forces to determine the value of its currency, the Yuan, expectations that the Chinese government has not fully met. In December, the People's Bank of China once again reiterated the country's resolve not to revalue its currency in the near future.

The Yuan has been pegged at about 8.28 to the dollar since 1994. The United States has lobbied China to raise the value of the Yuan, saying the current rate is artificially low and gives Chinese imports an unfair advantage. China insists that revaluing the Yuan at this point would hurt the country's developing financial institutions.

In October, China hiked interest rates for the first time in nine years, by 0.27 points to 5.58 percent for one-year loans, as part of plans to maintain a prudent monetary policy.

Performance of Major Currencies in 2004:

The US dollar is about the most important currency in the world today, acting as benchmark for most global performance measurement indicators.

Since 2003, the value of the dollar against other currencies has been on the decline, fuelled by growing U.S. budget and trade deficits as well as the Euro's new found status and use in denominating external reserves for select countries. In September, budget deficit stood at $413 billion and the US trade deficit is projected to rise to $600 billion by the end of 2004 as several U.S. companies are closing factories at home and relocating their plants to Asia.

While a dollar was worth 133 yen in 2002, in 2004, its worth dropped to 103 yen. And a euro, worth 89 cents early in 2001, is now worth $1.30.

Most other major world currencies did not change much in 2004. The euro outperformed all the others, gaining significant value against the US dollar. The yen eased on economic concerns, and the British pound also fell slightly towards the end of the year, as investors believed the Bank of England's monetary tightening cycle may be nearing completion.

Foreign Direct Investment (FDI):

Foreign Direct Investment is known to stimulate growth and help developing economies achieve rapid economic turnover. However, FDI has mostly been concentrated on the developed countries because of the conducive business environment they offer foreign investors. Developing economies therefore only receive trickles of FDI flows.

But this picture is gradually changing. According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report for 2004, global inflows of FDI declined in 2003 for the third year in a row, to a total of $560 billion, following the falling level of FDI inflow to the developed economies.

Total inflow to the developed world in 2003 dropped by 25% to $367 billion, while, for the developing economies, FDI rose by 9% to $172 billion.

The United States has for a long time received the highest FDI inflow. But since 2002, its inflow has declined, falling with 53% in 2003, from $60 billion in 2002 to $30 billion, the lowest level in 12 years. Yet the country remains the world's highest investor, with a total of $152 billion FDI outflow in 2003.

While the developing countries were the biggest FDI gainers in 2003, the group of 50 least developed countries (LDCs), composed of over 30 African countries, continued to receive little FDI ($7 billion).

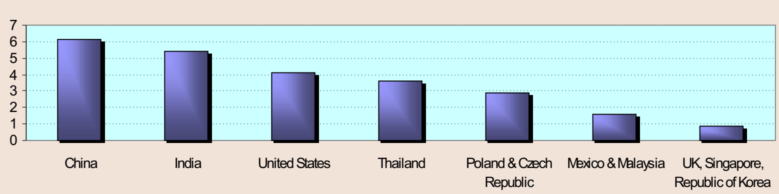
Like in preceding years, Africa received the least FDI in 2003, retarding its chances for rapid economic growth. A $15 billion worth of FDI for a continent of about 50 countries and over 812 million people is indeed a dismal performance, especially when compared with the two Latin American countries – Brazil and Mexico – who, with a population of just 245

US Dollar Value Against Other Major Currencies: 2001-2005

Currency (@ US$1)	2001	2002	2003	2004	2005 (Projection)
GBP	1.44	1.59	1.75	1.82	1.86
Euro	.89	1.02	1.23	1.30	1.35
Yen	127.60	121.89	107.74	103.2	106.24
Yuan	8.28	8.28	8.28	8.28	8.28
Swiss Francs	1.66	1.44	1.26	1.26	1.27
SA Rands	11.68	8.95	6.54	6.47	6.52
Canadian $	1.58	1.56	1.31	1.31	1.31
Australian $	.51	.56	.74	.71	.73
Nigerian Naira	112.32	120.5	137.1	132.85	133.1

Source: reuters.com

Global Ranking of Top FDI Beneficiaries (By Countries)



Source: UNCTAD

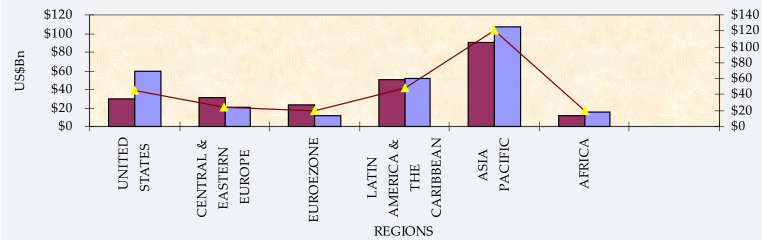
million people, received FDI flow of over $20 billion.

To stem the growing poverty afflicting almost 600 million people and meet the Millennium Development Goals, the African continent has been said to require a consistent annual inflow of $150 billion.

China is an example of how a developing economy can be dramatically turned around through high FDI inflow. In 2003 foreign-funded companies in China achieved an export value of US$438.4 billion, accounting for 55% of the country's total export. By the end of August 2004, there were 494,025 foreign-funded firms approved in China, with contracted foreign capital of US$1.04 trillion and actual foreign capital of US$545.03 billion.

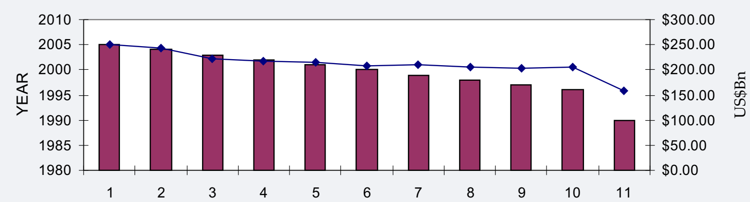
China, the second largest recipient of FDI after the United States for eight consecutive years (1994-2001) has since 2002 moved to the first position. The country received the highest FDI flow of $53.5 billion in 2003, with a prospect for $60 billion in 2004.

3-YEAR GLOBAL FDI INFLOW BY REGIONS:2002-2004



(Source: UNCTAD

GROWTH IN FOREIGN DEBT BURDEN OF HIPC:1990-2005



Source: IMF World Economic Outlook www.imf.org

Foreign Debt Burden and Underdevelopment

In the last decade, standard of living has risen globally, even in developing countries of the Middle East and Asia. But in Africa, more and more people are living below the poverty line. A report released in August by the World Economic Forum shows a deteriorating performance of the African economy. The same report in 1970 had showed that Africa accounted for one in 10 of the world's poor, but by 2000 nearly half the world's poor were Africans, with many of the countries showing worsening economic growth than before independence.

Reasons deduced for this worsening situation include military conflicts, corruption, absence of the rule of law, undisciplined fiscal policies, poor infrastructure, foreign debt burden and low foreign direct investment.

Foreign Debt Burden has remained a critical handicap for Third World economies, with most of them spending an average of 10% of their annual budget on debt servicing. Nigeria in 2004 budgeted N2.16 trillion (about $3.0 billion) for national spending, out of which N369 billion (about$ 51.6 million) was reserved for debt servicing. In its 2005 budget of N2.65 trillion (about $3.7 billion), a whooping N360 billion (about $50.4 million) has also been set aside for servicing the nation's $34 billion foreign debt.

About 45% of debts owed by the HIPC countries are multilateral, that is, owed to international financial organizations such as the IMF, World Bank, and regional development banks such as the African Development Bank.

The IMF and World Bank created the Heavily Indebted Poor Countries (HIPC) in 1996 with the aim of granting debt relief to the poorest countries through the initiative. But to qualify for HIPC, a country must first survive about six years of stringent IMF-designed Structural Adjustment Program, during which they are compelled to cut spending on health care, food subsidies, and education, thereby intensifying the level of economic hardship in these countries. Since inception, very few countries like Uganda, Bolivia, Guyana, Mozambique, and Mali have benefited from the HIPC initiative. Many countries are not able to complete the process of qualification.

The issue of debt forgiveness has been highly politicized with creditor countries paying lip-service commitment. In October, Finance ministers from the world's richest nations, the G8, concluded their meeting in Washington without agreeing on the proposed 100 percent debt forgiveness for the world's poorest countries. The G8, which is comprised of Canada, Germany, France, Italy, Japan, the United Kingdom, the United States and the European Union are the major bilateral creditors of the indebted Third World nations.

The impact of foreign debt burden on Third World economies can never be fully quantified. Every month, about $12 billion is remitted from economically poor nations to the developed countries for debt servicing. In 2003, low-income Third World countries paid $39 billion to service debts and received only $27 billion in new assistance; so, for every two dollars they received in aid, they paid back almost Three Dollars to service debts. And so the Third World has remained impoverished, contributing little or nothing to world economic growth.

The hope for economic growth and poverty reduction especially in Africa in 2005 lies both with increasing aid from the rich nations and debt cancellation.

James D. Wolfensohn,
President, World Bank

Global Competitiveness

The annual Global Competitiveness Report, conducted by the World Economic Forum brings to the fore the key factors that determine economic growth, and explains why some countries are doing better than others economically. By highlighting impediments to growth, countries are spurred on to find lasting solutions to the identified loopholes. The ranking also helps foreign investors in their investment choices.

In the recently released 2004-2005 report, most countries stuck to their regular ranking patterns, with the developed countries occupying the first 20 positions.

Finland, United States and Sweden retained their 1st, 2nd, 3rd slots respectively; Denmark lost its traditional 4th position to Taiwan and moved to the 5th position, followed by Norway, Singapore, Switzerland, Japan and Iceland in the 6th, 7th, 8th, 9th and 10th positions, respectively. In the latest report, the United Kingdom returned to its 11th position in 2002, after dropping to the 15th position in 2003.

In Africa, South Africa moved from the 34th position in 2002, 42nd position in 2003, to 41st in 2004, the highest ranking among African countries, followed by Tunisia in the in 2003, to 93rd in 2004, while Ghana rose from its 71st position in 2003 to 68th position in 2004, leading all the West African countries.

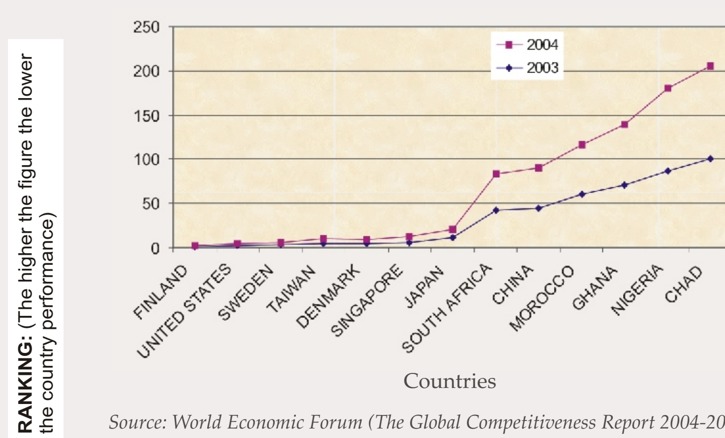
Morocco, the highest African FDI recipient in 2003, ranked 52nd in 2002, 61st in 2003, and 56th in 2004. Nigeria dropped from 72nd in 2002, 87th in 2003, to 93rd in 2004, while Ghana rose from its 71st position in 2003 to 68th position in 2004, leading all the West African countries.

China ranked 46th in the 2004 report, dropping even lower than its 44th and 38th positions in 2003 and 2002, respectively.

China's low performance in global competitiveness ranking, worse than other smaller developing economies like South Africa (41st), Tunisia (42nd), Thailand (34th), United Arab Emirate (16th), etc., is an indication that, in line with economic theories, the country has not met many of the expected criteria necessary to attract the level of FDI inflow and economic boom it presently enjoys.

Today, China ranks as the world's seventh-largest economy. Yet it is the only country in the group of the 10 biggest economies that does not rank among the top 20 in the global competitiveness ranking, an interesting development that justifies many economists' description of its overwhelming economic growth as the *China miracle*.

GLOBAL COMPETITIVENESS RANKING: A COMPARISON OF 2003 & 2004



Source: World Economic Forum (The Global Competitiveness Report 2004-2005)

Global ICT Penetration in 2004

After the recession in the past 2-3 years, the technology sector in 2004 exhibited signs of recovery and visible indications of a turnaround. Increasingly, the developing economies are beginning to appreciate the fact that information and communication technologies (ICT) remain the most powerful engines for economic growth and the best catalyst in the development process. ICT remains the tool for accelerating global information society, globalization, and economic prosperity.

