NIGERIA

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"Too large to ignore"

Increasing transparency, diversity and returns for international investors are changing the nature of doing business in Nigeria

Buoyed by a determination to become one of the top 20 economies in the world by 2020, Nigeria is in the throes of a massive transformation, as it aims to diversify its petroleum-based economy and make tangible changes to its business environment.

President Barack Obama meeting with Nigerian President Goodluck Jonathan at the Oval Office, June 8, 2011

During his inauguration address as President of the Federal Republic of Nigeria and Commander-in-Chief of the Nigerian Armed Forces on May 29, 2011, Dr. Goodluck Jonathan announced: "We must form technical and financial partnerships with global businesses and organizations. We live in an age where no country can survive on its own [...] Returns on investment in Nigeria remain among the highest in the world. We will continue to welcome sustainable investment in our economy [and] push programs and policies that will benefit both local and foreign businesses."

According to the Nigerian Investment Promotion Commission (NIPC), Nigeria's economy is "too large to ignore." Opportunities for investors abound, from agriculture, transport and power generation to finance, manufacturing and tourism, with the nation's non-oil sector now expanding at a greater rate than its dominant petroleum industry. Terence McCulley, the U.S. Ambassador to Nigeria says, "Foreign investors should see Nigeria as a place with a lot of opportunity."

"There is more to Nigeria than oil. We have cocoa and palm oil, for example, and arable land," says Prof. Adebowale Adefuye, Nigeria's Ambassador to the U.S. "We will fulfill our potential by removing the impediments to our economy."

Increasing transparency and stamping out corruption are just two of the current Administration's targets. "We have compelled the government to create a committee so that when an investor has a problem he can complain, and within a week there will be a response," says Mustafa Bello, CEO of the NIPC.

A major development in fighting corruption has been the creation of the Bureau of Public Procurement (BPP), whose key task is to ensure that bribery becomes a thing of the past.

"It is important people know that if they are competitive in terms of quality and cost, they have a chance of getting the job without having to bribe anyone or know anyone," says Emeka Ezeh, Director General of the BPP. "Many reforms are taking place. People need to visit Nigeria to see the progress that has been made in building institutions that will instill confidence in them."

He adds: "I aim to develop procurement here to the extent where a procurement officer will look a minister in the eye, and tell him that he cannot do what the minister is asking as it is against the law." ●

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Making progress in tackling transport issues

One of the major challenges faced by Nigeria is the overall improvement of its transport sector

Potentially a catalyst for enhanced economic development, a good transport network has a multiplier effect on the socio-economic, political, and environmental state of a country. It can create job opportunities, increase trade, foster national development and add buoyancy to the economy. Currently, however, Nigeria's transport infrastructure is in acute need of improvement. "With infrastructure as a whole, that is air, sea and roads, we are not quite where we ought to be at this point in time. The road network is vast but it has not been maintained and there is the issue of safety. The rail network is just in its infancy; we had a network that connected the north and south of the country, as well as south and east, but this has unfortunately deteriorated over the past 20 years – but I know there is a focus to get this up and running again," says Captain Akinlawon George, Managing Director of the Aero Contractors Company of Nigeria. "Transportation is a win-win market if handled appropriately."

Reforming the transport sector forms a key part of President Goodluck Jonathan's transformation agenda. Last year, his administration pledged its determination to integrate the nation's sea, road, rail and air links to develop an effective and efficient inter-modal transport system. At the nation's ports, for example, it has already trimmed the number of government bodies involved in their operations from an unwieldy 14 to a more streamlined six. It is also targeting faster turnaround times and reduced costs, and recently all Nigerian seaports have begun 24-hour operations.

"The government has good intentions to move our transportation to the next level," says Lape Osinaike, Managing Director of Murphy Shipping and Commercial Services Ltd. "We have to ensure we have first-class maritime activities in Nigeria. I strongly believe things will change. In terms of the turnaround of ships coming in, that has really improved. It was terrible in the past, but it has been reduced to between 21 and 30 days."

