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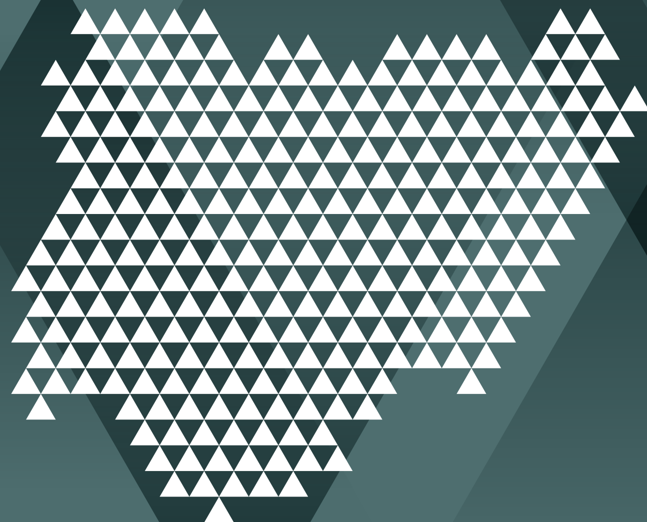
NIGERIA SUMMIT

The dawn of a new day?

March 7th- 8th 2016
InterContinental Lagos
Nigeria



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The Results Are In

Analysis from delegate polling at *The Economist's* Nigeria Summit

350+ ATTENDEES

16 COUNTRIES represented

Nigeria has gone through a massive transformation. In 2014, the country became Africa's largest economy in terms of GDP, and the election of President Buhari last year showed that change was possible at the ballot box, with the sitting government democratically voted out of power.

However, the country faces serious headwinds. The plummet in oil prices will have consequences for Africa's biggest oil producer, and although the oil sector accounts for only 10% of Nigeria's GDP, oil is inextricably linked to other sectors and generates 70% of government revenues. Its contagion could spread throughout the economy. Meanwhile, the value of the naira has plunged, and businesses are struggling to access foreign exchange for the imports the country relies on.

The 2016 Nigeria Summit brought together business leaders, academics, investors, and representatives from government and civil society. During the conference they took part in a poll to bring insight into what the most pressing challenges are and how prepared Nigeria is to deal with them.

A new Nigeria

Nine months on from President Buhari taking office, the reform agenda is taking shape.

There is a lot to fix, and limited resources. Several priorities were raised. The lack of access to foreign exchange to bring in raw materials and equipment, reducing the costs of doing business, addressing land ownership issues, and reducing corruption are vital. But one of the biggest problems is Nigeria's infrastructure deficit.

The power problem is clearly pressing. Over 50% of Nigerians do not have a stable supply of power, and many resort to using their own generators. Unsurprisingly, it was the key concern for delegates with 58% citing this as the most severe barrier to growth, above foreign exchange policy (20%), reputation (8%), security (5%), and fraud (3%). But it is hard to resolve: energy companies need the revenue to invest but customers are not willing to pay for what they don't get. Nigeria's privatisation of the power sector holds promise for fixing the country's energy supply, but it was put forward that this has so far not borne fruit.

The second biggest concern regarding foreign exchange policy was summed up by Danladi Verheijen, Chief Executive Officer and Managing Director of Verod Capital Management: "Most industries import some component of what they use to manufacture and they are having problems accessing dollars to do that. The companies can't produce so they have no revenue; they can't pay their bills and that flows down the supply chain." This is creating significant bottlenecks and restricting the economy.

Asked which of the key government priority sectors will see the most improvement, 49% of delegates voted for infrastructure, closely followed by agriculture (40%). Domestic manufacturing took just 6% of the votes, and solid minerals a mere 4%. "I would completely agree with the audience on infrastructure and agriculture," said Philip Walker, Regional Manager for The Economist Intelligence Unit. Nor was he surprised that so few voted for solid minerals. "While the government has spoken a lot about solid minerals as a priority, I am sceptical, particularly with commodity prices low across the board,"

Only 12% of delegates at the Nigeria Summit thought that the government has espoused a suitable reform agenda to help the economy going forward. There is a sense of confusion as to what the priorities should be. But the government faces a difficult balancing act. It needs to move quickly – the rest of the world is not waiting for Nigeria to catch up. But at the same time it should not risk having the policy reversals of the past.

