Investing in Nigeria

Wednesday June 28 2023

www.ft.com/reports

Tinubu gets off to a dramatic start

New leader defies rock-bottom expectations by scrapping fuel subsidy, writes *David Pilling*

If it was the intention of Bola Tinubu, Nigeria's new president, to attract the attention of investors, he could not have picked five more potent words to achieve his aim.

"The fuel subsidy is gone," he blurted out during his May inauguration speech — departing from prepared remarks that had spoken merely of "phasing out" the costly policy. Its removal has been the third rail of Nigerian politics since subsidies were introduced in the 1970s.

The impact was immediate. The price of petrol almost tripled to N557 ($1.20) a litre. Bonds rallied. The naira weakened on expectations that exchange rate simplification might follow.

Tinubu had spoken directly about that, too. "Monetary policy needs thorough house cleaning," he said in his speech. "The central bank must work towards a unified exchange rate," he added, referring to the 40 per cent spread between the official and the parallel rate. "This will direct funds away from arbitrage into meaningful investment in the plant, equipment and jobs that power the real economy."

Days later came news of the suspension of Godwin Emefiele, the central bank governor who presided over an opaque exchange rate regime for the eight-year tenure of President Muhammadu Buhari. Not long after, news that banks could bid freely for dollars sent the naira falling by more than 30 per cent, its biggest one-day drop in history.

Monetary shift: president Bola Tinubu plans policy changes to reinvigorate Nigeria investment — Kola Sulaimon/Getty Images

Tope Lawane, managing partner of Helios Investment Partners, an Africa-focused private investment firm, says rationalising the exchange rate and subsidy regimes is vital to making Nigeria investible again. "We haven't made a new investment in Nigeria in possibly six or seven years," he notes — adding that, hitherto, the continent's most populous country had been Helios' investment priority. The problem, he explains, was that "the policy environment just seemed to make it impossible. "Whether you're a private equity or a portfolio investor, the thing you cannot price in is an inability to take your money out," Lawane says. "You can bet on a stronger or weaker currency, but you need some level of liquidity to live with the bet you're making."

Worries about getting hold of dollars trumped Nigeria's positives, he says, from its huge domestic market to its buzzing tech sector — arguably the most dynamic in Africa. "The difficulty of getting your money out inhibits putting your money in," Lawane points out.

In remarks that sounded positively pro-business compared with Buhari, who had favoured state intervention and protectionism, Tinubu addressed all these private investor concerns: "We shall ensure that investors and foreign businesses repatriate their hard-earned dividends and profits home."

Chidi Odinkalu of the Fletcher School of Law and Diplomacy at Tufts University argues that Tinubu has done the minimum necessary given the hand he was dealt: "We shouldn't be impressed."

But Bismark Rewane, head of Lagos-based consultancy Financial Derivatives, says Tinubu's first weeks mark an "inflection point" in Nigeria's policy framework after the past eight years when growth and investment collapsed, oil theft spiralled, and kidnapping and violence spun out of control.

"Scrapping of the fuel subsidy is good for Nigeria," he says, noting that it was difficult to manage, politically, given politicians' low credibility with the public. "There are crony capitalist profits everywhere so, if we can get one big piece of that puzzle out, then all of the other pieces will follow."

Because much of Nigeria's debt is denominated in naira, traders believe a devaluation need not precipitate a debt crisis. Converting dollar receipts from oil revenues into a weaker naira would also strengthen government finances undermined by chronically low tax revenue, they add.

This air of optimism in the first few weeks of Tinubu's presidency comes as

Continued on page 3

Inside

Digital pathway aims at guiding farmers out of isolation

Agriculture

Integrated loan and trading system is lifting incomes, reports *James Kynge*

The first time Ige Akinwale Benson, a Nigerian cocoa farmer, heard of a company called AFEX Commodities Exchange, he was unimpressed. "I looked at them and I thought 'these guys are totally 419'," says Benson — using a common Nigerian term for fraudsters.

The reason for his first impression was that AFEX seemed to be offering something too good to be true. The company — which tops the FT ranking of Africa's fastest growing companies — provides loans to smallholders for buying seeds, fertilisers and pesticides and then buys their produce at market prices, stores it in warehouses, and transports it to market.

In developed economies, such services are de rigueur. But, in Nigeria, a country with an estimated 34.5mn smallholder farmers, the package being offered is little short of revolutionary.

Agriculture is of crucial importance to a country in which about 70 per cent of its 220mn people are engaged in the sector, mainly at subsistence level, according to the UN's Food and Agriculture Organization (FAO). Limited financing, poor access to farm inputs and markets, and a lack of warehouses are commonplace problems, the FAO says.

However, since Benson signed up in 2019 to be part of AFEX's system, he has overcome the issues that for generations have kept his family poor. "Before 2019, our family's annual income would be about 1.2mn naira ($1,463) but now we are getting between about 4.5mn ($5,488) and 5mn ($6,098) naira," says Benson, who farms about 65 acres around the village of Ajue in Ondo state.

"I don't spend the money extravagantly," he stresses. "I put it in the bank account. I have a house and a car now, so I don't need much. I will spend the money on a good education for my four children. I will send them to a better school."

AFEX, which was founded in 2014, recorded a compound annual growth rate between 2018 and 2021 of 502 per cent, according to the ranking by the Financial Times and data research company Statista. Its president and group

Yielding results: better inputs have boosted harvests of crops like cocoa — Reuters

chief financial officer, Kunle Adesuyi, says it is aiming to raise $75mn in equity and debt by the end of this year, potentially from international investors.

AFEX's business model relies on taking Nigerian farmers out of isolation and subsistence and including them in an integrated agricultural system. After farmers have signed up to its platform, AFEX provides months of training on what crops to grow, which seeds are most suitable, which fertilisers, fungicides and pesticides to use, how to avoid flooding and swarms of pests, how to reduce post-harvest crop losses, and other competencies, notes Adesuyi.

It provides loans in the form of farm inputs — such as seeds and fertiliser — rather than money. AFEX charges 15 per cent annual interest on the inputs loaned. When farmers come to sell produce to AFEX after harvest, the cost of the inputs plus interest is deducted from the sum they receive.

Applying better farming inputs in this way has resulted in a dramatic increase in crop yields. Almost 500,000 farmers registered on AFEX's database produced around 500,000 tonnes in crops last year, up from some 307,000 tonnes in 2021, says Adesuyi.

A huge problem with waste has been reduced by AFEX's network of warehouses. They have a capacity of 600,000 tonnes, and can store harvested crops including cocoa, sesame, cashew, ginger, rice, sorghum, coffee, and barley. Before the warehouses were built, post-harvest losses because of inadequate storage were as high as 40 per cent, Adesuyi points out. After the application of AFEX's methods, he adds, the percentage of waste has come down to a fraction of that.

AFEX is not the only company in this area, though. Thrive Agric, backed by California start up accelerator Y Combinator, has 514,000 farmers on its database and works in 26 Nigerian states, says its chief executive, Uka Eje. "When you go to the US, you are travelling over a thousand kilometres and all you see is productive farmland," notes Eje, who grew up in rural Benue state. "But when I was going to school, I would travel and see very little activity on the farms. Millions of hectares are not cultivated."

Thrive Agric's model is similar to that of AFEX, but with a twist. It groups the farmers on its platform into "clusters" — usually into groups of about 10 but sometimes as many as 50. They cross-guarantee each other's output so that, if one falls short, the others are liable for the shortfall. Eje says: "The social pressure helps to drive performance."

As with AFEX's model, digitalisation is a crucial aspect of Thrive Agric's operations. Not only are mobile phones used to map and verify a farmer's land, digital processes are also used to provide loans using a farmer's bank verification number, identity card and online account. Thus, the prevalence of mobile phones, which can be bought in Nigeria for as little as $50, has become a crucial enabler of agricultural aggregation.

"Digital technology allows us to build structure from a chaotic environment," says Eje. "Africa, these days, is pretty chaotic and there may be some infrastructure that does not exist. But we can build a technology system that can service this unstructured market."