Murphy Shipping and Commercial Services is a fully integrated international logistics provider involved in warehousing, transportation, insurance and freight forwarding, as well as customs clearance. Its roots are strongest in Africa, providing support services to the oil and gas industry after creating a niche for itself when it began operations in Nigeria in 1975. Some of its biggest clients include Exxon, Chevron, Total and Schlumberger. International joint ventures are expected in the next future. With offices in Nigeria and Azerbaijan, as well as the U.S. and the U.K., the company has expert knowledge of the Nigerian and Caspian markets, particularly in Azerbaijan and Kazakhstan. "Joint ventures and synergies will definitely help the company in terms of growth and expansion," says Mrs. Osinaike.

To alleviate pressure and congestion at the nation's seaports, construction works are under way at six inland container depots (ICDs), bringing trade and customs clearance closer to the hinterlands at Isiala (Ngwa-Abia State), Bulunkutu (Borno State), Helpang (Plateau State), Ibadan (Oyo State), Funtua (Katisina State) and Kano (Kano State). Inland customers will benefit from complete port services as conveniently as if they were on the coast.

Captain Akinlawon George, Managing Director of the Aero Contractors Company

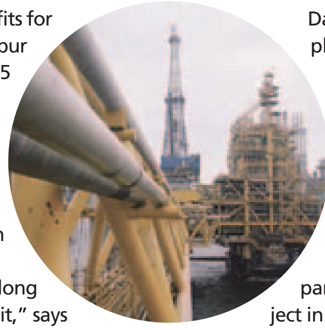
Covering an area greater than twice the size of California, Nigeria is a huge country – so its aviation sector is also vital in transporting both its people and cargo. The nation's largest airline, both in terms of market share and passenger numbers, is the Aero Contractors Company of Nigeria. Reportedly only around 14% of Nigerians have ever flown in an airplane and according to the company's MD, the total market is growing. "It is not just about taking more of the market share from another operator," says Capt. George. "We are still expanding. We have the low-cost carrier concept of low fares, while still maintaining our business class and providing hot meals on board."

Headquartered in Lagos, the Aero Contractors Company offers both helicopter and airplane services to the highest international standards of safety. The company is focused on bringing customers world-class aviation services with affordable fares, quality on-board service, good customer relations, and effective online services. It prides itself on its punctuality and safety record, and has established itself as the leading innovative regional carrier in West Africa. ●

More locals involved in energy

Indigenous piping specialist Damagix boosts local content in the oil & gas sector

Endowed with estimated oil reserves of 37 billion barrels, the petroleum sector is a rich vein of income for Nigeria. Its oil sector provides 95% of the country's foreign exchange earnings and around 80% of its budgetary revenues. Daily production of 2.2 million barrels puts Nigeria in 14th place among the world's top oil producers. Exports of 2.1 million barrels per day also make it the fourth biggest exporter in the world.



Initiatives are under way to see more equitable benefits for Nigerians from the country's immense oil wealth. To spur greater employment opportunities for the nation's 155 million inhabitants and increased retention of "industry spend" in the country, in 2010 the government introduced the Nigerian Oil and Gas Industry Content Development (NOGICD) Act that specifies minimum levels of local content, and requires all foreign companies to partner with indigenous companies for investment in the oil industry.

"We have been part of local content development long before the new law came in and so we were ready for it," says Dahiru Mohammed, Chairman and CEO of Damagix Nigeria and an active proponent of greater Nigerian content in oil and gas projects. "Local content has shown that Nigerian entrepreneurs are capable, and can do the task in hand provided that a few things are put into place, like financing."

Damagix is 100% Nigerian and the leading indigenous supplier of casings, line pipes, and oil country tubular goods (OCTG) to all major operators in Nigeria's oil and gas industry. This year it will begin the construction of the country's first pipe mill.

The company also offers comprehensive engineering and consultancy services and has increased its capacity and expertise through strategic collaborations with technical partners overseas.

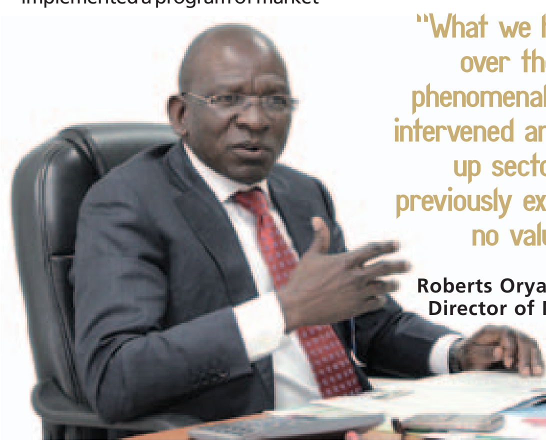
"Fifteen years back there were only a few Nigerian companies that could proudly say they had a million-dollar project in the oil and gas industry," says Mr. Mohammed. "But not long after we started the campaign on local patronage [now 'Nigerian content'] a Nigerian company won a $400 million project. Today, Damagix is proposing a $5 billion project, on a contractor-finance basis. This is huge growth in local content development."

