



NEW AFRICA

NIGERIA – FROM GROWTH
TO OPPORTUNITY

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**BUSINESSACTION
FORAFRICA**

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GLOBAL DEVELOPMENT



FOREWORD

THIS APRIL, NIGERIA HIT THE front pages of the financial press. The re-evaluation of the size of the economy showed an emerging powerhouse, with a GDP of more than \$500 billion, composed of a diverse range of sectors.

For many people involved in African economies, this merely confirmed what we already know: Nigeria is a country with extraordinary cultural capital and huge natural resources; a young, dynamic population bursting with aspiration and ambition—but it is naive to talk about Nigeria's opportunity without acknowledging its challenges.

The country's narrative is a complex one, and too often, however, the country leads the headlines for the wrong reasons. Inequality and unemployment—both a result of the country's economic structure that has generated growth and wealth in a narrow band of society—feed into social tension that time and again has led to tragedy.

Business is often understandably hesitant in publicly addressing its role in mitigating and alleviating the socio-economic fractures in frontier markets. It is too easy to tell a story about the enormous potential in a country like Nigeria; it is much harder to acknowledge that business, along with government, development partners

and civil society, has a responsibility and a commercial imperative to make sure that the benefits of growth are shared throughout society.

As the companies involved in this report demonstrate, domestic and international businesses, such as SABMiller, Standard Chartered and Diageo, are able to leverage the scale and breadth of their supply chains to build sustainable economies. Successful African enterprises are entering the Nigerian market, using their experience from around the continent to succeed in the continent's giant—and Nigerian companies are heading the other way.

Development agencies, including DFID, are working to unlock the potential of small businesses in conflict-affected areas. Start-ups like Jumia and ToLet.com.ng are using technology to overcome infrastructure challenges. Enlightened policymakers, such as Agriculture Minister Akinwumi Adesina, are fighting corruption and unlocking the latent potential in the rural economy.

Businesses have an opportunity to demonstrate how they are contributing to Nigeria's development—not just in terms of the scale of its economy and the raw numbers of its growth, but in the size of the opportunity afforded to individual Nigerians.

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*Vice President,
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FROM *Growth to* OPPORTUNITY

NIGERIA'S YOUTH
IS A CHALLENGE
AND AN
OPPORTUNITY

O

ON APRIL 7, NIGERIA BECAME

the largest economy in sub-Saharan Africa—or at least, its numbers were updated. For more than two decades, the country's economic statistics had not been rebased. Taking into account the contribution of runaway growth in telecoms, media and technology showed that Nigeria had, in fact, been growing far faster than the official figures showed.

But amongst all of the hubris amongst policy-makers and excitement amongst the investment community, the 89 per cent “jump” which pushed Nigeria's gross domestic product above that of South Africa, has little to no immediate impact on its citizens, and particularly its young people.

Depending on which estimate you believe, the country's median age is between 14 and 17 years—a huge cohort of people poised to enter the workforce. With the prevailing economic

structures, they face an uphill battle to break into a labour market where opportunities are scarce. Youth unemployment is estimated at close to 50 percent—although some estimates put that as high as 80 per cent—and although Nigeria's explosive economic growth has created great wealth, it has also largely concentrated money and power within a small percentage of the population.

While it is so glibly said that Nigeria's greatest resource is its youth, it is clear that its youth is also its among its greatest challenges. Making sure that a huge, growing and aspirational population has equal access to economic opportunities, healthcare and political agency is the defining challenge of the country's current generation of leaders.

Nigeria's wealth is very often expressed in ab-

THE WEALTH GAP

Nigeria's rapid economic growth has created thousands of millionaires and a middle class that is driving a consumer boom. However, for all of its visible success in wealth creation, Nigerian society remains very unequal, and financial resources—and power—is heavily concentrated in the upper echelons of society. Creating jobs, spreading wealth and ensuring opportunities are shared by all parts of society remains an incredibly important challenge for the country's leadership.

\$2,689

Nigeria's GDP per capita after rebasing its economy.



60% of Nigerians live below the international poverty line, earning less than **\$1.25** per day.



At **\$24bn**, Aliko Dangote's estimated net worth makes him Africa's richest man.



The average Nigerian millionaire is **61 years old** and **male**. More than half of Nigeria's population is under 21, and between **50-80%** of them are unemployed.

\$30 billion

5 billionaires hold **11%** of Nigeria's wealth

\$52 billion

15,700 millionaires hold **19%** of Nigeria's wealth

•= 10,000 people

\$195 billion

Source: World Bank; Forbes List; New World Wealth; African Development Bank; International Monetary Fund

solute terms - the scale of the economy is in focus as the country rebases its GDP, making it the largest in sub-Saharan Africa. Home to the continent's richest man, Aliko Dangote, Nigeria's population of dollar millionaires is growing faster than almost anywhere else in the world. But at the same time, 61 per cent of the country's population lives below the \$1.25 per day poverty line. There is massive inequality between social groups, between generations and between regions. Around 30 per cent of Lagos residents live below the poverty line. In rural parts of the north, that figure rises to more than 75 per cent.

The gulf in wealth and opportunity is a major contributor to the political and social instability that has flared again in the last decade.

As Bishop Matthew Hassan Kukuah, head of the Catholic Diocese of Sokoto, says, the conflicts in the north of the country, which has been in a state of emergency since May 2013, are "99 per cent economic. The religious dimension, he says, is a smokescreen: the real conflict is due to the financial inequality, but also the "inequality of opportunity" that afflicts the country. Violence, he says, "is a symptom, not a disease."

Fixing the gap will take considerably more than GDP growth. For several generations, Nigeria's economic focus has been on sectors that generate wealth and growth, but which are not labour intensive. Oil and gas, financial services and telecoms have all added to the country's economic indicators - the unaccounted contribution of the latter is partly responsible for the sudden jump in GDP - but they have not created anything like the number of jobs needed to meet the requirements of the expanding population.

Starting out on your own is difficult too. As a place for entrepreneurship, Nigeria is often challenging. The World Bank ranks it as 147th in the world in its annual ease of doing business survey; costs are high due to poor infrastructure and dependence on imported goods. Bank loans come with double-digit interest rates and implausibly high collateral requirements, while venture capital is nascent at best.

Wealth has indeed been created in Nigeria, and at an extraordinary rate. However, that wealth has been concentrated at the top end. A report by New World Wealth in 2013 found that Nigeria's 15,700 millionaires and billionaires had combined wealth of \$82 billion—36 per cent of the country's total wealth. The majority of those individuals—61 per cent—live in Lagos, with the rest mostly in the oil and gas hub of Port Harcourt and the capital, Abuja. The wealth of the country's five official billionaires—Aliko Dangote, Mike Adenuga, Folorunsho Alakija, Abdul Rabi'u and Jim Ovia—grew by a staggering 812 per cent between 2007 and 2013. These five people now have \$30 billion in assets—nearly 11 per cent of the entire country's wealth.

The much-vaunted rise of the Nigerian middle class has, some analysts suggest, been overplayed.

The use of the new millionaires and their overt consumption as a proxy for the overall development of the economy could be misguided, and the notion that wealth is automatically spread into society fails to acknowledge the structural issues in the economy that have led to the current distribution.

"That is a convenient narrative if you are on the wealthier side," says Muhammad Ali Pate, a former health minister and member of the

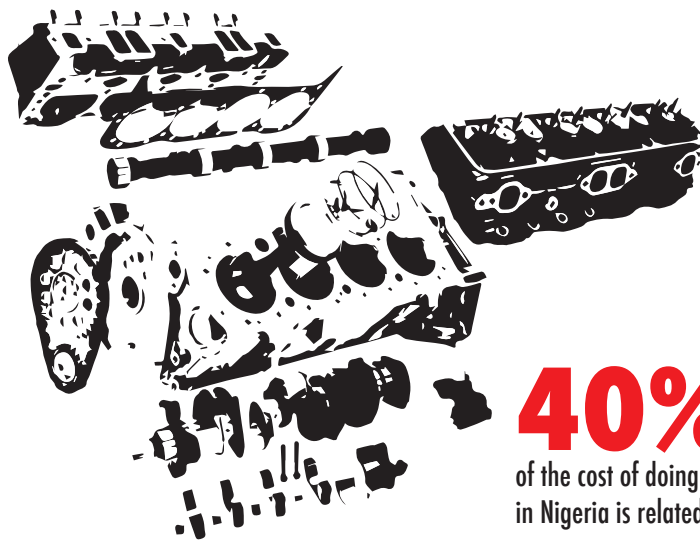
■ "I don't think any society is perfectly equal, but when you have huge inequality due to structural distortions and official failures, both in the market as well as in government, then it's not sustainable for anyone."

- MUHAMMAD ALI PATE



Generation Generator

Nigeria is one of the world's least electrified societies, relying on diesel generators in homes and businesses.