All over the world, hundreds of millions of people now use computers and its accessories for communication, increased productivity, learning and entertainment.

Developing countries like China, Singapore and Nigeria experienced remarkable ICT growth in 2004. In Nigeria, telephone subscribers grew over 40%, from about 5 million in 2003 to 9 million in December 2004.

China also recorded an average of 50% growth in almost all ICT indicators in 2004. Internet users grew 28% to 90 million; over 31.1 million broadband subscribers recorded, an increase of 80% from the 2003 level. The number of China-based websites reached 627,000 at the end of June, up 32.2 percent from its level in 2003. The number of PCs sold in 2004 reached 25 million (2nd after U.S.); the number of cell phones sold also reached 160 million (1st in the world).

China's adoption of electronic payments techniques has however been slow, with only about 2 million credit card holders as at December 2004, a fraction of its 1.3 billion people.

In 2005, Chinese government sector's spending on ICT will amount to $10,939.2 million, up by over 18 per cent from $9,198.8 million in 2004.

Global ICT outlook in 2004 was generally positive, with global IT spending growing by 5%.

IDC forecasts 6.1% growth in 2005, and estimates that the IT market will exceed $ 1 trillion in overall spending, delivering about $60 billion worth of net spending growth in that year.

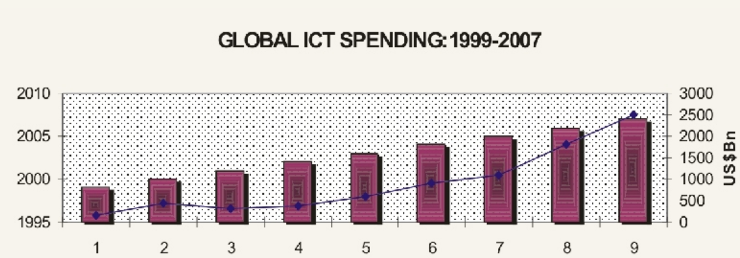
Tsunami in South Asia – 2004 ended on a sad note with the December 26 disastrous sea quake (*tsunami*) that claimed over 220,000 lives in ten countries across Asia and parts of Africa, with the greatest casualties in Indonesia, India and Sri Lanka. This comes exactly one year after the earthquake that struck the Iranian city of Bam on December 26, 2003, leaving an estimated 30,000 people dead, and around 70,000 people homeless. The recent South Asian quake, which measured 8.9 on the Richter scale, is the worst natural disaster to hit the world in decades.

Countries, NGOs and multinationals have so far pledged over $5 billion in financial aid to help rehabilitate displaced victims, after the UN estimates that restructuring and rehabilitation exercise will cost billions of dollars.

Global ICT Picture (2001-2004)

Region	Tel Lines /100 2001	Tel Lines / 100 2003	PCs /100 2001	PCs / 100 2003	Internet users /10,000 2001	Internet users / 100 2003	Internet Access (20 hours / month) 2003	Tel Lines/100 2004	PCs/100 2004	Internet users/100 2004
Africa	2.5	2.7	0.9	1.3	52.6	0.03	$60.09	3.1	1.7	0.1
Americas	35.2	34.8	24.3	29.0	1504.5	14.5	$31.39	38.7	31.2	16.4
Asia	9.8	11.7	2.9	4.6	324.5	0.4	$27.02	17.4	5.3	0.7
Europe	39.3	36.6	16.8	21.4	1264.3	2.3	$21.50	37.3	23.3	2.9
Oceania	40.5	39.1	42.1	42.4	2539.7	9.7	$39.84	40.7	46.4	10.4
World	17.2	17.1	8.4	10.2	820.8	9.9				

Source: www.cybertelecom.org (Data: ITU)



Source: IDC

2004 GDP GROWTH RATE FOR MAJOR ECONOMIES: 2003-2005

COUNRTY	2003 GDP % GROWTH	2004 GDP % GROWTH	2005 GDP % GROWTH (Forecast)
UNITED STATES	3.1%	3.7%	3.5%
CHINA	9.1%	9.5%	8.0%
UK	2.1%	3.1%	2.1%
EUROZONE	0.5%	1.9%	2.1%
JAPAN	2.7%	3.9%	1.1%
SOUTH AFRICA	1.9%	3.0%	3.4%
NIGERIA	3.4%	3.5%	3.5%
WORLD	2.5%	3.9%	3.4%

Research & EIG (Data: Economic Reports on individual countries)

Global Economic Growth Forecasts for 2005

Global economists and financial institutions have predicted a slowed economic growth (4.3%) in 2005, after the remarkable growth of 2004.

However, the high prices of crude oil recorded throughout 2004 had forced the IMF, in its 2005 global economic growth forecast published in September, to review its prediction downward to 4%.

The major factors that influenced world productivity in 2004 are also expected to play major roles in global economic growth in 2005 – prices of crude oil, the state of the American economy, global cost of housing, China 's economy and socio-political conflicts in the highly volatile Gulf region.

For individual countries, China will again be the fastest-growing major economy at a rate of 8.1 percent; growth in the United States will slow to 3.5 percent.

For individual countries, China will again be the fastest-growing major economy at a rate of 8.1 percent; growth in the United States will slow to 3.5 percent.

In the Eurozone, Italy, France and Germany will at the rates of between 1.5 and 1.8% growth, occupy the 7th, 9th and 10th positions, respectively, in the list of the 10 countries that would experience the slowest growth in 2005; Britain is however expected to again out-perform its near neighbours in the eurozone at a projected growth rate of between 2.1% and 2.5%.

The IMF has projected 3.5 percent annual growth for the United States in 2005, 2.2 percent growth for the eurozone and 2.3 percent for Japan.

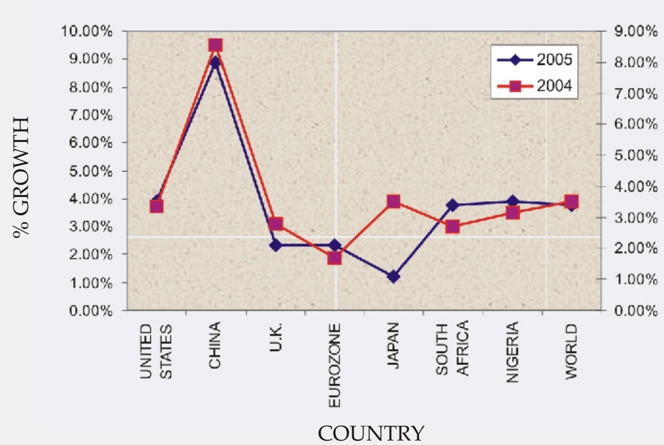
The biggest contrasts would come from Africa, which was forecast to contain both the world's two fastest-growing economies in 2005 — Equatorial Guinea and Liberia at 19.4 and 15 percent – and its two biggest losers – Zimbabwe and Ivory Coast, which are expected to shrink by 3.1 and 1.2 percent each.

The Iraqi economy is expected to grow by 11.9%, the sixth-best in the world and the fastest growing in the Middle East.

But the trends in oil prices, interest rates, housing prices, debt crisis, exchange rates, economic fluctuations in major economies and a possible slowdown in the Chinese economy would determine the actual shape the global economy takes in 2005.

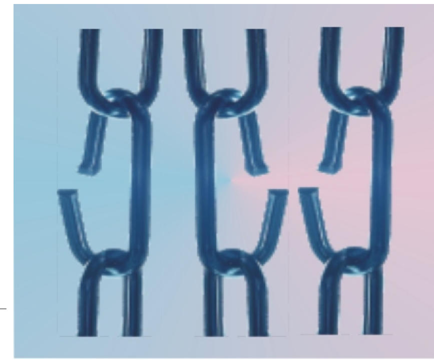
(*Eunice Sampson is an Assistant Editor, Zenith Economic Quarterly)

2005 GDP GROWTH DECLINE FOR SELECTED COUNTRIES



Source: Oxford Economic Forecasting (OEF)

Process Integration:
A key tool in Mergers & Acquisitions



*** By Bisola Oladunni**

In this piece , process integration is proposed as a key tool in consumating mergers and acquisition. The article is an invaluable primer for organisations in the process of change as well as those anticipating change.

In view of all the steps that have to be taken prior to, during and after a merger, one must note that ***Process*** plays a key role in sealing the deal.

A process can be ***defined*** as a set of interrelated resources and activities that transform inputs into outputs. There are two kinds of process models i.e. the 'as is' process model and the 'to be' process model. The 'as is' process model shows how a business is currently structured. As regards the banking sector the 'as is' model can be said to be what operates now or the way the industry is currently structured. The 'to be' process model is what will exist when the current CBN regulation as regards the banking industry has been put into place. This is what results from a business redesign or reengineering action. The 'to be' process model shows how the business process will function after the improvement action is implemented.

The difference between the 'to be' process model and 'as is' process model indicates the amount and level of change required to achieve the desired improvement. In the banking sector that would mean the steps taken by banks such as the merger and acquisition process, the sale of shares and the integration of the internal processes of merging banks to form a single cohesive unit. These changes need to be managed with required resources like time, and manpower allocated. A **process owner** should be allocated for major business processes. In the cases of the banking sector there should be a **Process Integration Consultant** skilled in the whole merger process integration of merging organizations. He would be held accountable and responsible for the workings and the improvement of one of the organization's defined processes and its related sub process. Often times, the process owner may be someone currently associated with the existing process but not necessarily. It cannot be over emphasized that the process owner should be closely involved, if not actually leading the team.

As part of the best practice approach, there is a concept known as ***benchmarking.*** Benchmarking is the comparison of core process performance with other components of an organization (internal benchmarking) or with leading organizations (external benchmarking). The importance of benchmarking for performance improvement cannot be over emphasized because it provides real world models and reference points for setting ambitious improvement goals. With the goings-on in the Nigerian banking sector, proper benchmarking is key. This is because; it will aid the merging parties in attaining worldwide standards. Benchmarking will:

- Help to identify the gaps between the organization's process performance and that of leading organizations
- Help the parties understand how the merged parties have changed their structures, work processes, and lines of businesses to improve performance dramatically.

Whether you choose to use internal or external benchmarking, there exist two types of benchmarking i.e.:

- *Business Process Benchmarking: This deals with business process improvement and business process reengineering to reduce costs and to improve quality and customer service*

Business process benchmarking should be taken when 'triggers' are present. The triggers can arise internally or externally in response to information needs from some other major project or issue or problem in the establishment. A good example of a trigger is the latest CBN regulation for Nigerian Banks.

*A process can be **defined** as a set of interrelated resources and activities that transform inputs into outputs. There are two kinds of process models i.e. the 'as is' process model and the 'to be' process model.*

Different companies benchmark for any of the three reasons listed below:

1. Attainment of world class competitive capability
2. Desperation
3. Need to prosper in the global economy.

Banks can benchmark with others in four ways:

1. Internal benchmarking: this is a form of self-examination. It is the analysis of existing practices within various department or divisions of the organization, looking for best performance as well as identifying baseline activities and drivers. Drivers are the causes of work or the triggers that set in motion a series of actions, or activities, that will respond to the requests on demand by the stakeholders. In internal benchmarking, the management tries to examine itself inside before looking for outside information. A lot of banks are currently doing this and are making significant improvements in their varying departments. As a result of this a lot of banks are identifying their value-added services and are taking steps to remove the non-value-adding services from their process. This is usually the first step because it provides the infrastructure for comparing internal practices to external data.

2. Competitive Benchmarking takes a look outward to identify how other direct competitors are performing. For instance, when Bank A discovers the value-added services that give Bank B a competitive edge. This type of benchmarking is important because knowing the strengths and weaknesses of the competitors provides a good input for strategic and corrective actions.

3. Industry Benchmarking: This extends beyond the one-to-one comparison of competitive benchmarking to look for trends. It is a bit limited in the number of innovation and number of new ideas it can offer because everyone in that industry is following a particular order and as such they are following one another. The advantage of this kind of benchmarking is that it gives a short run solution and a quick fix to an existing problem. The major problem with this type of benchmark is that it does not support breakthroughs in performance since the comparison is limited to one industry.

4. Best-in-class Benchmarking: this type of benchmarking looks across multiple industries in search of new, innovative practices, no matter their source. This is benchmarking at its peak. This is because it supports quantum leaps in performance and gives a long-run competitive advantage.

- **Computer System Benchmarking**: This focuses on computer hardware/software acquisition, computer system design, computer capacity planning, and system performance. Merging banks should take computer system benchmarking as a necessary and important tool during the merging and application process. Say for example Bank A uses bespoke software while Bank B uses off the shelf software. The two parties will have to do a critical audit of the systems. This will assist the parties involved in deciding how to integrate both systems. If this does not seem feasible, the involved banks might decide to do a revamp of all the software in place and purchase new ones.