Variety is the spice of financial life

Advocates of economic diversity, such as Nexim Bank, address barriers to trade for the non-oil sectors

Nigeria's financial sector has undergone substantial changes since 2004, when a recapitalization process reduced the number of banks from 84 to 25, and a more taut banking system helped the country capture global attention with solid economic results. Over the past decade, the economy has expanded at an average rate of 7% per annum, reaching 7.85% in 2010. The same year, Citigroup ranked Nigeria as the fifth fastest growing economy in the world, after China, Taiwan, Singapore and Qatar. GDP growth is predicted to hit 8.1% this year and 8.2% in 2103.

In 2008 the Nigerian government implemented a program of market-oriented economic reforms, which included modernizing the banking system, curbing inflation by blocking excessive wage demands, and resolving regional disputes over the distribution of earnings from the oil industry. One important step undertaken by the Governor of the Central Bank of Nigeria, Sanusi Lamido Sanusi, was the establishment of the Asset Management Corporation of Nigeria (Amcon) to purchase non-performing loans (NPLs) and to recapitalize struggling banks. "At Amcon, we have a model that is unique," says Mr. Sanusi.



"What we have done over the years is phenomenal. We have intervened and opened up sectors where previously exports had no value added"

Roberts Orya, Managing Director of Nexim Bank

"It is important to look very closely at what we are doing rather than work on stereotypes. In many areas we have set the pace. A lot of what is being discussed in Europe today has already been done here. We have forced the banks to take losses and to pay for the bailout. This says something about the direction of economic policy and the future."

Increased oil exports and high crude prices helped Nigeria ride out the global economic slowdown with GDP rising while other nations slipped into recession. However, it is the non-oil sector that is even more impressive, with investment – both public and private – and consumption being the primary economic drivers. Overall GDP growth in the first nine months of 2011 averaged 7.25%; the non-oil sector averaged 8.76%, thanks to increased activity in areas such as agriculture, trade, manufacturing, and services.

Supporting diversity in Nigeria's non-oil-related industries since 1991, the Nigerian Export-Import (Nexim) Bank is a 50-50 partnership between the Central Bank and the Ministry of Finance.

"What we have done over the years has been phenomenal," says Roberts Orya, Managing Director of Nexim. "We have intervened and opened up sectors where previously exports had no value added. For instance, in agriculture, Nexim has embarked on greenfield projects that have become so big that you can find them on CBN's list of top 100 exporters. Also, we started one of the biggest cocoa processing plants in Africa (Multi-Trex Integrated Foods Plc.) and its largest rubber company, Pamol Nigeria Ltd."

In addition, the bank is looking at expanding the entertainment industry, Nollywood, "because we believe it is an industry that has key growth potential for employment and foreign exchange," says the MD.

Nexim will soon launch its $61.5 million Sealink project that aims to boost maritime trade among members of the Economic Community of West African States (ECOWAS) with a new shipping company that will better connect the region's seaports and encourage greater trade.

"We don't just give loans to exporters; we also address barriers to trade," says Mr. Orya.

Industry leader's determined approach sets the bar

Nigeria's principal biscuit manufacturer has become a role model for the industry

Nigeria's focus on hydrocarbon production to catapult the country's economy in recent years left the manufacturing sector seriously constrained, reducing its GDP contribution from 4.21% to 4.19% in 2009 and 2010 respectively. Since 2000, approximately 850 manufacturing companies have closed down or halted production, mainly due to challenges relating to the energy supply cost (which can represent up to 70% of expenditure), transportation, infrastructure and capacity utilization.

However, Beloxxi Industries Ltd., Nigeria's principal biscuit manufacturer, has set precedents and is regarded as a role model for the country's manufacturing sector. It has become a premier manufacturing company with international standards, demonstrating that Nigerian companies can overcome these obstacles. "There is not a single business without challenges and our duty as entrepreneurs is to face them successfully," believes Obi Ezeude, President and CEO of Beloxxi.