Fossil fuels Theft, vandalism and decades of under-investment have blighted revenues even as prices have surged, writes *Aanu Adeoye*

Oil and gas fail to cash in on global energy hunger

Meter reading: a worker at an NNPC facility in Edo state. Nigeria's oil production is below its Opec quota — Ikechi Ugwoeje/Shutterstock

Nigeria's oil and gas industry, the source of much of the country's foreign receipts and more than half of government revenues, is in bad shape. Although figures released by Nigeria's national statistics bureau show $45.6bn in revenue last year, a 46 per cent rise on 2021 levels, those numbers hide an uncomfortable truth: oil production in Nigeria has been falling steadily over the past few years.

In April, the country produced less than 1mn barrels of oil daily, far below its 1.8mn bpd Opec quota. So, even though oil prices spiked in 2022, due to Russia's invasion of Ukraine, the longer-term story of Nigeria's energy industry has been one of lost opportunity. Hence, former finance minister Zainab Ahmed says the overall impact of high prices has been "nil or negative".

Oil production in the country has been blighted by large-scale theft and vandalism, as well as decades of under-investment in infrastructure. As such, state oil company NNPC cannot meet its output targets. Mele Kyari, head of NNPC, has alleged that as much as 600,000 barrels of oil are stolen daily by government and security officials, and even members of the clergy. The security situation is so dire that Nigerian authorities have contracted Government Ekpemupolo — better known as TomPolo, a former Niger Delta militant leader — to protect pipelines.

Fuel subsidies, introduced in the 1970s to provide cheap petrol for Nigerians, have also robbed NNPC of vital resources to invest. Last year, it paid out $10bn worth of subsidies to distributors.

Official figures suggest that Nigerians now consume about 68mn litres of petrol daily, compared with about 49mn in 2015. Yet there has not been a commensurate increase in population or economic activity. Some believe that the numbers have been fiddled and that oil distributors sell subsidised oil in neighbouring countries at a huge profit. Bola Tinubu, the new president, cut subsidies on his first day in office.

Experts say the combined effects of all these negatives are behind the recent rush of international oil companies to exit Nigeria's onshore sector. China's Addax handed its four oil blocks to NNPC last November. Meanwhile, ExxonMobil's planned $1.28bn divestment from four oilfields remains in limbo. Last August, local producer Seplat thought it had secured approval to receive the assets from Exxon, after president at the time Muhammadu Buhari, who doubled as petroleum minister, granted the go-ahead. A few days later, however, Buhari rescinded his support for the deal.

Noelle Okwedy, an energy analyst at Lagos-based data company Stears, says the operating environment in Nigeria is no longer conducive to efficient oil production. "Vandalism and theft have severely constrained production, causing production shutdowns for months on end," she notes, pointing to disruption at leading export terminals. Shell, for example, declared force majeure for just over a year from March 2022 on exports of high-quality Bonny Light crude as a result of attacks on pipelines.

Fractious government agencies and consequent regulatory uncertainty have also damped investor confidence, Okwedy adds. "There's no clarity on who regulates what," she says.

The gas sector is not faring much better. Analysts say a price cap on the domestic market has limited investment. The export market is stronger, though, especially since the Russia/Ukraine war has left the EU shopping for gas around the world. Matthew Baldwin, deputy director-general of the European Commission's energy department, says Nigeria supplies 14 per cent of the EU's gas imports and that 60 per cent of Nigeria's liquefied gas is shipped to Europe. Both sides agree there is scope to do more.

> Some gas wells have lost as much as 80 per cent of their capacity to theft and vandalism

Yet Nigeria's main gas company, NLNG, faces multiple challenges. A nationwide flood that killed more than 600 people and displaced 1.3mn last October led it to declare force majeure on its operations after its gas suppliers were affected. The group, which is jointly owned by energy majors Total, Eni and Shell, as well as by NNPC — which holds just under half the shares — also faces the same security problems that bedevil the oil industry. Some gas wells have lost as much as 80 per cent of their capacity to theft and vandalism.

Clementine Wallop, senior adviser to political risk consultancy Horizon Engage, believes Nigeria should push for the completion of long-term infrastructure projects to help it take advantage of Europe's hunger for gas. Investors are quietly hoping that the new government can deliver the funding. In his run for the presidency, Tinubu presented himself as a pro-business candidate capable of luring investment back to a country sorely in need of it.

His choice of oil minister and head of NNPC will be critical to investor confidence, says Okwedy. "There's a lot of diplomacy involved and we did not see a lot of this from Buhari," she says. "Instead, the measures he took as minister of petroleum scared investors away."

But even optimistic investors acknowledge that a shrewd appointment would be only a start. Getting a grip on theft and vandalism will ultimately determine how Nigeria's oil and gas industry fares in the coming years.

Dangote scheme raises hopes of a more refined future

One of Muhammadu Buhari's last acts as Nigeria's president was cutting the ribbon at the Dangote oil refinery on the outskirts of Lagos, Nigeria's commercial capital.

The project, long in the making, was the work of Africa's richest man, Aliko Dangote. Finished seven years later than planned, it cost more than double its original $9bn budget.

But it is still unclear when the refinery will begin delivering refined products to market, despite Dangote's claim at May's inauguration ceremony that he expects production to begin in July. A more realistic target could be November, according to a source familiar with the plant's operations.

Insiders say the ribbon-cutting fanfare was a political sop to Buhari, who was a champion of the project, so he could take credit for bringing a potentially game-changing infrastructure project to fruition. NNPC, Nigeria's state-owned oil company, owns a 20 per cent stake in the plant.

A cement and sugar tycoon, Dangote has a record of success and domestic production. Although his critics accuse him of a cosiness with successive governments that has proven beneficial to his empire — worth about $21bn, according to the Bloomberg Billionaires Index — Nigerians will be hoping he succeeds in his latest venture. The

Opening ceremony: Aliko Dangote, left, and Muhammadu Buhari

project also comprises a fertiliser processing complex, a deep seaport and a 435MW power station.

Nigeria is largely incapable of refining crude. Its three state-owned refineries are in disrepair and operate at only about 30 per cent of capacity, despite the government spending $25bn to revamp them.

Thus, Nigeria spends $23bn annually on importing petroleum, which is then subsidised to the tune of about $10bn a year — at least until Bola Tinubu, the new president, removed subsidies on his first day in office, last month.

At full production, Dangote's refinery could process as much as 650,000 barrels per day. Although Nigeria's Opec production quota is 1.8mn, the country now routinely produces just under 1mn barrels daily due to theft, vandalism and infrastructure problems (see above). The IMF said in a recent report that it does not expect the refinery to reach more than a third of its production capacity by 2025. Nevertheless, Dangote is bullish about the prospects of reaching full output by the end of next year.

Securing crude supplies will be crucial to the plant's success. But the rampant violation of pipelines in the Niger Delta could make achieving that a big challenge.

As such, no magical solution to Nigeria's oil woes appears likely. Analysts at Lagos-based consultants SBM say that while Dangote's refinery — which at full stretch could produce 53mn litres of petrol daily — may "largely provide" the capacity for Nigeria "finally" to solve the supply problems that lead to periodic scarcities, it will have "little impact on the price of the products". These will continue to be determined by global oil prices. However, the refinery could be a boon for neighbouring countries, which often have to import petroleum products from further afield.

Aanu Adeoye

Solar 'mini-grids' light the way towards last-mile electricity

Nigeria is usually Africa's largest oil producer, with an output of almost 1mn barrels per day, most of which is consumed by an energy-hungry economy that needs fuel for industries, transport and offices.

And this reliance on oil has been exacerbated by a chronic shortage of electricity in most parts. About 43 per cent of Nigeria's almost 200mn people lack access to grid electricity, especially in rural areas.

Meanwhile, many of those who are connected to the grid are often left in the dark for days — or even years, in extreme cases — because of power supply problems that successive governments have left unsolved. In many urban centres, businesses and households are forced to resort to generators, which increase the demand for petrol and diesel.

However, this energy crisis is now powering a different kind of innovation in Nigeria, says Ifeoma Malo, chief executive of Clean Technology Hub, a renewable energy research institute. She points to government regulations designed to encourage investment in solar mini-grids that can supply electricity to remote areas.

"There has been a focus on getting electricity to rural communities," says Malo. "And this is where a lot of investors in the solar mini-grid sector have come from and even a lot of renewable energy technologies. We've seen investment in wind too."