The process owner i.e. the Process Integration Consultant also does what is known as **Business Process Re-engineering**. This is necessary because the ultimate goals of business process re-engineering are to improve efficiency, reduce costs, and improve customer service. When business process re-engineering is going on, the focus is not on how an activity can be done faster or cheaper but whether the activity be done at all.

There are ten critical success factors for Business Process Re-engineering, and they are as follows:

1. Top level management support is critical
2. Long-term commitment is critical
3. High-quality staffing is critical
4. Business is critical
5. Substantial customer input is needed
6. Coordination between organizations is needed
7. Importance of appropriate use of technology
8. Good upfront planning is critical
9. Need to change organization culture
10. Control, measurement, evaluation, and feedback are

***Competitive Benchmarking** takes a look outward to identify how other direct competitors are performing. For instance, when Bank A discovers the value-added services that give Bank B a competitive edge. This type of benchmarking is important because knowing the strengths and weaknesses of the competitors provides a good input for strategic and corrective actions.*

necessary

A lot of factors such as change in world economic situation, competitions both nationally and internationally, need to improve services and products as well as government regulations usually bring about changes. To forestall drastic effects on the industry, the process owner needs **Business Process Change Management**. This is a proactive approach that focuses on the future. Any kind of change can be implemented successfully with resources and technology but not easily with people. Employees are the most difficult factor in implementing organizational change. A bank's belief and culture affects the behavior of its employees. This is why some organizations actively try to perpetuate some cultural values and change some in order to increase their chances of becoming competitive or effective.

It is known worldwide that successful enterprises integrate IT and business strategies, culture, and ethics in order to attain business objectives, optimize information value, and capitalize on technologies. Banks, which incorporate customers, business partners, vendors, stakeholders, and constituents, rely on the efficient and effective sharing of information, including goals, expectations, status and ultimately knowledge. Making this happen is mission-critical to most enterprises and this requires what is known as ***IT Governance***. IT provides critical input and forms an important component of strategic plans devised as a function of enterprise governance. As a matter of fact IT influences strategic opportunities outlined by the enterprise. Enterprise activities require information from IT activities in order to meet business objectives. Successful organizations ensure interdependence between their strategic planning and their IT activities. IT must be aligned with and enable the enterprise to take full advantage of its information, thereby maximizing benefits, capitalizing on opportunities and gaining a competitive advantage.

Employees are the most difficult factor in implementing organizational change. A bank's belief and culture affects the behavior of its employees. This is why some organizations actively try to perpetuate some cultural values and change some in order to increase their chances of becoming competitive or effective.

In satisfying business requirements the following nine risk factors must be evaluated. The process integration consultant must review each of these risks to determine the overall impact of the significant variations from the original assumptions on which the expected success of the alternative is based.

- ***Security Risk:*** this is whether the system or user complies with security policies, procedures, rules and standards.
- ***Technology Risk:*** this is whether the organization is using leading-edge technology or not. Technology risk can affect security risk because the technology could be new and unproven, and security may be difficult to implement with such technology
- ***Financial Risk:*** this is the extent to which a project is subject to additional costs. A risk is apparent if cash inflows and outflows would be affected by the system under consideration.
- ***Technical Risk:*** this is evaluated for the probability that a project will prove difficult to achieve all or part of the technical objectives due to unforeseen problems, regardless of cost or schedule.
- ***Schedule Risk:*** is evaluated for the extent to which a project is subject to unexpected delays in meeting the technical objectives of the system, regardless of cost.
- ***Organizational Risk:*** this is the mismatch between organizational structure and business strategy.
- ***Communication Risk:*** this is the inability to communicate or listen effectively, which leads to wrong interpretation of information and inappropriate actions
- ***Legal Risks:*** this is the inability to prevent employees from using illegal source of information.
- ***Country Risk:*** this is the combination of political, economic, and cultural risks associated with conducting business in a foreign country.

The ability to manage all these risks is what is known as ***Risk Management.***

For smooth running of any organization there has to be an established ***process integration*** system whereby one stage of process flows seamlessly into another one, regardless of the size of the organization.

(Bisola Oladunni is of Global 4Sight, Lagos.)*

New Corporate Standards for Emerging Markets

Post Enron, WorldCom and Parmalat, the issue of corporate governance has occupied the front burner. In this interview, John D. Sullivan speaks on approaches to corporate governance and how different countries and economies must react in terms of legislation and regulatory requirements. He also speaks on corporate social responsibility.

Corporate governance scandals in developed countries and the increasingly obvious lack of the appropriate institutions in other countries – property rights, the rule of law, etc. – necessitated the OECD to revise their principles for corporate governance, originally issued in 1999. The improvements made in 2003 incorporated input from emerging markets to address the prevalence of family-owned business, privately held firms, and others not traded publicly on the stock market. Adopted voluntarily, corporate governance standards and corporate citizenship practices, as well, do not become a burden on employers, but a sustainable way to engage the leadership of business to help shape a better society and healthy private sector.

IB: The Organisation for Economic Co-operation and Development (OECD) has adopted a new edition of its corporate governance principles. Why was such an action necessary?

JDS: The original OECD principles were written by Ira Millstein and a group at the Business Industry Advisory Committee in response to a general observation that an international standard on corporate governance needed to be created. The OECD initiative was undertaken as part of the response to the Asian Financial Crisis and the Russian ruble exchange rate crisis of 1998. The new corporate governance principles are integrated, along with twelve other such standards, into what is becoming part of the framework of globalization.

However, the principles were written with a very general conception, because there are a number of different ways in which corporate governance can be put into place. The participants who wrote these standards were generally thinking of developed market economies, where the rule of law, property rights, and other key features for a market economy are firmly in place.

Two things drove the revision of the principles: first, it was felt that, given the corporate scandals that emerged in Enron, WorldCom, Parmalat, and a number of cases in developing countries, it was time to take a fresh look to see if new emphasis on any of the individual principles, such as shareholder rights and duties or the duties of boards of directors or audit committees, for example, might be necessary.

But in a second instance it became obvious, that the emerging markets don't have the institutional structures of property rights, rule of law, and other essential institutions that are so strongly embedded in the developed markets: the OECD countries. So the non-OECD countries really needed additional guidance on the institutional structure

> *If you look at the composition of companies that issue stock in developing countries, you find that many of them are not publicly traded. They are family companies or they are companies with dominant shareholders who have sold shares or stock privately.*

necessary to make corporate governance work. In that sense, a good part of the revision of the OECD principles – the first several pages, in fact – focuses on how these principles can be put into place in emerging markets to extend the reach of this global standard beyond simply the developed OECD countries.

IB: What is new in the new edition as compared with the version of 1999? What is most important in the new ideas on corporate governance put into the new edition?

JDS: I think the most important thing was to extend the reach of the OECD principles into the emerging markets.

And, in part, this came out as the result of an excellent series of OECD roundtable meetings that were held in Russia, Eastern and Southeastern Europe, and Latin America, as well as meetings that the Center for International Private Enterprise (CIPE) co-sponsored with the Global Corporate Governance Forum for the Middle East and Africa.

The first idea that came out of these meetings was the need for an emphasis on institutional reform, in other words, the rules and norms that create market economies. But, there was also a feeling that the OECD principles needed to be extended beyond companies traded on exchanges.

If you look at the composition of companies that issue stock in developing countries, you find that many of them are not publicly traded. They are family companies or they are companies with dominant shareholders who have sold shares or stock privately. We need to bring them into the idea of corporate governance, which requires a different approach.

In addition, the whole issue of the corporate governance relationship between banks and/or sources of debt, generally speaking, and companies needed to be looked at.

Finally, and most importantly, it became obvious that in the second and third generation of family firms, there were some significant corporate governance issues that needed to be addressed. So, all of these issues are coming under discussion in the new edition of the corporate governance principles, but, also, and more importantly, in the ancillary discussions that are being held. For example, the OECD held a series of meetings in Paris in November of 2003 during which emerging market representatives were invited into the dialogue in a formal way. CIPE helped to organize that review. Now there are a series of follow-on meetings being conducted now to review regional white papers. During these meetings the revised corporate governance principles are being introduced in Latin America, the Middle East, and other developing-country regions, including, of course, Russia and the countries of the former Soviet Union.

IB: Recent corporate governance scandals, especially in the United States, make many people believe that the voluntary approach and application of best corporate governance principles should be replaced with more mandatory tools. What do you think of that? Do you see this tougher approach in the OECD corporate governance principles? If not, why? What view on this issue is most widespread in the United States?

JDS: Well, it's not a one-size-fits-all approach. That's the essential thing to keep in mind as you generalize beyond an individual market to all of the different markets in the world. I don't believe that there is a general consensus that all corporate governance principles should be made mandatory or that mandatory enforcement of corporate governance principles should be the norm in all cases. Clearly, there are some parts of corporate governance that have to be mandatory such as the requirements for independent audits. However, other standards need to be tailored to different types of enforcement, through stock exchanges for example.

Clearly, there are some parts of corporate governance that have to be mandatory such as the requirements for independent audits. However, other standards need to be tailored to different types of enforcement, through stock exchanges for example.

First of all, if you look at the U.S. market, of course, the new Sarbanes-Oxley law, as well as some other pieces of legislation, created a national law on corporate governance for the first time. Prior to that, corporate governance was based on precedents set in the court system. Many of those precedents were of a binding nature, so we can't say that it was purely voluntary in the past. There were things like the business judgment rule, which says that companies and boards of directors, in particular, have a duty to the company to use their best judgment. And if they fail to do that duty, as many did in, for example, Enron, there are significant penalties attached to it. So, there is some enforcement aspect prior to Enron, WorldCom and the like.

What is different now is that the Sarbanes-Oxley legislation pulled this into legislation for the first time. However, that same approach would not be appropriate, for example, in a country like Russia. As we discussed earlier, corporate governance reform has to be tailor-made for the type of institutional framework that exists in different countries. In countries with weak legal enforcement through the courts, for example, a watchdog agency might be more appropriate.

Every country has to design its own corporate governance approach keeping in mind the institutional capacities of that country. You can't simply take a piece of legislation, like Sarbanes-Oxley, from the United States, which has both mandatory and voluntary features; or the New York Stock Exchange listing requirements; or other similar codes and acts and try to export them to other countries. The approach that we use at CIPE, in cooperation with our partner organizations – like the Russian Institute of Directors – is to become an expert as much as we can in all of these different trends. But then it is essential to go through a deliberate process of consultation with the business community incountry; to identify obstacles, issues, things that need to be addressed, such as the family-firm structure, the publicly traded structure, the state-owned structure, or minority shareholders in nontraded companies. Each of these issues has to be dealt with on its own terms.

Our recommendation is not to take a one-size-fits-all approach, but to take a concept and design it specifically to address the issues in the country. Now, having said that, there are certain aspects of corporate governance which have been mandatory in most societies and will become more so. One of those, as I mentioned, is the need for an independent audit and for other kinds of disclosure rules. But, again, how these are done, how they are worded, and what standards are applied really is going to have to be done country-by-country.

As we discussed earlier, corporate governance reform has to be tailor-made for the type of institutional framework that exists in different countries. In countries with weak legal enforcement through the courts, for example, a watchdog agency might be more appropriate.

IB: In Russia, the issue of social responsibility of business is now high on the agenda. We have known that in Europe businesses have been more socially oriented than in the United States. What does it mean, what do you think of that? What are the main trends and social responsibility and citizenship of businesses in the United States?

JDS: Well, social responsibility and social citizenship mean very different things than corporate governance. Corporate governance has to do with how the company is managed and directed. Social responsibility, or corporate citizenship, which is the term that we prefer, has to do with how companies see their role in the society. It also has to do with how companies comply with or come to terms with issues like environmentalism, consumer satisfaction, workplace issues, and relationships with NGOs (non-governmental organizations) in their local communities.

I don't think there are a lot of generalizations that one can make about Europe versus the United States. In certain European countries, it is, for example, quite common for companies to issue social responsibility reports. At the same time, one of our most competitive companies in the United States, Starbucks Coffee, issues an annual report that is very well-received and highly praised by the social responsibility community. And I would invite you to go to the Starbucks website and take a look at it (www.starbucks.com / aboutus / csrannualreport.asp). It covers a variety of different issue areas.