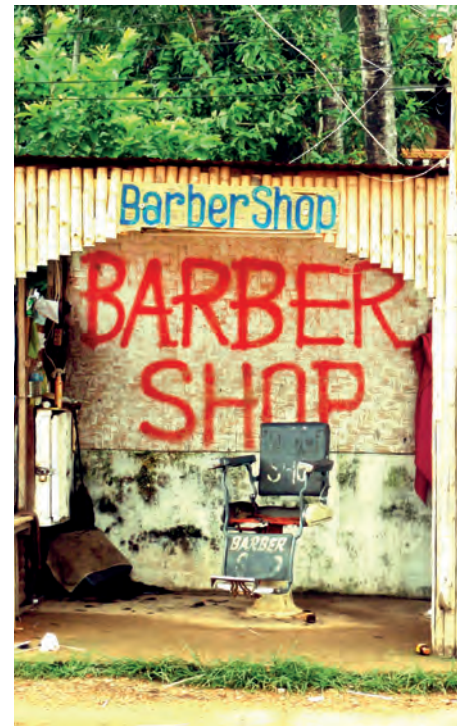
40%

of the cost of doing business in Nigeria is related to power.

At **50¢ per kWh**, Nigerian households pay 3x what Brazilians pay for energy

Nigeria generates **6,000MW** of grid power for its **167 million** people. Brazil generates **100,000MW** for **210 million** people.

Sources: African Development Bank, World Bank, Adam Smith Institute.



SME Challenges

Nigeria's growth has not necessarily translated into a good environment for small enterprises. The World Bank rates Nigeria as 147th in the world for doing business, partly due to the cost of power.

Nigerian president's economic management team. "To say that if a society is wealthy then inevitably it will just take time [before everyone sees the benefits] is a very... short term outlook. In the long run, society has to grow in a way that the social fabric remains intact... I don't think any society is perfectly equal. But at the same time, when you have huge inequality due to structural distortions and official failures, both in the market as well as in government, then it's not sustainable for anyone."

Nigerian youth need jobs and skills, health and education. As a medical doctor, Pate is quick to take the example of child health as an indicator of how government interventions and neglect by the public and private sector can have

far-reaching impacts. Poor healthcare and nutrition in children has ramifications for their individual development, he says.

"The damage will not be seen for 20 years down the road. If people are stealing public resources today, they are detracting from physical capital that can be created, but also inadvertently detracting from the pool of human capital that is of the future. When you and I retire, that pool of capital is the neurosurgeons, the cardiologists, engineers, pilots, that are going to have to deal with us. But the damage will have been done decades earlier. I think it takes leadership to realise that there is a future that will have to be created."

Nigeria's New Economy

In April 2014, Nigeria recalculated the size of its gross domestic product, reassessing the scale of growth in new sectors—such as information technology and telecoms—to become Africa's largest economy. The recalculation showed how much Nigeria's economy has changed over the past 25 years, but also highlighted how much of society has remained excluded from the high growth rates.

GDP after rebasing:

\$510 billion

GDP before rebasing:

\$270 billion

89%

GDP per capita rose to:

\$2,689



From:

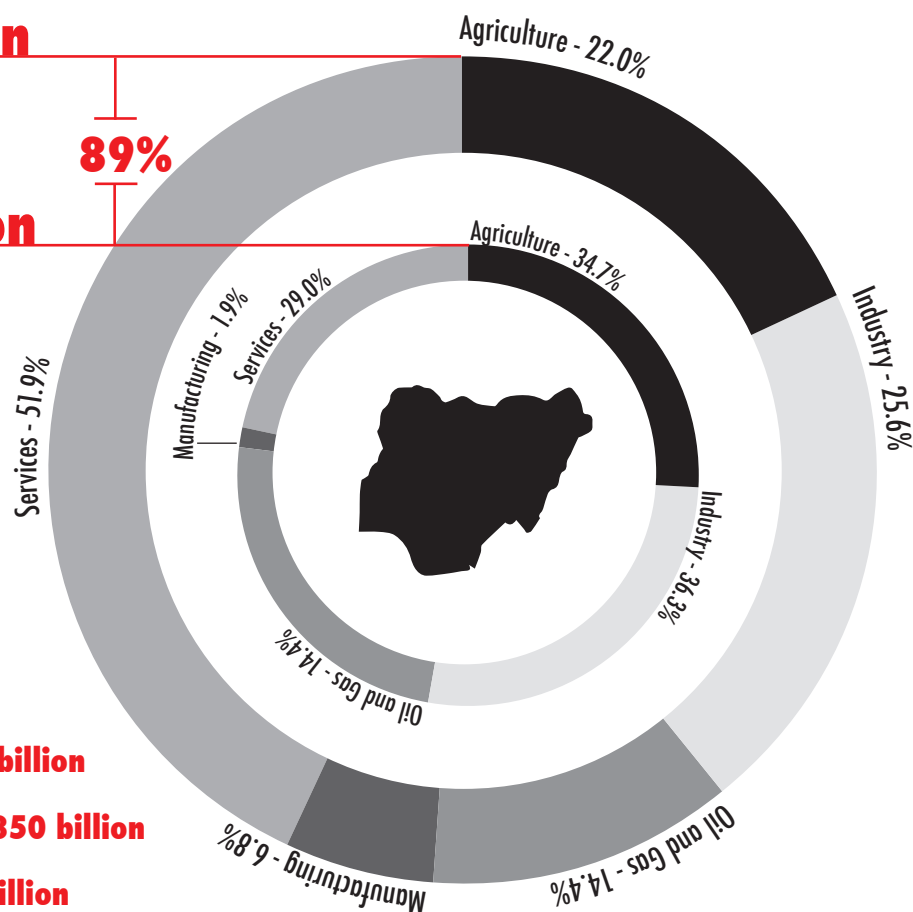
\$1,555

Africa's largest economies:

#1 Nigeria \$510 billion

#2 South Africa \$350 billion

#3 Egypt \$235 billion



Source: Nigerian Ministry of Finance; International Monetary Fund; World Bank; African Development Bank; UN Development Programme

167 million

Nigeria's population, as of 2013.

17.5 years

Median age of the Nigerian population.

52.3 years

Life expectancy at birth in Nigeria.

87%

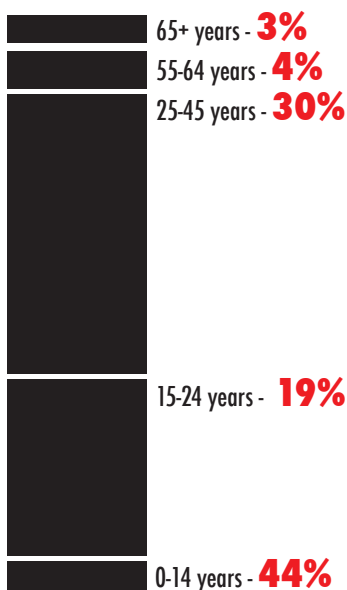
Primary school enrolment rate for boys.

79%

Primary school enrolment rate for girls.

61%

Compound adult literacy rate.

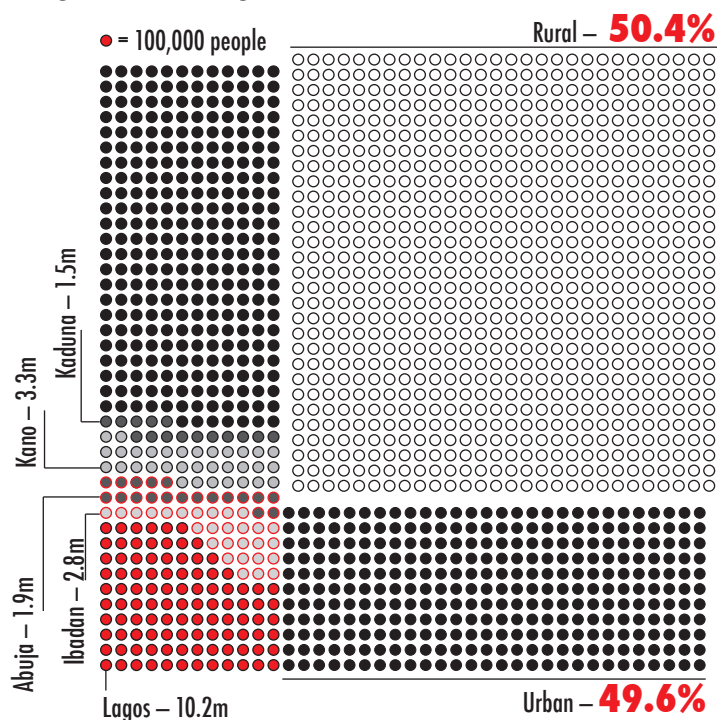


The Youth Bulge

More than 60% of Nigeria's population is under 25.

Demographics

Nigeria's population is young and rapidly urbanising, moving from a rural agrarian society to one crowded into megacities like Lagos.



IGNITING IDEAS

NIGERIA'S
TECH INDUSTRY
SPARKS TO LIFE

S

SULAIMAN BALOGUN'S

start-up journey began like many others worldwide: with a problem. His friends used to complain about how difficult it was to get access to good rental properties in Lagos, Nigeria's humming commercial capital. Property listings gave little insight into the quality of places, fraud was a constant worry and agents demanded up front fees for each viewing. It was the kind of structural failure in a mainstream industry that was ripe for the right business to come in and solve.

In late 2013, Balogun and a couple of friends did exactly that. ToLet.com.ng was the first online property broker, and now has the largest inventory of rental properties in Nigeria.

"We've had more than 1,500 people who have rented our property through our website. We get more than 10,000 hits every day," he says. "By European standards it may not seem significant, but in Nigeria that's big."