The investments have typically been in the form of grants from multilateral organisations, such as the World Bank and philanthropic foundations. But industry experts say there has been a shift from solely grant-based investments to a hybrid model of grants and investments, such as loans on favourable terms.

In 2018, the World Bank provided a $350mn concessionary loan to Nigeria's Rural Electrification Agency (REA) for solar off-grid projects. Malo credits

Energy boost: rural communities are benefiting from solar power

Damilola Ogunbiyi, who served as managing director of the REA from 2017 to 2019, for quickening the pace of investments in the rural electrification programme.

Private capital has also shown an interest in Nigeria's renewable sector, with some significant deals being completed. Last year, oil major Shell acquired Daystar Power Group, a solar power provider, as part of its efforts to move into cleaner energy.

Solar is regarded as a good entry point for would-be investors in renewables in Nigeria, since making electricity accessible, and affordable, remains a massive challenge.

But Malo notes that local investors are not as active as their international counterparts because many worry that good returns will take too long to appear. The renewable energy sector, she says, needs "patient capital" that is willing to invest long-term in projects where profits may need more time to materialise.

A further factor for investors t consider is the lack of security that pervades much of Nigeria, particularly in the north. Since most of the areas that require support are in rural, last-mile and northern communities, investors have been forced to pull their funds and contend with stranded assets in areas of high volatility.

Aanu Adeoye

Early reforms focus on alleviating debt stress

Credit

New administration wants economic growth prospects placed on a firmer footing, writes *James Kynge*

The banqueting hall of the Oriental Hotel in Lagos buzzed with anticipation. A few days after Nigeria's new president took office in late May, about 80 of its business elite gathered around tables draped in gold cloth waiting to hear a briefing on what the future might hold.

Bismarck Rewane, a leading Nigerian economist, was clear. Zipping through a deck of slides, he had one message: the new administration had no alternative but to undertake a series of bold economic reforms. Further delay would pitch the country into "freefall".

"Nigeria is choked," he said in an interview after his address. "There is a poverty problem, unemployment problem, an oil smuggling problem, an inflation problem, the deficit and all of that. It is like a desperate case lying in the emergency room."

There was one silver lining. Once tough decisions have been taken and reforms pushed through, there will be an "inflection point", after which economic growth will bounce back, Rewane predicted.

Among the toughest of Nigeria's challenges is debt.

So rapid was the build up of foreign and domestic debt under Muhammadu Buhari's government, which preceded that of incumbent Bola Tinubu, that last year the IMF warned, by 2026, the Nigerian government may be spending 100 per cent of its revenue on servicing the interest payments.

Since Tinubu took office, two of the biggest reforms — the scrapping of a $10bn-a-year petrol subsidy and abandoning a policy of propping up the naira's value against the US dollar — have been motivated partly to counter debt stress.

Debt markets have broadly welcomed the moves. The fuel subsidy's demise should swell Nigeria's hard currency earnings, thus allowing it to more easily meet interest payments on most of its $41.9bn foreign debt — a sizeable chunk of which is in Eurobonds.

"The removal of the fuel subsidy is one of the most significant fiscal reforms Nigeria has seen in years," says Razia Khan, Africa and Middle East research head at Standard Chartered Bank. "It is an undoubted credit positive, and Eurobond spreads have tightened as a consequence."

The reforms may also convince market players that Nigeria is serious about tackling its chronic economic frailties. "The strong reform momentum makes it cheaper for Nigeria to borrow again externally, so the fuel subsidy removal helps to bring down financing costs overall," Khan adds.

The external debt's composition is varied. The lion's share is owed to multilateral lenders, including the World Bank, IMF and African Development Bank. Much is on concessional terms, analysts say. Just over $4bn is owed to Chinese lenders, principally the Export-Import Bank of China, analysts add.

Asked whether Nigeria could avoid an overseas debt default, Rewane says: "I think so. First and foremost because you are taking policy decisions, you are more likely to achieve the rescheduling of debt with your creditors. The rescheduling of debt means that you avoid default."

But some non-sovereign debtors could have a tougher time making hard currency debt repayments as the value of their naira earnings decline with the Nigerian currency's nosedive. Early this year, Fitch Ratings said most Nigerian banks have sufficient capital buffers to withstand a significant naira depreciation. In June, however, it placed local lender Coronation Bank Limited on watch for a potential downgrade.

'Nigeria . . . is like a desperate case lying in the emergency room' — Bismarck Rewane

The outlook for domestic debt, which totalled N27.55tn at the end of last year, may be manageable, says Khan: "Despite the anticipated rise in inflation as a result of the fuel subsidy removal, yields on Nigerian local currency bonds are still negative in real terms." This helps "to inflate away the accumulated stock of local currency debt so far, making it less of a hurdle for Nigeria".

Jason Tuvey at Capital Economics says the naira's devaluation will add to inflationary pressures, though, which already had reached 22.2 per cent in April, a 17-year high.

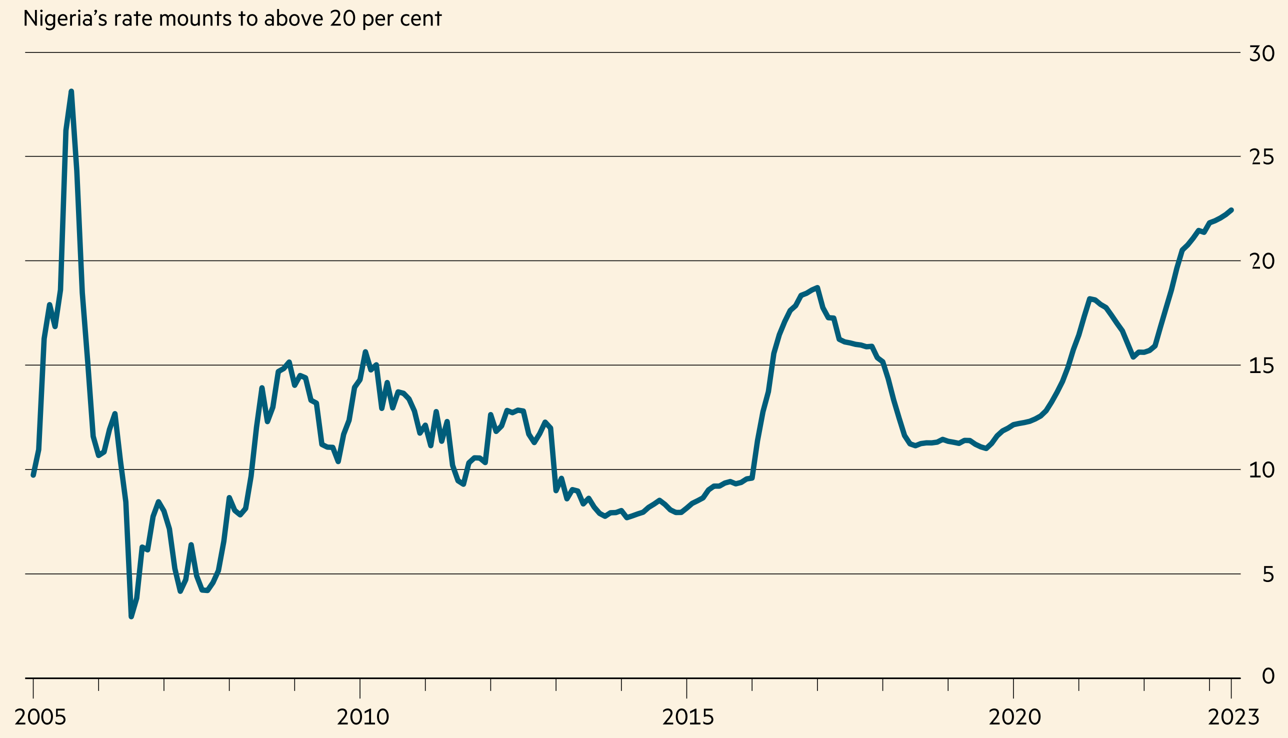
If, as Tuvey expects, inflation rises significantly further, the central bank will be obliged to raise interest rates sharply from a current 18.5 per cent. Tuvey sees Nigeria's key interest rate rising to 21.5 per cent by the end of the year, but adds that the risks are towards a larger increase.

