The South African Institute
of International Affairs

Business in Africa Research Project

'An Oil Giant Reforms'

The Experience of South African Companies Doing Business in Nigeria

Dianna Games

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About the Author

Dianna Games is a director of Africa @ Work, a South African-based company which focuses on the African market in the areas of publishing, research, public relations and event management. The Nigerian market is central to many of the company's activities, and Games has been travelling to Nigeria since 1996. She is the author of the pilot study, published in June 2003, that initiated the *Business in Africa* report series (see below). She has also written other research reports for SAIIA on African issues, and is the editor of the Institute's bi-annual journal, the *South African Journal of International Affairs*.

About the SAIIA Business in Africa Project

This is the second country case study in a comprehensive study of business conditions prevailing in Africa to be conducted over the next two years by SAIIA's Business in Africa project. The report forms part of a series of country and sectoral studies undertaken with a view to extrapolating specific policy recommendations for African governments on how to create a more supportive business environment in Africa.

The New Partnership for Africa's Development (Nepad) initiative emphasises the critical importance of the private sector to the continent's economic development. South

Africa's expanding track record as a significant and, even more important, an African investor is a notable indicator of business confidence in the future of the continent. It is also paving the way for the private sector to play a stronger role in the continent's development.

Although it is generally assumed that South African investors are less averse than others to taking risks in view of their knowledge of, and proximity to, the African market in terms of appropriate technology and well-suited products, the SAIIA Business in Africa project study aims to verify whether this is indeed the case. Moreover, the study identifies critical areas in which reform is essential if Africa's private sector is to contribute to growth.

The Business in Africa project is headed by Neuma Grobbelaar, Deputy Director of Studies at SAIIA, who is assisted by Hany Besada, Business in Africa researcher.

The following reports have been published by the project thus far:

Games D, *A Preliminary Survey: The Experience of South African Business in Africa*, Business in Africa Report 1, SAIIA, 2003

Grobbelaar N, *Every Continent Needs an America: The Experience of South African Business in Mozambique*, Business in Africa Report 2, SAIIA, 2004

Methodology and Rationale

This report is based on a series of interviews conducted both in Nigeria and South Africa over several months in 2004, complemented by research done by the author for media articles and for a number of other projects over the past few years. For this specific project, 22 companies were interviewed in both countries, and much anecdotal reportage gathered.

Information was also obtained from diplomatic and government sources as well as Nigerians who had been involved in dealings with South African businesses. The group of companies approached covered the sectors of banking, retail, property, telecommunications, transport, trade, information technology, franchising, power, retail, tourism, marketing and security.

Key data were drawn from a range of sources, including media reports in Nigeria, the IMF, the World Bank, the Economist Intelligence Unit, government documents and statistics and a range of sources on the Internet.

Although international sources provide a wealth of information on Nigeria, very little up-to-date research is available in Nigeria itself. Little has been done on the subject in South Africa, where research organisations have tended to focus almost exclusively on Southern African countries. As a result, much of the research in this report is original source material.

The purpose of the study is to identify some of the pitfalls associated with doing business in a country such as Nigeria, long thought of as one of Africa's most difficult business environments. It also aims to look at the advantages of entry into sub-Saharan Africa's most populous state and second-largest economy. Another reason is that Nigeria has played a key role in supporting and advancing the Nepad initiative, and therefore deserves special attention.

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Executive Summary

In the rush for markets into the rest of Africa after the country's 1994 democratic elections, South African companies did not regard Nigeria as a most favoured destination.

At the time of South Africa's liberation from apartheid rule, Nigeria was being run by a military dictator, Sani Abacha, who had taken power by force in 1993. Despite strong liberation-era ideological ties between Nigeria and South Africa there were few economic links. The stories emanating from Abacha's Nigeria did not bode well for South African business expansion into the country: apart from the logistical difficulties associated with entering a then unknown market a long way from home, there were stories of hangings, arbitrary arrests, state-sanctioned murder, growing poverty and a country that was increasingly isolating itself from the rest of the world. Only the most hardy business people joined the market at that time, and even then, they faced stiff competition in a market historically dominated by British and American companies. The country's suspension from the Commonwealth in 1995 over human rights abuses also helped to keep South African business at arm's length.

Instead, investors mostly kept to markets in Southern Africa: for those few who wanted to venture into West Africa, Ghana was the preferred choice. Not only was it also an Anglophone country, but it was politically more stable than Nigeria, despite having a reformed military man and coup leader — Jerry Rawlings — in power.

However, it was not long before South African companies recognised that despite the perceived difficulties of the country, Nigeria, with a population of around 130 million people, was a market to be reckoned with. Slowly business ties increased but it has only been since Nigeria's return to

democracy in 1999 that relations between the two countries rapidly strengthened. A Bi-National Commission was established in the same year, and both Nigeria and South Africa were founding members of the New Partnership for Africa's Development (Nepad), along with Algeria, Egypt and Senegal.

Politically, the leaders are close, apart from a bruising showdown in 2003 over the Zimbabwe issue at the Commonwealth summit, at which they took opposing positions on how to tackle that country's errant leadership. South Africa's Department of Trade and Industry has taken a number of trade missions to Nigeria over the years, and each country has received visits from top officials, up to the level of president.

Nigeria is now South Africa's biggest trading partner in West Africa and its third biggest trading partner on the continent, after Zimbabwe and Mozambique. Most of the South African business involvement in Nigeria does not take the form of large-scale investments, but is typically found in joint ventures, partnerships and the provision of technical and other support.

The main findings of the research done into the experience of South African companies doing business in Nigeria include:

- There is no doubt that South Africans appreciate the **size** of the Nigerian market and the **huge opportunities** available, and they are prepared to deal with many difficulties to penetrate it.
- The inherently **flawed structure of the economy** makes it difficult for outsiders to do business. The economy has had little policy direction and leadership between the oil boom of the 1970s, through successive military governments, up to the current government. This has led to the entrenchment of many negative practices. Fundamental structural problems include corruption; the poor state of the infrastructure, most notably in the power sector; skewed government spending priorities;

neglect of potentially lucrative sectors; massive urban decay; a 'get-rich-quick' mentality that pervades much of business and even government; and a complex and weighty bureaucracy which still dominates the economy.

- The **lack of predictability in policy-making and regulation** has been of concern to South Africans because it hampers long-term planning and can change the viability of projects overnight.
- The government lacks institutional capacity to enforce **intellectual property protection**, has a weak judicial system and an inability to resolve problems quickly.
- It is clear that **business relationships** between nationals of the two countries have been complicated by their very different ways of doing business. There have been bad experiences on both sides. The South Africans have been accused of being patronising, bringing in local partners and then ignoring their advice, and of under-mining local goods and services. The Nigerians, on the other hand, have been described by some South Africans as being corrupt, exploitative and inclined to think only of short-term gain rather than long-term partnerships. However, the greater the contact between them, the easier relations are becoming, as trust and understanding are built up with partners and clients.

Corruption is identified as a major problem that persists throughout the chain of business.

- **Corruption** is identified as a major problem that persists throughout the chain of business, from government to the boardroom. It ranges from 'signature bonuses' on large contracts to getting goods through ports and even, at times, getting past roadblocks. However, those who have been working in Nigeria for a long time concede that the situation has improved, and say they perceive the government's attempts to address corruption as sincere, if still ineffective. However, it is in government, and evens at ministerial level, that the most serious complaints about corruption are heard.

- The **experiences** of business people differ depending on the size and profile of the company for which they work, and on their readiness to work in an environment like Nigeria. Some South Africans find fault with everything and are in that country under duress. Others enjoy the energy and colour of life in Nigeria, but are similarly downbeat about work and prospects in that country, while yet others take the challenges in their stride, and have a very positive outlook.
- Nigeria is a **high-cost business environment**. The costs include food and accommodation to the logistics of, for example, having to run generators to meet basic power needs. Rents are high and hotels cost on average nearly three times as much as in South Africa. However, the biggest cost factor is the poor operating environment.
- The distance of Nigeria from the South African market causes **logistical problems** which also push up costs, result in delays along the supply chain and generally make life more expensive and difficult. Getting imports through the system has been identified as a major problem for business. The soliciting of bribes is commonplace at the ports. If these are not paid, goods can be detained indefinitely. Importers also face long clearance procedures, high berthing and unloading costs, and erratic application of customs regulations, usually linked to corruption. It can take up to four months for goods to travel from source to end user.
- On the positive side, the increasing number of **joint ventures and partnerships** has led to the transfer of skills and technology as well as training of staff, both in-house and in South Africa.

