



# 'An Oil Giant Reforms'

The Experience of  
South African Firms  
Doing Business  
in Nigeria

Dianna Games

**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**

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SAIIA National Office Bearers

Fred Phaswana  
Elisabeth Bradley • Moeletsi Mbeki  
Brian Hawksworth • Alec Pienaar  
Dr Greg Mills

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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



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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 undermining local goods and services. The Nigerians, on the other hand, have been described by some South

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

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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, 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

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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.<sup>1</sup>

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.<sup>2</sup> 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<sup>3</sup> 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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<sup>1</sup> 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.

<sup>2</sup> 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.

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

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The South African investment relationship with Nigeria differs considerably from the former's traditional business relations

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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 Nepal 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,<sup>3</sup> 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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<sup>3</sup> 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.



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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.<sup>4</sup> 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.<sup>5</sup>

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<sup>4</sup> 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.

<sup>5</sup> 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.<sup>6</sup>

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 Obasanjo', *FS African Standard*, April 2004.

<sup>6</sup> Interview in *fDi Magazine* (UK), 8 December 2004.

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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.<sup>7</sup>

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.

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

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

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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%.

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<sup>7</sup> 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%.<sup>8</sup>

However, the government's assertion that the percentage excluded offshore activities<sup>9</sup> 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,<sup>10</sup> to be signed into law under

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<sup>8</sup> 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](http://www.eia.doe.gov).

<sup>9</sup> 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.

<sup>10</sup> 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

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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.<sup>11</sup> 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.<sup>12</sup>

## **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.

<sup>11</sup> 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.

<sup>12</sup> 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.<sup>13</sup> 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

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<sup>13</sup> In 2001, total external debt as a percentage of GDP stood at a massive 75%.

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

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.<sup>14</sup>

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

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<sup>14</sup> *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.<sup>15</sup> The economy is still heavily dependent on revenues from the oil and gas sector despite attempts at diversification and

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**The 'democracy dividend' has not yielded results.**

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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.<sup>16</sup> Nigeria's unemployment is difficult to measure because of the huge size

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<sup>15</sup> *The Africa Competitiveness Report 2004*, World Economic Forum, Geneva, Switzerland, 2004.

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



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of the informal sector.<sup>17</sup> However, the government estimated unemployment at 18% in 1999, dropping to 10.8% in 2003.<sup>18</sup> 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.<sup>19</sup>

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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<sup>17</sup> Some analysts estimate the informal sector as accounting for around 60% or more of total economic activity.

<sup>18</sup> See <http://www.fmf.gov.ng>.

<sup>19</sup> *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<sup>20</sup> (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.<sup>21</sup>

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<sup>20</sup> See [www.newswatchngr.com](http://www.newswatchngr.com).

<sup>21</sup> 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,<sup>22</sup> 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.<sup>23</sup> 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

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<sup>22</sup> Most South African business in Nigeria is concentrated in three centres — Lagos, Abuja and Port Harcourt.

<sup>23</sup> 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.<sup>24</sup>

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.<sup>25</sup>

	<b>naira</b>	<b>rand</b>
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*

<sup>24</sup> EIU, *op. cit.*

<sup>25</sup> 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.<sup>26</sup>

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.<sup>27</sup> In March 2004, following an assessment visit to Nigeria, the IMF largely endorsed the government's

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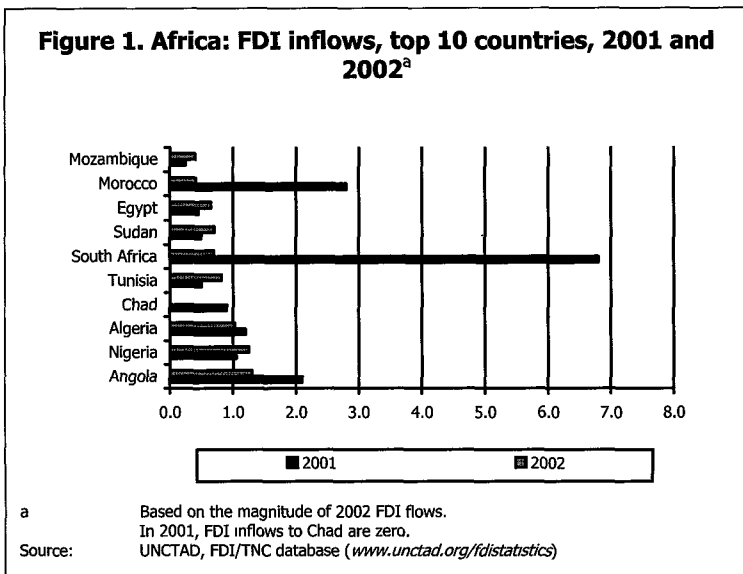
<sup>26</sup>The government has raised questions about why the current civilian administration is liable for the 'odious debt' incurred by successive military governments on the back of the oil boom. Following this reasoning, the government maintains that the actual debt is only \$10 billion. See Lohor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

<sup>27</sup> World Bank, 'Bank support grows for Nigeria reform Programme', [www.worldbank.org](http://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,<sup>28</sup> 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.



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

<sup>28</sup> 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.

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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.<sup>29</sup>

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.<sup>30</sup> 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.<sup>31</sup>

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<sup>29</sup> *UN World Investment Report 2003: FDI Policies for Development: National and International Perspectives*, UNCTAD, 2003, pp. 33–40.

<sup>30</sup> PricewaterhouseCoopers, [www.pwc.com](http://www.pwc.com).

<sup>31</sup> National Economic Empowerment and Development Strategy, Federal Government of Nigeria.

<b>Table 3: FDI in Nigeria</b>				
<b>Year</b>	<b>Number of Companies</b>	<b>Capital importation</b>	<b>Level of investment</b>	<b>Employment generation</b>
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
<b>Total</b>	<b>170</b>	<b>\$970.75m</b>	<b>N56.49bn</b>	<b>23,553</b>
<i>Source: Nigerian Federal Statistics Office</i>				

## **Corruption**

In 2003 Transparency International listed Nigeria as the second most corrupt country in the world after Bangladesh.<sup>32</sup> 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

<sup>32</sup> 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](http://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

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

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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).<sup>33</sup> 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.

In the second half of 2004, the EFCC<sup>34</sup> 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.

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<sup>33</sup> 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](http://www.state.gov) and the EFCC's website, [www.efccnigeria.org](http://www.efccnigeria.org).

<sup>34</sup> 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*:<sup>35</sup>

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-

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<sup>35</sup> *Financial Standard* (Nigeria), 24–28 May 2004.

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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.<sup>36</sup>

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<sup>36</sup> 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.

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	<b>Million barrels</b>	<b>% of total</b>
<b>Total</b>	<b>683.3</b>	<b>100</b>
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 repatriation 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.<sup>37</sup>

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<sup>37</sup> 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.

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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<sup>38</sup> 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.<sup>39</sup> 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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<sup>38</sup> Agriculture was the country's main revenue earning sector in the 1970s. EU, *op cit*.

<sup>39</sup> 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.<sup>40</sup> 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).<sup>41</sup>

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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<sup>40</sup> National Economic Empowerment and Development Strategy, Federal Government of Nigeria, 2004.

<sup>41</sup> 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.



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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.<sup>42</sup>

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

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**In 2003, the Nigerian government introduced an import ban.**

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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.<sup>43</sup>

## **Transport**

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

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<sup>42</sup> *Invest Africa 2004*, Nepad Business Group (UK), 2003.

<sup>43</sup> 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.

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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.<sup>44</sup> 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

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<sup>44</sup> *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

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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.<sup>45</sup>

### **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

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<sup>45</sup> *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.<sup>46</sup>

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.<sup>47</sup>

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<sup>46</sup> EUI, *op. cit.*

<sup>47</sup> 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

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

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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.

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<sup>48</sup> 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.<sup>49</sup>

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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<sup>48</sup> Other GSM service providers aside from Globacom and MTN, are Vee Networks (formerly Econet Wireless Nigeria) and Nitel.

<sup>49</sup> EU, *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

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

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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.

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.<sup>50</sup>

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.<sup>51</sup>

## **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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<sup>50</sup> 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.

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

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

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.<sup>53</sup>

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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<sup>52</sup> Games D, 'Tourism — a new frontier for Nigeria', *FS African Standard*, May 2004.

<sup>53</sup> Okpaku O, 'SEC gears up for tourism, plans workshop', *This Day* (Nigeria), 28 May 2004.

## **Political and Business Linkages Between South Africa and Nigeria**

### **Politics**

In pursuing the vision of an African revival, both politically and economically, democratic Nigeria is seen as one of South Africa's most important partners on the continent. The relationship is being pursued on several fronts, including the South Africa–Nigeria Bi-National Commission, the African Union (AU) and Nepad.

The ties between the two countries date back to South Africa's liberation era. Nigeria retained a major interest in South Africa through its support of the international campaign against apartheid. The Nigerian government made a number of appeals to countries such as the US and Britain (it had no diplomatic contact with the apartheid government) regarding political developments in South Africa, one of them concerning the Rivonia trial in which Nelson Mandela was sentenced to life imprisonment. The ANC set up a base in Nigeria, among other countries in the region. Many of its members in exile spent time in Nigeria and some of their children were educated in that country.<sup>54</sup>

Soon after South Africa's democratic election in 1994, High Commissions were set up in both South Africa and Nigeria. George Nene led South Africa's mission, presenting his credentials to Abacha in February 1995, while Alhaji Shehu Malami, his Nigerian counterpart, presented his credentials to President Nelson Mandela in August 1996.

The rapid establishment of diplomatic relations was based on past history rather than any direct acceptance of the military

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<sup>54</sup> ANC website, <http://www.anc.org.za/ancdocs/history/aam/dissertation.htm>

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dictatorship running Nigeria at the time, which stood for everything the new South Africa did not. In 1994, Nigeria was facing many of the same problems South Africans had just extricated themselves from. The relationship did not last long. In 1995, Abacha, in defiance of international demarches and petitions, ordered that the political activist Ken Saro-Wiwa and eight other political leaders should be hanged for treason. The world was outraged, and Mandela himself was one of the leaders who expressed his anger most outspokenly. The Commonwealth prompted by Mandela and others, suspended Nigeria from the organisation and threatened sanctions, including an oil boycott (a suggestion not strongly backed by the US, despite its censure of Abacha's behaviour). Mandela, mindful of South Africa's own recent experience, urged the international community to apply all necessary pressure in order to change Abacha's repressive behaviour and promote democracy.