This may presage turbulence for Nigeria's credit market and for its economy. More optimistic observers, however, say Tinubu's policies should put expectations for future growth on a firmer footing. In turn, this could attract more foreign direct investment, thus rehabilitating the balance of payments and allowing the government to service its foreign debt more comfortably.

Boldness welcomed as step towards 'fiscal sanity'

Inflation's climb

Nigeria's rate mounts to above 20 per cent



Source: Refinitiv

Economy Years of pressure on per capita income mean problems remain deep, writes *David Pilling*

In early June, Wale Edun, a close economic adviser of Nigeria's new president, indicated that market participants would not have long to wait before the country's exchange rates were unified. But even he may have been surprised at the speed of events.

On June 15, just a few days after former central bank governor Godwin Emefiele was suspended and subsequently arrested, banks were informed that they could bid for dollars at whatever exchange rate they wanted.

The impact was immediate. The naira recorded its biggest fall in history. By the end of the day, the official rate had dropped to N600 to the dollar, a 23 per cent fall. Traders said the currency was changing hands at N750, roughly the same as the parallel market rate — the unification that Edun had promised.

It is too early to say what the new policy will be, or whether a gap will reopen between rates. "There is still significant uncertainty about how the forex market will operate," says Razia Khan, chief economist at Standard Chartered Bank. "Today's price action may point to a free float, even though Nigeria has historically had a managed exchange rate."

She predicts the naira will be trading at N695 to the dollar by the end of the year, before appreciating slightly.

Nor is it certain what the impact will be on foreign reserves or inflation, which is already running at 22 per cent. If dollars are freely available there could be, at least initially, a huge rush of trapped hard currency leaving the country. It is less than a year, for example, since Emirates suspended flights to Nigeria because the airline could not repatriate funds.

But, coupled with the scrapping of the fuel subsidy, the measures undertaken in the first few weeks of Bola Tinubu's presidency amount to the biggest reform package in decades, according to Dipo Salimonu, chief executive of oil and gas company Moteriba.

"This restoration of fiscal sanity — the boldness is unprecedented," Salimonu says, adding that it brought an end to the "analysis paralysis" of previous governments that knew they had to remove distortions in the economy but lacked the courage to do it.

However, Chidi Odinkalu of the Fletcher School of Law and Diplomacy at Tufts University warns that investors should not get overly excited by the quick-fire changes of Tinubu's first weeks in office. The previous administration had made no budget provision for fuel subsidy, he says, and rather forced Tinubu's hand.

"The reason why Tinubu cannot play along is that the country is insolvent," Odinkalu says. He would be more impressed, he adds, if Tinubu — who has already got clearance to appoint 20 advisers — stops the notorious excesses of government and devotes his efforts to tackling the problems of a country where an estimated 90mn people live on less than $1.90 a day. "That means not funding the lifestyle of politicians but addressing the social needs of ordinary Nigerians," Odinkalu says.

'The reason why Tinubu cannot play along is that the country is insolvent'
Chidi Odinkalu

After eight years in which per capita income has stood still at best, the problems are deep indeed. On the social side, about a third of Nigerians, according to official figures, are unemployed, while government data classifies 133mn people as "multidimensionally poor".

Years of neglect of the hospital and school systems mean Nigeria's social indices are lower than expected for a middle-income oil producer. Unicef estimates that 18.5mn Nigerian children are out of school. Life expectancy is just 53 years, according to the World Bank, nine years lower than Niger, its much poorer neighbour.

The macroeconomic picture has been no less bleak. Tax revenue has been about 6 per cent of gross domestic product, according to the OECD, one of the lowest levels in the world, though it may have nudged up slightly in recent years. Virtually all federal revenue goes on paying for government and servicing debt, leaving almost nothing to invest in Nigeria's future.

Oil theft has been rampant, though there have been signs of recent improvement, with the massive Bonny oil terminal reporting virtually no losses in May. Oil revenue that has come in has mostly gone on paying for the subsidy, which rises with the oil price, thus depriving the treasury of the benefit.

The twin "shock therapy" as Salimonu calls it — of removing the subsidy and freeing up the exchange rate — could help deal with these structural issues in the medium term.

The big hope is that the government can repair its finances. As well as saving $10bn on subsidy, a weaker naira means that every dollar earned from oil translates into more naira revenue.

Exports, which have been battered by an overvalued naira, should benefit as Nigerian goods become more competitive. Foreign investment, which stalled under the previous currency regime, could recover. Because of the artificially high naira, investors say they were reluctant to commit funds for fear of overpaying and nervous that rationing of dollars might hinder their ability to repatriate profits and dividends. Confidence could now build and investment with it, say economists.

"Nigeria has such huge potential for growth but has been held back by bad policies," says Abubakar Suleiman, chief executive of Sterling Bank. He adds that a combination of decent government and a favourable environment could lead to a period of "hockey stick" growth — namely, having been flat, suddenly surging up.

For now, such a return to fast growth, and to the policies needed to improve the lives of ordinary Nigerians, is a chimera. But, for the first time in years, people are actually talking about it.

Tinubu gets off to a dramatic start

Continued from page 1

a surprise to some. In the run-up to February's election, many investors had considered Peter Obi, who ended up in third place, the change candidate.

For them, Tinubu, the 71-year-old "Godfather of Lagos", had started with rock-bottom expectations. Not only was he a political kingpin who critics claim amassed a fortune through the crony capitalism that now needs dismantling, he also forfeited $460,000 to the US government in 1993 after a Chicago court determined he had benefited from drug trafficking. Tinubu strongly denies any accusation of impropriety.

Nor was his election victory a ringing endorsement. According to official results, a challenge to which is trundling through the courts, 8.8mn people voted for him on a woefully low turnout of 27 per cent in a country of about 220mn.

Still, says Kevin Daly of Abrdn, an emerging markets asset manager, Tinubu comes with a reputation for having been an effective two-term governor of Lagos, Nigeria's buzzing commercial capital. He has a strong coterie of technocratic advisers, Daly says, and, unlike the two other presidential candidates, Tinubu had never flirted with the idea of restructuring debt.

"My view is that we should be overweight Nigeria on prospects of structural reform," Daly suggests. "Putting those two — Nigeria and structural reform — in the same sentence is something you wouldn't have been doing for a long time."

Dipo Salimonu, chief executive of Moteriba, an oil and gas company, says: "Whatever you say about the guy, Tinubu is the most prepared president Nigeria has ever had."

Before the president took office, Aliko Dangote, Nigeria's richest businessman and biggest investor, told the FT that Tinubu would be a likely surprise on the upside. Nigeria's problems from security to its fiscal situation were so bad, that Tinubu would be obliged to end the fuel subsidy, normalise the exchange rate and reverse rampant oil theft: "He has no choice but to do it."

Dangote, for one, has placed a huge bet on the country with a long-delayed, but potentially transformative, oil refinery and fertiliser plant outside Lagos, which may end up costing as much as $18bn. It could have a huge impact on the country's fiscal position, even if there is nothing to prevent his company selling the bulk of its output abroad.

Dangote has never wavered from his belief in Nigeria: "But we have always lacked adequate leadership." Few imagined that Tinubu was the man to reverse that trend. It is the new president's job to prove them wrong.

Additional reporting by James Kynge

Foreign investors hope for return to orthodoxy

Stocks

President's message on profits and dividend repatriation raise market spirits, writes *Chris Newlands*

Overseas investors watched with eager anticipation as Nigeria's new president, Bola Tinubu, gave his inaugural speech in Abuja's Eagle Square last month.

The 71-year-old inherits an in-tray overflowing with tasks that demand his urgent attention. But what foreign investors were especially keen to hear about was how he intends to breathe life into Nigeria's economy — in particular, whether he had anything to say about the severe lack of foreign exchange that has hamstrung international investors.

Tinubu did not disappoint: "I have a message for our investors, local and foreign: our government shall review all their complaints about multiple taxation and various anti-investment inhibitions. We shall ensure that investors and foreign businesses repatriate their hard-earned dividends and profits home."