ToLet.ng was funded and hosted at Spark, an incubator founded and backed by the

(Right) Online retailers, such as Jumia, are overcoming Nigeria's logistics challenges



London-born Nigerian entrepreneur Jason Njoku and his business partner, Bastian Gotter. That pair were behind iRokoTV, the world's largest online platform for Nigerian films, and have since sought out and developed some of West Africa's most exciting online media and technology businesses.

Although it is at a very early stage, the Nigerian technology industry is showing signs of blossoming into one of the world's most exciting centres of innovation. Buoyed by the sheer size of its population and the rapid growth of its mobile telecommunications industry, Nigeria is starting to attract real money into its web and mobile startups.

However, analysts and industry experts warn that there remain major constraints in infrastructure and skills development, and that amidst the excitement, the contribution of the sector to jobs may be limited.

On the surface, Nigeria is tailor-made for a technology boom. While other emerging market capitals have begun to create their own industries and incubators, and some—like Nairobi—have started to define their competitive advantage, few have the sheer scale of Nigeria. Rapid urbanisation and economic growth is creating a middle class of consumers who are increasingly acquisitive and technologically-savvy.

Penetration of cellphones in Nigeria is 68 percent; internet penetration is 28 percent. With a growing, urbanising population of nearly 170 million people and GDP growth predicted at more than 6.5 percent annually for the next four years, the potential commercial opportunities are enormous.

The new shopping malls being built around Nigerian urban centres are testament to the explosion in retail. Just as the country leapfrogged fixed-line telephony and went straight to mobile, the likelihood is that a large proportion of this retail demand will be fulfilled through online and mobile channels, rather than through bricks and mortar shops.

Many of the businesses being incubated in Spark and at other sites around Lagos are, like ToLet.com.ng, not entirely new technology. Instead, their innovation is in identifying or overcoming an existing challenge in the Nigerian economy and using their technology to skirt around it. Drinks.ng addressed the gap between Nigerians' desire for high quality branded drinks with the difficulty in ensuring that products are the genuine article. Jumia, which has created one of the largest e-commerce platforms in sub-Saharan Africa and has been dubbed "Nigeria's Amazon", innovated to solve the problems created by the absence of payment and delivery infrastructure, taking orders, shipping them on motorbikes and collecting cash on delivery.



"The advantage that Nigerian companies have is access to a very big market," says Yemi Lalude, managing director of Adlevo, one of sub-Saharan Africa's biggest technology investors. Adlevo has now invested in three companies in Nigeria, and has focused so far on the mobile ecosystem and payments, but sees opportunity in e-commerce, as well as the infrastructure that will underpin the continued growth of the industry.

Historically there has been a near total absence of small scale venture capital and angel investment, Lalude says, but now "You have ecosystems being built in Nigeria, with incubators and networks... We're quite excited about that, because it obviously builds a pipeline of investable opportunities for us," he says. "There has been money for big deals, but not for seed investment, so it's quite exciting to see the growth."

Speaking to start ups across Lagos reveals that, while many complain about the lack of available funding, there are other, more persistent issues. Sourcing talent is one, with highly-qualified Nigerians often preferring to seek careers in larger corporates. Infrastructure, too, is an issue. Just as persistent power shortages and the high cost of grid electricity hit other businesses, they impact on technology start-ups.

"Everything is starting to coalesce. The power of networking ignites ideas."

TOMI DAVIES

Access to bandwidth is a concern, even though large trunk infrastructure has now made landfall in Nigeria, with fibreoptic cables now connecting the country to international data networks. The great promise of these cables was that they would massively drop the cost of data and that the sudden oversupply would drive demand amongst consumers, allowing start-ups to capitalise.

As Austin Okere, the Group CEO of Computer Warehouse Group, one of Nigeria's largest home-grown IT companies, says, the future of the media industry is in streaming and subscription services. It was the availability of fast, affordable, always-on broadband that allowed the rapid growth of media sharing websites, such as YouTube, and eventually video-on-demand services such as Netflix, and without the bandwidth, those services cannot take off.

Nigeria is already a massive centre for African media. Although it has rarely come onto the radar of Western consumers, Nigeria's film industry is already among the largest in the world, pumping out a huge volume of low-budget movies, shipped around the world to Nigerian Diasporas on VCDs and DVDs and consumed across Africa.

The media industry is symbiotic with technology—platforms are nothing without content, while content needs new channels for distribution.

The benefits of the big cables are yet to be felt, Okere says, because the so-called "last mile"—the infrastructure between the trunk cable and homes and businesses—remains under-developed. This means that rates are still high and consumption is still constrained.

"It costs three times as much to trunk data from Lagos to Abuja as it does from Lagos to London," he says.

In some places, that is starting to change.

In a nondescript office building off the Herbert Macaulay Road in Yaba, representatives from Nokia are making their pitch to around 30 app developers. The Finnish company has just released its new low-cost smartphone in Lagos - the first batch sold out - and is pushing the local start-up community at iDEA, a technology incubator, to take the apps they have developed and port them onto the Nokia X platform. Tomorrow they will go next door to the CCHub, another incubator, to make their case again. It is a further sign that the Nigerian technology industry is starting to attract real money. Venture capital companies and angel networks are holding pitching sessions and bootcamps.

Yaba, on the Lagos mainland, is emerging as a centre for the new industry, in part due to Tomi Davies, an entrepreneur and mentor, who convinced the Lagos State Government to waive the cost of obtaining right of way for fibreoptic cables from the coast. As a result, iDEA Hub has a fast, stable internet connection.

Davies, who also chairs the Lagos Angels Network, says he wants to create rockstars out of the independent developers who are working at iDEA. The buzz around the area is starting to build, and although there is a long way to go before Yaba matches Silicon Valley, or even Kenya's "Silicon Savannah", it is on its way.

"Way before we even started, the University of Lagos was down the road. The Yaba College of Technology was down the road. The International School of Design was down the road. What then started to happen? CCHub, Pagatech, TBC Labs, iDEA, Konga's moving to Yaba," Davies says. "Everything is starting to coalesce. The power of networking ignites ideas."

WIRED NIGERIA

Although Nigeria aspires to become one of the world's largest markets for information technology, the reality today is that access is poor and costs are prohibitively high, creating a difficult environment for consumers and entrepreneurs.



11.4%

of households have a computer.



9.1%

of households have internet access.



25%

of Nigerian phone users own smartphones

Nigeria's "iGDP"—the contribution of the internet to its total gross domestic product is:

0.8%

Nigeria has:

f 66 million Facebook users.

t 1.8 million Twitter users.

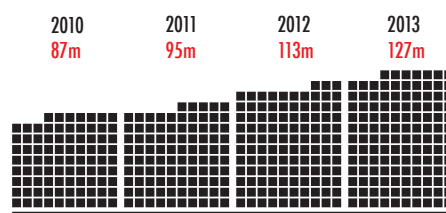
in 1 million LinkedIn users.



32.9%

of Nigerians use the internet.

Active Mobile Connections



82%

of Nigerians have mobile phones



Penetration of mobile banking is just

6%



Penetration of online retail is:

0.04%



Average bandwidth per user is:

0.3 kbps
(141st in the world)



Four new cables have made landfall in Nigeria over the past five years: Main One, Glo 1, WACS and ACE.

At **50%**

internet penetration in urban areas is almost twice that of rural areas.



Source: International Telecommunications Union; Nigerian Communications Commission; McKinsey Global Institute; World Economic Forum Global Information Technology Report; World Bank; TNS

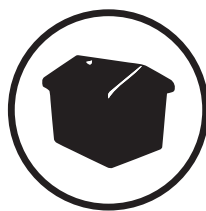
Ten Tech Companies to Watch

*Drinks.ng*

Major brands, such as Guinness, have found a huge market for alcoholic beverages in Nigeria. Drinks.ng, founded by Lanre Akinlagun, offers an online platform for Nigerian consumers to buy any volume of verified authentic drinks.

*ToLet.com.ng*

Nigeria's urbanisation and economic growth have had some side effects. A shortage of high-quality rental property has been exacerbated by opaque and manual mechanisms for customers. In 2013, Sulaiman Balogun created Nigeria's first online property broker, helping urban consumers quickly find property.

*Hotels.ng*

Casual visitors to Nigeria often have a shared complaint—that hotel rooms are prohibitively expensive, and it is tough to find a room. Spotting that there was no centralised listing and booking service for independent hotels, Mark Essien created one.

*Jumia*

For all of its consumer potential, the evolution of Nigeria's online retail industry has been hampered by an absence of payment infrastructure and a relatively low penetration of credit cards. Jumia, "Africa's Amazon", solved this by sending out its products on bikes and collecting cash payments.

*Konga.com*

Former soldier Sim Shagaya launched e-commerce business Konga.com in June 2012. After major investments from Swedish venture capital fund Investment AB Kinnevik and the South African media conglomerate Naspers, the company is moving to a huge new fulfillment centre in Lagos.

*Interview*Funke Opeke,
CEO of
Main One

When the Main One cable made landfall in Nigeria in 2010, it was one of four fiberoptic lines that promised to unlock the vast potential in the Nigerian technology and media sectors. The idea was that the sudden availability of bandwidth

supply would drive an explosion in demand, just as the introduction of cellular networks unleashed a latent market in mobile telephony.