This has positive spin-offs for the relationship in that it provides employment, skills upgrades and opens new opportunities.

- The significant investment made in Nigeria by the high-profile South African company **MTN** has persuaded a number of South African businesses that Nigeria is a market worth exploring. The size of MTN's investment and the rapid take-up of its services have shown the company's confidence in the pent-up demand for its products, which has been amply confirmed by results. Conversely, the **Vodacom** debacle has raised concerns about the quality of corporate governance in Nigeria and about associated issues such as respect for contractual obligations.
- The way business is being conducted in Nigeria is changing for the better. **Globalisation** has begun to make its mark through greater competition in the market, and an injection of highly trained Nigerians from the diaspora into top jobs. These new business leaders are bringing with them a 'new economy' approach to doing business, and applying international perspectives to issues such as corporate governance and best practices. It is hoped that in time, the liberalisation of the economy, which the government is trying hard to promote, will bolster these positive influences.

Introduction

Nigeria and South Africa are widely acknowledged as the two giants of sub-Saharan Africa, both economically and politically. Although both countries are totally dissimilar in history, composition, geographical location, operation and in many other respects, each dominates the economic activity of its region — West and Southern Africa respectively.[1]

However, the composition of their economies is completely different. While Nigeria is largely dependent on its oil and gas reserves for revenue generation and exports, South Africa's economy is highly diversified (despite some reliance on the mining sector) and heavily industrialised.[2] Nigeria's infrastructure has been neglected over decades, and is in a serious state of deterioration, a major problem for the government to tackle. In contrast, the new South African government took over a well-developed and sophisticated infrastructural system which it has worked hard to maintain, and in many cases has improved, since 1994. Nonetheless, both countries have fairly recently come out of decades of oppression, re-engaged with the international community, and embarked on a trajectory of economic reform.

Nigeria is liberalising its economy to reduce the strong role played by the state and to push private sector-led growth. This is most clearly expressed in its recent public release of a homegrown medium-term socio-economic reform programme, the National Economic Empowerment and Development Strategy (NEEDS). NEEDS is aimed at addressing the country's deep-rooted macroeconomic and structural

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[1] According to the World Development Indicators released by the World Bank in July 2004, Nigeria's GDP was $50.2 billion while South Africa's was $159.8 billion.

[2] South Africa accounts for nearly a third of the continent's total GDP according to Invest Africa 2004 (Nepad Business Group).

challenges. The programme has been welcomed by the IMF and other observers as signalling a clear break with the shortcomings of Nigeria's past macroeconomic management. The successful implementation of NEEDS is dependent on a variety of factors, of which political will is a defining element, but it is generally agreed that the programme will boost private sector-led growth. This bodes well for the deepening of relations between South Africa and Nigeria. (See Appendix A for a detailed overview of the importance of NEEDS to Nigeria's future economic outlook.)

Most South African trade with, and investment in, Nigeria has taken place since the latter's 1999 democratic elections. South Africa's engagement with Nigeria has already had a major effect on some sectors, notably telecommunications. However, South Africa is still a relatively small player in the Nigerian overall economy because it has to compete with Nigeria's traditional business and trading partners: the US and Britain, as well as newer entrants such as China and India.

Despite some problems in the relationship, outlined elsewhere in this report, there has been general acceptance in both countries that the strengthening of business links with South Africa, as another African country, is a good thing both for Nigeria and for the rest of the continent. Increasingly, the focus of Nigerians is turning south, rather than towards its former colonial power Britain. The relationship between South Africa and Nigeria is also buoyed by strong political ties.

There is great potential for political and economic synergy between Nigeria and South Africa because of their status as leading economies in Africa.

The South African investment relationship with Nigeria differs considerably from the former's traditional business relations with its immediate neighbours and leading trading partners. These countries have benefited from their geographical proximity to the South African market and the associated advantages of reduced risks, lower costs and fewer logistical problems. But there is great potential for political and economic synergy between Nigeria and South Africa because of their status as leading economies in Africa. Both have a great deal to gain from their relative strength on the continent, and both have the size, energy and ambition to contribute not only to their own development but that of Africa overall. There is also much to lose if the relationship does not work.

Socio-Economic Overview of Nigeria

Political situation

Thirty-three years from the date of its first military coup, which heralded decades of almost uninterrupted military rule, Nigeria held its first democratic elections in 1999. Despite concerns that democracy would not last and that violence and military opportunism would soon take hold of the polity, President Olusegun Obasanjo won a second term in 2003, in the country's first civilian-to-civilian transition since independence on 1 October 1960.

Obasanjo, prior to his election as president in 1999, already had some standing in the international community as a previous head of state and as a representative of his country in several think-tanks and organisations such as Transparency International. In his time as president of a democratic Nigeria, he has gained new status as one of the architects of Nepad and as an important voice in the Commonwealth councils. He has also played a leading role in conflict resolution in the West African region.

However, many Nigerians are dissatisfied with the performance of his government in key areas such as infrastructure, power, economic upliftment and curbing corruption. In addition, the government has been unable to prevent serious religious conflict between Muslims and Christians,[3] or to put an end to unrest in the oil-producing areas. Successive budgets have not been delivered on time, and the question of sharing of resources between the centre

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[3] Following the latest incident of ethnic fighting in May 2004, the government declared a state of emergency in Plateau State when clashes between Christians and Muslims left hundreds dead. The fighting spread to Kano State in the north, with many more lives lost and at least 200,000 people displaced.

and the country's 36 states remains a thorny issue, as does the disbursement of revenue from oil exports. Obasanjo faced the threat of impeachment in 2002 as result of dissatisfaction among legislators with his rule, and an alleged coup plot in 2004.[4] Squabbling among members of his government has, at times, threatened to derail the political process he has initiated.

It is generally accepted that civilian rule in Nigeria has come to stay, but concern continues to be expressed about the country's political instability and the influence of the military, particularly given the massive rewards that political power affords office bearers.

Although the next elections are several years away (due in 2007), political campaigning has already begun in earnest. Obasanjo is not standing for presidency again, unless he changes the constitution to allow for a third term of office, but this does not seem likely. With the most powerful job in the country up for grabs, the nation is already in a state of high excitement, which began even before Obasanjo was inaugurated for his second term. All of this has implications for policy implementation, continuity and overall stability, which are all matters of concern to investors.[5]

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[4] In March 2004, the government announced that a number of soldiers and civilians had been arrested for a 'security breach'. Although the government publicly insisted it was not a coup plot, Nigerian newspapers reported unnamed high-level sources saying that the detainees had been plotting to overthrow the government.

[5] An article in the *African Standard*, a West African newspaper produced in Nigeria for the South African market, remarked:

> The dissonance in Nigeria's political system has left it without an organised power structure which has resulted in the absence of an orderly and predictable succession regime. In essence, Nigeria is perpetually in transition. Because Obasanjo has not made it clear in word or deed who his successor will be, all manner of candidates are entering the race. The stakes are high. The man who holds the Nigerian presidency has awesome powers under the constitution, to the extent that he does not even require the consent of the people or parliament to

Obasanjo is also under pressure to prove to the world that he has made a difference, and that civilian rule has improved Nigeria. The attempt to roll back the effects of decades of neglect has not been an easy task. Professor Charles Soludo, his former economic adviser, who was appointed governor of the Central Bank in 2004, maintains that much has been accomplished during Obasanjo's tenure.[6]

> What you see is a trajectory of reforms. In 1999, it was total chaos[,] where even the basic sense of being a Nigerian was questioned. The first challenge of the reform process back then was to keep the country together. The agenda has shifted. The debate is no longer about the continued existence of Nigeria; it's about policy. But economic reform is the hardest part. The President's first term in office did deliver some success but it was limited. Now the economy defines the agenda and the president has shown willingness to make tough decisions — impossible to do when he was struggling to keep the country together.