Soon, Tinubu suspended the much-censured central bank governor Godwin Emefiele. Tinubu had been critical of Emefiele in his inauguration speech, stating that interest rates must be lowered and Nigeria's multiple exchange rate systems should be unified.

The president's comments, as well as the removal from office of Emefiele, will be warmly received by non-domestic investors who have left Nigeria in their droves in recent years. The problems they have encountered come not from a lack of investment opportunities, but from not being able to get their money back, and out of Nigeria.

As oil prices slumped at the beginning of the Covid-19 pandemic, the central bank imposed foreign exchange restrictions in an attempt to ease a dollar shortage. This made it extremely hard for foreign investors in Nigerian stocks to repatriate funds when they sold holdings. As a result, international investors have stayed away, evidenced by the participation rates of foreign investors within the Nigerian stock market.

In 2014, foreign investors dominated the Nigerian market, accounting for 57 per cent of all trading. By the end of 2021, this had fallen to 22 per cent and, by the end of 2022, to 16 per cent. Latest figures from the Nigerian stock exchange show foreigners accounted for 4 per cent of Nigerian equity trading as of April — a statistic that one international fund manager described as "deeply worrying".

"The poor political environment, turmoil in the currency markets, along with the foreign exchange problems, make the situation very problematic," says veteran emerging markets investor Mark Mobius.

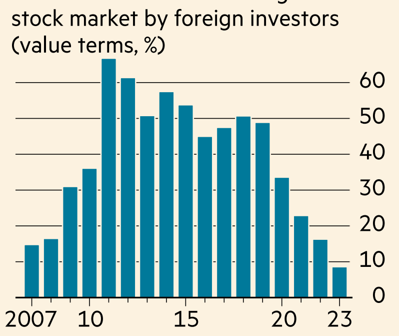
Some international fund managers have stopped investing. Allan Gray, the South African wealth management group, has not invested any new money in Nigeria for the past three years.

Rami Hajar, a portfolio manager at Allan Gray, says the capital controls have had "a material impact on investor confidence" with many "unwilling to bring capital into the country as they lack the confidence that they will be able to get it out . . . thus, despite the fact we believe equity valuations in Nigeria are attractive and, in some instances, highly attractive, we have sought to redeem funds when the opportunity has presented itself."

Andrew Schultz, head of frontier markets at Investec, the South African bank and wealth manager, agrees: "Investors need to be confident that they can get their money out before they will put it in." He adds that the problems in Nigeria "escalated when the Covid-19 crisis hit and the central bank stopped supplying foreign exchange".

Political turmoil and foreign exchange restrictions have curbed international investors' enthusiasm

Share of transactions on Nigerian stock market by foreign investors (value terms, %)



Source: NGX Exchange 2023 = Jan to Apr

Emefiele was in charge when that policy was implemented. Nigeria is Africa's biggest oil producer and relies heavily on crude sales for its foreign exchange. But, when oil prices fell during the onset of Covid-19, so did Nigeria's FX reserves and Emefiele began rationing supply, with overseas investors finding themselves a long way down the pecking order.

Emefiele was responsible for several other hugely unpopular policies, including a botched redesign of the naira, which led to a chaotic banknote shortage in the build-up to the presidential election. It was little surprise that investors were buoyed and Nigeria's sovereign dollar-denominated bonds jumped on the first full day of trading after news of Emefiele's suspension broke.

"We believe the changes signal a new era of focused, predictable monetary policy and a shift towards non-interventionism in the foreign-exchange regime," Barclays economist Michael Kafe told clients following the suspension. He said it indicated that Tinubu was "keen to pursue all the difficult reforms at the early stages of his term".

Gregory Longe, portfolio manager of Africa frontiers strategy at Cape Town-based Coronation Fund Managers, is equally optimistic. "The suspension of the central bank governor is a significant step," he says. "Emefiele has implemented numerous unorthodox monetary policy measures that have negatively impacted the banking sector and wider economy. We may finally be getting closer to a return to normality."

Contributors

David Pilling
Africa Editor

Aanu Adeoye
West Africa correspondent

James Kynge
Global China editor

Ima Jackson-Obot
FTAdviser

Chris Newlands
Freelance writer

Peter Chapman
Commissioning editor

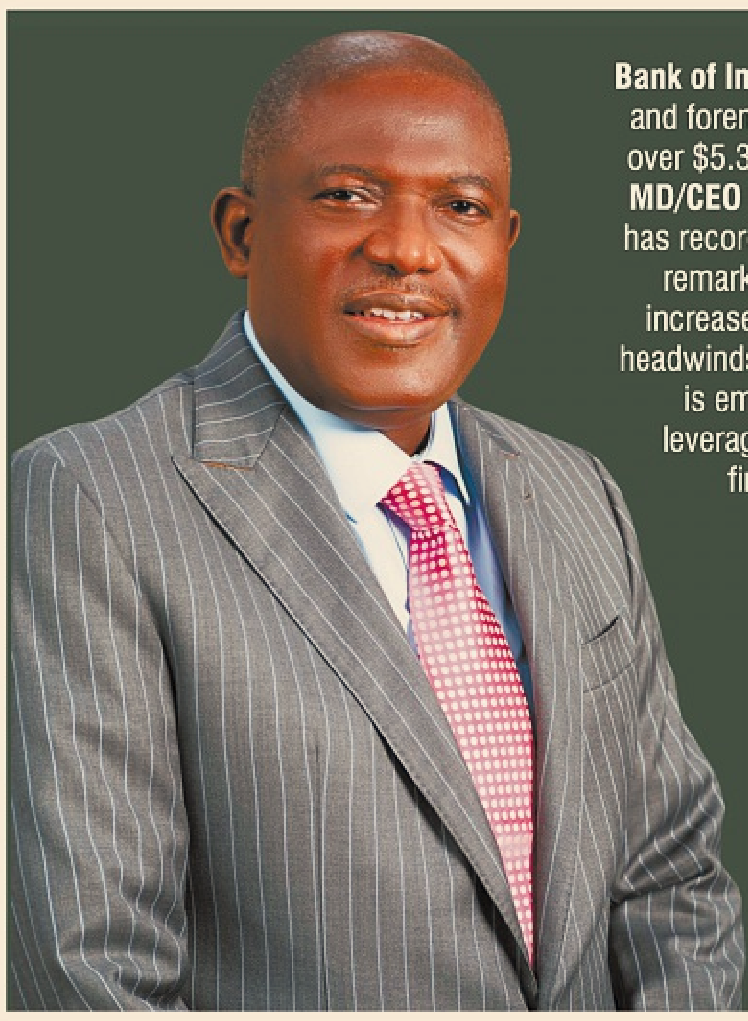
Steven Bird
Designer

Esan Swan
Picture Editor

ADVERTISEMENT

Bank of Industry:

Driving Nigeria's Industrial Transformation



Bank of Industry (BOI) is Nigeria's oldest and foremost DFI with an asset base of over $5.3bn. Under the leadership of its **MD/CEO Mr. Olukayode Pitan** the bank has recorded its 6th consecutive year of remarkable earnings with a 15.6% increase in spite of macro-economic headwinds. Mr. Pitan discusses how BOI is embracing sustainability and leveraging technology to close the financing gap in Nigeria.

How would you describe your mission and BOI's efforts to transform Nigeria's industrial sector towards achieving sustainable economic development?

We have a clear mandate from the Federal Government of Nigeria to provide financial assistance for the establishment of micro, small, medium and large enterprises; we also support the expansion, diversification and modernisation of existing enterprises and rehabilitation of existing ones.

It is therefore, critical that our interventions translate to, amongst others, the following: increasing the production capacity of enterprises that we support, improving linkages between MSMEs and Large Enterprises, support the competitiveness of locally produced goods in the international markets, creating healthy industry dynamics and supporting local sourcing of industrial raw materials

Our overarching mandate is to support the Federal Government's drive to create sustainable jobs, ameliorate poverty, and stimulate economic growth

> *"We have deepened our capital base by leveraging various fundraising debt instruments and strategic partnerships, raising a total of $5 billion from the international capital markets to date."*

You recently recorded a 39.2% increase in assets, what was the key driver of your impressive growth?