"With the availability of capacity into Nigeria a few years ago, we thought things would change," says Funke Opeke, the CEO of Main One. "If you look at the environment today, we have companies like Konga and Jobberman and Jumia, so you're seeing internet business models take off, you're seeing banks

putting in facilities for opening accounts on social media. You have cashless banking, where transactions are now being done online, and a lot of payments are migrating online... certainly it is getting interesting and it shows the potential of what can be done."

However, the high cost of infrastructure and the slow pace of regulatory reform has not delivered the benefits that many expected. The cost of broadband is still



Pagatech

One of the first of Nigeria's new wave of technology companies, Pagatech was founded in 2009 and allows users to perform a number of transactions through their mobile phones. As online retail takes off, mobile payments will be vital.



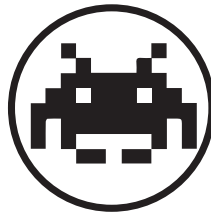
Jobberman

One of Nigeria's technology old guard, Jobberman was founded by three Nigerian entrepreneurs in 2009 as a job search and recruitment website. Now the region's most popular recruitment site, it has expanded into Ghana and has eyes for other countries.



Solo

Although software gets a lot of attention, Nigerian companies have also begun to develop hardware. Solo's handsets and media platform are tailored to the domestic market, offering dual-sims and a huge library of Nigerian music.



Kuluya

Mobile gaming has changed how developers think about game design, and created an industry away from big studios and big budgets. Nigerian studio Kuluya had a smash hit with Oga @ The Top, which led to a partnership with Nokia in 2013.



Autobox

Getting hold of genuine spare parts for cars worn out by Nigeria's battered roads is a constant battle. Autobox matches authentic dealers with customers and delivers parts to their doors, taking some of the stress out of repair work.

prohibitive, in part because inland networks are not shared between operators and because the expense of obtaining the right of way from the government is high.

"Given the size and the population and the opportunity in Nigeria, I think we're only just scratching the surface. If the distribution was a lot more competitive and more affordable then you would have a lot more uptake."

Opeke says that the combina-

tion of the scale of the country's market and its young, growing and tech-savvy population should be a fertile ground for bandwidth-hungry services, such as internet protocol television.

"If IPTV were available here, and the services to gain access were affordable, with the size of our youth population, I don't know why you wouldn't be talking about tens of millions of subscribers for those services. Clearly we're nowhere near

to that."

As well as the international football coverage and movies that are already voraciously consumed by Nigerian audiences, the country is also a massive producer of media products. Nollywood, the second biggest film industry in the world by volume, generates an estimated \$600 million per year. Adding online distribution to an industry that still moves in DVDs could be transformatively huge.

N



CUTTING *the* GROCERY BILL

NIGERIA WANTS TO
END ITS IMPORT
DEPENDENCE

(Right) With a vast reserve of arable land available for cultivation, Nigeria has enormous potential to become self-sufficient in food, if it can break a historic cycle of underinvestment and import dependence.

NIGERIA'S ECONOMIC GROWTH

rates have been running at high rates for a decade, and with a rebasing of its gross domestic product, the country is routinely cited as one of the world's most exciting frontiers for investment.

However, says the minister of agriculture, Akinwumi Adesina, "GDP is important, but you can't eat it."

For all of its successes, Nigeria remains cripplingly dependent on its hydrocarbon sector, which contributes 90 per cent of government revenues, and its social structures are stretched by persistent inequality and high unemployment. Over the past decade, even as the country's economy grew, employment actually fell, and the non-oil sector contracted.

The dependence on food from overseas does damage on a macroeconomic level. As Adesina says, Nigeria exports jobs and imports inflation—a dangerous combination.

Against this backdrop, it is hardly surprising that policymakers, businesses and development agencies have returned to agriculture, realising that the sector has the potential to solve the problems of economic diversification, job creation and poverty alleviation. In 2011, the Nigerian government launched its Agricultural Transformation Agenda, a plan to replace costly imports with domestically-grown produce. With an aim of creating 3.5 million new jobs in agribusiness and adding 20 million metric tons of food to the market by 2015, it is one of the most ambitious agricultural initiatives ongoing in Africa today.

At its heart, Adesina says, it is an attempt to turn smallholder farmers into businesses, driving a massive change in society and the economy as a whole.

Seventy per cent of the Nigerian labour force is employed in agriculture, which comprises around 31 per cent of the country's gross domestic product. At this scale, even marginal improvements in the productivity of the sector can have a massive impact on development. The impact is not only felt in rural areas. Low income consumers in cities are very vulnerable to fluctuations in price, and very exposed to the cost of imports. The



Seeds of Change

When the current minister of agriculture, Akinwumi Adesina, took charge in 2011, Nigeria's seed and fertiliser subsidy system was so colossally corrupt that only around 11 per cent of the total money spent on it ever made it through to the farmers. Domestic seed production and distribution was massively inefficient, and farmers rarely got access to the material that they needed.

The ministry of agriculture completely dismantled it and handed the process over to the private sector.

SeedCo, a Zimbabwean-headquartered agriculture business, began leasing land in Nigeria's maize growing belt last year, and has been laying the ground to set up a seed processing plant. "Nigeria is the next frontier. It's a huge market," Morgan Nzwere, SeedCo's CEO says.

Nzwere, who has invested across a number of Southern and Eastern African countries, admits that there remain many challenges to invest-ing in the country. The market may be big, but to date, other countries have had easier legislation, easier access to land, better distribution systems. Identifying and acquiring land is the biggest challenge in Nigeria, Nzwere says. But for a long-term investor in the continent's agribusiness, it is a challenge that has to be overcome.

"In Africa, the low hanging fruit have now been picked," Nzwere says. "That's why we're now looking at Nigeria."

The results for the country have been considerable. From 15 seed companies operating in Nigeria in 2011, there are now 80, and distribution of improved seed has risen from 500 metric tonnes to 50,000 metric tonnes in 2013.

food security and future prosperity of Nigeria's booming urban middle class depends to a great extent on the development of its agribusiness.

As young men increasingly migrate to the countryside, women take on an ever-greater role in agriculture and food security. Although they have historically had limited access to land rights, technology and training, Nigerian women are already heavily

■ "GDP is important, but you can't eat it."

AKINWUMI ADESINA

employed in the farming sector. The shift in the structure of rural populations means that women's economic empowerment is intertwined with the development of farming communities.

The average Nigerian farm is just 2 hectares, and while large-scale investments are often the first to grab headlines, the most transformative changes will be those that impact on the broad base of smallholders. An estimate from the Food and Agriculture Organisation of the United Nations says that agricultural growth is 11 times more effective at reducing poverty than in other sectors.

"When most people think of agriculture, they think of large scale plantations. That's a very Western approach to agriculture," says Kola Masha, the managing director of Doreo Partners, a specialist agriculture investor, who advised the government on the development of its strategy. "If you look at South East Asia and China, their focus has been on a intensive, small-scale agricultural model."

Doreo is one of a number of organisations building a model that enables smallholder organisations and cooperatives to build commercial structures around their individual members. Smallholder groups need access to inputs, access to financial products and access to markets. The absence of all three has locked many farmers into a cycle of poverty that they struggle to break.

"Like any business that lacks economies of scale, they are unable to get inputs at affordable costs, they are unable to get working capital finance, at the end of the chain they are unable to market their produce at an appropriate price," he says.

Financial inclusion remains a considerable problem. More than 40 per cent of Nigerians lack access to financial services, and the numbers are higher in rural areas. The rationalisation of the Nigerian banking sector in 2009 and 2010 did create leaner, better-capitalised institutions that were better able to service lower income clients, but the sector has been slow to move into rural areas. Microfinance organisations have also been slower growing than in other parts of the continent, even though Doreo Partners' experience has been that the repayment rates on its microcredit programmes has been 99.7 per cent.

Nigeria is still a long way from turning smallholders into millionaires — the agriculture ministry's stated goal — but progress has been strong. In just two years, the import bill has been cut by nearly \$5 billion, and 3.4 million jobs have been added. For the advances to be meaningful, though, the pace will need to be sustained.

"Over the next 20 years, a number of people equivalent to the entire population of Germany will be entering the Nigerian workforce," Masha says. "The best way to create millions of jobs now is by investing in scalable businesses that increase the profitability of small-scale agriculture."

GREEN NIGERIA

Nigeria's agriculture sector has suffered from decades of neglect, corruption and underinvestment, but over the last three years it has begun a transformation that could create millions of jobs and drive development in rural populations.

Nigeria is the largest producer of cassava in the world.



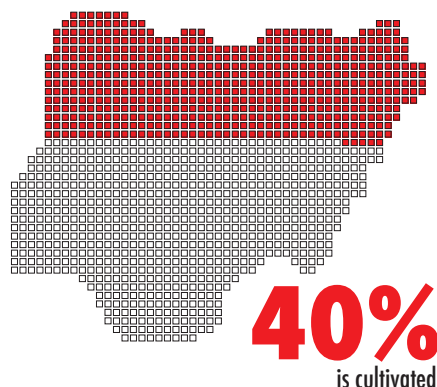
23% is processed for use in manufacturing.

Nigeria has:
19 million cattle and
108 million sheep and goats



Giving it the second largest population of livestock in Africa.

Nigeria has **84 million hectares** of arable land.



Nigeria has:
279 billion cubic metres of available water resources.

3.14 million hectares of irrigable land.

Only **1%** is currently irrigated.



70%

of the Nigerian workforce is employed in agriculture.



Since Nigeria's agricultural transformation programme began in 2011:

3.5 million agricultural jobs have been created.