In 1997, South Africa supported the appointment of a UN special rapporteur on Nigeria, which led the then Nigerian Information Minister, Walter Ofonagoro, to refer to South Africa as a 'white country with a black head'. Further, he accused unnamed western countries of driving a wedge between the two countries in order to weaken the continent. Over time, however, the South African government took a more conciliatory position, and conducted behind-the-scenes negotiations with Abacha regarding the release of political prisoners and efforts to resolve the conflict in the then Zaïre (now the Democratic Republic of Congo — DRC).

However, despite the South African government's outspokenness on the Saro-Wiwa issue, it remained silent when Abacha began to make it clear that he planned to become what was then known in the region as a 'civilian dictator' by standing in the democratic elections of 1999. It was common

practice in West Africa for dictators to take power by force and then promise elections (which they always won). Because South Africa did not protest, many Nigerians questioned its *bona fides*. However, Abacha died before his plan could take effect.

Obasanjo's election was the beginning of a new era for South Africa–Nigeria relations. Moving quickly to cement the relationship, the governments of both countries established a Bi-National Commission in October 1999, a few months after the election, under the co-chairmanship of Vice President Atiku Abubakar of Nigeria and South Africa's deputy president,

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**The aim of the commission is to lay a foundation for co-operation and partnership between the countries.**

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Jacob Zuma. The aim of the commission is to lay a foundation for co-operation and partnership between the countries.

The Bi-National Commission has met on five occasions — October 1999 in Abuja, the inaugural session; April 2000 in South Africa; March 2001 in Abuja; March 2002 in Pretoria; and December 2003 in Abuja. The sixth annual session is scheduled to be held in Pretoria from 7–12 September 2004. By the end of 2002, 15 agreements had been signed (see Appendix B for agreements signed and discussed between 1999–June 2004). President Thabo Mbeki undertook his first official state visit to Nigeria — the first ever to Nigeria by a South African head of state — in September/October 2000, while Obasanjo paid a return visit to South Africa in February 2003.

On a multilateral level, South Africa and Nigeria are both key members of the Commonwealth. The leaders of the two countries were appointed last year to a *troika*, which also included the Australian prime minister, John Howard. They were given the task of ensuring that Zimbabwe acted to

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restore democracy in line with Commonwealth norms.<sup>55</sup> South Africa and Nigeria are also key members of the AU: Mbeki chaired the Union for a year from 2002, handing over to Mozambique's President Joaquim Chissano in 2003. Nigeria and South Africa are among the five founding countries of the Nepad initiative, through which they have actively campaigned in international forums, notably the G-8, for greater focus on African affairs.

Both countries are also regional leaders in peacekeeping and conflict resolution issues, Nigeria in West Africa and South Africa in Southern and Central Africa. The two acted, with Mozambique and Ghana to prompt the former Liberian president, Charles Taylor, to relinquish power. Nigeria and South Africa, along with Kenya and Egypt, are also the main countries contributing to the AU's African Standby Force.

As the leaders of the continent's two biggest economies, Mbeki and Obasanjo have undertaken to meet the socio-economic challenges in their own countries, but also to promote African development and regional integration and the integration of Africa into the global economy. Ironically, both presidents have been accused by their countrymen of being more concerned with their international images and priorities than with problems at home.

## **Trade and investment**

Nigeria's ranking as South Africa's trading partner in 2003 stood at 22<sup>nd</sup> in terms of South African exports to Nigeria and 23<sup>rd</sup> in terms of imports out of 246 countries worldwide. In Africa,

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<sup>55</sup> However, Obasanjo and Mbeki failed to agree on the continued suspension of Zimbabwe from the Commonwealth at its meeting in Abuja in 2003. Mbeki favoured the lifting of the suspension, while Obasanjo, who was also responsible for not inviting President Robert Mugabe to the gathering, went along with the majority vote to continue the suspension.

Nigeria is South Africa's third-largest trading partner after Zimbabwe and Mozambique.<sup>56</sup> More than 60 South African companies are represented in Nigeria, and in 2003 it was estimated that around 3,000 South Africans were based in the country, either doing contract work or full-time jobs.

Nigeria became South Africa's largest trading partner within the West African region in 2000, followed by Ghana, Côte d'Ivoire and Mali. In 2003,

it also became South Africa's largest source of imports on the continent.

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**In 2003, Nigeria became South Africa's largest import partner in Africa.**

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In terms of total trade,

South Africa's crude oil imports from Nigeria, which began in 1997, have significantly boosted trade values. This commodity is the main reason for the large trade deficit South Africa has had with Nigeria since then.

Trade between the two countries is growing rapidly, and South Africa is likely to soon to be able to challenge Nigeria's traditional trading partners in terms of overall trade. The US is the main source of Nigeria's exports,<sup>57</sup> while its former colonial power, Britain, provides most of its imports. Nigeria is the UK's second-largest market in Africa after South Africa, and one of its top 40 export markets overall. Exports to Nigeria rose to £716 million in 2002, from £648 million in 2001. These comprised mainly power-generating and specialised industrial machinery, vehicles, telecommunications equipment and tobacco. Imports were mostly petroleum and petroleum products and agricultural commodities. The UK is also one of the largest investors in Nigeria, with interests in oil and gas, power, water, agriculture and various other sectors.

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<sup>56</sup> South African Department of Trade and Industry, May 2004.

<sup>57</sup> About 16% of the US's total oil supplies come from West Africa, primarily from Nigeria.



**Table 5: Main trading partners, 2001**

<b>Exports to</b>	<b>% of total</b>	<b>Imports from</b>	<b>% of total</b>
US	42.1	UK	7.8
Spain	8.8	US	7.6
India	6.8	France	7.0
France	5.4	Germany	6.0
Brazil	4.6	China	5.8
Portugal	3.3	Netherlands	4.3
Germany	3.2	Italy	3.9

*Source: IMF*

A fast-growing competitor in the trade stakes is China, which is quickly entrenching itself in this market (along with other Asian countries and India). In 2004, a China–Nigeria chamber of commerce was established to deal with growing trade (despite the fact that Nigerian manufacturers have complained of malpractice by Chinese companies, which includes counterfeiting and dumping). In July 2004, the Nigerian government announced that a significant Chinese investment of \$7 billion by the China Export and Credit Insurance Corporation (Sinosure) had been proposed in a range of sectors, from power generation and crude oil exploration to coal processing and agriculture. The government has set up a steering committee, led by a senior adviser to the president, to bring this proposal to fruition. If it succeeds, this investment will not only displace many of the traditional investors in terms of size but it will also lead the way to diversified investment.

It is believed that China is eager to establish a foothold in Nigeria's oil and gas sector to secure its own energy needs. At present these are largely being met by imports from the Middle

East. China already has investments in other African oil-producing states such as Sudan and Angola.<sup>58</sup>

South Africa has the advantage of being closer to Nigeria than its other trading partners, which reduces both the cost and time involved in transporting goods to that country. For example, shipping goods to Nigeria from South Africa takes between seven to nine days, while freight travelling from Europe to Lagos is in transit for 21–30 days, because of the stops along the west coast en route to Lagos. For importers, the cost benefits of this faster turnaround time are crucial, despite risk of delays at the Nigerian ports. (The average period needed to get goods from the ports in Lagos to the importer's premises is at least three weeks.) Some importers prefer to ship their goods to Cotonou in Benin and bring them in by road, as this is usually the faster method. Another advantage South Africa enjoys in Nigeria is that its skilled labour is cheaper than the same from western countries, so this country is able to undercut the competition.

**Box 2: Shipping volumes to and from Nigeria**

According to information provided by the shipping industry, in 2001 the highest import volumes to Nigeria, measured in twenty-foot equivalent units (TEUs) came from the Far East (78,000), while 45,024 came from Europe, 38,400 from the Mediterranean, 13,200 from India, and 12,000 from South Africa. In terms of export volumes, South Africa, at 1,200 TEUs, came in fifth after Europe (13,400), India (12,000), Far East (3,600) and the Mediterranean (3,000). These figures do not include oil and gas, which would make the US volumes much higher.

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<sup>58</sup> *Global Market Brief*, 12 July 2004.

<b>Table 6: South African trade with Nigeria</b>			
<b>Year</b>	<b>Exports to Nigeria</b>	<b>Year</b>	<b>Imports from Nigeria</b>
1998	R290.9 m	1998	R439.3 m
1999	R514.0 m	1999	R1.23 bn
2000	R707.0 m	2000	R1.26 bn
2001	R1.6 bn	2001	R1.6 bn
2002	R2.7 bn	2002	R3.6 bn
2003	R2.3 bn	2003	R2.6 bn

*Source: South African Department of Trade and Industry*

As mentioned above, South Africa's main import from Nigeria is crude oil, while its exports include machinery and mechanical appliances; electrical equipment; wood and other fibrous pulp; waste and paper, paperboard scrap and other similar articles; prepared foodstuffs; beverages; spirits; vinegar; tobacco; plastics, rubber and related articles; chemicals and allied products; and base metals and allied products.

<b>Table 7: Trade deficit and total trade: South Africa and Nigeria</b>			
<b>Year</b>	<b>SA trade deficit with Nigeria</b>	<b>Year</b>	<b>Total trade: South Africa–Nigeria</b>
1998	R148 m	1998	R730 m
1999	R719 m	1999	R1.7 bn
2000	R574 m	2000	R1.9 bn
2001	R10 m	2001	R3.3 bn
2002	R890 m	2002	R6.3 bn
2003	R215 m	2003	R4.9 bn

*Source: South African Department of Trade and Industry*

According to a South African government advisory issued in 2004, concerns about fraud, corruption and commercial scams are among the main inhibitors of increased trade. These to some degree counteract the positive factors represented by South Africa's relative geographic proximity to Nigeria, its appropriate technology and competitive pricing of high quality goods and services, which would seem to favour trade relations between the two countries. The government, through the Department of Trade and Industry, has encouraged the strengthening of both economic and political ties, and has sent various trade missions to the country. However, most companies go in under their own auspices through the Nigerian–South African Chamber of Commerce<sup>59</sup> or other routes, although many are registered with, or in contact with, the South African High Commission offices in Lagos and Abuja.

Another aspect of the business relationship between South Africa and Nigeria is the migration of Nigerians to South Africa.<sup>60</sup> While private sector investment from Nigeria into South Africa is low, it is growing. It was given a boost last year with the launch of *This Day* newspaper with an investment that has been estimated at R120 million up to June 2004. A number of Nigerian companies obtain manufactured goods from South Africa for sale in Nigeria, and many professionals work, invest in property or set up their own businesses in South Africa. The growth of the West African community in South Africa is such that a Nigerian company launched a newspaper directed

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<sup>59</sup> The Nigerian–South African Chamber of Commerce was set up in 1999 to promote bilateral trade between the two countries. In February 2004 it had 210 members, most of them Nigerian companies. A similar chamber is currently being established in South Africa.