A number of websites now have been dedicated to cataloging and helping companies come to terms with all of the various approaches out there because there is no industry standard on what social responsibility is or is not. One of these websites, CRS Wire (www.csrwire.com), is an excellent starting point. There you will find reports from European companies, but you will also find reports from companies like Ford Motors, which has for years been a leader in this field. So I think it's a bit of a mistake to generalize this.

Reports from the OECD and other sources on the long-term competitiveness of American versus European companies deal more with hours worked, productivity standards, and use of technology. I think there is a general consensus that American firms have been relatively more agile than companies in continental Europe in adopting technology and weaning productivity gains out of that investment. I think that is more the source of competitiveness in the United States versus Europe, for example, than, perhaps, social responsibility would be. And, certainly, the recent McKinsey Report on Productivity Gains, which measures gains in hard competitiveness, would tend to argue that case. And that's very well profiled on the McKinsey & Company website (www.mckinsey.com).

IB: In emerging and transition countries, businesses are less rich than businesses in advanced countries. Wouldn't high social responsibility de-motivate business, make it switch more to the shadow or informal sector if it becomes too burdensome and costly and cut its competitiveness, compared with advanced countries?

JDS: Again, that depends on what you mean by social responsibility or corporate citizenship. Certainly, the findings that we have come across – and I think this is true of a large part of the corporate citizenship organizations, whether it's the International Business Leaders Forum or the CSR Wire that I mentioned a moment ago – believe very much in the voluntary approach to corporate citizenship and on a company-by-company basis.

The big danger I see is when corporate citizenship becomes an additional tax for which individual companies have to set aside a certain percentage of their income. Most often this has been seen in the financial system, where – as in India – the banking system has been told that a certain percentage of their loans have to be made for certain socially targeted parts of the community. This does tend to distort the flow of financial systems. And, in my mind, it's that kind of mandatory direction that really takes away from government its proper role and places it on the company.

Certainly, the findings that we have come across – and I think this is true of a large part of the corporate citizenship organizations believe very much in the voluntary approach to corporate citizenship and on a company-by-company basis.

Democracies – and I think it's the goal of most countries – really expect our legislative and parliamentary processes to come up to and to deal with these questions of how do we develop our society.

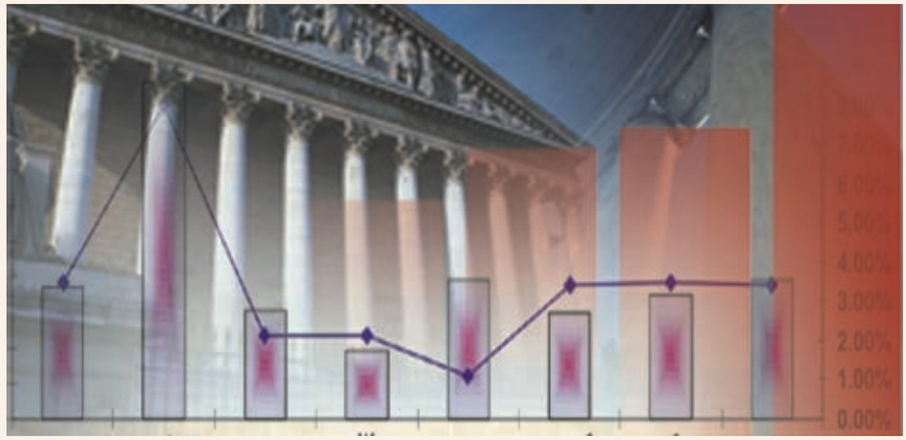
Now, certainly, the corporation has a role and a responsibility as a citizen to express its views, to take its part, and to pay its fair share. But, to move from a voluntary corporate governance approach, where companies engage in order to help develop the communities they work in, just as do NGO groups and citizens – to the mandatory-type structure, is, I think, where developing countries really should have the greatest fear.

A mandatory structure is simply going to increase the tax burden on companies, which, in turn, can only result in higher product costs, lower productivity, or fewer jobs. So those would be the concerns I would want people to think through as they move to embrace some kind of strong social responsibility-mandated approach.

IB: Could social responsibility and corporate citizenship be economically effective or will this be an expense part if accounts and businesses should just accept this? What does it mean? How can one prove that social responsibility and corporate citizenship are economically effective?

JDS: Our approach at the Center for International Private Enterprise has always been to say that corporations' fundamental role as part of their citizenship requirement is to become a key part of the system. Companies can do this by joining business associations, think-tanks, and NGOs that help shape and provide leadership to government and the general public on how to best develop society and on how to develop the economy.

For example, in the United States many years ago, we were having a huge problem with graduates of our educational system being unqualified for the job market. So the corporate community, led by a number of active CEOs, took a very strong stand that we needed to develop a national effort to improve our school systems. That's just one small example of corporate



citizenship. To my way of thinking, that's a model of how corporate citizenship can play out.

Looking at developing countries, corporate citizenship could play a strong role, for example, in Russia. As you look across Russia, the Russian Chamber of Commerce and the Russian organization OPORA (Union of Business Associations) are partnered with CIPE, in what I think is a very good example of corporate citizenship: efforts to remove barriers and lower the burdens on the informal economy and on small business so that those sectors can grow and become a vital and productive part of society.

It is a huge problem for a country's development if a large part of the economy operates outside of the legal system, without legal protection, without access to credit, and without access to the court system.

In this case, it is vital that the business community – the formal business community – is taking a leadership role in helping to resolve that problem by looking at barriers, by looking at what needs to be done to bring property rights to the average citizen of Russia, to allow people to choose to be entrepreneurs. That effort is just as important for the development of Russia as the development of the educational system was in the United States to our companies back in the early 1980s. It's a huge boost to productivity, and it's a huge boost to economic growth.

So, to my way of thinking, corporations in emerging markets in developing countries can come together voluntarily through associations like the Russian Chamber of Commerce or OPORA or through very good and active think-tanks or other social organizations. Business can provide the leadership to identify pressing national issues, come up with business-oriented solutions, identify market-friendly approaches, and help provide the impetus for passage of legislation. During the implementation stage, which is even more vital – business organizations should work with local governments and local citizen organizations to make sure that these things get put into place. So, corporate citizenship can be thought of as something that gets sent to the public relations department, as an extra tax burden, or as engaging the leadership of business to help shape a better society. I would very much recommend the voluntary-based idea of corporate citizenship as leadership for development.

Now, certainly, the corporation has a role and a responsibility as a citizen to express its views, to take its part, and to pay its fair share. But, to move from a voluntary corporate governance approach... to the mandatory-type structure, is, I think, where developing countries really should have the greatest fear.

John D. Sullivan has been Executive Director of the Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber of Commerce, since 1991.

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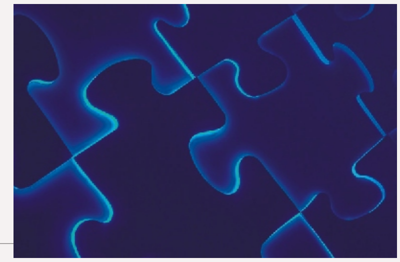
Information Technology (IT) Integration in Banks' Consolidation



* By Olayinka David-West

The consolidation of IT in banks, although important, is not a primary consideration in the merger and acquisition process. This article looks at the process of integrating IT in banks with special emphasis on application software integration.

The July pronouncement by the Central Bank of Nigeria setting the minimum shareholders funds for banks at N25 billion by December 2005 has led to several consolidation arrangements through mergers and acquisitions. All the 89 licensed banks use Information Technology (IT) solutions for their operations. Although the exact figure on total IT investment in the sector is unknown, it is estimated that close to \$200 million, \$36 million and \$300 – \$500 million have been spent on software applications, maintenance and hardware respectively. In the early stages of consolidation, organisations usually dedicate more resources and priority to financial and personnel issues, downplaying operational issues like IT and its relative importance to the organisation. This argument is based on the premise that IT in the organisation is a tool for automating business processes. However, this perception of IT is changing from an automation support tool to an organisational resource that drives business strategy.

The use of IT amongst Nigerian banks is no different where its role as a core operational driver was established in the early 1990's; transforming the delivery of banking products and services. The availability of communications networks and client/server technology saw the birth of "online, real-time" banking where all or some branches had access to computing resources (usually located at the head office). Today, "online, real-time" is no longer a source of competitive advantage for the banks, but a mandatory requirement for all operators in the sector.

The role of IT has evolved today, where banks, in addition to automating processes and improving service delivery, implement IT solutions that facilitate various business strategies and thus offer competitive advantage.

Banking Information Technology

The use of IT for operational efficiency - automation of core banking processes such as account management, cash management, financial control, treasury management, credit administration, foreign exchange operations, etc. To achieve this level of automation, banks have invested in various software applications and high-speed communications networks. The typical components of the IT architecture of a bank as illustrated in figure 1 is tabulated below.

Range of IT Systems Installed at Banks

HARDWARE	SOFTWARE		COMMUNICATION
	APPLICATIONS	SYSTEMS	
COMPUTING	Banking System	Database Management Systems	Local Area Network (LAN)
Computers - Servers, Pc's & Laptops	Human Resource Management & Payroll	Operating Systems	Metropolitan Area Network (MAN)
Printers	Asset Management	Firewalls	Wide Area Network (WAN)
Imaging - Scanners, Digital Cameras	Inventory Management	Anti-virus	Voice over IP (VoIP)
Automated Teller Machines (ATM)	Customer Relationship Management	Electronic mail	Public Branch Exchanges (PBX)
COMMUNICATIONS	ValuCard Operations	Web-based Intranet	
Hubs & Switches	Credit Management/CRMS		
Bridges	Cheque Clearing System		
Gateways	Channel Applications		
Routers	Data warehousing		

Information Technology (IT) Integration

The consolidation of organisations is itself a complex process, not to mention the integration of their technologies. In this context, IT consolidation is not limited to the banks, but will also include consolidation by regulatory authorities and other processors interfaced with the banks. Although integration approaches can differ, one approach as related to IT integration is illustrated in figure 2.

This approach/process recommends the following activities for successful IT integration: visioning, due diligence, integration planning and project management.

Figure 1: Banking Technology Infrastructure

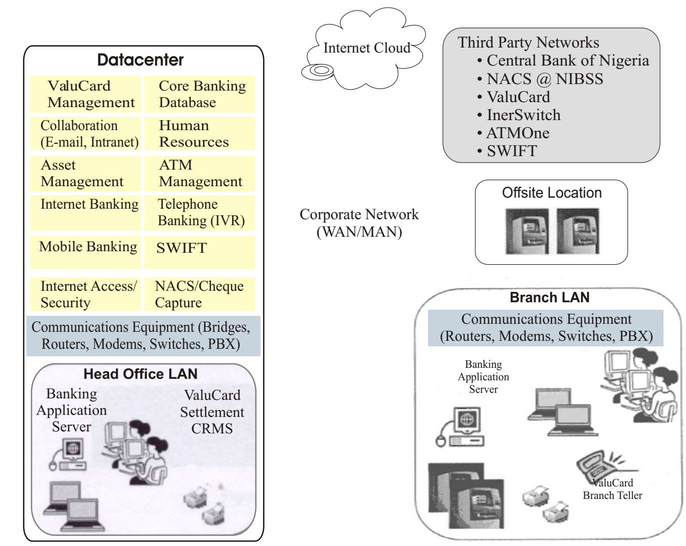
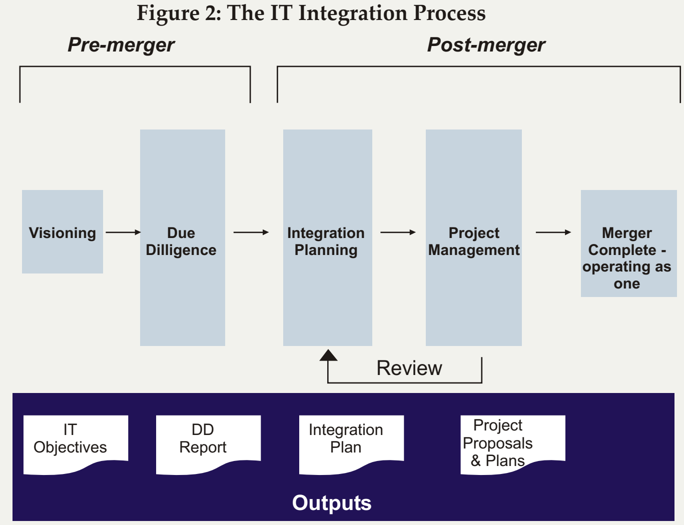


Figure 2: The IT Integration Process



Visioning

Prior to embarking on the IT integration, an IT vision should be defined and established early as it forms the basis for all activities relating to the consolidation. IT visioning involves reviewing the goals and objectives behind the merger (other than the regulatory mandate) and defining the role technology will play in the future – operational and/or strategic. Results of a study carried out by Accenture[1] show that "more than 75% of the companies that deemed their mergers successful said that a unified vision of IT made the merger go smoothly". As an example a shared vision could be the ability to operate as one entity within a certain period - serve customers from all locations.