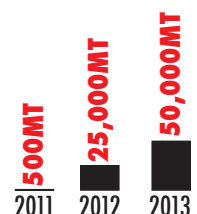
\$4 billion of private sector investments have been made in Nigerian agriculture.

Domestic paddy rice production rose from **1.4 million** MT to **2.96 million** MT.

Food imports fell from **\$11 billion** to **\$8 billion**.



In 2011 there were 15 seed companies in Nigeria. Today there are more than 80. Over three years, the amount of improved seed distributed has increased 100-fold.



30 bakeries have been set up around the country specialising in cassava bread.



STRENGTH FROM NECESSITY

UNIQUE TRENDS SUPPORT
NIGERIA'S ECONOMIC
DOMINANCE.

BY
BOLA ADESOLA

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WE NOW KNOW THAT NIGERIA

is the largest economy in sub-Saharan Africa and the most populous nation, after the country recalculated the size of its economy by using more contemporary measurements.

Countries typically 'rebase' their GDP statistics every five years—using new information from household and other surveys to shed light on neglected or under-reported economic sectors—but Nigeria had not done so since 1990. What we tended to think of as a \$290 billion economy is in fact be closer to \$400 billion, a bit larger than South Africa's and substantially bigger than Hong Kong's.

Even before the new GDP statistics were released, Nigeria was been named alongside Mexico, Indonesia and Turkey as one of the MINTs—the four countries seen as the next generation of developing economies that will achieve great importance.

Nigeria is one of Standard Chartered's largest markets in Africa by revenues. Following the findings generated from an independent study sponsored by the Bank, Standard Chartered can confirm we have added \$2.1 billion of value to the Nigerian economy in 2012—this represents 0.8 per cent of GDP. Further to this, 396,000 jobs have been created as a result of our support and initiatives in this market. The relative value added to the economy is higher than expected, as the Nigerian companies we lend to boast a higher level of productivity, than the average Nigerian firm.

Our long history in this dynamic and growing market provides us with hands-on experience and insight into unique trends of this leading economy. Interestingly, Nigeria's private sector is less complex in comparison to its regional counterparts. This can be attributed to the emergence of conglomerates, a trend emphasised due to the lack of infrastructural support. As a result, one finds many local companies pumping their own water, producing their own electricity and manufacturing their own intermediary products. This is done out of necessity, as operations would cease to exist without this initiative. This self-sufficient approach results in fewer linkages between the economy's sectors, compared to economies such as Kenya. Although owning and controlling multiple operations may have a positive impact on a company's operational risk, the numerous sub-divisions are likely to increase production costs.

However, what this self-supportive trend has facilitated is the creation and growth of multi-skilled conglomerates, who not only enjoy profitable growth but often generate value-adding services for the broader community.

Parco Group, a valued client of Standard Chartered, is one of many examples where diversity operations was motivated by necessity, but generated profitable results. The Group started as a small business, trading bicycle parts in the 1970s, and then evolved into trading industrial chemicals and steel. Once in the steel industry, they ventured into manufacturing industrial chemicals, gases and flat glass and then started a business in converting scrap steel into reinforcing bars, an industry where Parco now owns 25 per cent market share. With the availability of scrap steel diminishing, the company's entrepreneurial flair is now taking the Group into exploring options in mining iron ore.

Like many other multi-operational groups, they produce their own power and gain an income from supplying excess power to the national grid. Currently, most of the 102 megawatts the company produces is fed into the grid. Future plans to grow this capacity to 750 megawatts will equate to around 20 per cent





of the country's current generation capacity. In 2012 the Parco Group generated revenues of \$600 million and employed 3,000 people.

The Dangote Group, another Nigerian conglomerate and valued client of the Bank is also renowned for its adventurous drive from trading into manufacturing. Dangote started out as a trading business just over 30 years ago, with an initial focus on cement. The group then expanded into trading sugar, flour, salt and fish where by the early 1990s they were one of the largest trading companies in the country. The company's leadership then identified opportunities in the country's vast trade deficit in manufacturing products, and applied their skills into establishing manufacturing plants which could assist in meeting the needs of its expanding population.

The Group now owns a number of flour mills, a sugar refinery and are responsible for building the largest cement plant in sub-Saharan Africa. Their lists of 'firsts' is not expected to cease, following the announcement of their



■ “One finds many local companies pumping their own water, producing their own electricity and manufacturing their own intermediary products.”



Nigerian conglomerates, such as Parco Group and Dangote Group, are key to job creation and economic growth.

latest pioneering venture, the construction of Africa's largest petrochemical and fertiliser plant—a \$9 billion project expected to be built over the next five years, creating over 30,000 jobs. On completion, the plant will halve the import of processed fuel products into Nigeria, and completely eradicate the need to import fertilisers to support the growth of the economy's renewed focus on agriculture. Like other leading conglomerates, the plant will be self-sufficient in power and recycled water and have included plans to contribute excess power production to the national grid for the benefit of local communities.

Standard Chartered was the lead international coordinator for Dangote's \$3.3 billion syndicated loan, and we will continue to use our strengths and capabilities to live our promise to be 'Here for good' and supporting transforming companies like the Parco Group and Dangote.

Bola Adesola is the Chief Executive Officer, Standard Chartered Nigeria

FOCUS LOCALLY *for* NATIONAL GROWTH

SUPPORTING LOCAL
ENTERPRISE IS VITAL FOR
SUSTAINABLE GROWTH.

BY
MARK BOWMAN

SABMiller's
supply chain
creates 56
jobs per direct
employee

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THERE IS FAMILIAR STORY IN

emerging markets, particularly those rich in natural resources, where foreign investment is rising and economic growth is rapid but the distribution of wealth is uneven. Often these countries have a strikingly young population with high unemployment. The challenge is how to develop sustainable growth that captures their potential economic contribution and raises living standards for all sectors of society.

Nigeria is facing this conundrum with GDP growing at more than 7 per cent a year, vastly differing urban and rural economies and a population of 160 million and rising, there are inevitably gaps between the distribution of wealth and the capacity structure of the workforce. Like many middle income countries, unemployment still remains one of the most critical problems facing Nigeria today, especially in rural parts of the country where development is slower.

■ “By partnering together with governments, business can create, enable, and support environments where young entrepreneurs can start, grow and scale up their small businesses.”



The world Bank estimates that Nigeria's youth unemployment rate is at 38 per cent, but a more realistic estimate puts the number as high as 80 per cent with half of those living in rural areas, and working informally.

At SABMiller, we believe sustainable economic growth is achieved by focusing efforts locally. Supporting small businesses in local communities is an integral part of generating local economic growth and engaging unemployed youth. It's obvious that economic growth is central to higher living standards but sustainable growth spreads benefits more broadly and by creating growth organically from the bottom up, instead of the other way around. Growth embedded in local communities is more resilient, sustainable, and maximizes the potential for change in Nigerian communities with high youth unemployment and low living standards.

In sub-Saharan Africa, SABMiller is a significant contributor to the local economies, generating \$2.3 billion dollars in economic growth, and employing 765,000 people directly and indirectly across our beverage operations outside South Africa. For every job at a local SABMiller operation, 56 jobs are created in the local economy, largely in trade and agriculture, but many of them first time business owners.

Nigeria is a new business for us, but one that we see as a long term investment. In January of this year we announced a further \$180 million investment in expanding our Onitsha brewery, and we are committed to the potential we see in Nigeria. We are also applying the same model to our sustainable development strategy here-to start locally, and we are confident that this approach will be successful.

An example of this local approach can be found in one of SABMiller's more mature markets—Uganda, where for over a decade SABMiller has been brewing beer. Our local sustainable development strategy in Uganda is underlined by the use of local sorghum grains in Jinja, a town near the Nile River, to produce our clear beer, Eagle. The success of Eagle beer is a prime example of how important it is for global companies like SABMiller to think locally first: through local sourcing, jobs, communities, and ultimately consumers.

By setting up a local sorghum value chain in Uganda, and engaging with local smallholder farmers, Eagle beer is popular among local consumers not just for its taste but also its provenance. Consumers are proud to drink Eagle knowing that it was sourced in their own

community. The number of sorghum farmers has also steadily increased to 8,500 farmers, and the production of Eagle beer has contributed to 90,400 additional jobs in the Ugandan economy, including small businesses who will continue to grow.

The private sector has an important role to play in supporting local communities and stimulating sustainable economic growth in Africa if they focus their efforts locally. Generating quality jobs and opportunities around business operations can empower whole communities and maximize the potential for change in people's lives- including the youth, who are tomorrow's leaders. However, in the case of Nigeria, there is still more work to be done.

Governments and private sector must work together to ensure a business environment for continued private sector investment and more training and support for small business development. As growth in the country continues, it's important that small businesses are able to start up and grow in a time of increasing consumer demands.

By partnering together with governments, business can create, enable, and support environments where young entrepreneurs can start, grow and scale up their small businesses—whether that's through training, education or mentoring. Together we can ensure that growth in Nigeria is sustainable for the long-term, and we are empowering Nigeria's future drivers of the economy along the way.

Mark Bowman is Managing Director of SABMiller Africa

A Hopeful **FUTURE**

NIGERIANS REGULARLY
TOP POLLS OF THE
WORLD'S HAPPIEST
PEOPLE. HOPE AND
ASPIRATION ARE
POWERFUL COMMERCIAL
AND SOCIAL DRIVERS.