<sup>60</sup> It is impossible to get accurate figures for the numbers of Nigerians in South Africa, because the majority do not register with the High Commission, even if they are not illegal immigrants. The number of Nigerians registered with the diplomatic mission is around 4,000 but the actual number is estimated to be anything from 50,000 upwards.

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primarily at West Africans in the country, and also towards South African businesses looking for more information on the West African market. The *FS African Standard* went on sale in South Africa in May 2004.<sup>61</sup> Despite the growth of relations between the two countries, information about each is scarce in the other. South African newspapers carry limited information about Nigeria and other West African countries, and vice versa.

### **Box 3: The perception gap**

Despite the increasing ties between the countries, Nigerians in South Africa complain that they are still portrayed in the local media as drug barons and criminals. (In June 2004, a Johannesburg radio station, 94.7 Highveld, was ordered to apologise to Obasanjo for making remarks on air about him carrying cocaine in his bag when he came to South Africa for Mbeki's inauguration. The ruling was made by the Broadcasting Complaints Commission after charges were laid against the station by both the Nigerian High Commission in South Africa and Mbeki's office.) While some of the early immigrants to the country, many fleeing military rule at home, were involved in the drug trade (and many remain so to this day), most Nigerians who have come to South Africa in the past five years are professionals and business people looking for new opportunities. Nigerian business people also complain that the relationship is one-sided and that they do not have as much opportunity to invest in South Africa as the South Africans have in theirs. The obstacles to their penetrating the South African market include lack of support by financial and other institutions in the country for entrepreneurs, tight exchange controls and the difficulty of getting residence permits.

South Africans in Nigeria have also been greeted with mixed feelings. Some Nigerian newspapers have accused the South Africans of being neo-colonialists who have come to dominate their economy and make Nigerians 'slaves' to foreign goods and lifestyles, while protecting the South African market from foreigners. There is a strong

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<sup>61</sup> Millennium Harvest Ltd, publisher of the Nigerian weekly newspaper *Financial Standard*, launched the monthly *FS African Standard* in South Africa in April 2004.

perception that South Africa has a 'buy and sell' relationship with Nigeria, in which South Africans take all their profits out of the country once they have done their business. However, some Nigerians have welcomed the skills, goods, principled business practices and opportunities South Africans have brought to their country. Curiously, South Africans have generally received a more hostile press than representatives of the other investing nations which have dominated the Nigerian economy for longer, such as the US and UK and even France.

Nigeria has long worn the mantle of the giant of Africa. It has been suggested that the perception that South Africa has taken over this role is behind much of the hostility. Another reason is that Nigerians expect to be on an equal footing with South Africans, as they do not 'with investors from abroad', and they resent the inequalities between their own and South Africa's economies that have been exposed. As one newspaper article said: 'The generally chaotic state of the Nigerian commercial sector, despite the enormous personal wealth of a large elite, lends itself to the importation of foreign goods, skills, technology and expertise. British, French, US, Lebanese and Chinese companies have their tentacles deep into Nigeria's economy. Accusations of 'business colonialism' against them have been less heated. So why is SA in the spotlight? It might well be the result of a deep-rooted surprise that 'colonialism' in whatever form could emanate from another African country. The fact that an African country is offering the quality and sophistication of goods, services and expertise that Africans are used to getting from overseas has been a curved ball, exposing an array of underlying assumptions by Africans themselves about the ability of African companies to compete globally.'<sup>62</sup>

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<sup>62</sup> Games D, 'Lessons from South Africa's African adventure', *Business Day* (South Africa), 22 September 2003.

## **South African Companies in Nigeria — Perceptions, Challenges and Experiences**

While South African companies have not been in the Nigerian market as long as their counterparts from other countries (such as the UK, US and France), they have already had a major impact in a number of areas such as telecommunications, IT, services and hospitality. The South African retail sector, which has been slow in coming to this market despite having a presence in many other African countries, is gearing up to enter Nigeria, and property development is also making progress.

Given a choice in rating Nigeria's business environment as investment friendly, not very investment friendly and unfriendly, most respondents rated it in the latter two categories. However, with the liberalisation of the economy and the government's stated determination to push through necessary reform, and improve Nigeria's poor image in the eyes of investors, many more companies are eyeing the market or have already set plans in motion to enter it.

A great deal of business has been generated by the big projects and companies in terms of the supplies and subcontracted services they require, most notably in the wake of MTN's investment. The success of MTN has also increased confidence in Nigeria as a place in which to do business. The massive Tinapa leisure and retail

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**The success of MTN has also increased confidence in Nigeria as a place in which to do business.**

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development currently under construction in Cross River State is another potential drawcard for South African businesses across a range of sectors. The building of the site already involves South African companies, from civil engineers to

architects, and many of the tenants of the completed complex are expected to be South African businesses. The project is being managed by KPMG's offices in South Africa and Nigeria.

Some of the main South African investors and companies in Nigeria<sup>63</sup> are: MTN, Multichoice, SAA, Sasol, Stanbic Africa, Securicor Gray, Eskom Enterprises, the Industrial Development Corporation (IDC), Rand Merchant Bank (RMB), Vodacom, Protea Hotels, IG Enterprise, Ariva.kom and Exp.Momentum.

## **MTN**

This company made an initial investment of \$285 million for a mobile licence in 2001, and is planning to spend \$1.4 billion over 10 years. The company is raising funds from international financial institutions, in Nigeria itself, where it has also begun reinvesting profits, and South Africa (companies from the latter are allowed to invest R2bn per annum in other African countries).

MTN has seen unprecedented success in the Nigerian market, which contributed significantly to its R4.3 billion (\$700 million) profit for the 2003–04 financial year. In the past year, MTN Nigeria has eclipsed MTN in South Africa as the company's most profitable African country. After-tax profit in Nigeria stood at R2.36 billion, as compared with South Africa's R2.24 billion. However, MTN's base station rollout, has been slower than anticipated for logistical reasons, although the company plans to make better progress over the next year. Demand has exceeded advanced planning to such a degree that the company suspended new connections for four months in 2003 to allow sufficient time for the network's capacity to catch up.

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<sup>63</sup> The list includes the major players and others whose activities have been publicised, but is by no means exhaustive.



## **Multichoice**

As the first major South African company to invest in Nigeria 10 years ago, Multichoice has invested R70 million in the operation. It now has six offices around the country, and has based its head office in Lagos. Of the 200 people it employs directly, 97% are Nigerians. It also indirectly employs a workforce of 1,000 in allied business such as decoder sales and agents. As of May 2004 it had 80,000 subscribers.

Multichoice/DSTV, the dominant player in the Nigerian television market, has 50 licensed channels. Other operators are local satellite companies (15), cable operators (34), private free to air operators (16), Nigerian Television Authority stations (39) and state-owned free to air stations (41). DSTV's Supersport is listed on the Nigerian Stock Exchange.

Multichoice has seen growth of around 40% over the past three years. However, one of the main problems it faces is the pirating of its channels by local operators.

## **South African Airways**

SAA, which began direct flights between Johannesburg and Lagos in December 1998, has had a long and sometimes fraught relationship with the Nigerian government. In December 2000, it signed a code-share agreement with Nigeria Airways in terms of which the two airlines would jointly operate three weekly flights between South Africa, Nigeria and the US. The service began in February 2001, but the Lagos–New York leg was cancelled by SAA in March 2002, because the airline had made a loss of R54 million during the first six months of operation. In 2003, SAA bid to become a technical and equity partner in Nigeria's planned new national airline, Nigeria Eagle Airways, following the liquidation of Nigeria Airways. Problems and delays in negotiations resulted from the Nigerian government's insistence on getting a 10%

stake in SAA when it is privatised and there were rumours that SAA had pulled out of talks. However, in mid-July 2004, the South African government confirmed that SAA was still in the talks and compromises were being sought for the deal to go ahead. At the same time Nigeria offered SAA a fourth frequency on the high-demand Lagos–Johannesburg route, something the latter had been requesting for some time.

### **Sasol**

Sasol, the world's biggest producer of petrol and diesel from coal, has a stake in Nigeria through its relationship with the US production company ChevronTexaco. The partnership combines Sasol's technology, designed to convert natural gas into liquid fuel, with ChevronTexaco's access to gas reserves. As part of the venture, Sasol is building a \$1 billion plant in Escravos, Nigeria. This project began its first phase of operations in 1997, and a third phase is currently under development. The company is to announce another Nigerian project this year.

### **Stanbic Africa**

Stanbic, part of the Standard Bank Group of South Africa, has been operating in Nigeria since 1992, when it acquired the Grindlays Merchant Bank operation in the country. Nigerians have a 7% shareholding in the operation and more than 98% of its staff is Nigerian. South African companies form a large part of its customer base, and the company's most successful product offerings are products related to trade finance. In 2003, Stanbic Nigeria, which has an estimated 1% market share in Nigeria's highly competitive banking sector, contributed 3% to Stanbic Africa's total revenue.

## **Securicor Gray**

Securicor has made substantial investments in Nigeria. The company entered the market in a joint venture partnership with Capital Alliance, registered as Outsourcing Services Ltd. It employs 1,700 people, almost 99% of whom are Nigerians, and its main clients are in the oil industry, diplomatic services, property management, retail, the banking industry and industrial enterprises.

## **Eskom Enterprises**

The African arm of South Africa's power utility, Eskom, established an office in Nigeria in 1999, primarily to carry out projects for the local utility, Nepa. However, some of its Nigeria projects have encountered difficulties. It has withdrawn from Nepskom, a joint venture with Nepa to string 5,000km of fibre optic cable along power lines to enable them to sell long-distance bandwidth to telecommunications operators in Nigeria. However, Eskom has several other projects under way in the country, and recently signed a Memorandum of Understanding (MOU) with the government of Nigeria for the building of a coal-fired power station.

## **Industrial Development Corporation**

The IDC, a state-owned development finance institution that is self-funding through its involvement in commercially sustainable industrial development projects, is playing a significant role in Nigeria. It is involved in financing a range of projects in oil and gas, telecommunications, infrastructure and tourism. Outside South Africa, Nigeria is the biggest market for IDC-funded programmes, whether already approved or under consideration. Projects it is involved in include the development of the Ogbelle fields near Port Harcourt and a liquefied natural gas project elsewhere in the country while it is

financing a hotel development in Port Harcourt and looking at financing for several other hotels and possibly the proposed Bar Beach development in Lagos.

### **Rand Merchant Bank**

The RMB, a division of South Africa's giant FirstRand group, has been involved in providing funding for deals in Nigeria, including the Ebute Barge Project, an independent power project with AES Corporation of the US. It is now hoping to broaden its involvement in the country through embarking on partnership options with local companies.