Obasanjo has a thankless job, which includes balancing a wide range of interests across states, religious affiliation, ethnic groups and geography, among other things. The size of his cabinet has increased, which he has justified by saying it was necessary to balance interest groups. In his second term he has also introduced more technocrats into his team, primarily to drive the economic reform process. However, despite these hurdles his government has embarked on an ambitious reform programme, which received new impetus following the 2003 elections. These include fighting corruption through various newly-established anti-corruption organisations; a clean-up of the police force; a reduction in public sector spending (and greater transparency as to its direction); procurement reforms; deregulation of the telecommunications sector (which has made

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govern. He also has huge patronage to dispense. See Dipe S, 'Who succeeds Obsanjo', *FS African Standard*, April 2004.

6 Interview in *fDi Magazine* (UK), 8 December 2004.

possible the introduction of private sector mobile operators); greater liberalisation of the overall economy; the introduction of new incentives to promote investment in sectors not involved in oil production; and greater transparency about the allocation of oil revenues.[7]

The results of these reforms have been impressive. Prior to 1999, the trend in all sectors outside oil was divestiture by the major companies, while 99% of FDI was going into the extractive sector, namely oil production. This has now been reversed: there have been large investments by Heineken (€250 million), British American Tobacco and the mobile network operators.

Political reform since 1999 has resulted in impressive FDI gains outside the oil sector.

Yet Obasanjo continues to face a number of political challenges, especially as these relate to the division of power between the national and state governments. State governments in Nigeria have the power to influence events at the centre, and also have discretionary powers. The sway of the state governments over federal affairs is reflected in the revenue-sharing formula: only 50% goes to the national government; while the state government receives 30% and local government receives 20%.

[7] Nigeria is the first country to have signed up to the Extractive Industries Transparency Initiative (EITI), which calls for greater transparency both from companies on their payments to governments and government-linked entities, and from the host country governments over revenues. It is part of a G-8 initiative to fight corruption more effectively, particularly in extractive industries. EITI has its roots in the 'Publish What You Pay' campaign championed by George Soros' Open Society Foundation and a range of non-governmental organisations. See Nigeria: Selected Issues and Statistical Appendix, *IMF Country Report No.04/242*, August 2004, p. 61.

In addition a 13% revenue derivative was recently approved for allocation to the oil-producing states, which have protested for many years that they do not get adequate compensation for the problems caused by oil production in their areas. These include environmental degradation, oil spills, security concerns and displacement of communities by pipelines. This has increased regional control of the country's oil resources from 3%, when the new government took over in 1999, to 13%.[8]

However, the government's assertion that the percentage excluded offshore activities[9] was contested by the oil-producing states. The government took the matter to the Supreme Court in 2001. In April 2002, the court ruled in favour of the government's interpretation, saying the states' seaward boundaries ended at their low-water mark. However, as unrest in oil producing states increased in the wake of the ruling, the government was forced to reach a compromise with the six affected states – Akwa Ibom, Bayelsa, Cross River, Delta, Ondo, and Rivers – in 2003. In terms of the compromise, 'onshore' was deemed to include a 200 metre water depth isobar limit. The majority of Nigeria's current producing fields are located within water depths of 200 metres or less.

Although the government has introduced a new oil price-based fiscal policy framework,[10] to be signed into law under

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[8] Regional control over resources was reduced after the military took over government in 1966, first to 50% in 1970, and a few years later further down to 45%. In 1977, Obasanjo as military ruler, cut it further to 25%. Under subsequent military governments it dropped eventually to 1%. With the agitation of minorities from the oil region, it rose to 3%. In the 1999 constitution, it was increased to 13%. See US Government, Energy Information Administration, *www.eia.doe.gov*.

[9] Confirmed offshore oil deposits have increased from about 30% of the country's total reserves in 1997 to about 50% from 2002, according to UN news agency IRIN.

[10] The new oil price-based fiscal policy framework makes provision for the saving of oil proceeds in excess of $20 per barrel across all tiers of the

the Fiscal Responsibility Bill in 2005, adoption and implementation face considerable hurdles, especially from the state governments.

Animosity between states over the distribution of political power is also expressed in a North-South ethnic and religious divide. Nigeria's more than 250 ethnic groups are dominated by the largest and most influential groups, namely the Hausa, Fulani, Igbo and Yoruba. In the 2003 elections, Obasanjo, a Christian and Yoruba from the south, was pitted against Muhammadu Buhari, a Muslim and Hausa/Fulani from the north. The elections served to expose many of the religious and ethnic tensions underlying Nigerian society.[11] The Igbo from the eastern states believe that it is their turn to produce the next president.

However, most observers agree that Obasanjo's decisive win in the last election with 61% of the votes cast has provided his government with a narrow window of opportunity to pursue many of the socio-economic reforms that Nigeria so urgently requires.[12]

Economy

Obasanjo has placed economic reform at the top of his second-term agenda, with a view to raising economic growth from its current 3% to 5% in 2004, and 7% per year thereafter.

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government to cushion the Nigerian economy against future oil price volatility and to strengthen its macroeconomic fundamentals.

[11] Aning K, 'Negotiating Nigeria's Democracy Schisms' in *SA Yearbook of International Affairs, 2003/04*, SAIIA, August 2004, p. 308. The article provides an in-depth overview of the democratic challenges facing Nigeria.

[12] Observers such as Professor Korwa G Adar also believe that the defeat of eight of the 36 incumbent governors and a number of National Assembly members during the 2003 elections could be regarded as a positive step towards the consolidation of multiparty democracy in Nigeria. See Adar KG, 'Elections in Africa: Electoral Dispensations in Kenya, Nigeria and Rwanda' in *SA Yearbook of International Affairs, 2003/04*, SAIIA, August 2004, p. 231.

NEEDS is regarded as the primary vehicle to achieve this aim and rests on four core strategies:

- reforming the way government and its institutions work;
- boosting the private sector;
- implementing a social charter for the people; and
- re-orientating people's values.

Given the slow pace of reform and the difficulty of implementation (caused in large part by an inefficient and bloated public service but also by a lack of political will among politicians), these aims would appear to be ambitious.

Therefore, notwithstanding the government's desire to push through liberalisation and reform, the country remains a high-risk, high-return market. Despite major improvements, remains tainted by a range of negatives, in particular corruption and political and policy instability. It also remains largely dependent on its oil and gas sector, although attempts are finally under way to diversify the economy. Nigeria is also highly indebted.[13] It ranks near the bottom of the UN Development Programme's 2003 Human Development Index, coming in at 152 out of 175 countries measured, and its per capita GDP hovers at less than $330. Even if the government is successful in stamping out corruption and quelling religious and other unrest, it will have to work hard to get the international community to believe that it has done so.

The country is still living the legacy of the oil boom years, which ushered in huge corruption, unrealised and over-ambitious development plans, massive wastage of resources, skewed spending priorities, a preponderance of political over economic considerations, and a range of other economic ills.

The 1980s were marked by economic decline and a debt crisis. This led to the adoption of IMF reforms implemented by

[13] In 2001, total external debt as a percentage of GDP stood at a massive 75%.

the then head of state, General Ibrahim Babangida, which enabled Nigeria to reschedule its debts and start liberalising the economy with external assistance.

Table 1: Economic performance	
GDP, 2002 ($ billion)	43.5
GDP, 2002 (PPP $ billion)	113.6
GDR per capita, 2002 ($)	328
GDP per capita, 2002 (PPP $)	860
GDP per capita annual growth rate, 1975–2002 (%)	- 0.6
GDP per capita annual growth rate, 1990–2002 (%)	- 0.3
GDP per capita, highest value, 1975–2002 (PPP $)	1,070
GDP per capita, year of highest value	1977
Average annual change in consumer price index, 1990–2002 (%)	27.8
Average annual change in consumer price index, 2001–02 (%)	12.9
Source: World Development Indicators, UNDP.	