BY
YAW NSARKOH





Unilever's
"Perfect Stores"
aim to transform
stalls into small
retail businesses

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NIGERIANS CONSISTENTLY

emerge at the top of global surveys of the world's happiest people. There are many reasons for this but most of them revolve around one word—hope. Where people have hope they aspire to better themselves and to believe in success. Many Nigerians see the future with hope. They see the future as bright. The facts back their optimism. The economy is growing at around 7 per cent a year and this is translating into an expanding consumer base, with McKinsey Consultants recently estimating a \$40 billion growth opportunity in food and consumer goods in Nigeria between 2008 and 2020.

Strangely, this atmosphere of hope and belief sits slightly at odds with much international analysis and commentary. International business appears more pessimistic, less willing to accept obvious Nigerian industrial success, whether in construction, banking, filmmaking or consumer goods. An underlying tone of slight surprise consistently drifts into articles and analysts rapidly and routinely juxtapose success with a strong emphasis on risk.

Obviously, few Nigerians would deny the challenging business environment. But, having worked in many parts of the world, it is obvious to me that these challenges are hardly unique to Nigeria. More importantly, by overly focusing on risk or current challenges rather than future trends, we risk creating an "aspiration gap" between our consumers and our businesses. This should be ringing alarm bells. If consumer goods businesses like Unilever are to thrive rather than survive in Nigeria, they must be in tune with the hopes, aspiration and vision of the people who buy their brands.

If we fail to do this, if we fail to show consumers how we can create a bright future for them, then we will fail as a business. No one is locked into a particular brand of soap or shampoo. Consumer decisions are not long term investment choices. Everyone makes multiple decisions every day about what they use. They will quickly punish any brand that loses touch with their aspiration. As businesses we need to keep our eye on trends like the rapidly growing and vibrant Nigerian media industry as much as

business orthodoxy developed in a very different era before Nigeria's energetic, aspirational and globalised youth population was born.

This is partly about factoring demography, hope and consumer vision into our analysis as well as the predictions of macroeconomic and political pundits. It means working to understand both the binding threads of common understanding and the diversity of Nigerian reality. It is definitely about putting sustainability at the heart of business models in Nigeria. We need to show consumers that business can transform behaviour, provide tangible benefits from our brands and secure a bright future for our children.

The good news is that, as a global consumer good company, we have the means at our disposal to do all this. Consumer goods businesses create a vast ecosystem of suppliers, traders, and third party manufacturers. This can create vibrant new economies in retail and services, packaging, advertising, media and logistics. We can then multiply this benefit many times over by drawing in the experience from across the world and transferring technologies, skills and ideas between markets.

There are many such examples in Unilever from our work applying a "Perfect Store" model to transform simple trading stalls into small businesses that provide better and cheaper goods while increasing traders' incomes, through to Unilever's Shakti scheme in India. The Shakti scheme overturned the conventional orthodoxy about it being impossible to reach the "last mile" to serve small traders at reasonable cost. By focusing on redesigning distribution systems and empowering women through group and individual support it has grown to serve over 3 million rural households and provide income to 70,000 families in India, including 46,000 women traders.

Not every model could or should transfer to Nigeria. But the vision, belief in the future and hard work that made them succeed are all fully transferable. The impact of doing this is well documented in Vietnam in an extensive report by the Central Institute for Economic Management in the Ministry of Planning and Investment. This shows how Unilever went in 14 years from an a minor presence to a creating thousands of jobs, skills transfer and a transformation where growth in the business and growth in GDP became mutually reinforcing.

The fundament conclusion is that the future in Nigeria is as bright as the thinking that goes into our business efforts. We all have long experience in managing volatility and uncertainty but need to recognise that over planning for volatility risks mediocrity. We need to complement sound business management with vision and hope. The time has come to respect and believe the vision and hopes of Nigeria consumers and plan for a bright future.

Yaw Nsarkoh is the President of Unilever Nigeria



TURNING RESOURCES *into* JOBS

LOCAL CONTENT, JOB
CREATION AND YOUTH
ENTREPRENEURSHIP
SHOULD BE VIEWED AS
CORE BUSINESS ACTIVITIES.

BY

MUTIU SUNMONU

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SHELL IS ONE OF THE OLDEST ENERGY COMPANIES IN NIGERIA

and has played a pioneering role in the country's oil and gas industry throughout its history. Nurturing local skills, talent and contracting capacity has been a mainstay of our business for many years.

For us, local content starts with our own workforce. Our two largest companies in Nigeria together employ over 4,000 people, 95 per cent of whom are Nigerian—including the majority of senior executives. We are a largely Nigerian organisation run primarily by Nigerian people and this is reflected throughout our supply chain. Shell Companies in Nigeria awarded more than 90 per cent of their contracts to Nigerian companies in 2013.

Of course, local content is not a discretionary field of activity. Legislation sets challenging targets and there is a strong social performance imperative. Our license to operate depends heavily on our ability to bring jobs, contracts and other tangible benefits to the communities in which we operate.

As in other technical industries in which skills and ca-

capacity take time to mature, we occasionally face tensions between regulation, community expectations and business reality. However, we see the development of local content as first and foremost a business strategy and a source of competitive advantage. We best serve all our stakeholders when we turn resources into jobs and opportunities as well as revenues.

The development of Nigeria's offshore oil and gas industry over the last two decades stands as a shining example of what can be achieved through long-term partnerships between international companies and national resource holders. The Shell Nigeria Exploration and Production Company (SNEPCo) was formed in 1993 to develop Nigeria's oil and gas resources in the Bonga field, 120km offshore in the Gulf of Guinea. This was a new frontier for the country's energy industry and there was virtually no local skills base in place.

SNEPCo began producing at Bonga in 2005, increasing Nigeria's oil capacity by 10 per cent. Local companies played a key role at every stage of



the project's development, with some of the key structures and components built and assembled in Nigeria. The project helped create the first generation of Nigerian oil and gas engineers with deep water experience and by 2013 some 90 per cent of core offshore staff were Nigerian. Bonga has also stimulated the growth of a range of support industries such as maritime services, materials manufacturing and maintenance, floating hotels and helicopters. Today, Nigeria boasts a world-class offshore oil and gas industry.

A similar impact has been evident onshore with the Gbaran Ubie integrated oil and gas project, through which Shell is developing several fields originally discovered in the 1970s but never fully utilised because they contained mainly gas. More than 140 Nigerian companies have provided services including construction, pipeline design and manufacture, vessel fabrication and logistics. Shell has also facilitated community-driven projects to provide drinking water, construct schools and health centres and connect several communities

to the electricity grid for the first time. Gbaran Ubie has stimulated economic growth and helped raise living standards locally. It has also created a legacy of skills and capacity in complex integrated gas projects, which will be vital to meeting Nigeria's electricity supply challenges in the years ahead.

Our industry depends on continual innovation. For this reason Shell has a long history of supporting education in Nigeria. We award more than 2,000 scholarship grants every year and invest in the wider development of scientific disciplines and research through the endowment of professorial chairs and sponsorship of academic centres of excellence in fields such as geosciences, petroleum engineering and environmental management. Over 50 years the programme has offered education to more than 14,000 Nigerians. LiveWIRE, our flagship youth enterprise development programme, has provided access to training, business development services and start-up capital to more than 5,000 young entrepre-

■ “We do not see investment in youth as an *optional extra*.”

neurs in the Niger Delta since its launch in 2003.

Again, we do not see investment in youth as an optional extra. With a population of over 165 million, Nigeria is already the largest country in Africa and the world's seventh most populous. The future trajectory is sharply upwards. According to UN projections we could have the world's fourth largest population by 2030 and potentially surpass the United States by 2050. Our burgeoning youth are the country's most important resource but also the most powerful incentive for Nigeria to make the most of its energy potential. We have a strong mutual stake in making the most of these opportunities together in the years ahead.

Mutiu Sunmonu is Chairman of the Shell Companies in Nigeria



NORTHERN PROMISE

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ENABLING THE PRIVATE
SECTOR IS KEY TO
REDUCING POVERTY AND
INSTABILITY IN NORTHERN
NIGERIA

BY
ANDY HINSLEY

NIGERIA IS A COUNTRY OF

contradictions. Enormous wealth coexists with desperate poverty, and a decade of strong GDP growth has not managed to reduce poverty in all parts of the country. The dynamism of Lagos, with an economy larger than Ghana, stands in stark contrast to economic decline across the North and particularly the increasingly destructive conflict in the North East.

While the South is prospering, the North is not, and the growing regional disparities in economic and human development have led to entrenched poverty, social exclusion and growing feelings of injustice and frustration. These grievances have contributed towards instability and a conflict that is growing steadily worse and which will in turn reduce investment and growth potential in the North. There is a risk of conflict



■ “Rather than looking backwards to traditional industries, the key to success lies in spotting unmet local demand and being able to meet it.”

spreading further south and disrupting the economy of the entire country. Inclusive broad-based and poverty-focused development in the North is an essential part of the solution to this problem.

With poverty rates falling across the South, poverty is increasingly concentrated in Northern Nigeria. The North West and North East zones together hold half of all the poor people in Nigeria and poverty rates actually increased in those zones between 2004 and 2010. Sixty-four per cent of the poorest quintile of Nigerians live in these areas. DFID-Nigeria is responding by working to reduce poverty and to support economic growth in six Northern focal states—Kaduna, Kano, Katsina, Jigawa, Yobe and Zamfara—in addition to continued investment in Lagos and Enugu.