Mr. Ezeude was one of the largest importers of cream crackers in Nigeria, importing about 600 containers annually from Malaysia by the year 2000. Discussions with its Malaysian suppliers to set up shop in Nigeria fell through. In March 2003, when former President Olusegun Obasanjo banned the importation of biscuits into Nigeria, Mr. Ezeude's business instinct made him decide to go into production.

From trader to international biscuit manufacturer, Beloxxi is a fine example of Nigerian business acumen

Mr. Ezeude comments: "People say that power is the biggest challenge in the manufacturing sector and I always tell them that it is the availability of long-term funding."

In December 2003, the United States of America Export and Import Bank (US EXIM) approved a $2.2 million loan facility to Beloxxi, and an Italian firm supplied machinery. Since then, Beloxxi has quickly become the leading biscuit manufacturer in Nigeria due to its high quality product.

"Our product is not only designed for local consumers, it is also designed for the international market," explains Mr. Ezeude. The ingredients come from the best available suppliers; glucose from the U.S., butter from South Africa, and oil from Nigeria.

The business kicked off in Ikeja in June 2006 in a rented warehouse. But by January 2007, Beloxxi's impact on the market was so great that demand became overwhelming, well beyond the company's planned production capacity.

By December 2007, after studying market trends, the Agbara project was set up and Mr. Ezeude located a 15-acre greenfield site to expand his business. On this occasion, Beloxxi received financial support from the Nigerian Export-Import Bank (Nexim). "I went to several banks with my project, but only Nexim Bank understood what I was doing," says Mr. Ezeude.

With a team of around 500 people, Beloxxi recruits staff from the surrounding area under clearly defined criteria. Employees must possess the Senior Secondary Certificate Examination (SSCE) qualification and want to continue studying. "We only employ young workers who want to study. If you get into a school, college or university and you work for us then you still get your salary uninterrupted while you study," says Mr. Ezeude.

Present in Ghana, among Beloxxi's objectives include continued expansion. "My vision for the future is to be the premiere biscuit exporter of Nigeria and sell them all around Africa," adds Mr. Ezeude.

Paradigm change for insurance

The oldest insurance company in Nigeria, Royal Exchange is now targeting the huge informal market

With less than 10% market penetration, Nigeria holds huge growth potential for the insurance sector. According to the National Insurance Commission (NAICOM), the industry regulator, insurance contributes less than 1% to the nation's GDP; by comparison in South Africa it is about 15%. Despite the global financial slowdown, Nigeria's insurance industry grew by 25% in 2008, 30% in 2009, and an approximate 26% in 2010.

Efforts are being made to raise the image and profile of the industry and to increase the penetration and popularity of insurance products, including NAICOM's Market Development and Restructuring Initiative (MDRI), which aims to enforce 16 lines of compulsory insurance. In addition, the Nigerian Oil and Gas Industry Content Development Act of 2010 essentially stipulates that 70% of insurance bought by the nation's energy industry must come from Nigerian insurers. "Insurance companies are also moving beyond government offices and talking to private house-owners, and have a massive campaign to get more and more people to take out insurance," says Fola Daniel, Commissioner for Insurance at NAICOM.