However, this programme ground to a halt when Babangida turned his full attention to politics and government spending spiralled. When Abacha took power in 1993, the country turned inwards and the international community withdrew its support. The government interfered in the economy, imposing unrealistic caps on fundamentals such as interest rates and exchange rates. The budget deficit remained high, and was financed by the central bank, while the administration engaged in massive off-budget expenditure, much of it unaccounted for.[14]

Under pressure, some market reforms were introduced, but on the whole, the period was one during which Abacha's cronies made fast money, marginalising the real economy in

[14] *Nigeria Country Profile 2003*, Economist Intelligence Unit (UK), 2003.

the process. Privatisation enriched only the favoured few, who squandered money with impunity. Accountability was not an issue, and poor management of the economy became the norm. This period is particularly important to Nigeria now, because it introduced a mindset as to the way things are done in a large segment of the population. This casual attitude persists to this day.

Market reform picked up pace after Abacha's death in 1998 under the interim rule of Abdulsalami Abubakar, although the latter is said to have continued the tradition of grand corruption, even under the watchful eyes of the world. Abubakar also allegedly reduced the nation's foreign reserves from the $13 billion built up by Abacha in anticipation of his military-to-civilian transformation to $3 billion in just nine months.

Obasanjo's election in 1999 ushered in great hopes for the country. However, the 'democracy dividend' has disappointed. Despite Nigeria having the world's eighth-largest proven reserves of oil and fifth-largest proven reserves of gas, 60% of its population lives below the poverty line.[15] The economy is still heavily dependent on revenues from the oil and gas sector despite attempts at diversification and efforts to restore some of the manufacturing and agricultural capacity the country had 40 years ago. Indeed the non-oil economy accounts for 95% of the labour force, of which the majority (70%) is employed in the informal sector.[16] Nigeria's unemployment is difficult to measure because of the huge size

The 'democracy dividend' has not yielded results.

[15] *The Africa Competitiveness Report 2004*, World Economic Forum, Geneva, Switzerland, 2004.

[16] Nigeria: 2004 Article IV Consultation—Staff Report, *IMF Country Report No. 04/239*, August 2004, p. 6.

of the informal sector.[17] However, the government estimated unemployment at 18% in 1999, dropping to 10.8% in 2003.[18] NEEDS aims to achieve annual growth of 7—8% in the non-oil economy, which is expected to create about 7 million jobs between 2004–07 to absorb those currently unemployed or those expected to join the labour force.[19]

The government is caught between its promise to liberalise the economy and its need to cater for special interests, trade unions and a protected civil service, which retains a powerful role in the economy despite privatisation.

Two examples convey the crossfire in which the government is caught. One is the liberalisation of the fuel sector, which includes removing subsidies. Because of this and rising international fuel prices, the government has pushed up domestic fuel prices. This has been met by fierce resistance, not least from the trade unions. The unions argue that the windfall for the government represented by the high international prices of oil should be used to cushion prices at home.

In 2003, the Nigerian Labour Congress led a successful eight-day national strike which, while it cost the economy billions, forced the fuel price down. In June 2004, there was a three-day strike over a rise in the fuel price, and once again the government backed down. The government is forced to import fuel because the country's four refineries are so run down that only one, the Warri Refinery, is currently in operation.

Another example is the sale of a 33% stake in Afribank, one of the country's biggest banks. A number of international and local bidders spent a huge amount of time and money on their

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[17] Some analysts estimate the informal sector as accounting for around 60% or more of total economic activity.
[18] See *http://www.fmf.gov.ng.*
[19] *IMF Country Report No. 04239*, 2004, p. 16.

offers. In the end the government, under pressure from local lobbies, chose to make an Initial Public Offer which effectively gave the stake to the board of the bank, even though questions were raised as to how effectively the board had managed the bank. The move sent signals to international investors that the government did not have the stomach to stand up to strong local lobbies, or to make decisions based on purely economic considerations.

On the plus side, the government has showed increased financial restraint in the past year, from mid-2003, which analysts hope signals a break from the expansionary behaviour of the past. In addition, Nigerians abroad are showing increasing interest in either returning to their country (often to take up top jobs) or investing in it. This is particularly so in the property market and the stock exchange, which has 201 listed companies. Market capitalisation as at June 2004 was N2,004 trillion[20] (around $15 billion). The growth of the latter has been attributed partly to investment from the diaspora. The United Nations Industrial Development Organisation's 2004 Industrial Development Report says $107 billion of Nigeria's private wealth – 70% of the country's total private wealth – is banked abroad. It is hoped that the injection of capital, skills and the new ways of doing business being brought back by returning Nigerians will help to speed up the modernisation of the economy, and usher in a stronger and more principled standard of corporate governance.[21]

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[20] See *www.newswatchngr.com.*

[21] Gradually the business environment is changing for the better. A whole new way of doing things has been brought back by Nigerians returning home from the diaspora, who run organisations more in accordance with free market and corporate governance principles, than the protectionist, conservative and corrupt way of the past. Business people have identified the emergence of a 'new economy'. The old economy relies on who you know in high places, particularly government, while the new economy is dependent on what you know and what you are prepared to do.

Business centres

Most business activities in Nigeria take place in Lagos, the commercial capital and once the country's main city. Abuja was built in the 1980s to serve as the nation's capital, primarily to escape the congestion of Lagos and to be more centrally located in relation to the country's federal states, most notably the north from which most of Nigeria's leaders to date have come. Port Harcourt in the south-east, the capital of the oil-producing area, is also a major centre for business,[22] while the nearby Cross River State is trying to attract business to its Calabar Export Processing Zone, the only one of its kind operational in the country at this stage.

Exchange rate

Officially Nigeria has one exchange rate that is determined by the central bank. Unofficially, it operates on a dual currency system, although the spread between the official and black market rates is currently quite narrow.[23] In July 2004, the official bank rate was N132.75:$1, while the black market rate was N148:$1. Because the demand for hard currency from both businesses and individuals cannot be met by the currency auction system, large amounts of money still change hands at black market rates.

The trend towards a dual rate began several decades ago, when the governments of the day refused to devalue the currency for political reasons. Although devaluation was forced on Nigeria by the IMF at the time of structural adjustment in the mid-1980s, a parallel market operating at

[22] Most South African business in Nigeria is concentrated in three centres — Lagos, Abuja and Port Harcourt.

[23] The IMF reports that Nigeria is one of the few countries that maintains multiple currency practices. Aside from the two main markets — the Dutch Auction System and the interbank rate, there is also a *Bureau de Change* and a parallel market, although funds may not be transferred between markets. See *IMF Country Report No. 04/239*, 2004, pp. 23-24.

well below the official rate, had already developed. In 1994, Abacha ended foreign exchange liberalisation, outlawed free market transactions and imposed a fixed single-tier exchange rate of N21.9:$1, which resulted in further distortions in the economy. This was reversed in the 1995 budget, with a second rate of around N82:$1 applicable alongside the other rate, which was kept for public sector transactions.

The current administration abolished the official dual rates in 1999, introducing a new daily interbank foreign exchange market (IFEM). But it struggled to support the currency in the face of rising demand, and it went into free-fall in 2000. In mid-2002, the central bank introduced the Dutch Auction System, which is still in use today, alongside the IFEM rate, despite the government's intention that it be a temporary solution to stem foreign currency outflows. [24]

The movement of the naira is to a large extent dependent on export earnings in the oil sector. In April, the Organisation of the Petroleum Exporting Countries (OPEC) reduced its oil output and, as a result, Nigeria's output quota declined. This suggests that foreign exchange earnings will fall over the coming months. However, the extent of the attendant weakening of the currency may be offset by a weaker dollar.[25]

Table 2: Exchange rates against the $: naira and rand

	naira	rand
Movement in 2002	- 6.7%	+ 30.0%
Movement in 2003	- 7.3%	+ 36.6%
Movement in 2004	+ 3.9%	- 3.6%
Jan 02 — May 04	- 10.2%	+ 71.2%
April — May 04	+ 0.6%	- 3.5%
Av monthly change 03	- 0.8%	+ 3.0%
Av monthly change 04	+ 0.8%	- 0.7%

Source: Standard Bank Economics Division, 4 June 2004

[24] EIU, *op. cit.*

[25] Standard Bank Africa Research, 7 April 2004.