Yes, the bank's total asset crossed the ₦2 trillion mark in 2022 to ₦2.38 trillion, indicating a 39.2 percent growth when compared with the preceding year. This significant leap was achieved following the successful conclusion of three landmark capital raising transactions in the year, worth €1.85 billion (about $1.97 billion) from the international financial markets.

A fundamental enabler of this sterling financial performance is the successful conclusion of three key capital raising transactions in the year, from the international financial market.

The first of the transactions was the bank's maiden Eurobond of €750 million, which was concluded in February 2022. This transaction marked the first of its kind in several ways to the bank, our country and Africa. This deal was the bank's first Eurobond transaction, as well as the first Euro-denominated Eurobond transaction in Nigeria. The transaction was also the first Eurobond transaction that was covered by Nigeria's sovereign guarantee, and also represents the first of its kind by a national Development Finance Institution in Africa. It therefore represents a benchmark for other prospective issuers from the African continent. This transaction earned the bank, the Agency Bond Deal of the Year award at the 2023 Awards event of the Bonds, Loans and ESG Capital Markets.

The second capital raising transaction was the €1 billion guaranteed senior loan facility, which was concluded in August of 2022. This deal also represents the first of its kind, by any Nigerian financial institution, both in terms of its size and structure. Through this transaction, the bank was not only able to raise liquidity, but was also able to diversify its funding sources by attracting new lenders, despite the fact that the international capital markets were prohibitively expensive and shut to many borrowers at the time.

Our €100 million line of credit from the French Development Agency (AFD) was also concluded in August 2022. Through this credit facility, the bank shall be able to expand its financing interventions in environmentally friendly and green projects. A grant of €2.5 million is also included in this deal to support capacity building for both our staff and customers.

How have your innovative funding transactions propelled you to advance your mandate?

Over the last six years, we have deepened our capital base by leveraging various fundraising debt instruments and strategic partnerships, raising a total of $5 billion from the international debt market to date. These transactions have not only improved our capacity to continually support MSMEs and large enterprises with affordable long-term financing in a sustainable manner, but has also enabled us to expand the base of our international financial partners.

The success recorded in these transactions is attributable to the immense support received from the Federal Government and the Central Bank of Nigeria through the provision of sovereign guarantees and foreign currency swap deals respectively to secure and protect these transactions. These guarantees also helped in ensuring competitive pricing of these transactions.

We have also harnessed our strategic alliances with state governments, institutional investors and multilateral agencies to develop various matching and managed funds to advance our mandate.

What role does Bank of Industry play in improving financial inclusion? How do you leverage technology and innovation to achieve this?

BOI has been at the forefront of promoting financial inclusion in Nigeria by harnessing the reach of digital platforms to provide tailored products for the financially excluded in rural areas.

In implementing these programmes, we leverage technology through the use of our nationwide infrastructure that deploys big data and an extensive field agent network to deliver end-to-end design and facilitate easy access to financial services for beneficiaries. Through our nationwide infrastructure, we have disbursed over $400 million to over 4 million enterprises under both our corporate initiative - North East Rehabilitation Fund (NERF) as well as the following financial inclusion programs that we have managed on behalf of the Federal Government, multilateral agencies and other strategic partners States Enterprise and Empowerment Program. The Government Enterprise Empowerment Program (GEEP), MSME Survival Fund, and the World Bank Nigeria COVID-19 Action, Recovery & Economic Stimulus Program (NG-CARES).

How is BOI collaborating with Fintechs and other tech-companies to ensure the long-term profitability of the bank?

We also recently partnered with the Federal Government of Nigeria and the African Development Bank (AfDB) to coordinate and supervise the recently-launched $617.7m Investment in Digital and Creative Enterprise (i-Dice) programme in Nigeria. The objective of the programme is to boost innovation, create jobs, encourage entrepreneurship, and achieve economic transformation by fostering growth among Nigerian MSMEs operating in the technology and creative sector segments.

The Bank has earmarked $18.75 million towards its technology product, the BOI Technology (N-Tech) Fund. The fund invests in technology-enabled companies that are in the early growth stages of their business.

On the back of this we also developed a digital-lending product in 2021 that leverages collaborations with credible Fintech companies to on-lend to micro enterprises within the shortest turnaround time while alleviating the challenges experienced by micro-enterprises in accessing capital for their business activities. Through these credible technology platforms, we are able to support more micro-enterprises with affordable finance.

As part of our corporate social responsibility strategy, we have wholly funded the establishment of 10 technology hubs in various locations across the country, with four in the pipeline, as we speak. The hubs offer co working spaces, infrastructure, and funding to support the MSME technology ecosystem for innovation and creativity. Several business start-up events, hackathons, incubation programs and capacity-building activities have been held at the tech hubs.

You offer several products specifically targeting under-served groups such as young people and women. Please explain the Youth Entrepreneurship Support Programme – the work it does and the impact it has – and then the same for the BRAVE Women Project

Considering the unique challenges encountered by women in accessing credit in Nigeria, the bank has partnered with the Islamic Development Bank (IsDB) since 2019 on the Business Resilience Assistance for Value Ad ding Services for Women (BRAVE) Programme. BRAVE is a $14.27m initiative designed to develop and increase the economic opportunities of female entrepreneurs, particularly those living in economically disadvantaged areas arising from conflicts and social unrest. The project features a mix of capacity building and grant matching schemes and to date, 600 women owned or led businesses have received business training, most of whom will be eligible to apply for the grant matching portion of the scheme to support their recovery and growth.

We have disbursed $4.5 million, out of an investment commitment of $10 million in Alitheia IDF Fund. Alitheia fund is a $100 million investment equity fund, which provides financial support to women led organizations across various sectors, such as hygiene and personal care, healthy food snacks, education supplies and humanitarian/relief products.

The bank also created the Youth Entrepreneurship Programme (YES-P) fund of $21.7 million to offer business loans to entrepreneurs aged 19 to 36 with viable business ideas, at a 9% interest rate without the need for landed property as collateral.

BOI is the first Nigerian DFI to become an official signatory to the United Nations Principles for Responsible Banking – how are you incorporating this firm commitment to sustainability into your operations?

As a signatory to the *United Nations Environment Programme Finance Initiative (UNEP-FI)* Principles for Responsible Banking (PRBs) we are committed to aligning our business strategy to be consistent with and contribute to society's goals, as expressed in the UN Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Since we became signatories in 2021, we have embedded sustainability into our operations and continue to create programmes, products and services that enable us *impact our community*; *protect our environment* through our efforts towards responsible consumption, carbon emission reductions, resource efficiency and climate action; *develop our economy* – through responsible, green lending (especially in the renewable energy); ensuring Environmental, Social and Governance (ESG) risk management in our business portfolio whilst driving financial inclusion and financial health. As such, we work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for future generations.

We also participate in multi-stakeholder initiatives and collaboration with other local, international and sector-wide efforts (including: United Nations Global Compact, World Economic Forum amongst others.

> *"BOI has been at the forefront of promoting financial inclusion in Nigeria by harnessing the reach of digital platforms…we have disbursed over $400 million to over 4 million enterprises."*

How is BOI embracing environmental sustainability and balancing industrial growth against the challenges of climate change?

We recognize that climate change represents a major threat to achieving the Sustainable Development Goals while also representing an existential crisis in the sense that many African countries are underdeveloped and require more industrialisation activities which could contribute to climate change.

At BOI, we assess climate change risk and continue to support measures on climate adaptation such as investing in low carbon energy, energy efficiency and renewable energy.

Environmental sustainability is a key priority area for the bank; and a key consideration when evaluating potential customer projects. In 2021, we established an Environmental and Social Governance (ESG) risk management unit to ensure that BOI-funded projects align with global ESG standards, and are within agreed environmental thresholds.

In order to boost lending to greener projects, BOI's recently concluded €100m line of credit with the French Development Agency. This is dedicated to supporting climate-friendly and renewable energy projects in Nigeria.

We continue to leverage key partnerships with local and international organisations towards improving climate change such as the World Economic Forum via the Mobilizing Investments for Clean Energy in Emerging Economies (MICEE) which aims to mobilize efforts and investments to significantly contribute to clean energy transitions and towards achieving SDG7 in key emerging and developing economies.

