



Nigeria – Today’s Bright Investment Opportunities are Creating Tomorrow’s Growth

Executive Summary:

- **Nigeria** represents one of the most interesting investment opportunities in Africa. The country possesses **great natural wealth**, including the **second-largest proven oil reserves in Africa of 37.2 billion barrels** as at year-end 2011 according to British Petroleum, **estimated natural gas reserves of 187 trillion standard cubic feet** and **proven deposits of 1.5 billion tons of coal** as well as other minerals that are needed for fueling substantial and sustainable growth, an **energetic population mostly at or under 30 years old**, and other competitive advantages. At the same time, Nigeria faces significant challenges like inadequate infrastructure for energy distribution and efficient transportation as well as high unemployment rate although the country has implemented measures to address these issues. Because of its recent history and these challenges among others, investments in Nigeria are undervalued, and we believe **long-term investors who can tolerate some risk may see significant returns from their investments in Nigeria**.
- **Over the last decade, Nigeria has averaged 7.4% real GDP growth, and inflation has steadily fallen from near 15% to a projected 12.21% in 2013 by Nigeria’s National Bureau of Statistics (NBS)**. The country’s recent economic policies have focused on monetary discipline while the government has been making great efforts to attract foreign investments so as to continue driving economic growth. Due to the government’s efforts, inflation rate has been on the decline. According to the National Bureau of Statistics, overall inflation eased to 8.6% in March 2013 from 9.5% in February 2013 while inflation for 2013 as a whole is projected in the 9-11% range by the Central Bank of Nigeria (CBN) in March. All of these factors have contributed to the steadily-improving economic prospects of Nigeria. Hence, **many analysts predict Nigerian real GDP to grow above 7% through 2018 and beyond**.
- **Investment opportunities:** The federal government of Nigeria has announced packages of incentives for various industrial and civilian sectors with the goal of accelerating growth and development as well as reducing poverty. The newly-established **Nigerian Investment Promotion Commission (NIPC)** (<http://www.nipc.gov.ng/index.html>) is tasked with providing a “one-stop shop” for foreign investors. The NIPC’s website describes many programs, incentives and opportunities that should arouse the interest of potential investors. With this new openness, we believe there are **ample of attractive opportunities for private sector investments in natural resource extraction, energy distribution and transportation infrastructure build-out as well as agriculture and real estate development**.
 - **Road and railway infrastructure:** The Nigerian Railway Corporation operates a network of 3,505 kilometers (2,178 miles) of single track line. Nigeria has a highway network of about 200,000 kilometers, of which 20% are managed by the Federal Highway Administration and 80% are managed by local governments. According to the 2012 Business Monitor Report on Nigeria Infrastructure, the **construction sector should experience annual growth rate above 9% through 2016**. There are reports of government investment in a number of projects, such as the construction of a Lagos-Ibadan Expressway, a new international airport in the capital city, Abuja, completion of the Onne Port Complex at Port Harcourt and many others. These projects are a part of the significant growth in infrastructure investments recently, which should also contribute to the expansion of other sectors of the Nigerian economy.
 - **Energy resource development:** The estimate of energy resources in Nigeria indicates **crude oil reserves of 37.2 billion barrels**. The current daily production of about 2.7 million barrels makes Nigeria the largest producer and exporter of crude oil in Africa and among the top-10 producers in the world. **Natural gas reserves are forecast at 187 trillion cubic feet, ranking 7th worldwide**. Therefore, there is significant potential for investments in exploitation of these energy resources.



- **Agriculture:** Nigeria ranks 25th worldwide and **the first in Africa in agricultural output**. It is blessed with agricultural opportunity, including a variety of geographic regions with reliable annual rainfall and moderate climates. **Agricultural production currently accounts for almost 30% of economic activity** in Nigeria. Unfortunately, after years of neglect, the degradation of water and transportation infrastructure in the country has constrained the growth of Nigeria's agricultural sector and transformed the country from a net exporter decades ago to a **net importer of agricultural goods** today. We believe infrastructure investments in water and transportation could meaningfully enhance Nigeria's economic growth by capitalizing on the climate and geographic opportunities for agriculture it inherits.
- **Human Resources:** Nigeria's population of about 170 million is dominated by those aged 30 and younger due to a population boom that peaked in the 1980s. Nigeria suffers from **unemployment above 20%**, with double this rate for those under 30. This high unemployment imposes a substantial drag on the nation's entire economy. Investments in workforce training and development have the potential to significantly increase the productivity of Nigeria's workforce and help in the growth of a true middle class. Also, involvement of the population in infrastructure projects can play an important role in improving the employment situation.
- **Nigeria's competitive advantages:** Nigeria has significant proven reserves of oil and gas and given the recent improvements in the business climate in the country and efforts made in modernizing its economy, we believe Nigeria could outgrow many developing countries in years ahead.
 - **Rich natural resources:** Nigeria's tremendous oil and gas resources are an extremely important part of its total economy. Nigeria has proven oil reserves ranging from approximately 20 billion barrels to above 37 billion barrels by third-party estimates. These reserves rank Nigeria as the tenth most petroleum-rich nation in the world, and by far the second-richest in Africa only behind Libya. Daily production is roughly 2.7 million barrels. This combination of large reserves, relatively low production, and the maturity of the oil industry in Nigeria points towards enormous opportunities for expanded exploration and production.
 - **Improvements in business climate:** According to the Doing Business survey 2013 by the World Bank, Nigeria's rank in "Ease of Doing Business" is 131th, which trails neighbors Ghana (64th), Zambia (94th), Kenya (121th), and Ethiopia (127th), but ranks ahead of Sierra Leone (140th), Sudan (143th), Liberia (149th), and Algeria (152th). Nigeria has made recent strong efforts, through government policy, to strengthen the protections for investors. In the category of "Protecting Investors", the World Bank ranks Nigeria 70th, ahead of all neighbors in Africa except Ghana (49th). There is obviously tremendous room for additional improvement in this aspect for Nigeria. The current situation is acceptable, and the trends are favorable.
 - **Large and stable free market economy:** Nigeria offers the largest free market in sub-Saharan Africa, with a population of approximately 170 million people. The potential reach of this economy also stretches into the growing West African sub-region. The Nigerian government has focused on the creation of a favorable climate for business and industrial ventures. Administrative and bureaucratic procedures have greatly been streamlined. The government has also put in place policies and programs that are intended to assure a free market economy into the future and security for investors.
 - **Opportunity for true modernization of Nigerian economy:** 63% of Nigeria's population lives on less than \$1 a day, and the overall unemployment rate is above 20%. The wealth produced through the exploitation of Nigeria's natural resources has been poorly utilized. According to the World Bank, resources diverted from reinvestment in Nigeria have totaled \$300 billion in the three decades to 2006, while the country's Economic and Financial Crimes Commission (EFCC) says the amount from 1960 to 2006 is \$380 billion.



- **Key challenges for improving the economic growth in Nigeria:** Currently, key challenges include many distinct factors. Some of them are:
 - **World oil prices:** Nigeria's economic activities are mostly related to oil production and exports, so it is very sensitive to global economic trends and especially those in the global oil market.
 - **Missed opportunities for reinvestment:** Historically, resources intended for infrastructure and workforce improvements have been diverted. Improvements in governance and avoidance of mishandling are necessary to guarantee the appropriate use of internal and external investments.
 - **Unemployment:** The high unemployment among the younger generation is a barrier to the formation of a healthy middle class and a potential risk for creating instability.

Nigeria should rapidly overcome these challenges in order to make the best use of the opportunities provided by its considerable natural wealth.