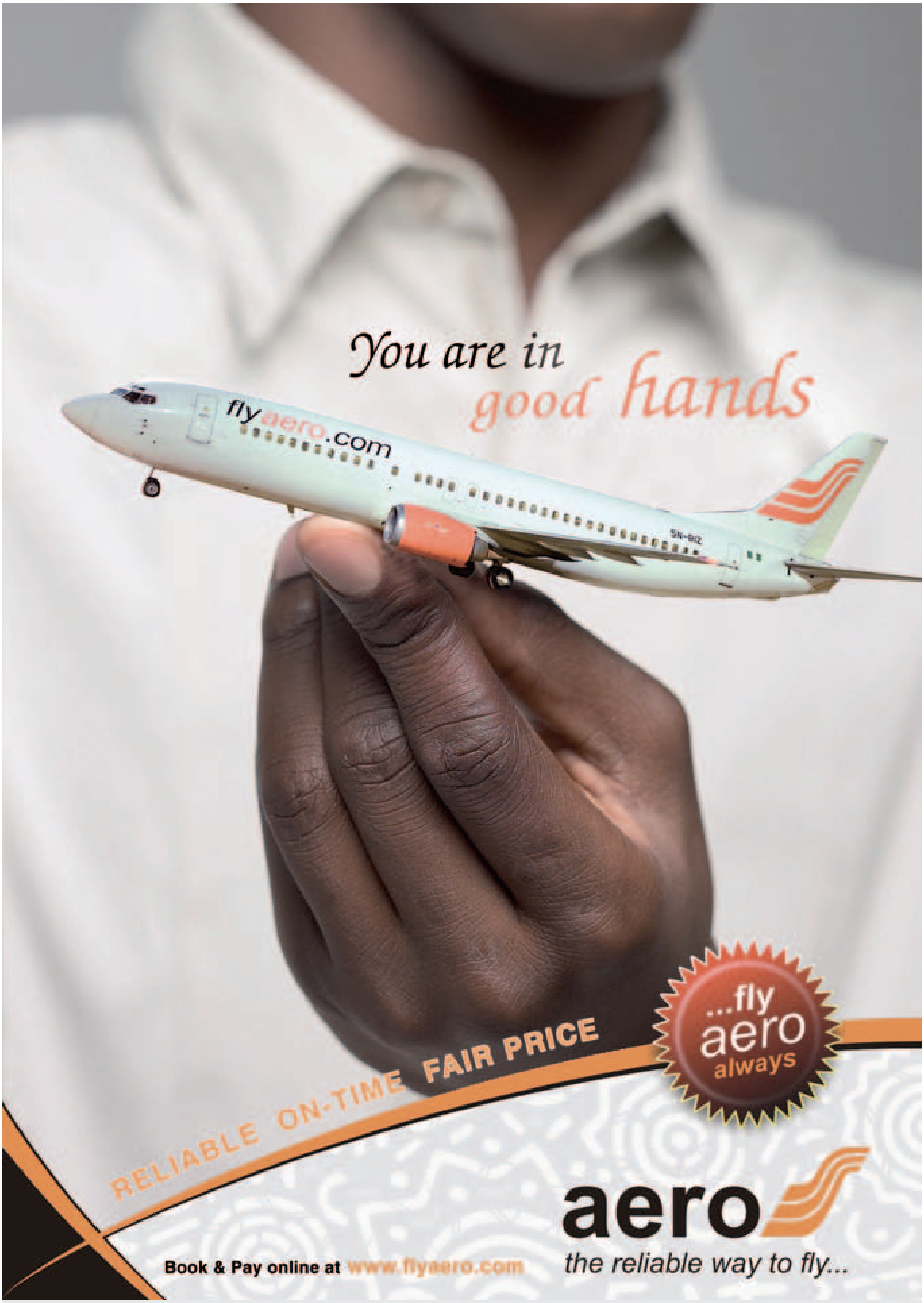
Unlike in Europe, for example, where insurance was developed around a mass retail market, in Nigeria insurance was initially introduced to take care of corporate entities, and later for high net-worth individuals. "That meant the mass market was not factored in," says Chike Mokwunye, Group Managing Director of Royal Exchange Plc., Nigeria's first insurance house. "All our efforts right now in Nigeria are geared toward corporate entities; the retail market has been left unexplored."

Chike Mokwunye, Group Managing Director of Royal Exchange Plc

Mr. Mokwunye sees tapping into the informal sector of Nigeria's economy, especially agriculture, which represents 42% of GDP and provides about 70% of job opportunities, as intrinsic to the company's future growth. The GMD also points out a different approach is needed with the informal market, compared with corporate clients, due to reduced literacy rates and access to customers in remote villages.

Trust and confidence are essential in the insurance business. "There are companies in Nigeria today that have insured with Royal Exchange for over 80 years," says Mr. Mokwunye. "They have not stayed with us for such a long time simply because we are the oldest; they have stayed because we can deliver what they want and have trust in us."

In 2007, Royal Exchange transformed from an insurance-centric company to a broad-based financial services provider offering general and health insurance, finance solutions, wealth management, life assurance and microfinance banking. Mr. Mokwunye also says that given the company's vast and diverse portfolio, it is open for U.S. partnerships in many arenas.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