### **Vodacom**

Although South Africa's biggest mobile phone company, Vodacom, pulled out of Nigeria in mid-2004. Its short run in the Nigerian market has raised various questions about the level of corporate governance in Nigeria. Some of these questions relate to the ousting of the original operator, Econet Wireless International (EWN),<sup>64</sup> others to the reasons behind Vodacom's dramatic pullout two months after signing a five-year management contract with EWN (renamed Vee Networks). Earlier, Vodacom had announced that it planned to inject \$200 million in equity investment and operating loans into EWN. Vodacom said when it was considering participating in Econet Wireless Nigeria, it found brokerage fees relating to raising capital for the company had been partially paid to the brokers concerned. Even though such fees are legal in Nigeria, a condition of the company signing a management agreement with EWN was that the remainder of the fees would not be paid before the agreement was signed. However, EWN went ahead and paid it. This, Vodacom said, had affected

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<sup>64</sup> At the time EWN had its headquarters in South Africa but is owned by Zimbabweans.

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confidence in the local management of the company and caused Vodacom to withdraw. The company is now believed to be negotiating with Globacom, the fourth mobile operator.

## **Protea Hotels**

The hotel group signed its first hotel management contract in Nigeria in late 2001 for the state-owned Protea Hotel Nike Lake Resort in Enugu and currently operates and manages various hotels on behalf of their owners. These are the new five-star Protea Hotel Port Harcourt Apartments and the Protea Hotel Garden City in Port Harcourt and four hotels in Lagos. The Protea Hotel Ranch Resort in Obudu and two hotels in Abuja are under construction.

Protea has also formed a joint venture with the Nigerian equity management company Capital Alliance, which it says has helped guide it through the 'corporate landmines' of Nigeria.

## **IG Enterprise**

Specialising in branding, this company is responsible for the rebranding of top Nigerian companies such as the First Bank of Nigeria; the Oando fuel station chain; Glo, the mobile package offered by the Nigerian mobile operator Globacom; and the oil company Conoil. It is currently working with other clients such as FSB International Bank, Vetiva Capital Management and Guaranty Trust Bank. Although it is an international company, IG Enterprise runs its Africa operations from South Africa.

## **Arivia.com**

Arivia.com Nigeria Limited, a subsidiary of the South African state-owned IT company arivia.com, entered the Nigerian market in 2002, opening an office there in April 2004. Its

operation began with bi-national talks at government level to discuss ways of bridging the digital divide. The South African company has a 51% shareholding, with 49% distributed among various Nigerian shareholders. It has invested several million rand in the operation to date. The Nigerian company is involved in the National Sports Lottery, and also focuses on the government, energy, telecommunications and transport areas.

**Box 4: Other South African companies doing business in Nigeria**

- **Exp.Momentum** is a marketing and event-promoting company which has, under different ownership structures, been operating in Nigeria since 1996.
- **Engen** is involved in Nigeria through a joint venture with the US oil company Chevron.
- **Exhibition Management Services** has a part share in the Eko Meridien Hotel's conference facilities, and organises regular exhibitions in the country.
- **JHI Real Estate** is involved in property developments in Lagos and Abuja.
- **Johnnic Communications** is negotiating a management deal with the *Business Day* newspaper in Nigeria and has been contracted to build cinemas in a Lagos shopping mall to be opened in 2005 (see below). It is also planning to open an upmarket retail media shop in Lagos in 2004.
- The **Council for Geosciences** has signed several memoranda of understanding with the Nigerian Geological Survey.
- **Umgeni Water** is involved in various state water projects.
- The **National Airways Corporation** is the African agent for a number of international aircraft companies such as Beechcraft and Gulfstream Aerospace. It hires aircraft out on charter.
- **Entech Consultants** heads a consortium of South African companies contracted to build a waterfront development at Bar Beach in Lagos.

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- **Mintek** is involved in the beneficiation of minerals in Nigeria.
- **Kagiso Publishing** is involved in the government printing and publishing sector and in **Touchline**, which publishes a soccer magazine.
- **Safmarine** (now part of the AP Moller-Maersk Group) has a lucrative shipping business plying the west coast between South Africa and Nigeria.
- **Grinaker-LTA** is involved in construction.
- The hotel group **Southern Sun** announced in July 2004 that it had concluded formal agreements to manage two business hotels in Lagos.
- The packaging company **Nampak** announced in May 2004 that it is to build a R155 million folding carton factory in Nigeria.

A number of South Africa's state-owned enterprises are either doing business in Nigeria or contemplating the possibility of doing so. These include **Denel**, which did an evaluation of Nigerian arms manufacturing installations and defence equipment with a view to entering into possible joint ventures. **Portnet** has also investigated the market. The **Airports Company of South Africa** has had several visits from the Nigerian authorities to inspect its operational capabilities, although no deals have yet been discussed. **Spoornet** is also currently evaluating the feasibility of projects in Nigeria.

The retail sector is finally taking its wares to Nigeria. In 2005, that country will have its first shopping mall, in Lagos. Built by Actis of the UK and the Nigerian developer Persianas Properties, the mall will have major South African retailers as anchor tenants. These will include **Shoprite**, **Game** and **Nu Metro** cinemas. Game and Shoprite have also been earmarked as anchor tenants for a 25,000 square metre shopping complex, also to be built in Abuja. South African

companies are also involved in the planning of a recreational complex at Jabi Lake outside Abuja.

A relatively new development is the movement of franchises into Nigeria. Already well-known brands such as **Chicken Licken** and **Debonairs** have a presence in Nigeria (with Nigerian franchisees) and a number of others are lining up. Interestingly, a number of well-known fast-food Nigerian chains are also competing in the same market.

However, investment in the retail and related sectors will be affected by the import ban introduced by the Nigerian government on a range of products, which includes substances, foodstuffs and other goods.<sup>65</sup> As has been noted, the ban is designed to stimulate domestic production. However, local industry at this point is not able to produce the quantity or the quality of goods required, and the chief effect to date has been to increase smuggling. The ban was introduced without proper support structures and incentives for manufacturers, who are operating well below capacity in consequence. It is believed that these problems have been raised with the Nigerian government by several South African companies who are planning to make investments in Nigeria.

On the positive side, the high-profile entry of MTN into the economy has given a significant boost to South African investment in Nigeria. Many companies that had been sitting on the fence began looking more seriously at the market as a result of the vote of confidence in Nigeria given by one of South Africa's best-known companies. Also, MTN's provision of adequate telecommunications services, (the lack of which has been a major problem in the country), has also helped to increase business, both for Nigerians and for South Africans.

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<sup>65</sup> See Appendix C for a list of the banned imports.



## **Reasons for doing business in Nigeria**

The **size of the market** is the main reason for many investors to come to Nigeria. Being in the biggest market in Africa makes sound business sense for any company with an Africa plan. Because Nigeria has a population of around 130 million people, even a small market share covers a large number of people. While South Africa has six big cities, Nigeria has 27 cities that have a population of more than two million people.

The **demand for communications, infrastructure, goods and services** is a drawcard for investors, which have seen huge opportunities open up. However, as suggested in a previous chapter, South Africans should not assume that there is no competition in the market. International businesses and Nigerian companies are also vying for market share in some sectors. The stiff competition in the beer market, for example, is one reason that one of the world's brewing giants, South Africa's SABMiller, has not yet entered the Nigerian market.

The **affluence** of those at the top end of the market and the willingness of Nigerians to pay a lot of money for what they want is another positive factor. Even at the lower end of the market, people will pay for the goods and services they need. This has been demonstrated by the massive market response to mobile telephones. Nigerians also have a known penchant for imported high-quality goods.<sup>66</sup> The number of Nigerians travelling to South Africa to shop indicates a large gap in the domestic market.

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<sup>66</sup> There is also an increasing adoption of western eating patterns, which has led to the growth of food franchising. The large youth market, which wants to associate itself more closely with international brands and lifestyles, is a particular area in which commercial growth is possible.

A highly **educated and energetic workforce** is also a drawcard for investors, although workers are lacking in technical skills, which has been identified as a constraint.

## **Costs of doing business**

One of the main problems South Africans mention is the high cost of doing business in Nigeria. This factor cuts across the entire socio-economic framework. For example, there is the expense of supplementing basic requirements such as power, water, sewerage, telecommunications and transport infrastructure, all of which are normally provided by the state in other countries. Additional expenses include the high cost of accommodation and food, much of which is imported.<sup>67</sup>

The typical price of an average room in a good hotel in Nigeria is between \$250 and \$450 a night. The heavy involvement of the govern-

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**The informal 'dash' or bribes that are built into business and services increase business costs significantly.**

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ment in the economy, and the attendant red tape and delays accompanying the setting up of business operations are another consideration. Widespread corruption, inefficiency, a lack of automation and IT systems, and generally the time taken to get things done in Nigeria also contribute to the cost. The informal 'dash' or bribes that are built into a lot of business and services can also increase the cost of doing business significantly. Getting a container out of the port, for example, can cost as much as a few thousand dollars in bribes on top of the regular fees. And, because it can take as much as three

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<sup>67</sup> In the expatriate areas, for example, a loaf of bread costs around R10 and a bag of four tomatoes R25, although food can be bought more cheaply in other areas.

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months to get goods through the port system, companies depending on imported inputs have to overstock to ensure continuity of supplies, which also adds to running costs.<sup>68</sup>

The World Bank published a study on starting up a business in Nigeria in 2004, which found that entrepreneurs could expect to go through 10 steps to launch a business that would take over 44 days on average, at a cost equal to 95.2% of gross national income (GNI) per capita. A deposit of at least 74.6% of GNI per capita is required to obtain a business registration number, compared with the regional average of 269.3% of GNI and the OECD average of 47% of GNI, for example. The table below lists some of the findings.

<b>Table 8: Snapshot of Nigeria's Business Environment</b>			
<b>Starting a business</b>	<b>Nigeria</b>	<b>Regional <sup>a</sup></b>	<b>OECD <sup>ab</sup></b>
Number of procedures	10	11	6
Duration (days)	44	67	25
Cost (% GNI per capita)	95.2	238.9	8.4
Min. capital (% GNI per capita)	74.6	269.3	47.0
<b>Employing labour</b>			
Flexibility of hiring index	17	49	49
Conditions of employment index	76	68	58
Flexibility of firing index	36	40	28

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<sup>68</sup> This can be avoided to some extent by employing an efficient clearing agent.