The possible output of this stage is a document that defines the IT objectives and aids in assessing which IT assets that can be leveraged in the future.

IT Due Diligence

The IT due diligence not only establishes the value of IT Assets, but also seeks to:

- Provide an understanding of the key technology aspects of the organisation
- Assess the IT unit and staff
- Review vendor agreements
- Review financial cost trends and plans
- Review software licensing and ownership of all technologies
- Review capital investments needed
- Review business continuity strategies
- Identify future leverage opportunities

Exhibit 1 shows a sample IT Business Assessment check list for due diligence. The output of the due diligence is a report that gives an assessment of the existing situation, identifies risks, and quantifies issues that offer IT leverage opportunities.

Integration Planning

Once the actual merger is effected, the first step in actualising the consolidation begins with the development of an integration plan or transition strategy. This critical task should be the responsibility of a new kind of person, say an IT

[1] *Accenture says accent in M&A should be on IT integration, Mergers & Acquisition Report, Vol. 15, Issue 15, p.10*

Integrator supported by an *Integration Team*. The IT Integrator and the team not only defines the transition of core IT assets such as applications software and technical architecture, but also addresses business issues affected by the IT – staffing, culture, policies & standards, etc.

The IT Integration plan, a high-level document details IT projects to be implemented, order of priority and estimated commencement, is the output of this stage. Setting IT project priorities can be objectively achieved using ranking criteria that award higher ranking to projects that move the organisation closer to business objectives/goals identified in the visioning stage.

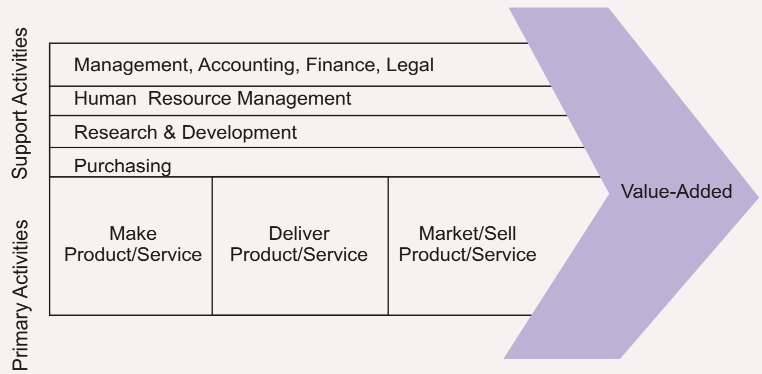


Figure 3: Retail Banking Value Chain

Application Software

A software application is made up of the database and data dictionary for data storage and business rules; programs and procedures defining the instructions for automating business processes; screens for input/data entry and reports for output. As illustrated in the retail banking value chain shown in figure 3, we can see that various software applications are used to automate core/primary activities relating to the business of deposits and credits and support activities such as human resources, etc. In the consolidation of banks with similar business models also known as horizontal integration, the due diligence will reveal the duplication of some applications, especially those supporting primary activities. Software integration considerations are:

- Which applications can be merged?
- Which applications should be converted into one?
- Which applications need to be replaced?
- Which applications can co-exist and operate Independently?

Application Mergers

In the case of banks, application integration is possible at three levels (figure 4) and involves programmatically combining one or more components from one or more applications to ensure seamless information interchange (figure 5).

The notion of merging two applications such as Flexcube and Equinox may sound ludicrous as they serve the same markets; however, the best-of-breed approach may be adopted where the organisations could select to implement the best module from each applications suite. For example, Equinox core and retail banking modules and Flexcube credit administration module. In such an example, because all information relating to the customer and accounts are stored in the Equinox database, information about customers with credit relationships need to be extracted from Equinox into Flexcube and credit information will also need to be ported to the core.

Advantages of this integration approach include having the best system for each business process and retaining use of existing applications. Disadvantages include risks of data duplication, loss of data integrity, complexity in the integration, intense systems integration skills, costs of training, maintenance and support doubled. Due to the complexity associated with such, superior systems integration skills are mandatory to ensure success. Common systems integration tasks include:

- Data Migration - extraction, loading, reformatting
- Software interfaces to allow different systems to interact
- Hardware interfaces
- Telecoms interfaces
- Research of options for solutions

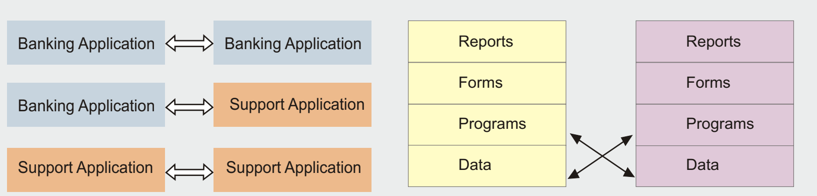


Figure 4: Application Integration Levels

Figure 5: Application Integration

• Modelling and testing components and solutions

• Hardware and software configuration

Implementing the other integration scenarios illustrated in figure 4 is much simpler and serves to automate the flow of information between applications. The need for such integration, however, should be justified by a business case.

Table 2: Business Criteria for Applications Selection[2]

Criteria/Bank	Bank A	Bank B	Bank C
Turnover	N100bn	N20bn	N5bn
Gross Profit	11.5%	13%	15%
# Accounts	100,000	30,000	10,000
# Branches	190	40	10
# System Users	1,096	190	60
# Interfaces/Channels	25	3	4

Conversion

Application conversion is based on the notion that one application is selected for each business activity (primary and supporting). In this case, data from other applications and manual systems have to be transferred to the database of one system. Data conversion or consolidation involves the mapping/migration of data from various applications into one. Conversion involves the process of changing the form/representation of data into a form capable of being processed by the chosen application. Because conversion involves data, knowledge of the source and destination data structures and the rules for storing the data are critical to ensure proper transfer.

As an example, assume Flexcube is selected following the merger, thus all the customer and account data stored in the Equinox database must be extracted, transformed into a format recognisable by and then loaded into the Flexcube database. Although this sounds much simpler than application mergers, the ease of extraction, transformation and loading (ETL) is only applicable for alphanumeric data. Images used for verification purposes may be converted either by the development of a conversion program or by recapturing.

The main challenge associated with conversion is in application selection. In addition to the usual technical considerations, Table 2 identifies some other business criteria that could assist decision making.

The choice of software can be made by providing answers to the following questions:

1. ***Which application offers the best productivity?***
   • It can only be assumed to be Bank C's since their gross profit is highest. This could also imply that Bank C has the most efficient processes!
2. ***Which affects the most people?***
   • Migrating Bank A's application will affect the most people (users and customers). In the case of users, the training costs to the new application will be much higher.
3. ***Which has the highest risk?***
   • Because Bank A has a much higher turnover than any of the others, the risk of potential business loss is highest
4. ***Which is harder to migrate?***
   • Bank A will be the most difficult to migrate as it has more interfaces with third party products and channels. However, the choice of IT should be dependent on the business strategy.
5. ***Which application offers the best feature/function for the future?***
   • There is no clear answer as it is not only based on the subjective argument of the users in all the organisations, but also on the development plans of the software vendor
6. ***Which application is the best to support?***
   • Again this is subjective, but the support costs can be quantified

Application Replacement

It is inevitable that one or more software applications will be eliminated and/or replaced – due to a variety of reasons such as inability to meet IT vision objectives. Although this may seem wasteful, starting afresh also has its advantages such as the opportunity of a new beginning, the ability to develop a strong IT culture, and data cleanup. Like all software selections, the following are possible alternatives for application replacement:

[2] *Adapted from Michael Sisco, "Strategy is critical for melding technology during acquisitions, www.techrepublic.com, Dec. 2002.*

• Package vs. in-house/bespoke development: the choice of acquiring a packaged application or developing (usually from scratch) a new application either with in-house resources or outsourced to an applications development organisation.

• In-source vs. outsource: Outsourcing to a transaction processor is an option worth considering. Unfortunately, this may not be an option for the applications supporting primary activities due to service delivery challenges.

• Single-source solution vs. Best-of-breed: The option of selecting all the modules from one vendor or selecting the "best" module in its class from a series of vendors

In the event that the replacement of supporting applications is also planned, one possible option for the bank is to acquire and implement an enterprise system (ES) more commonly known as an Enterprise Resource Planning (ERP) system.

Once a new application is selected and implemented, existing data will still have to be converted in the testing.

Table 3: Application Integration Decision Matrix

	Merge	Convert	Replace	Co-exist
Banking System			✓	
Human Resources Management & Payroll		✓		
Asset Management				✓
Inventory Management		✓		
Customer Relationship Management		✓		
ValuCard Operations	✓			
Credit Management/CRMS	✓			
Cheque Clearing System				✓
Electronic mail			✓	
Web-based Intranet			✓	

Co-existence

This option is tantamount to doing nothing and maintaining the status quo. Depending on the IT vision earlier defined, this may not be applicable to the core banking application. An integration matrix as shown in Table 3 should be embedded in the integration plan.

Technical Architecture

The technical architecture is a structural representation of IT components required and necessary to support the applications driving the business, i.e. the IT structure that should be in place for figure 1 to be possible. A critical part of defining the technical architecture will be related to the relocation of the data centre. In addition, considerations concerning storage, input/output, network architecture, processing and controls should be designed in accordance with the IT vision laid out.

Storage

In banks and some other information-intense organisations, the use of efficient online and offline storage systems is mandatory to ensure fast and efficient access to information, redundancy, etc.

Input/Output

In the bank, input and output considerations such as the load generated from statement printing, uploading of images into the database, etc.

Processing

Processing considerations of online vs. offline, centralised vs. Decentralised, real-time vs. batch.

Controls

This section defines organisation-wide controls and policies for network access, security PC use, Internet use, desktop standards, etc.

Network Architecture

In order to optimally integrate the order and flow of traffic, the network of the new organisation would need to be redesigned to ensure proper use of equipment and minimise performance overheads and efficiency problems. Some aspects of the network design considerations will be dependent on all other considerations already discussed as well as:

• Usage: Decisions about network use – for data traffic only (applications, Intranet and Internet) and/or inclusive of voice telephony capacity.

• Traffic: Highly dependent on usage, the traffic capacity to be designed should be reviewed alongside industry standard for response time, availability and reliability. Omitting this process may lead to network degradation.

• Application architecture: The impact of applications architecture (host-based, client/server – two or three-tier)

- Security: Use of firewalls, security policy, intrusion detection systems, virus protection.

IT Culture

IT culture relates to the behaviours, patterns, beliefs and values imbibed in the organisations with respect to the adoption of technology. IT culture is that component that exists when two organisations in the same environment using the same application have different levels of success in its implementation and use. Research and experience have identified a correlation between IT culture and the successful adoption of IT. In as much as culture cannot be measured, some organisational indicators relating to the successful implementation of IT are: autonomy, team orientation, trust, information sharing, and individual initiative.

The integration team should be able to classify employees into those that will support the integration, those that will never support, and those that would initially be unsure; with the objective of eliminating those that will never support the IT integration, thus reducing the risk of failure.

IT integration is no different from any other IT project where all decisions should be dependent on a clear, definite business strategy and the role IT plays in achieving that strategy should be clearly established.

IT Staffing

One of the unfortunate truths associated with horizontal consolidation is job losses across the entire organisation, IT jobs inclusive. However, due to the nature of importance and the relative expertise required to manage the IT function, the staffing issues have to be treated with great sensitivity such that the organisation and its IT assets (tangible and intangible) are protected.

The earlier staffing issues are addressed in the integration process, the better, to avoid losing critical staff. Staff-related decisions will usually be about:

- IT manager/CIO
- Number of staff to be made redundant and when
- Structure and membership of the new IT department

Project Management

This actual "doing" phase is concerned with the implementation of the integration areas identified - applications software, technical architecture, IT staff, IT culture, etc. and should be separate and unique IT projects, identified and prioritised in the Integration plan. With this approach, several project management teams will be required to ensure that one or more projects are running simultaneously. Within each project, the activities related to planning (definition and planning) and implementation (organising, controlling and closing) should be under the control of a project manager.

Review

Prior to the completion of the IT integration, it is likely that the integration plan will undergo changes due to advances in IT, changes in business objectives, etc. Periodic reviews of the integration plan are critical to:

- Ascertain business relevance of/review projects
- Ascertain that technologies proposed have not reached the end of their lifecycle, i.e., are still current
- Measure the success and/or progress so far.

