

JIM OVIA'S PAPERS

FINANCING NIGERIA'S DIGITAL REVOLUTION VIA SMEs

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OUTLINE

- SMEs TO FUEL DIGITAL REVOLUTION IN NIGERIA [version 1.0]
- LESSONS FROM SUCCESSFUL REAL-LIFE SITUATIONS
- VARIOUS FINANCING OPTIONS
- CONSTRAINTS
- THE WAY FORWARD
- CONCLUSION

Introduction...

- Having missed the second industrial revolution, Nigeria must rise and make a quantum leap into the blossoming digital revolution. The world is witnessing what economic historians would call the third industrial revolution or digital revolution.
- Computers, telecommunications, Internet, robotics and biotechnology are transforming all facets of life.
- Digital economy is being propelled by Small and Medium scale Enterprises (SMEs) in both developed and developing nations.

SMES TO FUEL DIGITAL REVOLUTION IN NIGERIA

Some of the major objectives of the 2001 budget:

- Restructuring the Nigerian economy to make it market oriented, Private sector-led and technology driven.
- Improvement in credit delivery and extension services to SMEs.
- National Information Technology Development Agency [NITDA] was recently established by government with a take-off grant of N2.9 billion (less than \$28 million)
- Although this important agency was set up almost six months after the budget had been announced, it is still an encouraging effort and a good signal of greater things to happen.
- The key objective of the national IT policy is to help government identify areas of need for IT development to enable resources/support to be channelled accordingly. It will also encourage Nigeria's export of IT.
- There are over 500,000 viable companies in Nigeria (retail, wholesale, manufacturing, services etc).
- Some of these companies would need some form of IT content for their operations. Training opportunities for IT savvy individuals targeted on building the local human capital in the areas of IT.
- Nigeria's local software developers (mostly SMEs) should be patronized by Nigerian companies as well as government.
- Derive monumental benefit from the world wide IT revolution – Nigeria's software engineers/programmers can export their services by remote connections without necessarily jumping ship.

LESSONS FROM REAL LIFE SITUATION

- Most breakthroughs in IT in the US were propelled by SMEs.
- The first mini-computer (Altair 8800) was manufactured in the early '70s by a company called MITS in New Mexico, USA.
- Microsoft Disc Operating System (MSDOS) which enabled about 80% of the world PCs to operate was developed in 1980 by Bill Gates and Paul Allen when their company was a small scale enterprise.
- Naturally, Bill Gates, the co-founder of Microsoft is today the richest man in the world with networth of \$63 billion (Forbes, December 2000). This amount is enough to pay-off Nigeria's debt two times over.
- Microsoft's market capitalization is by far larger than Nigeria's GDP. The company's annual revenue (\$12 billion) is about the size of Nigeria's annual revenue.
- DELL computers was founded by Michael Dell when he was a student and his start-up company was an SME.
- More than 50% of software developers in India are small and medium scale entrepreneurs.
- India's IT industry exported about \$6 billion softwares and related services in year 2000. This amount is just a little less than Nigeria's oil revenue of \$9 billion for the same period.
- Almost 40% of 500 multi-nationals out-source their IT software to India.

VARIOUS FINANCING OPTIONS

- Banks and SME entrepreneurs particularly IT engineers to go into partnerships. Nigerian banks are prepared to disburse 10% of their Profit Before Tax (PBT) by way of equity participation.
- IFC – World Bank is prepared to support SMEs in Nigeria. IFC had already committed \$10 million in its initiative to develop SMEs in Nigeria.
- African Development Bank (ADB) is in a good position to assist SMEs in Nigeria.
- Various specialized banks set up by the government in the past to support SMEs have now been merged into one big financial institution – Nigeria Agricultural Cooperative & Rural Development Bank [NACRDB].
- A National Industrial Bank with proposed paid-up capital of N50 billion was also recently announced by the government.
- Nigerian Export and Import Bank (NEXIM)

CONSTRAINTS

Telecommunications and Digital Age: Nigeria's present situation

- Nigerian Telecommunications Limited (NITEL) is still one of the largest monopolies in any civilized democracy, which aims at restructuring its economy to be private sector-led and market oriented.
- Nigeria's telecommunications infrastructure is still very primitive.

Teledensity of 0.004 (250 people to 1 telephone line) is still one of the lowest in the world.

- About 400,000 telephone lines are connected, only about 60% are actually operational.
- For Nigeria to embrace digital revolution, our teledensity should be better than 100 people to 1 telephone line, consistent with the recommendation of International Telecommunications Union (ITU).
- There is a positive correlation between nations with high teledensity and their level of economic prosperity.
- There is also positive correlation between nations with high teledensity and their ability to participate fully in the digital revolution.
- GSM – The successful auction is applauded all over the world as the most transparent auction exercise Nigerian government ever embarked upon.
- But GSM cannot solve all Nigeria's telecommunications problems. It is expensive to use GSM for data transmission. Government needs to encourage investment in fibre-optics and broadband technology.
- Dearth of managerial skills
- Lack of e-workforce
- Environmental protection (security of lives and property)
- SMEs cannot tolerate market shocks.
- Lack of government patronage for SMEs products

THE WAY FORWARD – WHAT THE GOVERNMENT CAN DO

- Government should make powerful pronouncements on Nigeria's digital revolution.
- All secondary schools in Nigeria to be equipped with IT laboratories.
- Every secondary school in Nigeria to be connected to the Internet in order to spread and propagate IT awareness among our youths.

HUMAN CAPITAL DEVELOPMENT

- Support engineering programmes adequately in tertiary institutions. (India graduates about 178,000 software engineers yearly, second only to the United States)
- Expose university lecturers to IT conferences and seminars both locally and internationally.
- Government should automate various parastatals and agencies. This should create jobs for our local IT industry.
- Government to create awareness on the importance of IT as a way of life. A part of our business culture.
- Government to invest heavily on all IT related projects. Fibre optic cables to link up all strategic business districts nationwide.
- Government must seriously and timely participate in international projects on IT. For example, Nigeria signed membership agreement of Regional African Satellite Communications Organization (RASCOM) only on January 31, 2001 as the 44th candidate. RASCOM is a geo-stationary satellite telecommunications organization providing multi-media

telecommunication services. All African countries are required to be members and the project is economically attractive and will invoice users for regional African phone calls about 10 Cents a minute.

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- Nigeria's role in AfricaOne project (an undersea fibre-optic cable linking the coastal nations of Africa) is still unclear.
- Import duties on computers and IT equipment to be reduced to zero.
- Create digital villages (Nigeria's belated Silicon Valley) where software developers would test out their knowledge and skills.
- Excerpt from *The Silicon Boys and Their Valley Dream* by David Kaplan: ". . . if the Silicon Valley were a nation, it would rank among the world 12 largest economies" . . . the boys "love to live in the valley so they can work there."
- Nigeria to patronize indigenous softwares.
- Government to make research funds available.

CONCLUSION

For Nigeria's digital revolution to blossom, government must recognize that there is a direct relationship between a highly digitalized economy and the prosperity of that economy.

Government should demonstrate serious commitment in creating digital villages in strategic business districts, where adequate infrastructure and security are provided for software developers.

Nigeria may choose to ignore or delay joining the on-going world-wide digital revolution at her peril.