<b>Table 8: Snapshot of Nigeria's Business Environment (continued)</b>			
<b>Enforcing contracts</b>	<b>Nigeria</b>	<b>Regional<sup>a</sup></b>	<b>OECD<sup>ab</sup></b>
Number of procedures	23	31	18
Duration (days)	730	372	213
Cost (% GNI per capita)	6.6	61.2	7.1
<b>Closing a business</b>			
Actual time (years)	1.6	3.5	1.8
Actual cost (% of estate)	18	17	7
a: refers to average b: Organisation for Economic Co-operation and Development <i>Source: World Bank<sup>69</sup></i>			

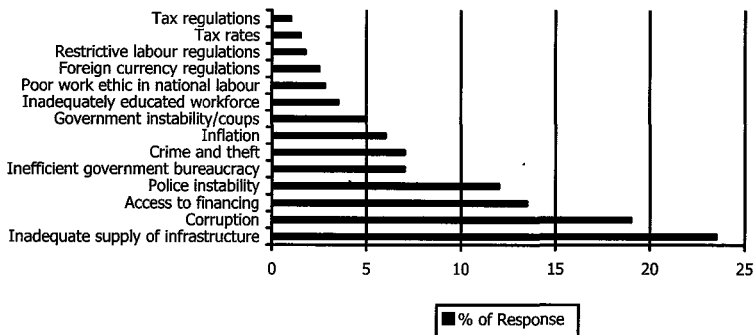
## Main constraints on doing business in Nigeria

Many of the problems and challenges of doing business between Nigerians and South Africans is related to differences in business culture, the shape and structure of their economies and their respective histories. The tables below show the different factors that may hinder business operations in each of the countries, as identified by the World Economic Forum's Executive Opinion Survey<sup>70</sup> and the unique problems encountered in each economy. Some of these problems are discussed in greater detail below, based on interviews with South African companies in Nigeria.

<sup>69</sup> [www.rru.worldbank.org/DoingBusiness/ExploreEconomies/BusinessClimate/snapshot.aspx?economyid=143](http://www.rru.worldbank.org/DoingBusiness/ExploreEconomies/BusinessClimate/snapshot.aspx?economyid=143).

<sup>70</sup> *The Africa Competitiveness Report 2004*, World Economic Forum (Geneva), 2004.

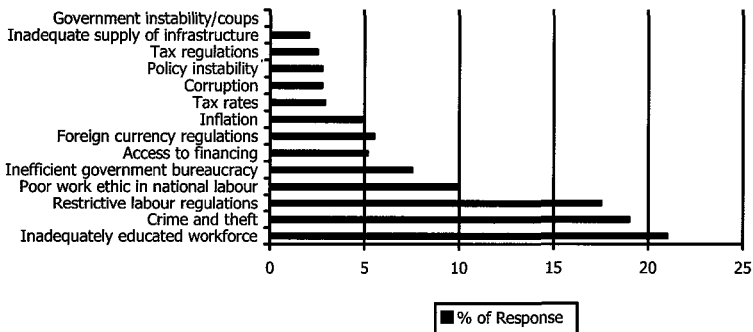
**Figure 2: The most problematic factors for doing business in Nigeria**



Note: From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their responses.

Source: World Economic Forum, *Executive Opinion Survey*, 2003

**Figure 3: The most problematic factors for doing business in South Africa**



Note: From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their responses.

Source: World Economic Forum, *Executive Opinion Survey*, 2003

## **Lack of infrastructure**

Nigeria's run-down or non-existent infrastructure has been identified as the main problem for South African companies, because it adds immeasurably to cost and logistical challenges. The major shortfall cited by all respondents is the failure by the government to provide adequate power. This makes the hiring or buying of generators for regular power necessary. Apart from the cost of generators, which can range from R4,000 to R15,000 (for a residence or apartment) to R100,000 (for a large business), fuel is required to keep them running.<sup>71</sup> In addition, businesses have to route their generators through the meters provided by the power utility, which continues to charge them even though it is not providing power. The same applies to water. Even where companies or residences have their own boreholes, the state water corporations tend to exact fees for services, as part of the general rates and taxes, even though they are not rendered.

The poor condition of the roads and the inadequate and poorly functioning rail system push up the cost of transport from the ports to the interior. The lack of reliable landline telecommunications is also a problem. Reliance on mobile telephony is expensive. Also, at this point, the mobile networks do not cover the whole country.

## **Corruption**

This is still high on the list of problems encountered by South African businesses in Nigeria, despite the government's crackdown on corrupt practices. South Africans new to Nigeria and trying to find their way around the system are far more susceptible to corruption in the form of contract scams, non-

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<sup>71</sup> MTN Nigeria reported that in 2004 it spent an average of N110 million (around R5 million) every quarter on diesel to power the two generators installed in each of its 1,435 base stations across the country.

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payment for services and so on than people who have worked there a long time. Corruption has become a way of life for many Nigerians, particularly at a petty level. This makes it extremely difficult to combat or avoid. Bribery can vary from a 'tip' to a 'signature bonus' on major contracts. Companies coming from a country like South Africa, which has strong corporate governance principles, including undertakings to shareholders to conduct business in a certain way, are particularly affected by the expectations of bribery that are built into much of the business culture in Nigeria. Corporate governance in Nigeria is still in its early stages, although it is being improved slowly through increasing international contact with countries and business environments that do adhere to such principles. The well-publicised Vodacom saga was bad news for investor confidence in doing business in Nigeria.

Refusing outright to pay bribes may lose companies business and contracts. However, many companies believe that in the long run, being known as a company that does pay bribes only compounds the problem. It is of course easier for large, highly visible companies to refuse to pay bribes than it is for small ones. South Africans have noted that some of their competitors from the US, the UK and Asia are willing to pay bribes to get the contracts, particularly government contracts, and have done so for years.

### **Policy and regulatory predictability**

The government's tendency to change the rules at short notice has affected planning for both Nigerian and South African businesses. Two notable examples of sudden alterations are the import bans, which are announced without consultation or warning, and the new capitalisation requirements for banks, which were published in June 2004.

There are several reasons for this tendency. One of them is the balancing act the government is currently engaged with, in trying to create an economic equilibrium between liberalisation and selective protectionism to suit certain interest groups. However, the government's zeal for reform and the new economic team which is led by the finance minister have given investors cause for greater optimism.

### **Information and statistics**

Although the situation is improving, companies interested in investing say it is difficult to obtain up-to-date statistics and information on Nigeria from its government, or to find any general information on doing business in Nigeria. Some of the official statistics date back to the 1990s, and many of these do not match those published by organisations such as the UN and IMF, which makes it difficult for companies to decide which figures are correct. However, the government has now committed itself to setting up a technical committee to collect data and ensure consistency of data from government agencies. The government is also improving its websites although it is not always clear when these sites were updated and whether the information they contain is up to date, including investment incentives.<sup>72</sup>

### **Lack of skills**

Despite the high standard of education in the workforce, there is a low level of skills, particularly in technical fields. South African companies have spent much time and money on training staff, both on the job in Nigeria and in South Africa.

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<sup>72</sup> Some tenders are to be found on government websites, although many of these are advertised in the local and international media. Useful websites include: [www.fmf.gov.ng](http://www.fmf.gov.ng) (Federal Ministry of Finance), [www.cenbank.org](http://www.cenbank.org) (Central Bank of Nigeria).



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Most companies investing in Nigeria employ mainly Nigerians. This is partly the result of pressure from the government for job creation through investment. Concerns have also been voiced that if training programmes for the transfer of skills are not provided by foreign companies, the government may set strict limits on work permits for foreign staff, among other measures to encourage the employment of local people.

### **Premises**

There is a shortage of both residential and commercial property in the commercial capital Lagos, particularly in the sought-after upmarket areas. This limits choice and pushes up prices. Most companies rent office space or even whole buildings. What they pay for premises seems to be calculated on a somewhat ad hoc basis — some by space per square metres, others by the number of rooms, and yet others by rental as apartments (because many of the current office blocks were residential before business began booming). Few South African companies have premises on Lagos Island, the traditional heart of Nigerian business. Instead, most have opted for the rapidly growing business nodes of Victoria Island and

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### **All land is owned by the state, and leased out.**

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Ikoyi. In these upmarket areas, the cost of renting a square metre averages around \$20. In Ikoyi, a three to four-room 'apartment' can be rented for around N1.5 million (approximately R75,000) per month; whereas the lower rate of about R25,000 is charged for similar premises in Ikeja on the mainland. However, most landlords demand two to three years' rent up front, and typically this payment covers nothing but occupation of the building. Any carpeting or other basics have to be installed by tenants at their own cost. A non-serviced, unfurnished

residential apartment on Victoria Island costs between \$40,000—\$55,000 a year to rent.

Because of the boom in property development, some companies are opting to buy land and build their own premises. However, purchasing sites is a difficult process because of the way land ownership is structured in Nigeria. All land is owned by the state, and leased out. Therefore acquiring land for new development means negotiations with current leaseholders, a process in which exploitation and fraud are rife. Many 419 scams are perpetrated in the property business.

### **Payment difficulties**

In general terms, not being paid for goods or services was not a big issue among the companies canvassed, except where they were dealing with government or parastatals.<sup>73</sup> However, some said that certain clients attempted to change the terms of the agreement on payment after they had got what they wanted. Companies on contracts tend to ask to be paid in advance, or at least to receive a portion of the full amount. Most companies render invoices in dollars, and get paid in hard currency or through bank transfers. However, on those occasions that they are paid large sums in naira, some problems have been experienced in converting the money into hard currency. Going through the legal channels (the Dutch auction system) does not guarantee success, and many deals are still done on the black market. Hard currency is not necessarily available in large amounts in either system. A fair amount of the money moving between the two countries is carried in hard currency by informal couriers to avoid the problems and delays of transferring dollars as a result of South

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<sup>73</sup> One company said it had waited more than a year for a payment from a parastatal.

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Africa's stringent foreign currency regulations. However, companies with investments in Nigeria plough a substantial portion of their profits back into their investments.

### **Outsourcing**

Many facilities offered by local businesses, for example electrical and plumbing services, or even the supply of office furniture, are not of the standard expected by South Africans. This is particularly noticeable in hotels, offices or other property developments. (The situation is attributable to the general lack of skills, training and service awareness in Nigeria.) However, the situation is believed to be improving as Nigerians see the opportunities for business, and improve their service standards in line with demand. Alternatively, the names of the good companies become better known through the grapevine, and are added to an informal 'service provider' list.

### **Protection of intellectual property**

Nigeria is a member of the World Intellectual Property Organisation and a signatory to the Universal Copyright Convention, the Berne Convention and the Paris Convention. It has also drawn up legislation to establish a legal framework for the protection of intellectual property rights.<sup>74</sup> Notwithstanding all these measures, piracy is rampant. DVDs and videos of the latest films and music are available on the streets even before they are officially released in the country. (It can cost as little as \$1 to buy the latest DVDs on the streets.) Licensed television signals are pirated and rebroadcast on local channels, and counterfeit pharmaceuticals and other consumer goods are sold openly. The enforcement of patents is undermined by a lack of capacity to deal with the problem, and court

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<sup>74</sup> US government website. [www.ustr.gov/reports/nte/2004/nigeria.pdf](http://www.ustr.gov/reports/nte/2004/nigeria.pdf).

challenges are not only slow but subject to interference through bribery.