Debt

Nigeria's total debt was $32.8 billion at the end of 2003 (IMF), of which a hefty 65% represents interest on unpaid debt. The country's total external debt jumped from $13 billion in 1981 to more than $30 billion in 1989. The government has been trying to negotiate a rescheduling programme with the Paris Club, which makes up more than 80% of total debtors. In 2004, Obasanjo stated that Nigeria could not meet its $2.9 billion debt obligation to the Paris Club of creditors, saying the country could afford to spend only $1 billion on debt servicing this year.[26]

In 1999, Nigeria ended its stand-off with international financial institutions, which began when Abacha was in power, by agreeing to a staff-monitored IMF programme. The following year, it was granted a 12-month stand-by credit of more than $1 billion as a first step towards deeper engagement with the IMF. But the relationship between the two parties broke down and in March 2002, Nigeria pulled out of the IMF monitoring programme to pursue a home grown programme. This included job cuts in the ministries, the privatisation of key sectors, the reining in of corruption and a reduction in government subsidies.

In March 2004, the World Bank agreed to lend Nigeria up to $1 billion for the next two years to boost its development programme. The Bank has already committed $1.1 billion to Nigeria since 1999.[27] In March 2004, following an assessment visit to Nigeria, the IMF largely endorsed the government's

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[26] The government has raised questions about why the current civilian administration is liable for the 'odious debt' incurred by successive military governments on the back of the oil boom. Following this reasoning, the government maintains that the actual debt is only $10 billion. See Lohor J, 'Obsanjo: Foreign debt not payable', *This Day* (Nigeria), 30 May 2004.

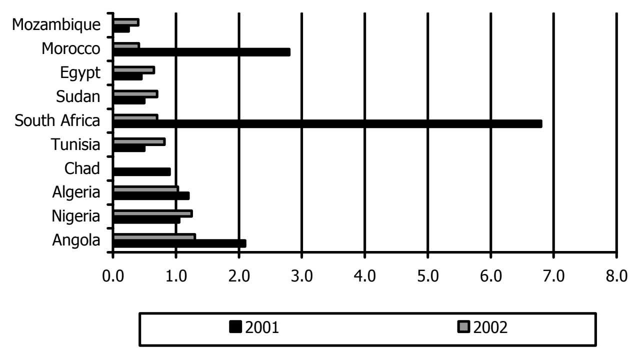
[27] World Bank, 'Bank support grows for Nigeria reform Programme', www.worldbank.org

economic reforms, saying that if implemented faithfully, they could kick-start the economy.

Foreign direct investment

In spite of the overall downturn in FDI to Africa in 2002, from $17 billion in 2001 to $11 billion,[28] 30 countries attracted higher FDI in that year, mostly those with active oil and gas sectors. Nigeria ranked second-highest on the list after Angola. Together with Morocco, it was also rated by UNCTAD in its World Investment Report as the third most attractive destination for FDI in 2004-05, after South Africa and Egypt.

Figure 1. Africa: FDI inflows, top 10 countries, 2001 and 2002[a]



a — Based on the magnitude of 2002 FDI flows. In 2001, FDI inflows to Chad are zero.

Source: UNCTAD, FDI/TNC database (*www.unctad.org/fdistatistics*)

Despite the strongly negative sentiment felt by the international community over corruption in Nigeria, there are

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[28] *UN World Investment Report 2003*. The 2001 figure was boosted by a few big deals in South Africa and Morocco and is not therefore believed to represent a trend. The figure rose to $14 billion in 2003.

some positive developments outside the oil sector, which are drawing investors. Among them are Nigeria's relative political and macroeconomic stability, rising growth rates, and the government's stated determination to follow through on its reform programme. In addition, Nigeria has a well-educated workforce and a wealth of unexploited natural resources. Its good trade links with the rest of West Africa give the country access to a market of 250 million people, making it a good target for foreign investment. This, coupled with increasing opportunities in the oil and gas sector, is why Nigeria has experienced a significant increase in FDI despite an overall decline in FDI to the continent as a whole.[29]

FDI in the oil sector still dominates other sectors. Total capital investment in Nigeria's upstream sector has grown steadily, from $4.5 billion in 1998 to about $10 billion in 2002.[30] Chevron announced in 2000 that it planned to spend more than $2 billion over the next few years on oil and gas projects. The previous year, Shell announced that it planned to invest $8.5 billion in the development of offshore oil fields over the next five years, the biggest-ever industrial investment in sub-Saharan Africa. In 2002, the company also announced the injection of another $7.5 billion in investment to further boost crude oil production and to enable the company to meet the Nigerian government's 2008 deadline to end gas flaring. Shell is the leading exploration and production firm in the country, accounting for more than 40% of Nigeria's crude oil production.

Investment in other sectors has also grown, from almost zero to around $2 billion in 2003, according to the government.[31]

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[29] *UN World Investment Report 2003:* FDI Policies for Development: National and International Perspectives, UNCTAD, 2003, pp. 33–40.

[30] PricewaterhouseCoopers, *www.pwc.com*.

[31] National Economic Empowerment and Development Strategy, Federal Government of Nigeria.

Table 3: FDI in Nigeria				
Year	**Number of Companies**	**Capital importation**	**Level of investment**	**Employment generation**
1999	38	$42.40m	N4.24bn (N100-$)	4,093
2000	55	$208.10m	N20.81bn (N100-$)	3,147
2001	34	$180.08m	N21.25bn (N118-$)	5,428
2002	43	$540.17m	N9.63bn (N118-$)	10,885
Total	170	$970.75m	N56.49bn	23,553

Source: Nigerian Federal Statistics Office

Corruption

In 2003 Transparency International listed Nigeria as the second most corrupt country in the world after Bangladesh.[32] The two countries had held the same positions on the Index the previous year.

The Nigerian government angrily disputed the result, because it has made considerable efforts to clean up corruption. However, it conceded that perceptions of the level of corruption in Nigeria represented as big a challenge as the curbing of actual corrupt practices.

When Obasanjo's government came to power, it committed itself to a strong anti-corruption programme. However, there were considerable delays before it introduced any effective mechanisms. Although the government has now set up a battery of anti-corruption organisations, these have been

[32] Transparency International's Corruption Perception Index is a global survey of 133 countries which measures the perceptions of businessmen, academics and risk analysts about corruption in those countries. See *www.ti.org*.

criticised for their inconsistent implementation of policy and their reluctance or inability to prosecute individuals.

The first body to be established was the Independent Corrupt Practices Commission, signed into law in 2000. It is currently being strengthened through legislative amendments and capacity building. A Code of Conduct Bureau has also been created to monitor asset declaration and the conduct of public officials, legislators and judges. The Economic and Financial Crimes Commission (EFCC) was appointed in mid-2003 to fight crime, especially advance fee fraud ('419 scams', named after the number of the ruling in the penal code that forbids them).[33] By March 2004, the EFCC had prosecuted more than 50 people for financial crimes and recovered the equivalent of $300 million, of which $52 million was returned to the Treasury.

The EFCC has prosecuted more than 50 people for financial crimes and recovered the equivalent of $300 million.

In the second half of 2004, the EFCC[34] plans to have established the Financial Intelligence Unit (FIU), which will improve its capacity to monitor and enforce compliance with laws against money laundering and other economic crimes.

[33] The EFCC has a high-level and broad-based membership, which includes the governor of the Central Bank of Nigeria, representatives from the ministries of foreign affairs, finance and justice, the head of the National Drug Law Enforcement Agency, the director-general of the National Intelligence Agency and State Security Services, the director-general of the Securities and Exchange Commission and high-ranking officials from the immigration, police and customs services. See US State Department website, *www.state.gov* and the EFCC's website, *www.efccnigeriaorg*.

[34] The EFCC has far-reaching functions and powers, which cut across crimes involving 419 scams, money laundering, counterfeiting, illegal charge transfers, futures market fraud, fraudulent encashment of negotiable instruments, computer credit card fraud and contract fraud, among others.

A Cyber-Crime Commission has also been set up to stem the tide of Internet and ICT-related infractions emanating from Nigeria. Another more general reform has been the reorganisation of the police force, long recognised as part of the broader problem of graft in society, as one element in an integrated strategy that includes the regeneration of the judiciary.

The government has also entered into an anti-corruption compact with the G-8 countries, which was announced in June 2004. In terms of the agreement, representatives from and institutions in G-8 countries will work with Nigeria to find ways to tackle corruption.