DFID’s work here is concerned with helping Nigeria to use its own resources better, and a large part of this is helping to create a strong enabling environment for business to invest, develop new markets and create jobs for women and men. The major constraints to business growth in Nigeria are clear—weak infrastructure, expensive and inaccessible finance and a poor regulatory environment, and DFID programmes are focused on easing these constraints.

A good example is the Nigeria Infrastructure Advisory Facility (NIAF), a technical assistance programme designed to enhance the Government’s capacity to better plan, finance and operate infrastructure delivery at both Federal and State level. NIAF support to the current power privatisation process could have transformative impacts on Nigerian industry, particularly in the North which receives far less power per person than the South. By 2015, DFID’s economic growth programmes will increase the incomes of 600,000 poor Nigerians, of whom 500,000 will be in the North.

Though the challenges facing businesses in Nigeria are real, so are the opportunities, even in the North of the country. The old industries in the North, such as textiles, have been in decline for decades but there is potential for new industries to spring up in their place. Large populations mean that there is ready demand for goods and services both in the Northern states and targeting the South if transport connections can be improved. Rather than looking backwards to traditional industries, the key to success lies in spotting unmet local demand and being able to meet it. Our Business Innovation Facility is helping businesses in Kano to develop inclusive business models that will prove profitable for

them as well as benefiting the poor. Large urban centres also hold out promise for agglomeration effects and clusters of industry.

Despite relatively high population densities, there is still a lot of fertile land to be exploited across Northern Nigeria. With improved access to inputs and advice on how to use them, many farmers could significantly improve their productivity to increase their incomes and reduce poverty. Increased production would also lead to significant opportunities for investment in agro-processing, agro-allied services and value addition.

Government attitudes towards the private sector are also starting to shift. State governments are waking up to opportunities to generate tax revenue internally (as Lagos has successfully done), rather than relying on federal distributions of oil money. This requires improvements to the investment climate and DFID’s Growth and Employment programme (GEMS3) is supporting states to enact such reforms in tax harmonisation and land registration. The business advocacy programme (ENABLE) is helping the private sector to open constructive channels of dialogue with government.

DFID is supporting growth and job creation in the meat and leather industry, the wholesale and retail sector and various rural markets. We are supporting the finance industry to provide financial access to the poor, enabling savers to build up a financial history with a bank which should in time lead to greater access to credit. We are also supporting state governments to scale up labour intensive rural road maintenance public works programmes that will both create jobs and improve access to markets for rural communities.

History and experience show that economic development is essential if countries are to leave enduring and chronic poverty behind for good, and this is a key area for DFID’s work across the world. Britain’s International Development Secretary Justine Greening announced earlier this year that Britain will more than double its investment in supporting private sector-led growth and job creation in developing countries. DFID will continue to support Nigeria to create competitive markets that can raise the incomes of the poorest and contribute to a stable, prosperous country.

Andy Hinsley is an Economist and Growth Advisor for Northern Nigeria at the UK Department for International Development

DFID is investing in job creation in the north. (Nick Cavanagh/PropCom Mai-Karfi/GRM International)

The PERCEPTION GAP

SIMULTANEOUSLY
CHAOTIC AND DYNAMIC,
NIGERIA EPITOMISES
THE CHALLENGE AND
POTENTIAL OF AFRICAN
MARKETS.

BY
MICHAEL LALOR

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OVER THE PAST THREE YEARS,

Ernst & Young's Africa attractiveness reports have highlighted the continent's steady rise. Our research, which includes both investor surveys and analysis of greenfield foreign direct investment trends, has helped to provide some quantitative substance to the growing perception that African markets offer an exciting growth and investment opportunity.

What our research has also highlighted, however, is a lingering perception gap between those companies already doing business on the continent and those with no business presence. We have recently completed our fourth annual survey, and the perception gap continues

to persist—those respondents with an established business presence in Africa are more positive than ever about the continent's prospects, and, for the first time, have also ranked Africa as the most attractive regional investment destination in the world today. In stark contrast, respondents that have not yet invested remain negative, ranking Africa as the least attractive regional investment destination in the world.

In many respects, Nigeria epitomises this almost bi-polar view of Africa: for many of us already doing business on the continent it is an exciting, dynamic, high octane growth market; for some others, often on the outside looking in, it seems chaotic, unstable, and uncertain. The reality is obviously less cut and dried than either of these extremes and in many respects depends on the perspective that one chooses to adopt. Nevertheless, we certainly believe that the facts support the more positive perspective on Nigeria and its prospects as an investment destination.

The numbers tell us that greenfield FDI projects into Nigeria have grown at a compound rate of close to 20 per cent since 2007, positioning it among the 10 countries with the highest growth rates in Africa. Nigeria has also attracted the most FDI capital and the second most FDI projects in sub-Saharan Africa over that period, making it one of the star performers in a period in which FDI flows into the region have been fairly robust.

What is equally positive is the increasingly diversified nature of the investment. Although about 70 per cent of the FDI capital invested into Nigeria since 2007 has been into the capital intensive resource sectors (primarily oil), more than 50 per cent of FDI projects are service-orientated. There has been particularly strong growth in investment into telecommunications, with the sector attracting one in six of all FDI projects since 2007. Growth in investment into other service sectors like financial services, consumer products, tourism and business services, further highlights the growing opportunities emerging in these sectors.

A key driver of growing levels of investment has been Nigeria's robust and sustained economic growth. Over the past decade, the economy has consistently registered high single digit growth rates. Nigeria's economic performance is still somewhat dependent on oil, and remains susceptible to changes in the oil price. However, as the FDI trends indicate, it is the non-oil sector that has been the main driver of growth in recent years, led by agriculture, services, and wholesale and retail trade.

However, like most emerging markets, Nigeria will continue to face its fair share of challenges. Corruption, threats to physical security and poor infrastructure are among those often cited as constraints to investment and doing business. Arguably though, power shortages have been the biggest constraint to expanding investment and doing business. Nigeria has one of the lowest per capita national power supplies in the world, and most businesses rely on fuel-powered generators for reliable power. Besides the cost this adds to doing business (estimated to be as much as 40 per cent in some sectors), it also significantly hampers broader industrial development. Recent progress made in the process to privatise the power sector should significantly increase levels of investment into electricity generation and distribution, and could transform the business environment in Nigeria.

Despite these challenges, and while many other

	Overall Score	Current Account	External Debt	Government Debt	Inflation	Growth in Credit to GDP	Import Cover	Currency Change Over Year
Turkey	20	26	19	13	21	26	16	21
Argentina	19	14	16	14	24	24	17	24
Ghana	19	25	13	20	26	10	22	16
Vietnam	18	13	22	18	18	23	25	8
India	17	22	6	19	25	17	13	20
Egypt	16	19	5	23	23	5	23	18
Czech Republic	16	20	21	15	6	18	21	10
Brazil	15	17	4	22	17	25	3	19
Poland	15	23	24	21	5	16	15	1
Indonesia	15	12	9	7	20	21	11	23
South Africa	14	18	11	12	15	1	20	22
Advanced*	14	10	26	24	3	6	14	15
Ukraine	13	24	25	10	1	3	24	4
Colombia	13	21	8	9	9	20	9	14
Mexico	13	15	7	11	14	19	18	6
Chile	12	16	18	2	7	13	12	17
Thailand	11	11	12	8	10	22	7	11
Kazakhstan	11	5	23	4	16	4	19	9
Malaysia	11	4	15	17	8	15	8	12
Russia	10	6	14	3	19	12	4	13
Korea	9	8	17	16	4	7	10	3
UAE	8	3	10	1	2	8	26	4
Qatar	8	1	20	1	12	11	5	4
Nigeria	7	7	1	6	22	2	6	7
China	6	9	2	5	11	14	2	2
Saudi Arabia	5	2	3	1	13	9	1	5

emerging markets are suffering from the consequences of global monetary tightening, the Nigerian economy has remained remarkably robust. EY recently developed a heatmap to illustrate the economic vulnerability of a group of 25 different emerging markets, drawing on previously published research into currency and banking crises, and ranking each country under seven indicators of risk (current account balance, government debt, inflation, currency volatility, etc.). According to these indicators, Nigeria has the third highest overall ranking among all these emerging markets (and is also well ahead of the aggregate ranking for the US, Japan and Germany). This strong macro-economic management, coupled with progress in the political domain, provides us with confidence that overall growth rates will continue in the 5-6 per cent zone for the foreseeable future—even if size of the economy is raised as result of the GDP rebasing exercise.

Given these continued growth rates, an improving business environment, a portfolio of active infrastructure projects with a value close to \$100 billion, and, of course, a population of about 170 million people, Nigeria's billing as a powerhouse in a dynamic, high growth region is certainly justified. As a result, we anticipate that Nigeria will continue to be a key hub for investment into Africa, and is likely to emerge as one of the most attractive developing market investment destinations in the world in coming years.