In the light of the capital outlay associated with IT projects, it is necessary to provide feedback in the form of measurements to executive management to ensure the continued commitment and support. Measurable items include:

- IT department expenses (by unit)
- Telecommunications expenses
- Hardware and software maintenance
- Software licenses
- Data centre expenses
- Network and infrastructure expenses
- Key leverage projects

Conclusion

The role of planning in the IT integration process in mergers and acquisitions cannot be overemphasized; however one advantage Nigerian banks have is that each one has in the past practiced one or more integration philosophies.

IT integration is no different from any other IT project where all decisions should be dependent on a clear, definite business strategy and the role IT plays in achieving that strategy should be clearly established. Although it is difficult to predict the success rate or time frame for complete IT integration, we have been able to identify as essential:

- "Superior" systems integration
- IT project management
- IT culture
- Communication & feedback mechanisms

For IT in the banking industry, consolidation does offer some advantages:

- IT expenditure can be spread over a larger customer base
- Reduction in operational costs
- More aggressive drive to use IT as a source of competitive advantage
- Provides the opportunity to eliminate redundancy in operations

Finally to summarise, the following are the "lessons learned" from the merger of education finance giants, Sallie Mae and USA Group[3]:

1. "Establish the IT leadership team as soon as possible so that the difficult decisions driving integration of business operations can move forward quickly

2. For customer-facing applications, recognise that business executives will lean toward adopting the solution with the lowest business integration risks, even when this choice means temporarily sacrificing application functionality

3. Keep customer-facing applications a priority over back-office applications, but set compelling deadlines for both because people usually accept change more easily when the sand is shifting beneath their feet

4. Offer generous retention packages for top talent right away: generosity yields loyalty to the company, and tying bonuses to specific deliverables helps ensure that knowledge transfer takes place before they leave

5. Take steps to keep morale high and avoid animosity so that both "winners" and "losers" can work together on the integration plan once the technology battles are over

6. Be prepared to increase the company's normal level of project risk to achieve aggressive business integration goals

7. Leverage pre-existing project teams: established working relationships are "secret weapons" when quick execution is required.

8. Focus senior IT managers on communicating the goals and providing "air cover", but grant decision-making authority to the seasoned people close to the trenches

9. Look at elements from a business application viewpoint first, then from an infrastructure viewpoint; but watch out for critical dependencies

10. Utilise multiple strategies to minimise relocation costs and the number of technology assets physically moved, while maximising the achievable performance goals

11. Leverage the increased purchasing power of the combined company to develop asset swaps that build in enhancements as part of a new vendor contract

12. Use rich communications media to read emotions and recognise successes at every opportunity because a merger is an emotional event: you cannot communicate too much

13. Equate the IT integration project to the Super Bowl: Create a burning desire for people to band together to succeed in a once-in-a-lifetime experience. If faced with external credibility challenges, make it personal, and then rally the troops to "prove them wrong"

14. Don't underestimate the value of prior IT–business relationships for project success"

Equate the IT integration project to the Super Bowl: Create a burning desire for people to band together to succeed in a once-in-a-lifetime experience. If faced with external credibility challenges, make it personal, and then rally the troops to "prove them wrong"

Exhibit 1: IT Business Assessment[4]

ORGANISATION

- Technology Objectives and Strategy
- IT Unit Chart
- Employees list (name, responsibility, salary, start date)
- Help-desk approach and change management process
- Support Issues

HARDWARE

- CPUs and location
- Database
- Networks by location (LAN/WAN)
- Telecommunications/connectivity approach

SYSTEMS SOFTWARE

- Operating Systems (# licenses)
- Software development tools
- Database management systems
- Security
- Current technology? Life expectancy? Replacement/upgrade strategy?

APPLICATIONS SOFTWARE

- Application systems

[3] *Carol Brown, Greg Clancy, Rebecca Scholer, A Post-Merger IT Integration Success Story: Sallie Mae, March 2003, MIS Quarterly Executive Vol. 2 No.1*

[4] *Adapted from MDE Enterprises Information Technology Business Assessment*

- In-house vs. third party
- Custom Software Interfaces
- Corporate User Interfaces
- Special processes
- Report writing capability
- Standard across network?
- Stability
- Support approach & known issues
- Approach to release management

EXISTING AND PLANNED PROJECTS

- Large scale projects (such as re-engineering, new systems, SW development)
- Enhancements
- New business development needs
- Productivity enhancements
- New technology R&D
- Consulting and/or contractor needs anticipated (12 months)

OPERATING BUDGET AND P&L TRENDS

- Personnel
- Software Maintenance
- Hardware Maintenance
- Equipment leases
- Supplies
- Data communications
- Voice communications
- Consulting/contractors

CAPITAL BUDGET

- Immediate needs (next 6 months)
- Anticipated need for normal growth (next 18 months)

CONTRACTS/AGREEMENTS

- Software licenses
- Software support and maintenance
- Hardware leases
- Hardware maintenance
- Network Maintenance
- Contract staff or other consulting agreements
- PC software licenses
- Corporate Support (PC banking, etc.)
- Partners (GSM)
- Processors

COMPUTER OPERATIONS

- Service level (response time, system availability, etc.)
- Network management (uptime, new installations, changes planned)
- Security (administrators)

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Exchange Offers and the Liability of Reporting Accountants

*Dr. Tunde Ogowewo

In this piece, legal luminary, Dr. Tunde Ogowewo of School of Law, Kings College, London, takes a critical look at the guidelines for banking consolidation and explicates the role and liabilities of Corporate finance advisers in an M & A especially as it concerns paragraph 7:10 of the CBN's Banking Guidelines and Incentives for Consolidation in the banking sector.

The valuation function of corporate finance advisers

M&A transactions require the engagement of corporate finance advisers for the purpose of valuing the target company. There are various techniques for determining the value of the assets or shares of a target. There are more valuation techniques at the disposal of advisers where the M&A transaction is friendly, as the target will have made available to the acquirer company financial information such as its projected cash flow statement.

The techniques include (a) valuation based on comparable target companies; (b) valuation based on comparable transactions; (c) valuation based on the liquidation value of the target's assets; (d) valuation based on the replacement value of the target's assets; (e) valuation based on a leveraged buyout analysis by a financial acquirer, as contrasted with a strategic acquirer; and (f) valuation based on the discounting to present value of the target's expected future cash flows through the use of the discounted cash flow method. In most cases, a combination of the above valuation techniques will be used.

Corporate finance advisers will normally be retained by acquirers to provide a fairness opinion of the transaction. Some advisers may through negligence or incompetence provide misleading reports causing the acquirer company to overpay for the target. In that instance, it is conceivable that shareholders of the acquirer company may wish to bring legal proceedings against such advisers for preparing the opinion incompetently in breach of their contract of retainer and common law duty of care. As far as Nigerian (and English) contract and tort law are concerned, there will be insuperable obstacles to such actions, since there is no contractual nexus between the corporate finance advisers and the shareholders of the acquirer company and there is no sufficient proximity between them either. However, this will not be the case where the lawsuit is brought by the *acquirer company itself*.

Corporate finance advisers will normally be retained by acquirers to provide a fairness opinion of the transaction. Some advisers may through negligence or incompetence provide misleading reports causing the acquirer company to overpay for the target.

Measuring the loss of the acquirer company

Although the acquirer company's cause of action in contract or tort is not in doubt, can we say the same about its recoverable loss? Consider this scenario. If, as a result of a valuation report estimating the value of the target at N100 million, the acquirer company pays out N100 million in cash to acquire the target's shares (N10 per each of its 10 million shares in issue), but it subsequently discovers after the acquisition that the target company is worth only N10 million, the loss to the acquirer is N90 million. In this instance, the acquirer will be able to recover, by means of its action in contract or tort, damages to the tune of N90 million. This is because the acquirer would never have made the acquisition in the first place had the report not been prepared negligently and in breach of the contract of retainer to exercise reasonable care, skill and diligence that a reasonably competent adviser would exhibit in carrying out the retainer. The function of damages in this case (*reliance damages*) is to restore the acquirer to the position it would have been in had the acquisition not been made: since it received assets valued at N10 million and it parted with N100 million in cash, N90 million in damages is what would restore it to the position it would have been in had the acquisition never been made.

Now, all this is tolerably clear. But what is the position where the acquirer uses its shares to pay for the target, as the Governor of the Central Bank has required in paragraph 7.10 of the *"Guidelines and Incentives on Consolidation in the Nigerian Banking Industry (August 5, 2004)"?* We will consider this position by examining a different scenario: The value of the acquirer company's shares on a net asset backing basis is N10 a share (although its par value is N1) and N10 also represents its price on the stock market. Reporting accountants negligently value the target at N100 million, when its true value is N10 million. The acquirer then pays for the target by issuing 10 million shares to the target shareholders (valued at N100 million as a single parcel) in exchange for their shares. The acquirer subsequently discovers after the acquisition that the target is worth only N10 million, not N100 million as it was led to believe by its advisers.

> ***What is the position where the acquirer uses its shares to pay for the target, as the Governor of the Central Bank has required in paragraph 7.10 of the "Guidelines and Incentives on Consolidation in the Nigerian Banking Industry (August 5, 2004)"?***

In this scenario, the original shareholders of the acquirer company are, of course, peeved that their company has acquired a lemon: it has increased its issued share capital by N100 million but has only acquired assets worth N10 million and as a consequence, its earnings per share (EPS) has reduced. Its original shareholders now have to share earnings with their new brethren even though they have brought to the table assets worth only N10 million. To be sure, the *shareholders* of the acquirer will have no cause of action in tort or contract against the negligent accountants for the reduction in EPS (and consequent diminution of its stock-market price) owing to the absence of privity and proximity. However, the *acquirer company* will have a cause of action against the advisers, as was the case in the cash bid scenario. But what is the acquirer company's *recoverable* loss?

The intuitive measurement

Most people will intuitively measure it thus: *"Its loss is* N90 *million. After all, when the consideration shares were issued to the target shareholders, the acquirer company's shares were trading at* N10 *on the stock exchange and were worth* N10 *on a net asset backing basis. It then issued 10 million of such shares treated as paid up and thereby paid for the target with* N100 *million in shares. Since it has received assets valued at only* N10 *million, it should be able to recover* N90 *million in damages."*

A counter-intuitive measurement

Where a bidder issues shares to the target shareholders as the consideration for an acquisition and acquires assets worth less than it was led to believe they were valued (as a result of the negligent valuation of its advisers), a counter-intuitive response will be that the acquirer has lost nothing and can recover nothing beyond the administrative cost of issuing the shares – such as paper and printing costs. Corporate finance advisers will be delighted to hear that this counter-intuitive answer is, in fact, the correct answer.

An algorithm demonstrating the absence of loss where shares are used to pay can be sketched.

Recall that we are here concerned with the acquirer company's loss. Also, we are not here dealing with an adviser who gave a warranty of value. (In any case, it will take a strangely courageous adviser to give such a warranty.) Finally, we are not dealing with a case where shares of the acquirer company have been issued at a discount to their par value.

The acquirer company's lawsuit to recover damages of N90 million will rest on the following propositions:

(a) that it is entitled to recover the difference between the consideration paid (shares it issued) and the value it received (N10 million worth of assets);

(b) that the consideration paid is the value the shares had before or at the point of their issue (N100 million)

(c) Therefore, it is entitled to recover N90 million as its loss.

In the algorithm below, it will be seen that the fallacy of the acquirer's claim lies in proposition (b) and it is this that makes the conclusion in (c) wrong.

1. The shares which the acquirer issued (10 million shares) is the price (N100 million) it paid for the target shares it obtained.
2. This "price" is what it parted with.
3. But what it parted with was not cash. It parted with shares.
4. Before the shares were issued, they did not exist as an item of property whether of the company or anyone else.
5. It is the very act of issuing the shares and agreeing to allot them to the target shareholders which creates the relevant property – property which was never owned by the issuing company.
6. Shares, once issued, are a choice in action consisting of a bundle of rights – income (dividends), capital (on a winding up or lawful reduction of capital) and control rights (voting).
7. At the very point of issue, the bundle of rights created is of no value to the company creating the shares. It cannot receive dividends or a capital return or vote them.
8. But once issued to the target shareholders they then assume a value, since the bundle of rights are now capable of enjoyment by the shareholders and hence are priced accordingly.
9. Since the acquirer did not have a chose in action of value on creation, in no sense then did it lose anything of value when it parted with the shares to the target shareholders, apart from the administrative costs of issuing the shares.
10. Therefore, it did not lose N90 million when it made the acquisition on the faith of the negligently prepared report.