So far many of those who have been caught in the crackdown on corruption have been public servants. It is estimated that 90% of corruption in Nigeria is practised by public servants, and almost half of this is accounted for by the executive arm of government. This alone is an indication of the difficulties Nigeria faces in making its reform programme bite.

According to an editorial in the weekly Nigerian business paper, *Financial Standard*:[35]

> The damage to the nation is incalculable. Transparency and accountability in the business of government have become the most pertinent and topical issues in policy implementation. The dominance of the public sector in the economy is what leads businessmen to be forced into corrupt practices — nobody can do any business without dealing with public officers right from the point of entry.

This is a real problem for a government hoping for an economic recovery led by the private sector and for increased and more diversified FDI. Corporate governance in the private sector is weak at best, and business practices that are well-

[35] *Financial Standard* (Nigeria), 24–28 May 2004.

established in Nigeria, such as the payment of brokerage fees, are often in conflict with the corporate governance principles applied by foreign companies coming into the country. World-class organisations wanting to maintain international social responsibility will hesitate to become involved in many of the business practices current in Nigeria.

Privatisation

The privatisation process began in 1989 under the leadership of General Ibrahim Babangida, who privatised 73 out of a targeted 95 companies. The programme stalled in 1993 when Abacha took power, and started up again only in 1999 with the promulgation of the Public Enterprises Act.

Privatisation has had mixed success, owing to a number of factors. These include massive resistance from trade unions and from those benefiting from either sheltered employment or state patronage; many of the enterprises were so run down they should have been liquidated, not sold; and that some of the negotiations to privatise major state-owned companies such as Nitel and Nigeria Airways have failed through government and other interference.

Because most of the privatised companies were bought locally, the sales involved limited FDI gains, although local business benefited. Nigerians also profited through the stock exchange, with demand for shares outstripping supply. However, many jobs were shed in the process of privatisation. (Overcapacity characterised most state-owned enterprises, and still does.)

Oil, gas and energy

Nigeria is Africa's leading oil producer and one of the top suppliers in the world. It possesses nearly 3% of the world's reserves, and has an output of more than three million barrels per day. Production is expected to double in the next few years as more oil blocks are put on the market. However, oil plays a relatively minor role in the provision of domestic energy in Nigeria. In 2001, petroleum products supplied 32% of domestic energy consumption, while natural gas and hydropower accounted for 62% and 6.2% respectively.

The oil and gas sector contributes an estimated 50% of GDP, accounts for about 80% of federal government income and more than 90% of export revenues. For the first time in decades, the spoils of oil are entering the fiscus and the government has promised transparent and restrained spending through all three tiers of government. Its 2004/05 revenue estimates have been made on a price of $23 per barrel of crude oil. The price in early August 2004 was above $40 a barrel. This saving will give the government a savings buffer against volatility in the oil market and in the macroeconomy generally.

The major oil exploration companies operating in Nigeria are Shell, ConocoPhillip, ChevronTexaco, ExxonMobil, AGIP and TotalFinaElf. For years, these companies have battled it out in Nigeria, waiting for ever more lucrative oil blocks to be opened up, despite the major difficulties of the operating environment. These include ongoing violent protests, rampant oil theft, repeated strikes by oil workers, sabotage of pipelines and pumping stations and the taking of local and foreign oil workers as hostages. In April 2003, for example, seven people, including two US oil workers, were killed during an attack by militants on a boat belonging to the oil firm ChevronTexaco.[36]

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[36] In June 2004, the US government was in talks with Nigeria regarding the protection of its oil reserves from attack. The US is currently courting oil producing countries in the Gulf of Guinea to protect its own interests in the wake of instability in the oil producing countries of the Middle East. See Tialobi B, 'Tension over US warship in Gulf of Guinea', *African Standard* (Nigeria-SA), July 2004.

Table 4: Crude oil exports 2001		
	Million barrels	**% of total**
Total	**683.3**	**100**
US	266.8	39.0
India	87.8	12.8
Spain	55.9	8.2
France	46.8	6.8
Brazil	36.8	5.4
Italy	25.0	3.7
Source: Central Bank of Nigeria		

A base increasingly used by suppliers to the oil and gas sector is the free zone at Onne in Rivers State. It was established by the federal government to be a distributive hub for Nigerian and West African oil and gas activities. The Free Zone offers the usual incentives such as exceptions from import and export taxes and from commercial levies. It allows reparation of capital and profits, and does not have a quota system for expatriate staff.

The administering body is the Nigerian National Petroleum Corporation (NNPC), which currently holds around 60% of the upstream oil sector through joint venture agreements with all of the international players involved in onshore operations. The NNPC, which is cash-strapped despite its partnership with the multinationals who pump millions of barrels of oil per day, is in the process of commercialising its subsidiary companies and activities. Fuel subsidies, which the government is trying to phase out, contribute to the lion's share of the loss, which is estimated at around $3.8 million a day.[37]

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[37] *Reuters*, 22 July 2004.

Box 1: The potential of Nigeria's gas sector

Although there is still a long lifespan for Nigeria's oil reserves, a large proportion of which are as yet untapped, the new hope for the future is gas. In energy terms, the quantity of natural gas in Nigeria is said to be more than twice that of crude oil. Estimates put the country in the top 10 nations of the world in terms of gas reserves. However, it is estimated that about 75% of associated gas produced per annum is flared, while 25% is used as fuel gas in the field, sold to industries, used for gas lift operations or re-injected (to enhance oil recovery operations). The government has set 2008 as the deadline for oil companies to end gas flaring.

Major projects and funding for the development of gas are in various stages of development. The government has also introduced a number of fiscal incentives for investors in the natural gas sector. Most of the gas projects are being conducted by multinationals in joint ventures with the state-owned NNPC. The most ambitious of these is the $3.8 billion liquefied natural gas (LNG) facility under construction on Bonny Island. The plant, which aims to produce 7.15 billion cubic metres per year, is owned by the Nigeria Liquefied Natural Gas Company, with the NNPC holding 49% of the equity, Shell 25.6%, Elf 15% and Agip 10.4%. The gas to be produced there is mostly intended for sale in Europe.

One of the major cross-border projects with which Nigeria is involved is the West African Gas Pipeline, a joint venture with Benin, Togo and Ghana and various private companies. The project is sponsored by the NNPC, the Ghana National Petroleum Corporation, SOTOGAZ of Togo, and SOBEGAS of Benin. Shell Petroleum Development Company of Nigeria and Chevron Nigeria are among the companies involved. The project entails the construction of a 617km pipeline from Lagos to Tokoradi in Ghana for the supply of gas along the route. The government has also approved a plan to examine the feasibility of building a gas pipeline up to Algeria, to be known as the Trans-Sahara Gas Pipeline.

One of the major casualties of neglect in Nigeria has been the power sector. Although the National Electric Power Authority (NEPA) has an installed capacity of 6,000MW, it has been unable to meet national power needs because its outdated and poorly maintained facilities have reduced its capacity to less than half. Attempts are being made to reform the sector and bring in private sector support and investment, so far with limited success. NEPA is slated for privatisation, but the date keeps being shifted because reform of the sector and the utility are required first. There are some independent power providers and various private initiatives to boost power supplies, but any long-term initiatives await decisive action by the government to regenerate the power sector.

Agriculture

Agriculture employs about 70% of the labour force and contributes around 40% to GDP, although it makes a minimal contribution to foreign exchange earnings[38] and the bulk of Nigeria's food is imported. The country, which was a net exporter of agricultural produce until the 1970s, currently spends a minimum of $2.5 billion a year on food imports, including $600 billion on rice. Other imports are chickens, milk and sugar.[39] The principal export crops are cocoa and rubber, which together account for nearly 60% of all exports excluding oil. The principal cash crops are cocoa, rubber and palm oil, while food crops include sorghum, millet, maize, rice, yams, cassava and plantain. Livestock and timber farming and fishing are some of the other forms of agriculture practised.

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[38] Agriculture was the country's main revenue earning sector in the 1970s. EIU, *op cit*.
[39] Interview with the governor of Kwara State, Bukola Saraki, *This Day* (South Africa), 17 May 2004.