25 INDUSTRIES were represented

Many delegates stressed that Nigeria must identify its main strengths, and then act decisively to support them. Herbert Wigwe, Chief Executive Officer of Access Bank, argued: "We need to prioritise and look at the sectors where we have the greatest efficiencies and where we can invest our resources to get the big impact that is required."

The investment agenda

Public private partnerships are seen as key in addressing some of Nigeria's most fundamental problems.

Some 49% of delegates thought that this would be the most popular type of investment model in the next five years, above joint ventures (24%), private equity (19%) and mergers (8%).

Jubril Adewale Tinubu, Group Chief Executive of Oando, said that public private partnerships are crucial in addressing the infrastructure deficit, for example. But improvements are needed in the business environment. "There is substantial funding locally and globally to participate with the government but without an enabling environment that will be challenging," he said.

Indeed, an overwhelming 92% of delegates felt that improvements to the business environment are the most important factor in attracting investment. Only 8% voted for fiscal incentives. Better regulation and demonstrating that Nigeria is truly open to business will be far more powerful an incentive than tax breaks.

"Ease of doing business is essential so that investors can take advantage of the true value that exists in the economy: the large market, the entrepreneurial capital, and the industrial capacity that exists." Mr Tinubu added.

Citigroup's Miguel Melo Azevedo explained that Nigeria is an appealing investment destination for those who take a long-term perspective. It is not so appealing to capital market investors who are more sensitive to short-term sentiment but strategic investors see that Nigeria has the fundamentals in place for opportunity down the line.

Engaging entrepreneurs

While much is made of Nigeria's entrepreneurial spirit, whether enough is being done to allow that to flourish is debatable.

The vast majority of companies in Nigeria are micro, small and medium-sized enterprises (SMEs) and the government has launched a number of initiatives to encourage entrepreneurship such as lowering business registration costs.

However, several delegates argued that the problem is that the fundamentals such as roads, rail and power are not reliable. How can an SME expect to thrive when something as essential as power cannot be guaranteed? The majority of delegates polled (46%) agreed that infrastructure is the biggest challenge to entrepreneurs. "We live in a country where nobody is responsible for providing you with the basic amenities. You can't be assured that you won't run into a pothole on the street, or that you will wake up and there will be electricity, or be able to start a business without having to spend 70% of your profits on generating your own electricity," said Adebola Williams, Co-founder of RED.

Some 38% of respondents felt that the most pressing issue is access to finance. Arguably the remit of a bank is to lend only when it can see how it will be paid back, and while there are certain bank-led programmes available to support SMEs, more private equity funds are needed.

> **"It's almost as if the government is there to keep you down,"**

Only 8% of those polled thought regulation was the biggest challenge although Nkiru Balonwu, Chief Executive Officer of Spinlet, argued that this is perhaps her biggest headache, from dealing with tax to simply running an advertisement on the radio. Her sentiment echoed the 43% who voted that regulatory and legal environments generally are not improving. "It's almost as if the government is there to keep you down," she said.

Talent is seen as plentiful in the country, again with only 8% of delegates seeing a lack of talent as a challenge. Access to land received no votes – the country is not short of land, although it has yet to utilise it to its full potential.

The opportunities are out there for entrepreneurs despite the barriers, it was said. There is, for example, a whole value chain around large corporates, which are supported by a vast number of SMEs.

Hope ahead

Nigeria's problems are vast but the general feeling at the conference was that these are short-term issues that can be resolved.

> "There are issues but I am cautiously optimistic and I continue to be inspired by the intellect, energy and candour of Nigerians."

As HE Okechukwu Enelamah, Nigeria's Minister of Industry, Trade and Investment put it: "There are issues but I am cautiously optimistic and I continue to be inspired by the intellect, energy and candour of Nigerians. There is 'nothing wrong with Nigeria that cannot be fixed by Nigerians' if we take a long-term view and take advantage of where we find ourselves."

There is indeed a spirit of optimism, and Nigeria's democratic dividend will bring positive change – helping in some way to protect it from the low oil price. The people now know, and ministers realise, that governments are accountable. President Buhari's government must deliver in the face of many challenges.