Michael Lalor is the Head of Ernst & Young's Africa Business Centre

1. Overall Scores are based on the addition of the seven rankings. EY has then normalised the total rankings from 1 to 20. The highest figure indicates the highest risk.
2. Current account balance shows the strength of the current account balance in 2013.
3. External debt shows the level of external debt over GDP in 2012.
4. Government debt shows the level of government debt over GDP in 2012.
5. Inflation shows average inflation in 2013.
6. Growth in credit market shows the average growth of credit markets as a share of GDP from 2010 to 2012.
7. Import cover shows the ratio of foreign exchange reserves to imports in 2013.
8. Currency change over year shows the change in the currency against the US dollar over the 12 months to mid-December 2013.

Highest Risk Medium Risk Lowest Risk



SKILLS *and* SMES

SUPPORTING VALUE
CHAINS SPREADS
CORPORATES' IMPACT.

BY
SESAN SOBOWALE





■ “The
Nigerian
environment
is tough,
especially
when you are
a start-up”

Guinness Nigeria
works with small
enterprises to create
jobs through its
supply chain.

N

NIGERIA, THE MOST POPULOUS

country in Africa has one of the fastest growing rates of unemployment on the continent averaging 14.60 per cent from 2006 until 2011 and reaching an all-time high of 23.90 per cent in December 2011. Youths under the age of 30 constitute over half of the unemployed masses.

As is the case in many African countries, the government is the biggest employer in Nigeria but the private sector is growing in size and has an increasingly important role as an employer, particularly for the younger population. In October 2013, Alhaji Aliko Dangote, Chairman of the Dangote Group and the richest man in Africa, announced plans to create 750,000 jobs in Nigeria over the next five years, which would make him by far the largest employer in the country. He is not alone in the quest to reduce unemployment figures in Nigeria with many corporate bodies offering various schemes and opportunities for skilled and unskilled workers to earn a living in an economy where UNICEF reports that over 70 per cent of the population live on less than a dollar a day.

Guinness Nigeria, a subsidiary of Diageo Plc.—established in 1960, and the first ever Guinness brewery to be built outside the British Isles—has become part of the very fabric of Nigerian life. Its flagship brand, Guinness Foreign Extra Stout, is one of the most adored and recognized brands in the country. Guinness Nigeria plays a major role in the jobs market. In 2011 and 2012, the company was recognized as one of the best places to work in Nigeria, the only beverage manufacturer to be so highly placed in the rankings. All these contribute to the reason why the country is now the number one market by net sales value for Guinness Stout in the world, taking over from Ireland and Great Britain.

The 2012 Enterprises Baseline Survey produced in collaboration with SMEDAN (Small and Medium Enterprises Development Agency of Nigeria) showed that there are over 17 million small and medium enterprise (SMEs) in the country, employing about 45 per cent of workers and contributing almost half of Nigeria's GDP. SMEDAN further estimates that the Nigerian economy cannot maximise its export potential or fully industrialise until 80 per cent of the labour force are engaged in SMEs.

Brooks & Blake is a small public relations consultancy and one such Nigerian SME. For some time following its establishment in 2010, Guinness

Nigeria accounted for some 50 per cent of its overall earnings. The company currently employs 23 full time employees and works with over 40 medium to large-scale organisations on behalf of Guinness Nigeria. If each of those companies has an estimated 10 or more full time employees then the impact of Guinness Nigeria's presence in the wider economy can really be understood.

Sola Fijabi, the Management Lead at Brooks & Blake says: “The Nigerian environment is tough, especially when you are a start-up and we often hear of companies that started and crumbled because of the tough economic and commercial challenges we face in this environment. Having the support of a company like Guinness made a major difference. We were able to leverage that relationship to plan our funding and growth over the years. I don't think it would be an exaggeration to say that Guinness played a part in our sustenance strategy especially in the first couple of years of our business.”

Another example is GZI, an aluminium manufacturing company which has been working with Guinness Nigeria since 2010 and has been a key driver of the expansion that the company has experienced in the years since. Currently, Guinness Nigeria accounts for over a quarter of GZI's total income and has enabled the company to employ over 200 full time staff.

For companies like Brooks & Blake and GZI, working with Guinness Nigeria has enabled them to grow their business and in turn create more jobs for Nigerians.

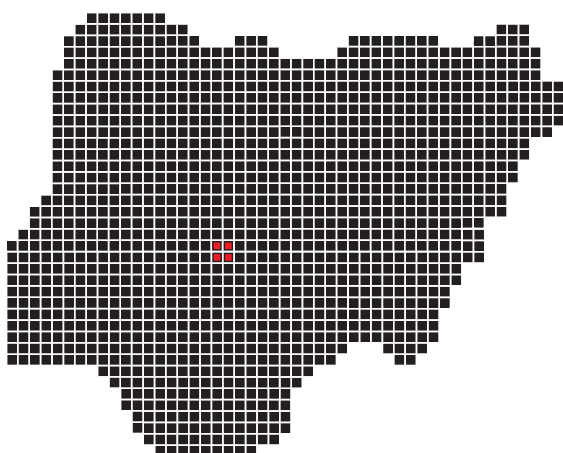
In the area of local raw materials sourcing, Guinness Nigeria purchases sorghum from the country's local farmers, through millers who act as intermediaries to the farmers. The use of intermediaries has several advantages top among which is that they help to receive and organize the harvest from local farmers and process it before selling to buyers like Guinness Nigeria. Through this arrangement, Guinness Nigeria's contribution ensures that an estimated 120 people have full time employment working for the millers and many more people have the opportunity of casual work. The same value chain mechanism can be found with other locally sourced raw materials.

Recently, Guinness Nigeria ran an impact assessment exercise which showed that if the company was to import beverages rather than produce them locally, the Nigerian economy would lose at least \$28 million (0.1 per cent of GDP) of value added and 35,000 jobs (0.04 per cent of the labour force). As the company looks to increase local sourcing over the next 5 years, an additional 7,000 extra jobs will be created, especially for local farmers.

Obviously, job creation statistics do not say it all. Guinness Nigeria's interventions extend to the provision of potable water in rural communities, which has an impact on elementary school enrolment as children are freed from the laborious journeys to distant streams in the mornings and can attend school instead. The company's social investment also includes both technical education and tertiary scholarships which enable disadvantaged students to acquire advanced education in areas like engineering, law and business management, contributing to the pool of talent that is essential to support Nigeria's future development.

Sesan Sobowale is Corporate Relations Director, Guinness Nigeria Plc

Nigeria Cheat Sheet



Capital: **Abuja** Pop: **167 million**

Currency: **Naira**
(1NGN = \$0.006)

Head of State: **Goodluck Jonathan**

Vice President: **Namadi Sambo**

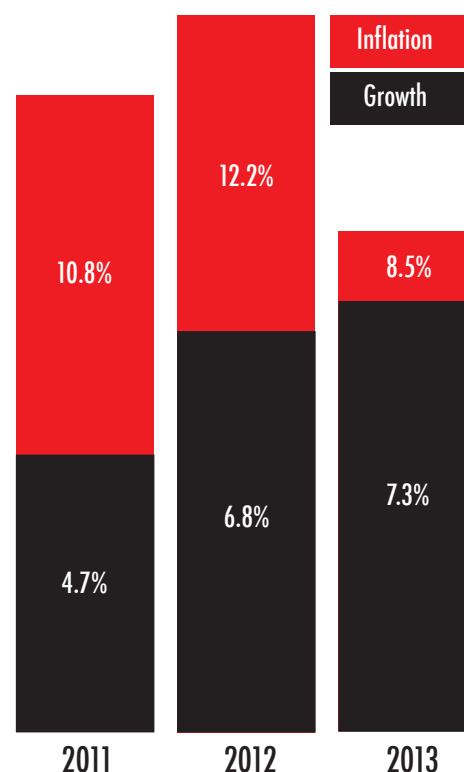
Minister of Finance: **Ngozi Okonjo-Iweala**

Minister of Investment: **Olusegun Aganga**

Central Bank Governor: **Godwin Emefiele**

GDP: **\$510 billion**
GDP/cap: **\$2,689**

Elections: **Feb 2015**



Public Debt to GDP: **11.0%**
External Debt to GDP : **2.8%**
Budget Deficit: **1.0%**
Current Account Surplus: **4.1%**
Average GDP growth since 2000: **6.6%**

Oil Production
2524.14 barrels/day

Proved Oil Reserves:
37.20 billion barrels

Exports: **\$5.87 billion**
Non-Oil Exports: **\$2.97 billion**
Imports: **\$3.34 billion**

Gas Production
1,190.48 billion c. ft



Foreign Direct Investment: **\$7.0 billion**

World Bank Doing Business Rank: **147**
Days to Start a Business: **28**
Days to Obtain Construction Permits: **116**
Days to Register Property: **77**
Days to Secure Energy: **260**

Corporate Income Tax: **30%**
Value Added Tax: **5%**
Capital Gains Tax: **10%**

Transparency Int. Corruption Rank: **144**

Source: Nigerian Ministry of Finance; International Monetary Fund; World Bank; African Development Bank; HSBC; Heritage Foundation; OPEC

This report was produced by Business Action for Africa and its partners. Business Action for Africa was created in 2005 as a network of businesses and development partners working together to enhance the development impact of business in Africa.

In 2015, Business Action for Africa and its activities were integrated into its sister network, Business Fights Poverty, the world's largest network of business and development professionals. As one integrated network, Business Fights Poverty continues to produce a range of original reports, articles and case studies, available at www.businessfightspoverty.org

Business Fights Poverty

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