About 75% (74 million hectares) of Nigeria's total land (98 million hectares) is arable, although only about 40% of this is cultivated.[40] Despite the existence of two major rivers, which run across large parts of the country (the Niger and Benue), most agriculture is rain-fed. Nigeria's current land tenure system does not encourage long-term investment in technology or modern production methods, as there is no freehold title, only leasehold. Foreigners are prohibited from owning land. The farming methods are low-yield owing to basic levels of farming technology and insufficient supplies of inputs such as fertiliser. Long-term credit facilities, in any case, are hard to come by in the Nigerian banking sector, which is focused on short-term lending (up to about a year).[41]

The government has focused on the cassava industry to help boost agriculture. It has set up a presidential committee to boost cassava production and exports, with a view to raising $5 billion from cassava exports in the next few years. Currently most cassava is consumed locally, because it has not hitherto been considered a strategic crop.

The government has tried to encourage manufacturing industries to grow their own substitutes for imported raw materials but it has yet to bear fruit.

Mining

Research has shown that Nigeria has large untapped sources of minerals which have lain neglected because of the focus

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[40] National Economic Empowerment and Development Strategy, Federal Government of Nigeria, 2004.

[41] A group of displaced white commercial farmers from Zimbabwe recently made the headlines in the Nigerian media after they were given long-term leases on 20,000 hectares of land in Kwara State, which has a total land area of 2.3 million hectares, by the state governor. The government is keen to encourage the expertise of farmers from Southern Africa in order to reduce its massive food import bill. It is believed the farmers will be growing sugar cane and rice.

on oil and gas as energy sources. For example, the country has sizeable coal reserves, although production is well below the 1990s levels. The sector is also constrained by a lack of adequate capacity to mine and process minerals, a poor infrastructure, an unfavourable fiscal regime and an uncompetitive legal and regulatory framework.

Some experts have said that mining could earn double the income that the oil sector is generating. The World Bank is to invest $75 million in the country's solid minerals sector, in support of the government's efforts to diversify the economy. The initiative has two broad objectives — to increase the government's long-term institutional and technical capacity to manage Nigeria's mineral resources in a sustainable way, and to form the basis of a poverty reduction scheme by generating opportunities in artisanal and small-scale mining.

A delegation of Russian technocrats and investors which visited Nigeria in April offered to help the country raise its gold production to 750,000 tonnes annually, while the Canadian government has signed a contract with the government to prospect the deposits of solid minerals in the country.

Manufacturing

Manufacturing contributes only 6% to GDP, less than half of its share in the early 1980s, but a slight increase on a few years ago. The decline in output reflects the long-term decline in manufacturing investment resulting from the lack of macroeconomic planning over the last two decades. The relatively few manufacturing companies have found it difficult to survive in an environment that offers little or no support, and in which they are having to compete with imported products, whether cheap or expensive.

Domestic production costs are high, the transport infrastructure poor, and power supplies are erratic. As a result of these problems, industrial capacity utilisation is less than 30%, and manufacturers have lost any edge they might have had in regional markets. The types of industry that have survived in the formal sector include bottling and brewing, and the manufacture of soap, textiles, cement and building materials. In the informal market, manufacturing is dominated by the production of shoes, textiles and motor parts.[42]

In 2002, the government announced a new industrial policy aimed at boosting capacity utilisation to 65% within a decade. This was to be achieved by developing an environment offering better support to manufacturers, reducing tariffs on imported raw materials and giving generous incentives to producers. The government last year also issued a ban on 27 imported goods with a view to stimulating local manufacture. Early in 2004 it added to the list another 35 items. It plans to expand the list further as time goes on. (See Appendix C.) While the idea behind the ban has been generally supported domestically, the way it has been implemented has been criticised. Critics have suggested the ban should have been phased in and accompanied by extensive support mechanisms for local manufacturers. It has also discouraged investment into the country.[43]

In 2003, the Nigerian government introduced an import ban.

Transport

Nigeria's transport sector has suffered from years of neglect. Despite many ambitious plans announced by successive

[42] *Invest Africa 2004*, Nepad Business Group (UK), 2003.

[43] The IMF reports that the Nigerian import ban might be contrary to WTO regulations and has urged the country to revisit the bans. See *IMF Country Report No. 04/239*, p. 30.

Nigerian governments to reform the sector, recovery is being hampered by rampant corruption in the public service.

Aviation

The potential of the aviation sector is slowly being realised, despite poor infrastructure, a lack of capacity and a shortage of funding for private airlines. The national carrier, Nigeria Airways, was liquidated in 2004 but it was declared technically insolvent more than two years before that with trade debts of nearly $70 million, financial debt of more than $330 million and pension liabilities of $38 million.

Attempts to introduce a new national airline, Nigeria Eagle Airways, are well advanced, although progress has been delayed by problems arising in negotiations with South African Airways (SAA), the preferred investor. Other bidders are Virgin Atlantic and KLM. Meanwhile, because of the vacuum, the private airline industry is booming. In June 2004, the government designated six private airlines — ADC, Aero Contractors, Afrijet, Bellview, Chachangi and Kabo — to fly international routes under certain conditions to both African and foreign destinations.

Current statistics from the Nigerian Civil Aviation Authority show that there are 1,134 registered aircraft used by independent operators in Nigeria, 37 of them belonging to indigenous companies. Seventeen new airlines are applying for operating licences.[44] However, many of the airlines have small fleets and are often undercapitalised. They also experience high rates of business failure.

Apart from a lack of credit facilities, high airport tariffs and foreign exchange fluctuations, (which affect imports), operators have to deal with poor infrastructure at the country's

[44] *African Standard* (Nigeria/South Africa), June 2004.

airports. The terminal buildings and the runways at some of the airports, even in a major centre such as Lagos, are in dire need of repair and upgrading. There are 20 main airports in the country, all of which are under the jurisdiction of the Federal Airports Authority of Nigeria.

International airlines flying to Nigeria, apart from SAA, include Egypt Air, Kenya Airways, Emirates, Ethiopian Airlines, Virgin Atlantic, British Airways, Lufthansa and Air France.

Most bulk cargo transported into Nigeria is air freighted rather than shipped by sea, because of the poor state of the ports. Other disadvantages of the ports are massive corruption in the customs and excise services and extreme delays in processing goods.

Ports

During the boom years of the 1970s, the ports handled high volumes of freight. But these declined considerably during the following two decades, and began picking up again only in 1999, when Nigeria re-entered the international community. However, facilities have not been improved to keep pace with the increase in business. Despite many publicly announced plans for reform of the ports, these generally remain in poor condition, with outdated equipment and run-down facilities. The privatisation option is still open, and investors interested in running certain areas of the port are being sought. However, predictably, this initiative has met with resistance from the trade unions, who have threatened to disrupt operations and cripple the port if the government goes ahead. The National Ports Authority (NPA), in turn, has threatened a security crackdown if any such actions occur. Neither scenario bodes well for investor interest.

Handling capacity in the country's ports — Apapa, Warri, Tin Can Island, Port Harcourt and Calabar — is not adequate to meet the rising demand, and much of the dockside equipment is in need of repair. The loading and unloading processes are slow because of a lack of automation. There have also been repeated calls for an overhaul of customs operations at the nation's ports, to stop the bribery and corruption which affects the movement of goods through the port.

An important new development in the maritime industry has been the introduction in May 2004 of the Coastal and Inland Shipping (Cabotage) Act. It is designed to increase local content in the country's maritime sector by prohibiting any vessel not built in Nigeria, manned by Nigerians or owned by Nigerians from engaging in the coastal and inland maritime trade in Nigeria. However, there are waivers, and foreign-owned ships will be allowed to ply their trade at the discretion of the minister of transport. It is said to be another flawed plan, like the ban on imported goods, that has good intentions but fails to take into account the realities of the industry in Nigeria. These are inadequate infrastructure, insufficient funding and the inability of operators to meet the standards required for ship repairs and building yards.[45]

Railways

Nigeria has a 3,500 km network, but offers minimal rail services along the route. There is a serious shortage of rolling stock, which has prevented the railways from expanding services and increasing passenger loads. Hence road and air travel have become the preferred modes of transport for people and even for cargo.