We also collaborate with the United Nations Industrial Development Organisation (UNIDO) on Industrial Energy Efficiency (IEE) and Resource Efficiency and Cleaner Production (RECP) Projects.

BANK OF INDUSTRY
...transforming Nigeria's industrial sector

Nigeria plays leading role in rise of African arts

Culture Expansion of the middle class after end of military rule viewed as crucial factor, writes *Ima Jackson-Obot*

Onyinye Anyaegbu remembers when, as a young girl, she visited an uncle who had an artwork on his wall by the Nigerian artist, designer and architect Demas Nwoko. She greatly admired it, though recalls no one putting a value on it. Last month, Nwoko — now in his late 80s — received the Golden Lion for Lifetime Achievement award at the Venice Architecture Biennale.

Such cultural honours indicate the growing appreciation of African art, with works by the likes of Nwoko and the late Nigerian painter Ben Enwonwu in the vanguard. In 2019, Enwonwu's "Christine" fetched $1.4mn at Sotheby's; Bonham's sold his portrait "Tutu" for $1.7mn in 2018.

Anyaegbu, now the founder of Artsplit — a UK-based online trading platform for African art — says she had not fully appreciated the value of the continent's artists until she set up her company last year. Artsplit operates a fractional ownership investment model to make art accessible to people who might not be able to afford to buy a piece on their own. "There's such an emotional connection to art," Anyaegbu says, "because, for people, it is part of their heritage".

Keturah Ovio, a director at Lagos-based art dealers Patrons MCAA, says art in Nigeria used to be seen as the preserve of hobbyists. But, over the past 20 years or so, there has been a shift in people's view of art and in the opportunities available to artists.

This was largely triggered by Nigeria's transition from military dictatorship to democracy in 1999. With the growth of the middle class, prices of African art have risen. "The number of high- and ultra-high-net-worth individuals has been growing rapidly," Ovio notes. "This new money actively seeks tangible assets to diversify their wealth, and art has shown a steady return on investment in portfolio performance."

Recently, she adds, "there has been a significant rise in the number of African art dealers and auction houses, which has made it easier for collectors and investors to buy and sell."

Christophe Person, owner of the eponymous Paris gallery which specialises in African art, says Nigerian art's rise was marked by two events: the 2013 launch in London of the 1-54 international fair of contemporary African art; and the curation by the late writer and art historian Okwui Enwezor of 2015's Venice Biennale. "They [really were] game changers . . . many artists were shown in these huge events."

"Our people are super-creative and we are sitting on a trove of inspiration," says Kola Aina, general partner at venture capital fund Ventures Platform and an art investor. "Since we have had a democratic government, that has driven a steady rise of local patronage."

In a country of more than 250 ethnic groups, the art scene has multiple strands. Two key influences are the 1960s Oshogbo Movement in southwestern Nigeria, whose members were active in painting, sculpture, music and theatre; and the Zaria Art Society, which was formed in the north in 1958 — two years before independence — and sought to explore the roots of the country's art outside of western influence.

Aina, who also invests in film, notes that Nollywood, Nigeria's film industry, is likewise thriving. Since the early 2000s, it has moved from low-budget to higher-quality productions that enjoy global reach, with recent offerings including *Battle on Buka Street*, *Brotherhood* and *Gangs of Lagos*. "Nigerians all over the world," says Aina, "consume Nollywood productions." Nigeria's diaspora (some estimates put it at 15mn-17mn, with the largest number in the US and UK) "have carried those films with them . . . that has definitely helped movies become items of export".

Jonathan Haynes, an expert on African film and professor emeritus at Long Island University, says of Nollywood that, while the country has suffered a

'We believe investment opportunities in the Nigerian film industry will continue to grow'

Clockwise from above: Onyinye Anyaegbu, Afrobeats star Tiwa Savage, Ben Onwonwu's 'Christine'
EOD Studios; Getty Images; Ben Enwonwu Foundation/Sotheby's

brain drain over the decades, "there's an immense amount of talent and creativity in Nigeria which, against all odds, have made it the . . . dominant film and television industry in Africa."

"We believe investment opportunities in the Nigerian film industry will continue to grow," says Dayo Adeniji, associate director at KPMG Nigeria, "particularly considering that Nigeria has a largely youthful population — about 70 per cent of Nigeria's population is under 30 years old."

Tola Odunsi, producer of Nigeria's popular online television series *The Men's Club*, says that, as well as investments from international streaming platforms, the biggest investor in Nollywood has been the sub-Saharan African direct broadcast satellite service DStv.

Owned by South African media giant MultiChoice, it filled the gap left by Nigeria's poorly performing terrestrial TV to create channels like Africa Magic, a leading distributor of Nigerian films.

Music is flourishing, too, with Afrobeats, the west African genre that has gone global, overwhelmingly represented by Nigerian artists. Odunsi, a former director of music label Storm Records, credits music streaming platforms and live sponsored events as big drivers of Nigeria's music industry. "The situation of local labels partnering with international labels has really driven investment," he says. Big record companies know they can "focus on the distribution", leaving the local labels to understand the culture, artists and repertoire.

In literature, Lola Shoneyin, founder of Lagos publisher Ouida Books, points to Nigerian writers' rising popularity abroad. Chimamanda Ngozi Adichie is among those winning wide acclaim since her first novel *Purple Hibiscus* appeared in 2003. More recently, Adichie wrote the preface to Pope Francis' book, *Hands Off Africa!*, a critique of continuing exploitation of the continent by western powers, published in May.

China affords Nigeria 'super' target status

Foreign interest

Chinese backers see huge potential to launch fintech apps across the continent, writes *James Kynge*

The dream of establishing smartphone "super apps" that can operate across Africa's markets is galvanising Chinese investment into Nigeria.

Nigeria, with about 220mn people, is the continent's most populous country and its biggest economy. So, when two Chinese-backed fintech companies hatched ambitions to build African versions of Chinese mobile payment giants Alipay or WeChat Pay, they decided to start in Lagos.

"[We are building] a very, very super app," says Chika Nwosu, managing director of PalmPay, one of the Chinese-backed mobile payments start-ups. "Nigeria is the hub for business in Africa." Also open for business in Ghana, PalmPay has seen its active users grow fivefold to 25mn over the past year and plans to expand to Kenya, Uganda and Tanzania, Nwosu says.

So-called super apps aim to be one-stop shops for a range of services, and PalmPay's offering through its smartphone app is increasingly comprehensive. Users in Nigeria can pay utility bills, top up mobile phone accounts, pay about 500,000 merchants for a variety of goods and services, make bank transfers, arrange loans, receive money and perform a host of other transactions.

Nigerians are able to conduct about 80 per cent of their financial lives through the PalmPay app on their phones, according to Nwosu. By early next year, he says, new features will increase this to "100 per cent".

The boldness of such a model, combined with the successful examples of Asian super apps, has drawn strong backing from international investors and fomented an intense competition for market share that is helping to drive a digital revolution.

PalmPay is backed by Transsion, a Chinese mobile phone company that dominates Africa's smartphone market, plus Chinese internet company NetEase, Taiwanese chipmaker MediaTek, and a clutch of Chinese funds.

Its main rival, OPay, was valued at $2bn when it raised $400mn in 2021 from Chinese investors and SoftBank Vision Fund 2. OPay chief Yahui Zhou, a top web game developer, said "financial inclusion" was his goal when he announced a strategic partnership last year with Mastercard in several countries in Africa and the Middle East.

In Nigeria, where the World Bank says 64 per cent of adults remain unbanked, most people still pay by cash. But, with smartphones available in Lagos shops for as little as $50, people are increasingly making cashless transactions.

Almost all of Transsion's smartphones — which bear the bestselling Tecno, Infinix and Itel brands — are sold with the PalmPay app pre-installed, giving the app immediate traction.