The source of the counter-intuitive insight

For those who think about these things, Dr Fidelis Oditah's paper in the *Law Quarterly Review* of 1996 caused quite a storm. With elegant simplicity, proceeding from the very nature of a share, he deployed the argument that led us to this counter-intuitive result. Yet, the result is not really that counter-intuitive once it is viewed from a different perspective. Let's revert once more to our second scenario. Recall that the acquirer company pays out *nothing in cash* but gets assets worth N10 million, yet if the intuitive response is the correct one, the acquirer should succeed in recovering damages of N90 million in cash, although it did not pay out a dime.

If there was any doubt about the principle and policy underlying the counter-intuitive response, the recent decision of the High Court of Australia (Australia's Supreme Court) in *Pilmer v Duke Group Ltd (in liquidation)* [2001] 2 BCLC 773, has given that response a solid foundation of authority. For in that case (a case of negligent valuation), it was held that the acquirer company's loss, where it paid for a target with shares, was the administrative cost of issuing and allotting the shares.

Conclusion

By insisting on shares as the consideration for an acquisition the CBN governor has, in effect, given corporate finance advisers immunity from common law liability in respect of their possible negligent valuation during what is expected to be an unprecedented wave of M&A activity that the Professor has unleashed. Directors of acquirer banks would be well advised to choose their advisers very carefully, as the buck stops with them.

(Tunde Ogowewo, Ph.D. is an expert on Corporate & Commercial law and on the faculty of School of Law, Kings College, London.)*

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ZEQ DATABANK

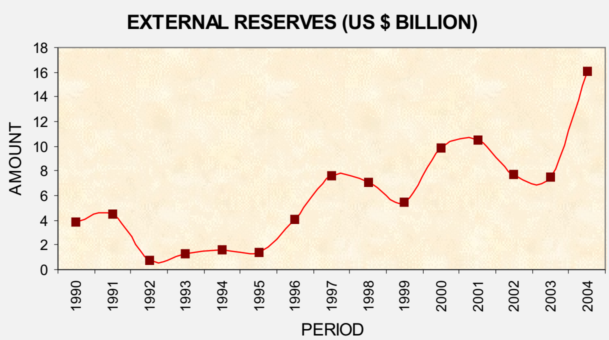
*By Toni-Kan Onwordi

THE ECONOMY

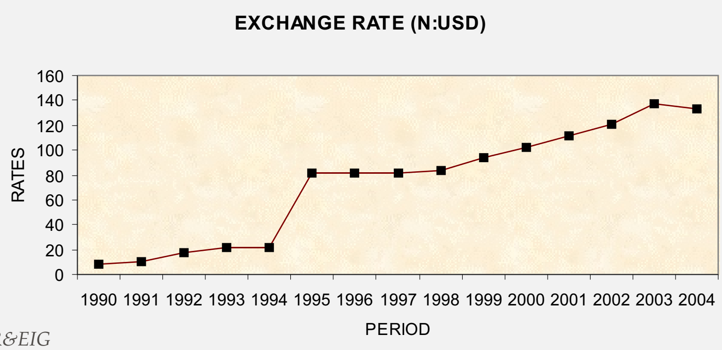
The economy showed marked signs of growth in the last quarter of 2004, with some key economic indices surpassing the projections and estimates articulated in the National Economic Empowerment and Development Strategy (NEEDS) document as well as the annual budget.

FOREIGN RESERVES

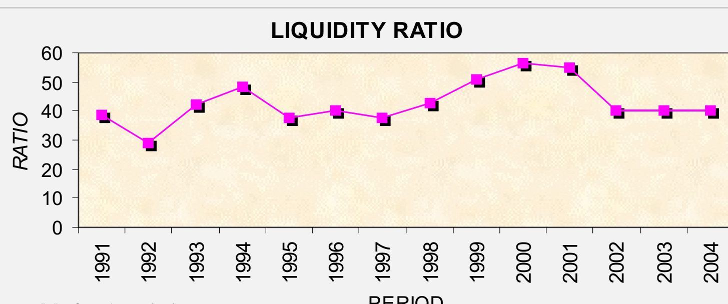
Rising oil prices in the international market, which almost hit $60 per barrel, brought a huge windfall into the country's coffers with excess crude oil receipts hitting N682bn. As a fallout, the nation's external reserves rose to $16.9bn by December 2004, showing more than $5bn dollar increase over the $11bn projection for 2004, a $1bn dollar leap over the projected figure for 2005 as articulated in the NEEDS document. This figure also shows a 125.94% rise when compared to the US$ 7.48bn level recorded in 2003.



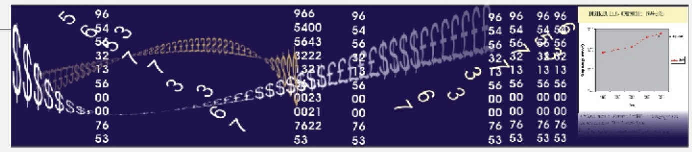
Source: R&EIG



Source: R&EIG



Source: Money Market Association



POWER

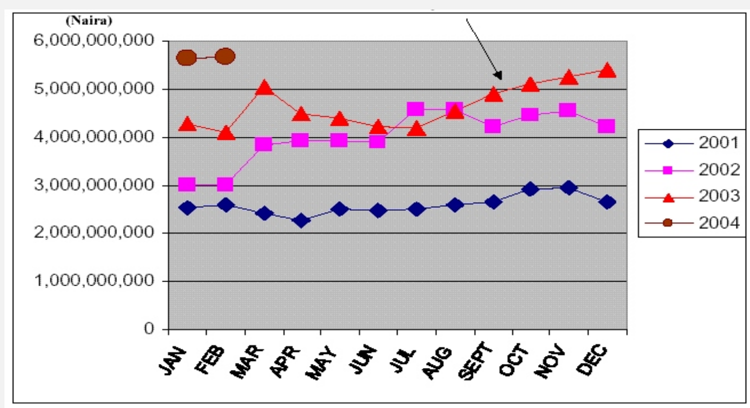
The power sector reform gathered steam in November with the breaking up of the electricity generation unit of National Electric Power Authority (NEPA) into a set of autonomous generating units known as GenCos. The process will be completed as soon as the Electricity Power Sector Reform (EPRS) Act is passed into law. The unbundling of the generating unit completes a cycle, which began in January 2004 with the breaking up of the distribution units into 11 autonomous units known as DistCos and the creation in April of an autonomous transmission unit known as TransysCo. The ultimate aim is the FG's divestment from power generation and distribution and full concentration on power Transmission.

A full analysis of the Power sector will show that the President is fully committed to making the power sector work. This is discernible from the fact that the sector has received the most funding during Obasanjo's first and second comings between 1976 – 1979 and since 1999 – the present.

NEPA's is still currently generating far below capacity while the planned pre-paid meter project is expected to boost its cash collection, which has stabilized somewhat since 4th Quarter 2003.

NEPA's distribution, generation and transmission capabilities will hopefully improve as the unbundling takes effect freeing the utility company from the whims and caprices of pipeline vandals and the ebb and tide of Kainji Dam.

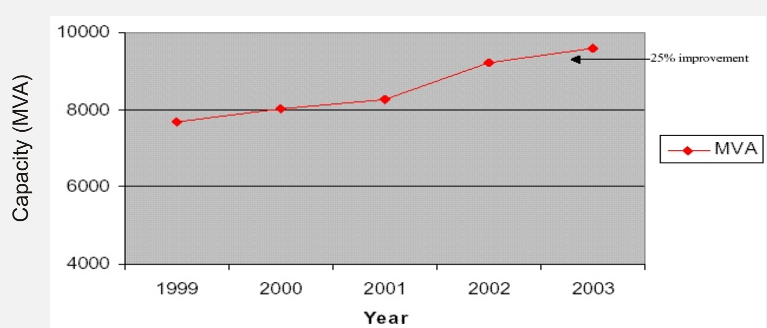
CASH COLLECTION (2001 - 2004)



(NEPA's cash collection has stabilised at over N5 billion since October, 2003)

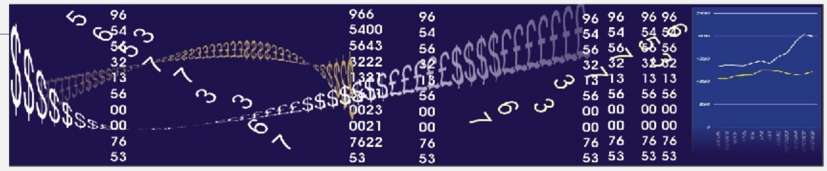
Source: NEPA

DISTRIBUTION CAPACITY (1999 - 2003)



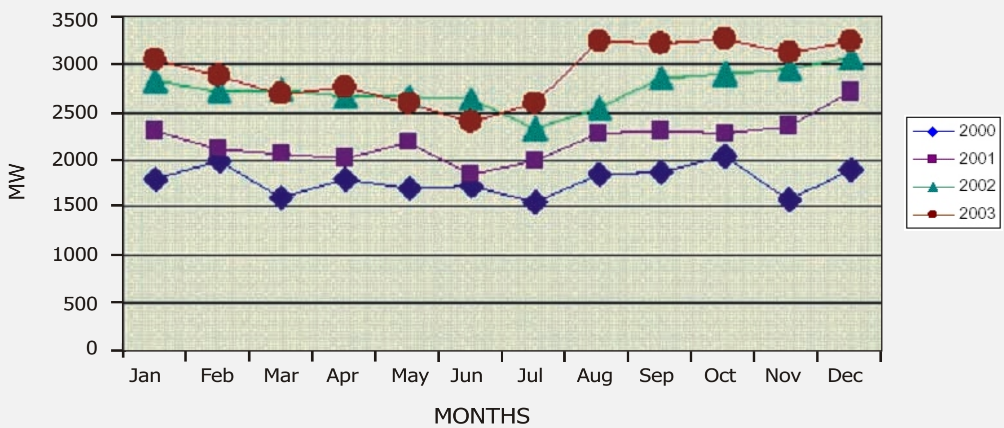
Distribution maximum demand is 4264MW - excluding suppressed load estimated at b/w 70-100% of this figure. Several uncompleted distribution network reinforcement and expansion projects.

Source: NEPA



POWER (cont'd.)

AVERAGE PEAK MONTHLY GENERATION 2000 - 2003



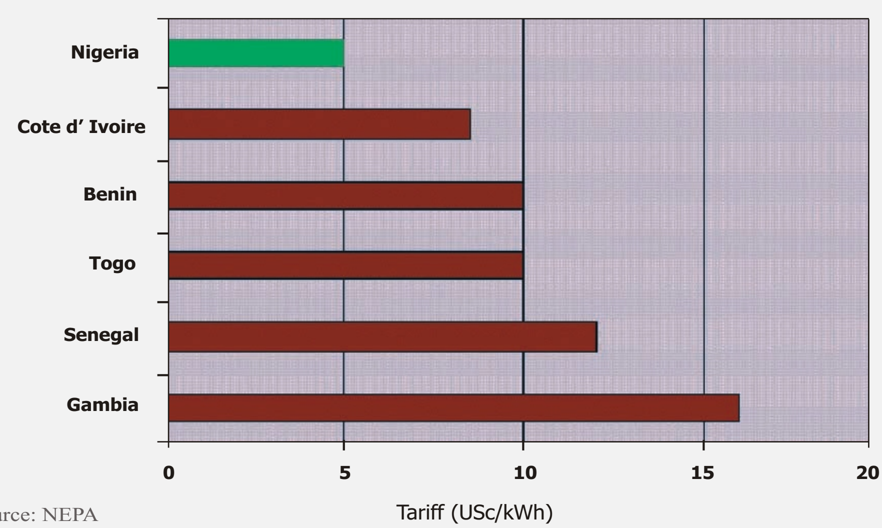
Installed Generating Capacity = 6,185 MW