### **Management structures**

Management in Nigeria is very much from the top and highly centralised in a few people. Sometimes the owner of a company will run every aspect of the business, right down to signing all the cheques. This may even happen across a group of companies. The concentration of power in a few individuals results in delays in implementation of projects, plans, and systems, and can create payment problems. The corollary is usually a weak middle management structure which does not have the power, or often the skills, to implement ideas and plans effectively.

### **Patronage**

A system of patronage persists in many companies, in which the best person for the job is often not the person who gets it. Instead it goes to a friend, relative or powerful person, who is perceived as being able to leverage contacts. This, of course, is not peculiar to Nigeria: it occurs in South Africa too. However, patronage makes it more difficult for foreigners to penetrate an already difficult system, and can make finding good partners more complicated.

### **Travel**

Another constraint on doing business in Nigeria for South Africans is that the cost of air fares is high, and there are only three direct flights a week to Lagos.<sup>75</sup> These are often fully booked, which makes flexible business arrangements difficult. There are no direct flights to the capital, Abuja.

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<sup>75</sup> A fourth flight is in the pipeline.

## **Games: An Oil Giant Reforms**

Also, the relationship between SAA and the Nigerian government has been a thorny one. The airline is unable to increase the number of its flights to Nigeria as the government has reserved slots for its national airline, which has yet to be launched. SAA says it can comfortably deal with seven flights a week to Nigeria. It maintains that the lower the frequency the higher the cost, because it reduces the efficiencies that can be leveraged.

South Africans also complain because visas still have to be applied for in advance, and are not issued at the point of entry. Many South Africans travel a great deal, and are not always able to get visas at the last minute. They believe that given the strong political ties between the two countries, visa restrictions should be relaxed. However, this concession would need to be applied on both sides: it is unlikely South Africa would agree, given the high number of illegal immigrants from all over Africa, including Nigeria that it already has to deal with.

## **Traffic**

Although traffic density is a problem in many big, poorly planned and over-crowded cities around the world, in Nigeria, notably Lagos, it has become a legend. Nigeria has one of the highest rates of urbanisation of any developing country. This is particularly evident in Lagos, a city built for four million people, which now houses an estimated 15 million. The rapid and unplanned development of the main business and residential areas frequented by foreigners — Victoria Island and Ikoyi — has resulted in a seriously inadequate road network across most of the city. Being caught in traffic jams occupy as much as a few hours each day. As most foreigners have drivers and mobile telephony, it is possible for them to work in the car. It is nevertheless a feature of running a business in Nigeria that

traffic delays have to be factored into business planning. However, places like Abuja are less affected by such problems.

### **Crime and security**

Financial crimes, such as fraud and 419 scams, still rate high on the list of concerns, much more so than theft and armed robbery. Of the latter, foreigners, despite being highly visible, are not as exposed to these types of crime as ordinary Nigerians. It is the norm for foreigners to be surrounded by security guards and drivers, both at work and at home. This is particularly prevalent in Lagos.<sup>76</sup> Several businesses have their own security arrangements in addition to that provided to protect the building as a whole. Many hotels have security guards on each floor. People are warned not to drive out of town at night, or to drive on the highways across Lagos late at night, for fear of attack by armed gangs. Foreigners are seen as easy targets by criminals, but the measures introduced by their parent companies or Nigerian hosts to ensure their safety usually remove, or at least dilute the problem.

### **Taxes**

Many of the regular taxes in Nigeria were not considered onerous relative to those in other countries. Corporate tax is 35%, withholding tax on management services is 10%, turnover tax is 2.5% and VAT is 5%. However, business people complained about the multiplicity of taxes imposed at national, state and local government levels. They also objected to the powers of state and local governments to impose ad hoc taxes, giving no notice. For example, the Lagos state government has introduced a tax of around R50 per dish on all owners of satellite dishes. There are an estimated 4,000 of

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<sup>76</sup> Generally, people living in the wealthier areas have high, locked gates and armed security guards, as do businesses.

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these in Victoria Island alone. One company said that after they had renovated their premises in Lagos, instead of being rewarded for improving the environment, they had been charged arbitrary renovation taxes by the ministries of land, agriculture and fisheries. Companies have to pay the authorities a tax when they display company signs on their own premises. There are many more of these often ad hoc, spontaneous taxes designed to fill the coffers of government at all tiers. Few of these can be planned for, and they add to the overall cost of doing business.

### **The legal system**

Almost every respondent perceived Nigeria's weak legal system, which is subject to corruption, interference and lengthy delays due to a general lack of appropriately qualified staff as a major problem. There is general ignorance of corporate legal issues, and there are no quick arbitration procedures. One company said it had had a case tied up in the courts for nearly three years. Even where judgments are made, enforcement of the verdict can be difficult.

### **Problems of perception**

Nigerians argue that one of the country's biggest problems is not its failure to reform or rebuild infrastructure, but the perception among foreigners that nothing is being done. Corruption, for example, is being tackled by a range of institutions; yet the country sits second from the bottom on Transparency International's corruption perception index. Many foreigners working in Nigeria argue that to a large extent the perceptions stem from experience. The wheels of reform are turning too slowly in every area that generates negative perceptions — infrastructure, misuse of power, corruption, violence (albeit in isolated areas), crime and security. The

perceptions of Nigeria as a high-risk investment destination also increase the cost of finance and of risk insurance for foreign investors. Nigeria does not have an international credit rating although it has several local ratings agencies which rate local companies.

## **Relationships**

A country like Nigeria is highly complex, and therefore not easy to understand. Local knowledge is crucial, and the easiest and most efficient way to get it is through local partners. Because of the difficulty of screening people, and the dubious reputation Nigerians have outside the country, some companies have tried to go it alone, but they have found it hard going. It is now generally accepted that local partnerships and joint ventures are the best way to do business in Nigeria. The local and international business chambers and the multinational audit and accounting firms which have big offices in both countries have played an invaluable role in finding partners or screening them. Nigerian business people have also proved helpful. Nigerians say, however, that South Africans tend to be naïve about choosing partners, being easily seduced by those who profess wealth and claim to have contacts in high places. However, building solid relationships takes time, and some companies have complained about having wasted time and money on relationships that did not prosper.

Many of the companies canvassed during the research believed that their Nigerian partners tended to take advantage of the relationship. Some claimed that the longer the relationship lasted, the greater the unwillingness to pay, which implies a belief on the part of the Nigerian partner that after a while, the relationship itself is a sufficient form of payment. At least one company said it had waited up to 18



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months for payment for a contract from a long-standing business partner, despite their having completed the work on time. Others believed that Nigerians wanted to benefit immediately from a business relationship, and tended to focus only on what they could get out of it in the short term rather than regarding it as a long-term arrangement. Overall, there was a sense that South African businesses had to guard against being exploited by a nation that saw foreigners as easy cash cows and a source of endless opportunities.

Among the many differences between ways of doing business in the two countries is that Nigerians are bold, and believe they can carry off anything. They will certainly try to

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**Many of the companies canvassed believed that their Nigerian partners tended to take advantage of the relationship.**

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turn situations to their advantage, even if they fail. Nigerians complain that South Africans tend to patronise them and are slow to take decisions. It is particularly the strict adherence by South African

companies to corporate governance principles that has proved frustrating to the Nigerians, who are used to a more flexible and less controlled business environment.

One issue raised by respondents is the lack of enforcement of contracts. Even where the partners of clients have signed contracts, there is a common tendency to disregard them if they no longer suit, or break them outright if something better comes along. The weakness of the legal system exacerbates the problem.

South Africans also complain that appointments with Nigerian business people, and particularly with government officials, are often not kept. Alternatively the South African business people are kept waiting for long periods.

However, both the Nigerians and South Africans interviewed said although there was a lot of work to be done to build up trust on both sides, they were anxious for the relationship to work, and for the differences in ways of doing business to be ironed out amicably. Nobody wanted a few bad experiences from both sides to taint the overall relationship.

## **Policy Recommendations**

Respondents to the SAIIA survey listed a number of policy changes that are required to make Nigeria a more business-friendly place. These have been combined with some of the suggestions made by Nigerians themselves, and include the government's own assessment of what needs to be done.

### **Recommendations to the Nigerian government**

- **Improving infrastructure.** This is obviously at the top of everyone's list, including the government's. At present improvements are being made too slowly, because at certain levels of implementation they are hampered by corruption, a lack of funding, skills shortages, and a political resistance to change.
- **Reforming the power sector.** The Power Sector Reform Bill, which covers the unbundling of the National Electric Power Authority, tariff structures, standards enforcement and the development of a competitive power market, has been tabled before the National Assembly, but has been beset by endless delays. Officially these have been caused by 'contentious issues' in the legislation, but observers note that the reason is more likely to be special interests in government, who wish to maintain the status quo, and trade unions, who fear the changes will mean job losses. Nepa, with installed capacity of 6,000MW, produces only 2,800MW currently, and has a massive staff of 42,000 employees. South Africa's Eskom provides 4,200MW of power and employs 28,000. The Nigerian government's new economic reform strategy has set a target to produce 10,000MW of power by 2007.
- **Rethinking its industrial policy.** The most controversial aspect of Nigeria's industrial policy is the ban on a range of

imported goods, which was introduced at short notice and unsupported by any measures to boost manufacturing in affected sectors. This has sent alarm bells ringing in the investor community. South African businesses have been forced to revise aspects of their business plans in Nigeria, while local manufacturers sourcing goods in South Africa are also affected. The apparently ad hoc nature of the import bans, and the threat that more items may be added to the list is of major concern to business people trying to make long-term plans. The government needs to look at generous investment terms for companies wishing to set up manufacturing bases in the country.<sup>77</sup> The size of the potential market in Nigeria and even the region means that opening factories is a viable option for foreign companies. Incentives are also needed for the local industries from which foreign companies are now forced to obtain certain goods.

- **Improving the predictability of policy making and regulation.** This is related to the above points. The lack of consultation and the sudden changes to which economic policies are subject are a cause for concern among investors looking at the Nigerian market. The government's undertaking to introduce medium-term budgetary and other processes will introduce comfort to investors in terms of stability in the macroeconomic environment.
- **Eradicating corruption.** The culture of bribery and special favours needs to be stamped out in all its forms, particularly in government and related agencies.
- **Improving capacity and enforcement in the legal system.** This is particularly necessary as regards commercial legal issues. The government should also introduce special fast-track

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<sup>77</sup> Mobile telephone operators are currently discussing the establishment of a recharge card production factory in Nigeria, which will save an estimated \$20 million in import costs.