In 1995, the government signed a $529 million contract with the China Civil Engineering Construction Corporation to

[45] *FS African Standard* (Nigeria/South Africa), July 2004.

renovate the rail network, but despite some initial improvement, the level of service declined again. The number of passengers carried in 2001 was 1.3 million, a significantly lower figure than the 6.3 million passengers that were the annual average in the 1990s. [46]

The government is currently looking for new investors to rehabilitate and modernise the rail system. It also aims to commercialise the non-real assets of the railways as a source of revenue to finance the revitalisation of the railway network.

Telecommunications

Nigeria is the fastest-growing telecommunications (telecoms) market on the African continent. There has been a dramatic increase in demand for telephone connections, from about 10,000 new lines per annum between 1960–2000, to 1 million new lines per annum in the past three years. With a total of 2,8 million connected telephone lines by June 2003, compared with only 400,000 in 1999, the growth in telecoms service delivery is unprecedented.

However, in terms of size and structure, the country has generally been a laggard in providing telecoms services. It only accounts for 2.45% of the sub-continent's telephone lines (fixed and mobile).

The state of landline telephony in Nigeria is still poor, as a result of years of neglect and a severe lack of funding for the state-owned utility, Nitel. Although plagued by difficulties arising from a delay in privatisation, Nitel remains the dominant fixed telephone operator, with 556,590 connected lines or 76.8% of the total. At the last count, the total installed capacity for fixed lines in Nigeria was 1,102,844, while the total number of connections as at June 2003 was 724,790. [47]

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[46] EUI, *op. cit.*

[47] Nigerian Communications Commission.

Because of the poor services offered by Nitel, a mushrooming of private telephone operators (PTOs) occurred when the sector began deregulating in 1997. In that year a Lagos-based PTO, Multilinks, announced the commencement of commercial operations. Within a few years, a number of others, such as Intercellular, Mobitel, Starcomms, Cellcom and Prest, had started up.

However, after five years of operation, the PTOs have been able to add only 168,200 new lines (representing 23.2% of total fixed lines) to the national fixed telephone network. Although they provide a useful supplement to the overall system, the PTOs are typically small operations whose growth has been hampered by the difficulties of mobilising capital, among other things. The main advantage they have over Nitel is that services are rendered via wireless, while Nitel continues to rely on cable.

The big success story that has changed the telecommunications landscape is mobile telephony.

Nitel has been strengthened by the appointment of a Dutch company, Pentascope, to manage their utility, following a failed attempt to privatise it. Another recent event that is bound to change the face of fixed telephony in Nigeria was the licensing of a second national operator, Globacom, in late 2002.

However, of course, the big success story that has changed the telecommunications landscape is mobile telephony. In January 2001, two foreign-owned mobile operators with local partners entered the mobile telephony market, along with Nitel, for which a third licence has been reserved. The demand for services and connections outstripped all their expectations. If anything, the major difficulty encountered by these operators has been keeping up with demand, despite predictions that take-up would be slow because people would not be able to afford mobile telephones. In 2002, Globacom was licensed not only for fixed line but also for mobile services. The total number of GSM subscribers[48] in 2004 was estimated to be around five million of which MTN, which was awarded a Nigeria licence in January 2001, had 1.9 million subscribers. Nigeria was also found to have the highest average revenue per user in Africa, at $55 per month.

Financial services

The deregulation of the financial sector in 1986 and the associated quick profits led to a rapid increase in the number of banks in the late 1990s. A total of 115 banks operated in 1997, compared with 41 in 1985. However, in 1998 the Central Bank of Nigeria (CBN) liquidated 26 troubled banks, bringing the total down to 89 (51 commercial and 38 merchant banks). There has been some reshuffling since then, with several merchant banks converting into commercial banks with the advent of universal banking, and the opening of yet more new banks. By June 2002, commercial and merchant banks held 97.2% of institutional savings. The largest financial institutions are First Bank of Nigeria, Union Bank of Nigeria (formerly Barclays Bank) and the United Bank for Africa.[49]

The sector has suffered from poor regulation, with the authorities stretched to their limits because of the growth in the number of banks. Bad management, undercapitalisation and other problems hamper the performance of Nigeria's banks. The CBN has tried to reform the sector, with some success. But its boldest move to date took place in July 2004 when sweeping measures were announced. This included raising the

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[48] Other GSM service providers aside from Globacom and MTN, are Vee Networks (formerly Econet Wireless Nigeria) and Nitel.

[49] EIU, *op. cit.*

capitalisation requirement from the current N1 billion and N2 billion for existing and new banks respectively to N25 billion (around $189 million), by December 2005. The CBN contends that to be a global player, Nigeria needs to strengthen its banking sector through consolidation (mergers and acquisitions). It has also announced that public sector funds, which had been injected into the commercial banking sector in an attempt to deepen it, are to be withdrawn to force banks to find other ways of raising revenue. The announcement also affects foreign banks with operations in Nigeria, including South Africa's Stanbic.

These reforms are likely to significantly reduce the number of banks, because of the weakness of many. Ten banks account for more than half of the sector's total assets and deposits. The government has also cracked down on foreign exchange arbitrage in the black market, from which many banks made good returns. Banks are no longer allowed to issue foreign exchange, which must now be obtained on the weekly Dutch auction. Although large companies seem to have more success in buying currency on the auction, smaller companies often struggle, as an application for currency does not automatically guarantee success.

The cost of money is high in Nigeria although the sector is highly competitive.

However, both Nigerians and foreigners are allowed to hold foreign currency accounts, from which they can meet their hard currency requirements. There is no limit on the amounts that can move in and out of these accounts, as long as the source of the funds is declared (as required by legislation to prevent money laundering). Foreigners can open temporary accounts with a reference from their home bank, although the funds must come from a foreign source. Holders of such accounts can remit 50% of their funds out of the country monthly, and withdraw the balance on closing the account.

The cost of money is high in Nigeria although the sector is highly competitive. As the deposit interest rates are deregulated, banks can offer whatever they like. However, the cost of borrowing money can be as much as 30% due to the high risk associated with doing business in Nigeria. It is also not easy to raise long-term funds, because of Nigeria's history as essentially a nation of traders with short-term borrowing and lending requirements.[50]

In December 2002, the government passed the Economic and Financial Crimes Establishment Bill, which saved the country from being blacklisted by the Organisation for Economic Co-operation and Development (OECD). However it has been designated a 'non co-operating country' by the OECD's international financial action task force, an independent body which acts against money laundering. Nigeria will continue to be monitored, which means that local banks will have to meet a number of reporting requirements.[51]

Tourism

The government has prioritised tourism as a key area of economic growth in its economic diversification plan. In late 2003, it launched the Presidential Council on Tourism to spearhead the expansion of the sector. The council is chaired by Obasanjo, assisted by his deputy president, Atiku Abubaker. This high-level participation is taken as signalling the government's commitment to the development of tourism.

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[50] However, it is not impossible. MTN Nigeria, for example, secured a medium-term finance facility in naira, equivalent to $250 million in November 2003. The commercial paper was fully subscribed by 15 Nigerian financial institutions. Interview, Nigeria, May 2004.

[51] 'Partners for prosperity', *Business Day* (South Africa)/*Financial Standard* (Nigeria), September 2003.

Fifteen ministers sit on the council (because of the cross-cutting nature of the sector), and there are a number of private sector representatives.[52]

The Nigerian Tourism Development Corporation is also working in partnership with the Securities and Exchange Commission (SEC) to promote the tourism industry. They have already held a workshop to look at ways of accessing the capital market for funding. The banks' current focus on short-term lending does not supply sufficient capital to develop the sector, but the SEC hopes to persuade them that tourism is a good lending opportunity.[53]

Despite the potential of tourism in Nigeria, previous governments have done no more than pay lip service to its development. Other commitments have been considered more pressing. Nigeria's image abroad has not been sufficiently attractive, and infrastructure and facilities are generally absent or random. The current focus is on building up domestic tourism, and also trying to develop a market for the increasing numbers of expatriate workers in the country and their families.

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[52] Games D, 'Tourism — a new frontier for Nigeria', *FS African Standard*, May 2004.

[53] Okpaku O, 'SEC gears up for tourism, plans workshop', *This Day* (Nigeria), 28 May 2004.