Max. Peak generation = 3,479MW

Daily average available generating capacity = ~ 4000MW

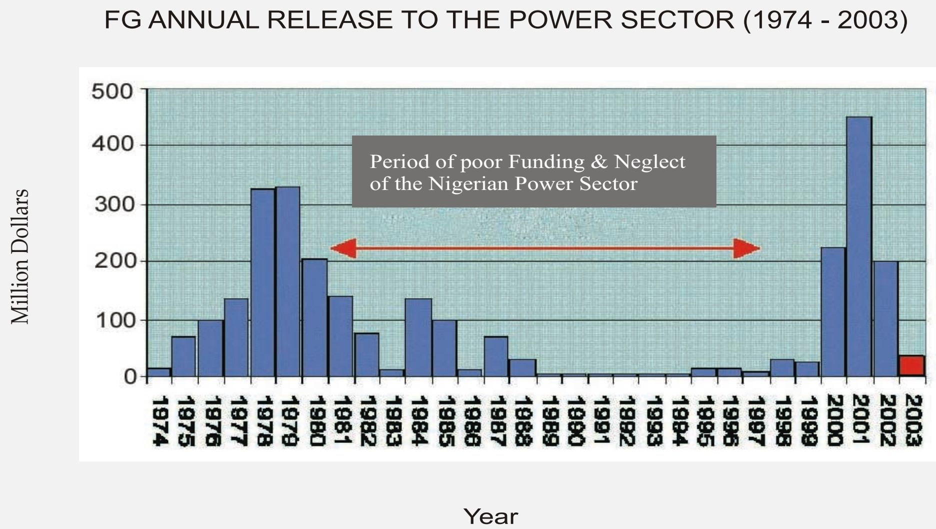
Source: NEPA

COMPARATIVE ELECTRICITY TARIFFS
FOR SELECT AFRICAN NATIONS

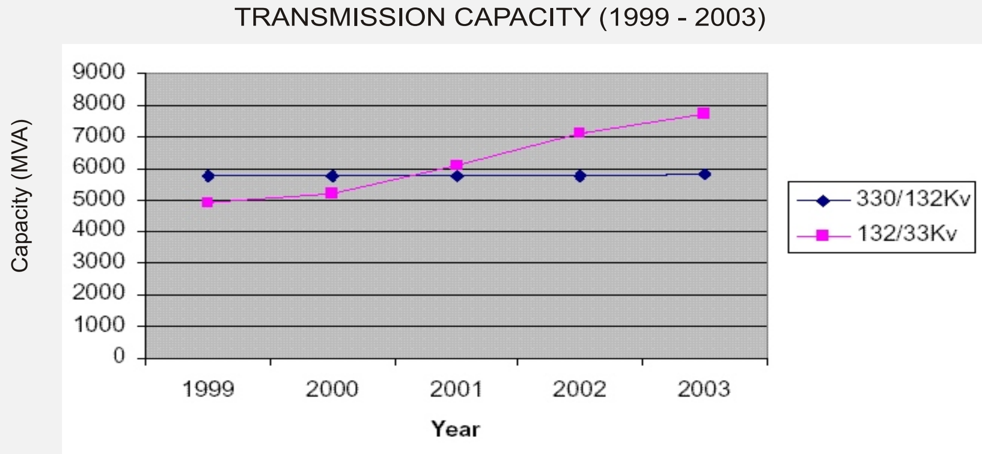


Source: NEPA

POWER (cont'd.)



Source: NEPA



Transmission grid is still radial & fragile as the new transmission projects still remain uncompleted.

Source: NEPA

TELECOM

The telecom industry continued its steady growth with surprises and upsets. While MTN maintained its pre-eminent position, Vmobile reeling from name changes and court cases lost its second position to Globacom. 2004 was however the year of the consumer as the consumer base hit the 9 million mark with industry watchers projecting a 20m target by 2007. Competition among service providers led to incredible price slashes on tariff and connection charges from GSM providers to PTOs.

The growth in phone usage was put at 150% with the bulk of the growth recorded in the mobile phone segment. This is remarkable when compared to 30% recorded in 2003. An attendant growth was also recorded in the theft of handsets in the corresponding period under review. Meanwhile, on a continental scale, the UN has said that the telephone subscriber base grew by 4,150% from a paltry 1.2m lines to 51m between 1996 and 2003.

STATE OF TELECOMS INDUSTRY IN NIGERIA

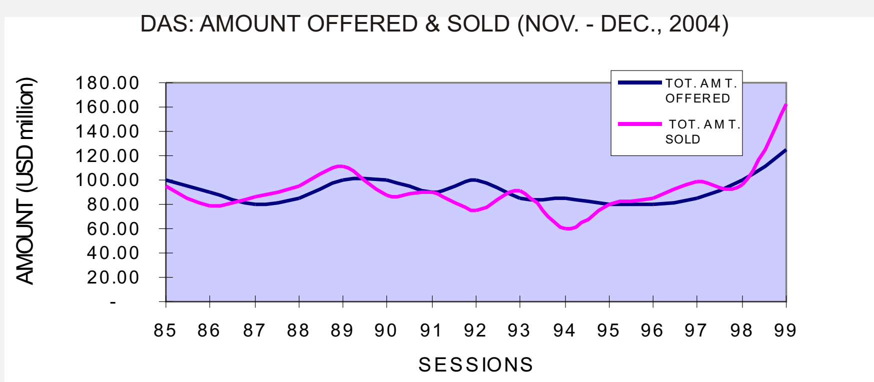
	Dec-00	Dec-02	June-03	Dec-03	Mar-04	Dec-04
Number of Connected Fixed Lines	450,000	702,000	724,790	850,000	888,854	1.5m
Number of Connected Digital Mobile Lines	None	1.6m	2.05m	3.1m	3.8m	7.5m
Number of National Carriers	1	2	2	2	2	2
Number of Operating ISPs	18	30	30	35	35	36
Number of Active Licensed Fixed Line Operators	9	16	19	30	30	30
Number of Licensed Mobile Operators	1	4	4	4	4	4

Source: Zenith R&EIG/NCC data

DAS

At the Dutch Auction System (DAS), the Naira rallied and closed at N132.85 to the US dollar after opening the year at N136.83 at the first trading session of 2004. The closing price for 2004 shows that the Naira appreciated against the dollar by 3.03%, gaining N4.15 when compared to the closing rate of N137 recorded in the last trading session of 2003.

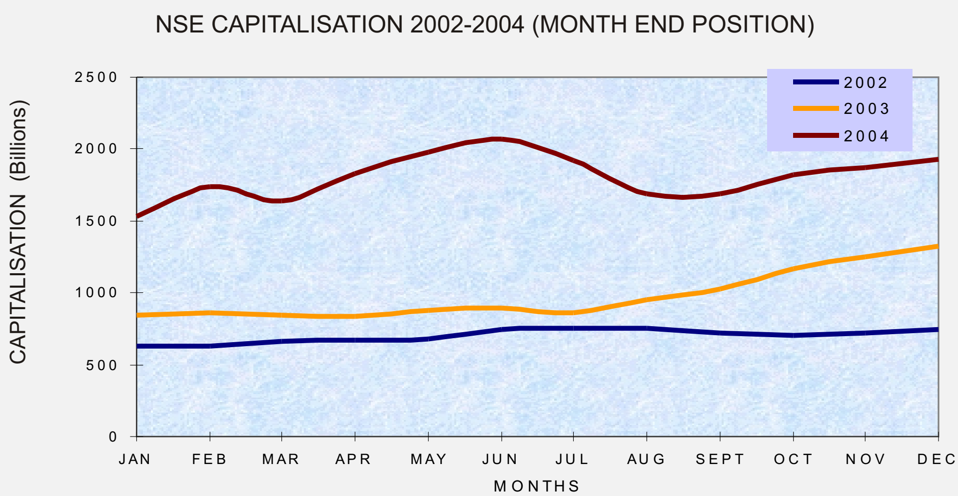
Cumulatively, the Central Bank of Nigeria funded the DAS with about $9.52bn in 2004. This figure is 0.53% or about $50m less than the $9.47bn used in funding DAS in 2003. The 2004 figure is however 2.5% or N230m higher than the $9.91bn used for the same purpose in 2002.



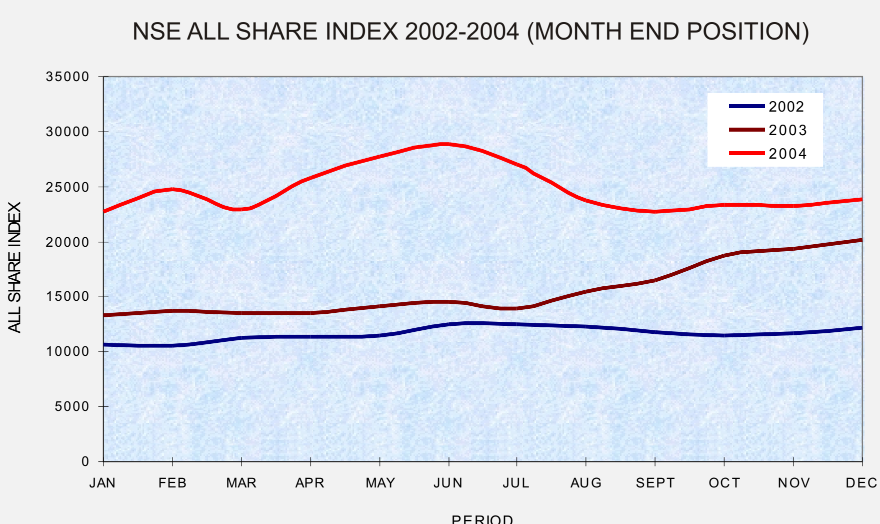
Source: Zenith R&EIG Data

STOCK MARKET:

In the second half of the year, the capital market was deepened with seven banks going to the market to raise funds in order to meet the CBN's minimum capitalization target of N25bn. The market rallied after a slump and ended the year strongly with the All Share Index closing at 23,844.45 compared to 20,128.94 recorded at year-end 2003. The banking sector contributed to the increase with its shares averaging 50% of the total market capitalization of N1.93 trillion.



Source: The Nigerian Stock Exchange



Source: The Nigerian Stock Exchange

RATES

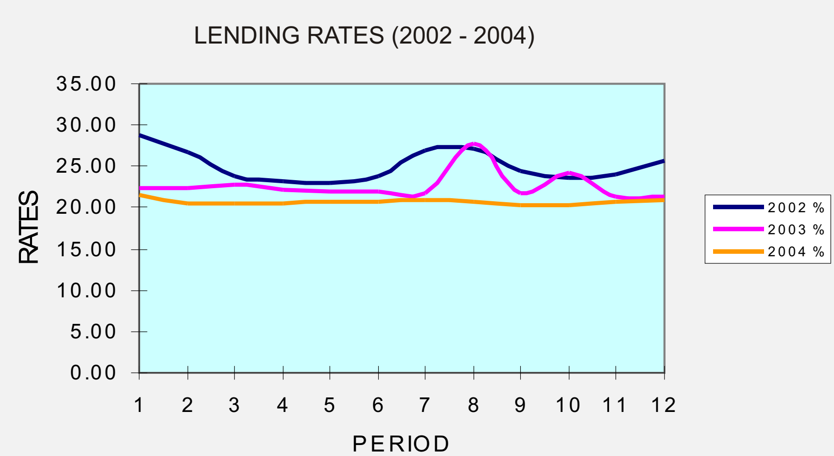
The CBN's retention of the 15% Minimum Rediscount Rate (MRR) which was reduced from 16.5% in 2003 seems to have had a salutary effect on the lending rate which oscillated between 20 and 21% throughout the year. It will be recalled that the CBN had reduced the Cash Reserve Ratio from 12.5% to 9% effective January 2, 2004.

The apex bank's effective control of the excessive liquidity situation achieved through its periodic mopping up exercises was also key even though its planned withdrawal of public funds almost upset the balance but its quick rescinding of the decision saved the day.

MINIMUM REDISCOUNT RATE

	2001	2002	2003	2004
	%	%	%	%
JANUARY	14.50	20.50	18.50	15.00
FEBRUARY	15.50	20.50	16.50	15.00
MARCH	16.50	20.50	16.50	15.00
APRIL	16.50	20.50	16.50	15.00
MAY	16.50	20.50	16.50	15.00
JUNE	18.50	20.50	16.50	15.00
JULY	18.50	20.50	16.50	15.00
AUGUST	18.50	18.50	16.50	15.00
SEPTEMBER	20.50	18.50	15.00	15.00
OCTOBER	20.50	18.50	15.00	15.00
NOVEMBER	20.50	18.50	15.00	15.00
DECEMBER	20.50	18.50	15.00	15.00

Source: Money Market Association



Source: Zenith R&EIG Data

Editorial Guidelines For Contributions To The Zenith Economic Quarterly

Introduction

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

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

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

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

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

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

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

(ii) **Mode of Submission**

Potential contributors should submit diskettes or electronic copies by email.

The following regulations should be observed:

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

(iii) **Identification of Author**

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

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

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

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

(iv) **Preparation of Manuscript**

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

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

(v) **Citation Forms: Illustration**

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

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