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arbitration measures for commercial disputes, especially those related to issues such as breaching of contracts and non-payment.

- **Strengthening the efficiency and capacity of the Nigerian Investment Promotion Commission.** The appointment of Mustafa Bello, a former commerce minister, as executive secretary and chief executive has been a step in the right direction. He is known as a forward thinking person who emphasises implementation. Indigenous industrialists have also been appointed to the governing board. Bello announced in March 2004 that the review of investment policy was under way.

- **Protecting intellectual property.** The passage of legislation for the protection of intellectual property rights is an urgent priority. The legal framework should also provide for the means to enforce it effectively.

- **Increasing the number of flights between Nigeria and South Africa.** This would make business between the two countries more convenient. The government's protectionist attitude towards its planned national airline has had a negative impact on trade and investment. It has also called into question the government's willingness to respect market forces.

- **Making finance more readily available to entrepreneurs.** The growth of foreign business and investment in Nigeria is creating opportunities for smaller businesses who provide goods and services. However, many are unable take advantage of the opening, as they are unable to raise finance to expand their enterprises. Another factor is that in the past the government has depended on the local banking sector to finance its debt. This has tended to crowd out private sector borrowing. Yet another issue that needs to be addressed in the banking sector is the general unavailability of long-term

finance from banks, even though there is liquidity in the market generated from oil revenues, among other things.

- **Breaking special-interest cartels.** These powerful groups have exploited the weaknesses of the economic system in Nigeria, and act as a force against change.
- **Harmonising taxes between all tiers of government.** Not only is this a necessary reform, but the powers of government, whether national, state or local, to levy ad hoc taxes on foreign companies should be scrutinised.
- **Simplifying import procedures.** The time taken for goods to travel between the supplier and importer (currently up to four months) should be reduced, and opportunities for corrupt behaviour by those handling goods in transit should be removed. The number of potential interventions along the supply chain should be cut down, to speed up the passage of goods and reduce the incidence of theft. The number of agencies responsible for goods clearance at the ports needs to be rationalised.
- **Fighting money laundering.** Nigeria has been listed as a non-co-operating country on the OECD's international financial action task force and it continues to be monitored for money laundering. This has major implications for perceptions of the country and for FDI. The government needs to ensure that the country gets off the OECD list as soon as possible.
- **Streamlining the licence approval process.** At present, obtaining permission to open businesses in Nigeria is both an expensive and lengthy procedure for foreign investors.
- **Changing the attitude of government officials towards foreign investors.** Despite the government's frequently-stated desire to encourage FDI, too many officials, including ministers, seem to believe they are more important than investors. They do not make themselves available for meetings, keep people

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waiting for long periods, and even fail to keep appointments with them on occasion.

- **Encouraging transparency in contracts.** This is particularly important with regard to public–private partnerships. Officials wanting bribes or making unreasonable demands on foreign investors are responsible not only for the delays in infrastructure and other projects, but also for the overall obstruction of approved projects. This in turn leads to the further deterioration of the economic base.

- **Increasing incentives for the non-oil sector and improving the efficiency of information and implementation.** Although the government is offering incentives in the non-oil sector, notably in mining, agriculture and manufacturing, potential investors believe these need to be improved on and the process of implementation be streamlined to avoid red tape.

- **Stepping up training programmes.** These should be provided by the government and augmented by encouraging the private sector to provide skills acquisition programmes for workers through tax incentives or training levies. Foreign investors complain of a lack of technically skilled labour.

- **Securing follow-through.** The government needs to ensure that the positive commitments that are made at ministerial level are implemented by the lower ranks in the public service.

- **Addressing perception problems.** This must be done by both the government and the private sector. Changing negative perceptions requires acknowledging problems and addressing them directly, rather than accepting the state of the country as something that cannot be changed. Nigerian professionals at home and abroad have begun campaigning for a 'rebranding' of the country's image. The country's successes and changes since 1999 have to be publicised. The stresses and strains attendant on reform, such as strikes, need to be presented as part of the positive change that is taking

place in the country. All government institutions, including the police force, legal bodies and other institutions, need to throw their weight behind changing the way in which Nigeria is perceived by foreigners: it cannot be an ad hoc process driven by only a few.

- **Courting the Nigerian diaspora.** Nigerians living abroad should be encouraged to support their country, either in the form of increased remittances, technology transfer or the return of capital. As the private sector develops, many lucrative job opportunities are opening up to lure professionals home. In South Africa alone, Nigerians hold a range of top jobs in a wide distribution of professions. A number of these have indicated a willingness to return to Nigeria in the event that the economy offers them increased opportunities.

## **Recommendations to the South African government**

Measures to be introduced by the South African government include the following:

- simplifying **import bureaucracy** to make it easier for South Africa's trading partners to enter the South African market;
- introducing more **export incentives** for Africa in general;
- supporting Nigeria's attempts to reform its economy through offering both **skills and public sector training** and logistical support (in terms of secondments or other such measures);
- easing **exchange control regulations** to make moving capital between African countries simpler;
- strengthening **police-to-police co-operation** to counter corruption and smuggling;
- speeding up the **agreements** being developed under the Bi-national Commission, particularly in areas such as ICT,



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sanitary and phytosanitary requirements, tourism and standards;

- creating a more **open-minded attitude** towards Nigerians by giving greater emphasis to positive developments between the two countries to alter perceptions that all Nigerians are criminals;
- encouraging more **SMEs and empowerment companies** to do business with the rest of Africa, including Nigeria; and
- ensuring that perception problems do not taint the issuing of **visas and entry processes** at Johannesburg International Airport (to counter allegations by Nigerians that they are discriminated against).

## **Conclusion**

The relationship between South Africa and Nigeria should create a win-win situation for not only the two countries in question but for the continent as a whole, for reasons outlined elsewhere in this report. However, there is still a long way to go before this becomes a reality.

Perception problems on both sides, different cultures and ways of doing business, regional competitiveness and other obstacles have tended to cloud this otherwise rosy scenario. Trade between the two countries, although not inconsiderable, rests on relatively few commodities. Despite the increasing numbers of nationals in each other's countries, contact between Nigeria and South Africa is still limited. It is undermined by mistrust and a lack of understanding of the differences and of ways to address them.

South Africans need to understand the rest of Africa better. They should make a particular effort to come to grips with a country such as Nigeria, which is more difficult to penetrate than many others. South Africans ought not to assume that they are superior because development in their country is the most advanced on the continent. Nigerians, on the other hand, need to understand the frustrations felt by South African business people in their country because of just the opposite kind of problem: development in Nigeria has been severely neglected for decades. South Africa is a natural source of FDI, skills, trade and exchange of information and best practice for Nigeria. For this reason Nigeria needs to court South African businesses, rather than drive them away through exploitation and corrupt practices.

South Africa, while it is currently the biggest investor in the rest of Africa, is negotiating a range of deals with trade blocs and countries across the world. Apart from its ground-breaking

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agreement with the European Union, South Africa, with the other members of the Southern African Customs Union, is negotiating a free trade agreement with the US, setting up a bi-national commission with China, and has reached agreement with Brazil and India to establish an ambitious South–South economic trade bloc. Continued frustrations with the Nigerian market may cause many South African companies, already expanding into other parts of the world, to look outside the Nigerian market towards more friendly investment destinations.

On the other hand, Nigeria, having started its ambitious reform programme, needs the help, co-operation and partnership of a country such as South Africa, because it has the experience, resources and capacity to assist. It is also another African country, which should be a positive factor, but it has often been portrayed as a negative — South Africans have been accused of trying to 'recolonise' Nigeria's economy. Again, some South Africans continue to perpetuate stereotypes of Nigeria as another simply distressed African country rather than a market offering enormous business opportunity. The media should be playing a much more responsible role in building up the relationship.

The political history that linked the two countries and their current partnership in initiatives such as Nepad and peacekeeping operations on the continent have positioned them to become business partners. However, both sides must ensure that the differences between them do not outweigh the opportunities to profit from the relationship.

Dialogue and the provision of information, which are key tools for greater understanding, have been in short supply. But as contact between the two countries grows at all levels, the relationship is becoming much more positive, creating space for greater trust and understanding.

## **Appendix A: Overview of NEEDS and Outlook for the Nigerian Economy**

Nigeria's importance not only on the continent, but more importantly in the region — it accounts for 60% of West Africa's GDP — makes it an important strategic player. Its economic success will spur on growth in the whole region. Nigeria also has one-fifth of the population of sub-Saharan Africa,<sup>78</sup> nearly 70% of whom are deemed to be living in poverty. (This raises the poverty indicators for the continent as a whole.) The stakes are very high. If Nigeria fails to get its economy on track with a broad-based approach to reform and liberalisation, and cannot carry out effective poverty reduction strategies, then the continent as a whole will suffer the consequences.

The key to Nigeria's success may lie in the newly released economic reform programme, the National Economic Empowerment and Development Strategy (NEEDS). The document, made public in early 2004, has benefited from the contributions of a range of external advisers including the US, and it has been widely circulated for comment. NEEDS is a medium-term strategy (2003–07) related to the country's poverty reduction programme, and includes the State Economic Empowerment and Development Strategy already drawn up by the state and local governments. Legislation that will enable the NEEDS programme to be implemented is currently before the National Assembly.

The new programme builds on the progress that was made during the transitional phase of the new democracy, from 1999–2003. According to the NEEDS document, since 1999 the size of the police force has doubled; electricity generation has improved, as has industrial capacity utilisation (from 29% in 1999 to more than 60% in 2003); and FDI in the sectors other than oil has grown from

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<sup>78</sup> Nigeria's population is growing at an average of 2.8% per year. NEEDS, Federal Government of Nigeria, 2004.

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almost zero in 1999 to \$2 billion in 2003. The document also reports that income levels have grown by an average of 3.6% over the period, as against the average of 2.8% with zero per capita income growth in the 1990s. Unemployment declined from 18% in 1999 to 10.8% in 2003, owing to the estimated 3.5 million jobs created during that time, and real wages have significantly increased since 1999. However, it is difficult to tell how such statistics have been arrived at, as more than half of the economy is made up of the informal sector which remains unrecorded.

As mentioned previously, NEEDS rests on four core strategies: reforming government institutions; boosting the private sector; implementing a social charter; and re-orientating people's values. In terms of the first of these, the aim is to professionalise and strengthen government and public institutions, fight corruption, ensure greater transparency, promote the rule of law and ensure stricter enforcement of contracts. An explicit programme to orientate government agencies towards effective delivery of services is being introduced for the first time.