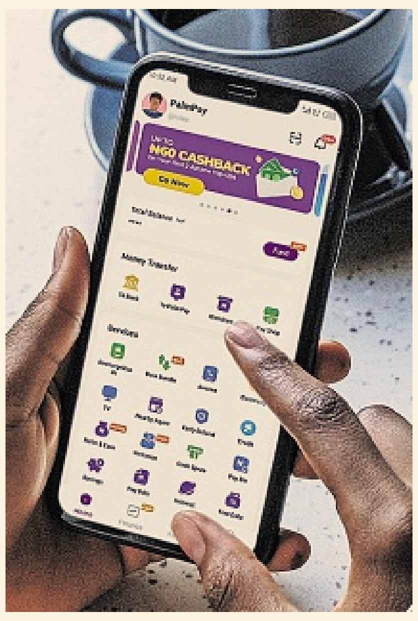
PalmPay and OPay's decision to focus on Nigeria gives a sense of the importance that Chinese companies attach to the country's potential. It became one of the top five Chinese investment destinations in Africa in 2020, after Kenya, South Africa, the Democratic Republic of Congo and Ethiopia, according to Merics, a Berlin-based think-tank focused on China.

The cumulative value of Chinese foreign direct investment into Nigeria by 2021 was more than $20bn, according to Cui Jianchun, China's ambassador to

'The middle class here is not yet large but we have to prepare for one day when the market starts to mature'

Nigeria. He cites the Abuja-Kaduna and Lagos-Ibadan railways, new airport terminals, the Lekki deep water port and Zungeru hydropower station as key infrastructure projects financed by Chinese state banks.

The finance they offer helps Chinese companies win crucial contracts. For instance, Huawei, the Chinese telecommunications giant, is dominating the



PalmPay offers a range of services

installation of 5G telecoms base stations after MTN, the South African mobile operator, chose to roll out 5G services in the country using Huawei equipment.

However, the position that Huawei holds in basic telecoms infrastructure, coupled with the popularity of PalmPay and OPay super apps, has raised concerns among some Nigerian officials over potential future Chinese domination in digital infrastructure and data.

"We always need to be pragmatic to balance Chinese influence," says one government official, who declined to be identified. "Chinese loans to the government have been growing and there is always secrecy. We need to be careful."

Such statements urging caution are joined by others highlighting Chinese resourcefulness. "The Chinese are pretty relentless," says a senior Nigerian banker, who asked not to be identified. "They have delivered a lot of important infrastructure projects for us."

This resourcefulness was on display at the Lagos Motor Fair held at the Federal Palace hotel in Lagos in June, where scores of exhibitors promoted auto parts to Nigerian customers. Almost all stalls were taken by Chinese companies and, at most counters, salespeople who had flown in from China told roughly the same story of starting small and growing businesses in Nigeria, patiently, from the grassroots.

"We don't have more than a few clients in Nigeria," said Chen Xiaoling of Zhejiang Gold Intelligent Suspension Corp, which already sells car parts in Egypt, Morocco, Algeria and South Africa. "The middle class here is not yet large but we have to prepare for one day when the market starts to mature."

The only sign of US presence at the show was a large Ford pick-up truck parked near the entrance. No sales executive appeared on hand to explain Ford's approach to the market.

Optimism prevails in booming Lagos start-up scene

Entrepreneurship

Enterprenuers show much can be achieved with relatively small investments, reports *James Kynge*

Ifeoluwa Dare-Johnson's career as a start-up entrepreneur in Nigeria began with a personal tragedy. Her father died of a treatable condition which nobody in the family knew he had.

"I got a call that I lost my Dad and that really changed everything for me — because I realised that, no matter what your ambitions, without good health they come to nothing," she says.

"He had diabetes and hypertension for so long and nobody knew," Dare-Johnson adds. "He didn't feel there was any need for him to go and have a check-up and then, one day, he just slumped."

Her grief was mixed with a sense of guilt because she had studied medical science and knew the importance of conducting regular check-ups. "I began to ask all my friends and nobody was paying attention to their own health."

Her answer was to co-found Healthtracka in 2021, funded partly out of Silicon Valley. It offers home health tests, online consultations with doctors, and an app that logs test results so users can track their health readings.

Healthtracka is one of many participants in a Nigerian start-up boom that has sucked in venture funding from the US, Europe and Asia. Investors are betting that, if they can make it in Africa's biggest national market, they may be able to build a business that spans the whole continent.

This has lifted venture capital funding in Nigeria from an estimated $50mn in 2015 to nearly $1bn in 2022, says Benjamin Dada, publisher of Bendada.com, a local tech media publication. This year, funding has cooled because of a global crunch attributed mainly to rising interest rates, Dada notes.

Nevertheless, the optimism that underpins start-ups such as Healthtracka remains palpable as digital platforms enable companies to build scale at a speed barely imaginable a decade ago.

Healthtech, fintech, agritech, renewable energy, logistics and education are some of the sectors that have experienced strong inflows of capital, says Abubakar Suleiman, chief executive of Sterling Bank, a Nigerian commercial lender that invests in several domestic start-ups.

In addition to speed, another attraction of Nigeria's tech scene is the ability to make an impact with relatively small investments. Healthtracka has delivered 20,000 tests to 5,000 users in 14 Nigerian states in the two years since it was founded, but it had seed capital of just $1.2mn, according to Dare-Johnson.

Its tests detect common conditions, including diabetes and some forms of cancer. One offering on its website is advertised as a "pre-wedding test" that allows users to "walk down the aisle with complete assurance". It screens for tuberculosis, HIV, testosterone, hepatitis B and pregnancy.

Kola Aina, founding partner at Ventures Platform — a fund with a pan-African

'Unicorns . . . are now a critical part of the national economy'
Kola Aina, Ventures Platform

portfolio of 80 companies that have together raised more than $1bn — estimates that "about seven" unicorns (start-ups valued at more than $1bn) have emerged from the Nigerian tech scene in recent years.

"The number of unicorns will

Healthtracka offers home health tests

continue to grow," comments Aina. "They are now a critical part of the national economy."

Aina adds that, while venture capital from the US, Europe and the UK has helped fuel start-ups across Africa and in Nigeria in particular, local capital is crucial: "We are seeing the rise of local capital. We think that merely having international capital without local capital can be problematic."

Bigger ticket funding rounds are increasingly common. Manoj Sinha, chief executive of Husk Power Systems, a US clean energy company based in Colorado, is confident of raising $100mn in a current funding round to set up solar power installations in Nigeria and other countries in Sub-Saharan Africa.

Husk installs "minigrids", or solar modules, that enable rural and semi-rural communities to switch from expensive and polluting diesel generators, or to receive electricity supplies.

The change that such technologies promise is considerable in a country where many rural communities are isolated and as many as four out of 10 people live below the national poverty line.

Other start-ups work to improve the social fabric. Chibuzo Opara is co-founder of DrugStoc, a company that raised $4.4mn in 2021 to help combat the national scourge of fake medicines.

Since its 2017 launch, it has set up direct links with about 270 drug manufacturers and 3,500 hospitals and clinics, allowing them to cut out middlemen who have long profited from inserting counterfeit drugs into the medical supply chain, Opara says.

DrugStoc has attracted investment from the Africa HealthCare Master Fund, a Singapore-based fund backed by Japanese money that has a portfolio of investments across Africa. Further investment has come from Vested World, a Chicago-based venture firm, and the German Development Bank.

Opara says it took trial and error to develop a system that ensures purity in the supply of medicine to hospitals and clinics. Technology in Africa is becoming "quite Afro-centric", he says.

In the past, the view was, "'I am just going to take whatever Amazon is doing and slap an African flavour on it.'" But, now, "these innovations have matured and the growth models have indigenised".


ZENITH
AFRICAN
ROOTS,
WORLD CLASS
SERVICE.
The Banker
Bank of the Year 2022
NIGERIA
The Banker
The Banker Database
TOP 1000
WORLD BANKS 2022
World Ranking: 454
Country Ranking: 1
BEST BANK AWARD 2022
GLOBAL FINANCE
Zenith Bank
Nigeria
PEOPLE | TECHNOLOGY | SERVICE
Bank the Eazy way with *966#
EazyBanking
NO DATA REQUIRED
For enquiries and feedback, kindly contact
ZenithDirect, our 24hr interactive Contact Centre:
+234 1 278 7000, 0904 085 7000, 0700ZENITHBANK
zenithdirect@zenithbank.com
Zenith Intelligent Virtual Assistant (ZiVA) -
0704 000 4422 (WhatsApp)
www.zenithbank.com