The promotion of greater private sector involvement in the economy is another key platform of reform, which also involves reducing the top-heavy public service through privatisation, deregulation and liberalisation. The private sector in Nigeria has been characterised by a few huge multinationals that are import-dependent and mostly operate as enclaves, with a few large companies, such as banks, in the middle and a large segment of small and medium-sized companies. Businesses have also been over-dependent on government patronage and contracts, with very little value added. The government has identified the main problems of preventing the growth of Nigeria's relatively weak domestic private sector as the state of infrastructure, lack of access to finance, insufficient demand, the prohibitive cost of imported raw materials, a lack of skilled labour and a low level of patronage by public sector institutions.

As part of the recovery programme for the private sector, the NEEDS strategy aims to diversify the productive base away from oil by introducing specific sector strategies (for agriculture, industry/SMEs, services, including tourism and ICT, oil and gas and solid minerals). These will involve clearly defined roles and responsibilities for all three tiers of government. NEEDS seeks to mobilise long-term capital for investment, develop a coherent trade policy, and introduce industrial clusters.

The social charter will focus on poverty reduction, improvement in education, empowerment, and employment generation. It will also address health problems, particularly HIV/Aids.

Privatisation is one of the key planks of the value reorientation strategy. The process is designed to shrink the sphere of influence of the state, and in so doing put an end to opportunities for public sector corruption and inefficiency. It will also release thousands of people currently serving as board members of parastatals to go into more productive employment. The essence of the value reorientation strategy is that hard work and high standards will be rewarded, and corruption punished. In this way a different work ethic will be fostered.

The government has emphasised the point that what makes the NEEDS strategy different from previous economic growth programmes is that it cuts across all tiers of government. It will, in future, provide the basis for government budgets and the eventual formulation of a medium-term expenditure framework. It will also be supported by law, and its implementation will be supervised by the president.

The NEEDS strategy has also considered the implications of Nigeria's development under various scenarios. Scenario A analyses the effects of Nigeria's maintaining the average growth rate recorded in the last four years (about 3.5%) until 2030. Scenario B examines the implications of re-enacting the average growth performance in the late 1980s (5%), that is growth that is high enough to prevent

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poverty from escalating, but not enough to reduce it. Scenario C looks at a situation where Nigeria fundamentally changes its strategy and achieves the 7% growth as envisaged by the Millennium Development Goals.

**Table 1: Selected targets under NEEDS<sup>79</sup>**

	2003	2004	2005	2006	2007
Real GDP growth (%)	8.6	5.0	6.0	6.0	7.0
Oil sector growth (%) <sup>a</sup>	15	0	0	0	0
Non-oil sector growth	5.83	7.27	8.54	8.34	9.52
Poverty reduction (%)	5	5	5	5	5
Number of new jobs created (in million)	-	1	2	2	2
Growth in real private consumption expenditure (%)	-	4.83	4.83	4.83	4.83
Growth in real per cap consumption (%)	-	2	2	2	2
Agriculture growth (%)	7	6	6	6	6
Manufacturing sector growth (%)	-	7	7	7	7
Total government expenditure (as % of GDP)	25.10	23.54	23.37	22.90	22.33
External reserves	7,186	7,686	8,686	9,686	10,686
Import growth (%)	-	15	18	25	30
Export growth (%)	-	10	20	25	30
Credit to private sector (% growth)	30	30	30	30	30

a: The government does not expect change in oil sector growth, because it anticipates reduced OPEC quotas to be offset by rising gas production.

While the government's strategy and vision are clearly spelled out in its NEEDS document, the success of the entire plan depends almost entirely on political will, the determination to fight special interest groups who will seek to sabotage it if their interests are threatened, and the willingness of the international community to support it in concrete ways, such as by providing funding. The

<sup>79</sup> National Economic Empowerment and Development Strategy, Federal Government of Nigeria, 2004.

government has the three years before the next election to get the process sufficiently on track to prevent its being derailed by a new government with different ideas on how to run the country.

<b>Table 2: Implications of Alternative Growth Scenarios for Key Development Indicators</b>			
	<b>2000 <sup>a</sup></b>	<b>2015</b>	<b>2030</b>
A: Per capita income assuming 3.6% growth (1999–2002) Poverty rate (assuming 3.6% annual growth)	\$300 70%	\$328 70%	\$352 80%
B: Per capita income assuming 5% annual growth Poverty rate (assuming 5% annual growth)	\$300 70%	\$416 70%	\$576 70%
C: Per capita income assuming 7% annual growth rate Poverty rate (assuming 7% annual growth)	\$300 70%	\$556 35%	\$300 70%
Population growth rate at current 2.8% annual growth (in million)	120m	182m	300m
Urbanisation at current 5% annual growth rate (in million)	42m (35%)	87m (48%)	182m (66%)
a: Actual <i>Source: NEEDS document</i>			



## **Appendix B: Status of Bilateral Agreements as at June 2004**

<b>Agreement</b>	<b>Status</b>	<b>Department</b>
Agreement on Establishment of a Bi-national Commission of Co-operation	Signed Cape Town, 29 April 2000	Foreign Affairs
Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains	Signed Cape Town, 29 April 2000	Finance
Agreement on the Reciprocal Promotion & Protection of Investments	Signed Cape Town, April 2000	Trade & Industry
Trade Agreement	Signed Cape Town, April 2000	Trade & Industry
Agreement on Co-operation in the Fields of Mining, Geology, Exploration & Beneficiation of Minerals and Energy	Signed Cape Town, April 2000	Minerals & Energy
Agreement on Educational Co-operation	Signed Cape Town, April 2000	Education
Agreement on Defence Co-operation	Signed Abuja, March 2001	Defence
Agreement on Police Co-operation	Signed Abuja, March 2001	SA Police Service
Agreement on Institutional Co-operation in Agriculture	Signed Abuja, March 2001	Agriculture
Agreement on Co-operation in Arts & Culture	Signed Abuja, March 2001	Arts & Culture
Agreement on Scientific & Technological Co-operation	Signed Abuja, March 2001	Science & Technology
MoU Between the Ministries of Foreign Affairs of South Africa and Nigeria	Signed Abuja, March 2001	Foreign Affairs
Declaration of Intent in Respect of Immigration Matters	Signed Abuja, March 2001	Home Affairs
MoU on Co-operation in the Field of Public Enterprises	Signed Abuja, March 2001	Public Enterprises

<b>Agreement</b>	<b>Status</b>	<b>Department</b>
Protocol on the Programme of Implementation of Educational Co-operation for the Period 2001-2004	Signed Pretoria November 2001 during visit to SA by Nigerian Minister of Education	Education
Bilateral Air Services Agreement	Initialled in Pretoria, June 1994. Still to be signed following envisaged renegotiations	Transport
Extradition Treaty	Signed Pretoria, March 2002	Justice & Constitutional Development
Treaty on Mutual Legal Assistance in Criminal Matters	Signed Pretoria, March 2002	Justice & Constitutional Development
Agreement on Co-operation in the Field of Health & Medical Services	Signed Pretoria, March 2002	Health
Agreement on Immigration Matters	Signed Pretoria, March 2002	Home Affairs
Agreement on Detailed Regulations of the Expedited Mail Service	Signed Pretoria, March 2002	Communications (SA Post Office)
MOU on the Prevention of Counterfeiting of Postage Stamps & Meter Impressions as a Means of Postage for International Mail	Signed Pretoria, March 2002	Communications (SA Post Office)
MOU on Bilateral Co-operation in the fields of Sport & Recreation	Signed Pretoria, March 2002	Sport & Recreation
Agreement on Co-operation in the field of Tourism	Under negotiation (SA side on 29 April 2002 responded to the Nigerian draft submitted on 4 March 2002. Nigerian counter-proposal received on 6 November 2003)	Environmental Affairs and Tourism
MOU on Information & Communications Technology	To be proposed (Nigeria indicated it intends submitting a draft at some stage)	
MOU on Biotechnology	To be proposed (Nigeria indicated it intends submitting a draft at some stage)	

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<b>Agreement</b>	<b>Status</b>	<b>Department</b>
Agreement on Capital Market Development	To be proposed (Nigeria indicated it intends submitting a draft at some stage)	
Agreement on Mutual Assistance between Customs Authorities	Negotiations concluded, ready to be signed	Finance
Agreement on Merchant Shipping & Related Maritime Matters	Under negotiation	SA Maritime Safety Authority
MoU on Postal Security	To be proposed	Communications (SA Post Office)
Programme of Co-operation for the Implementation of the Agreement on Co-operation in Arts & Culture for the years 2002-2005	Signed Lagos, December 2003	Arts & Culture
Mutual Recognition Agreement between the SA Bureau of Standards and the Standards Organisation of Nigeria	Under negotiation	Trade & Industry
MOU between SA's State Information Technology Agency (Sita) and the Nigerian Information Technology Development Agency	Under negotiation (Nigerian side provided SA side with draft on 9 October 2002, to which SA's response is awaited)	Communications
<i>Source: SA Department of Foreign Affairs</i>		

## **Appendix C: Nigerian Government's Import Prohibition List**

All types of biscuits	Men's footwear	Vegetable oil in bulk
Axes	Mosquito repellent	Vehicles through land borders
Ball point pens	Motor vehicles more than 8 years old, excluding tractors/trucks/trailers/trailer heads and buses provided not through land borders	Wheat flour
Barytes, bentonite & attapulgite	Mutton	Wheelbarrows
Beef	Pencils	All textiles except those coming through the Apapa and Tincan Island ports. These must be packed in 20ft containers and fall within the following range:
Beef products	Pickaxes	- Textiles (not printed):
Beer (bottled and canned)	Plastic — bags, bins, bowls, buckets, containers, cups, flowers, forks, hangers, knives, plates	110,000—140,000m
Bicycles (assembled)	Pork and pork products	- Brocade/damask:
Buses not coming through land borders	Poultry and poultry products	120,000—130,000m
Cassava, cassava products (importation through land border)	Printed fabrics	- Lace/embroidery:
Cement in bags	Retail packs (ready to drink)	70,000—80,000m
Cutlasses	Retreaded/used tyres	Lamps
Detergents	Shovels	Leather bags
Drinking water (spring or sparkling)	Soaps	Used air conditioners
Envelopes	Sorghum	Used compressors
Exercise books	Spade	Used refrigerators
Fresh flowers	Spaghetti and noodles	
Fresh fruits	Sugar confectionary (sweets/chocolates)	
Furniture	Toilet rolls	
Gaming machines	Toothpaste & toothpicks	
Goat meat		
Fruit juice in retail packs		

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The South African Institute of International Affairs (SAIIA)

P O Box 31596 Braamfontein 2017, South Africa

Tel: 27-11-339-2021

Fax: 27-11-339-2154

[www.saiia.org.za](http://www.saiia.org.za)

e-mail: [saiiagen@global.co.za](mailto:saiiagen@global.co.za)

