NIGERIA

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Naija power **Parselelo Kantai** takes a look at the phenomenal growth of a 'culture industry' **Page 15**

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The uneven spoils of growth

William Wallis finds impatience growing as the government prepares for a new phase of reforms

Northern exposure: the crowded streets of Kano in the north, the most impoverished part of the country, where religious and ethnic violence has broken out Reuters

Few issues stir the pot in Nigeria quite like the fuel subsidy. In theory, the money the federal government spends capping prices spreads benefits across the 168m population.

Nigerians have come to see it as the only benefit they receive from the oil their country produces in abundance. Accordingly, attempts by successive governments to remove it – President Goodluck Jonathan's is just the latest – have met stiff resistance.

But paradoxically, cheap fuel comes at an extortionate price.

In practice, the money spent – a record \$7-8bn this year according to the central bank governor – subsidises the accumulation of wealth by a select group of importers and middlemen. It distorts the market, discourages investment in refineries and promotes smuggling. In many areas, imported fuel is diverted to the black market before it is even delivered to the pump.

Mr Jonathan's declared intention to phase out the subsidy as part of an economic programme designed to "transform" Nigeria has nevertheless prompted furious opposition.

The strength of feeling about an expense whose merits have been in question for almost 30 years, reflects a wider impatience setting in seven months after Mr Jonathan consolidated through the ballot box his accidental rise to power following the death of his predecessor in office. It is also a measure of the difficulties that governments in Nigeria face when negotiating change.

The public might be more amenable to paying the price if the government cleaned up its own act first and began delivering in other ways. "We Nigerian citizens think the six actions below are prerequisites that should be taken first before the subsidy on fuel can be removed." says a circular flying around BlackBerry messenger groups this month. It lists a string of measures, including cutting official salaries and perks, curtailing corruption and forcing office holders to use the dilapidated public health and education services that ordinary Nigerians are compelled to use.

It continues in pidgin English: "Nigerians will not support this move for now. No be today government go promise Good Road, Education, Electricity, Security, Employment etc and will not deliver."

Occupy Nigeria, a separate campaign to mirror protests against big corporations and banks in global financial centres, makes similar demands.

Overcoming cynicism about their political leadership fostered during decades of misrule, Nigerians appear possessed by a new sense of outrage.

Twelve years since the military returned to barracks, the education system is still in tatters, hospitals are without drugs, and big projects to rehabilitate the ailing power and transport sectors and reorganise the oil industry are struggling to get off the ground.

Meanwhile, inspired partly by the revolutions in the Arab world, the national tolerance level has seemingly lowered.

This is manifested at one end of society by strident comment on social media networks and at another more worrying end by religious and ethnic violence and an Islamist insurgency in the most impoverished part of the country, the north. "The very rich are flaunting it. People are angry," says Audu Grema, a development consultant in the northern city of Kano. "It is a story of two halves," he says.

One half could be seen to be the Niger delta, where oil is produced, and where, at least for now, the government has quelled a campaign by militants to disrupt production with an amnesty programme and infusions of cash. After falling two years ago by more than half, production has returned to nearly 3m barrels a day.

But while one long-neglected region has been humoured, another is in upheaval. More than 100 people were killed this month when Islamist insurgents attacked police stations and churches in the remote north-east.

In August, the same group claimed responsibility for a suicide attack on the UN headquarters in Abuja, the capital, signalling, authorities fear, the influence and support of al-Qaeda terrorist networks.

The violence, and brutal, so far ineffectual, military response, has raised concern about Mr Jonathan's ability to hold the multi-ethnic and religious federation together.

"Whatever we can say of militants of the Niger delta it was an internal affair," says Olusegun Obasanjo, the former head

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Inside this issue

Once more courting the attention of investors

The economy

The growing middle class is a draw, says **William Wallis**

With eurozone economies drowning in debt, the US economy languishing and the edge coming off China and India's lightning expansion, Nigeria's much vaunted potential looks alluring once again.

African economies have been growing at their fastest pace in generations. For the most part, they resisted the global downturn better than expected. Since 2000, Nigeria's economy, the second largest in sub-Saharan Africa, has quadrupled in size.

However, it is still one of the most difficult places in which to do business. Two years ago it slipped 28 places in the World Economic Forum's global competitiveness index, to 127 out of 133, where it has remained.

But it is partly because there is so much still to build and so many services still lacking in a market potentially larger than the rest of west Africa combined, that investors sniff an opportunity.

Forecasting much higher growth than the International Monetary Fund, Renaissance Capital, the bullish Russian investment bank, recently drew attention to an expanding class of consumers. "We think plans to improve electricity generation and transmission could help GDP growth accelerate … A $247bn economy in 2011 could be a $460bn economy by 2016," it said in a report last month.

Compared with Europe, there has been something of a reversal in terms of how the books are balanced too. Following a debt writedown in the mid part of the past decade, external debt is just 5 per cent of gross domestic product. It is early, however, to be uncorking the champagne.

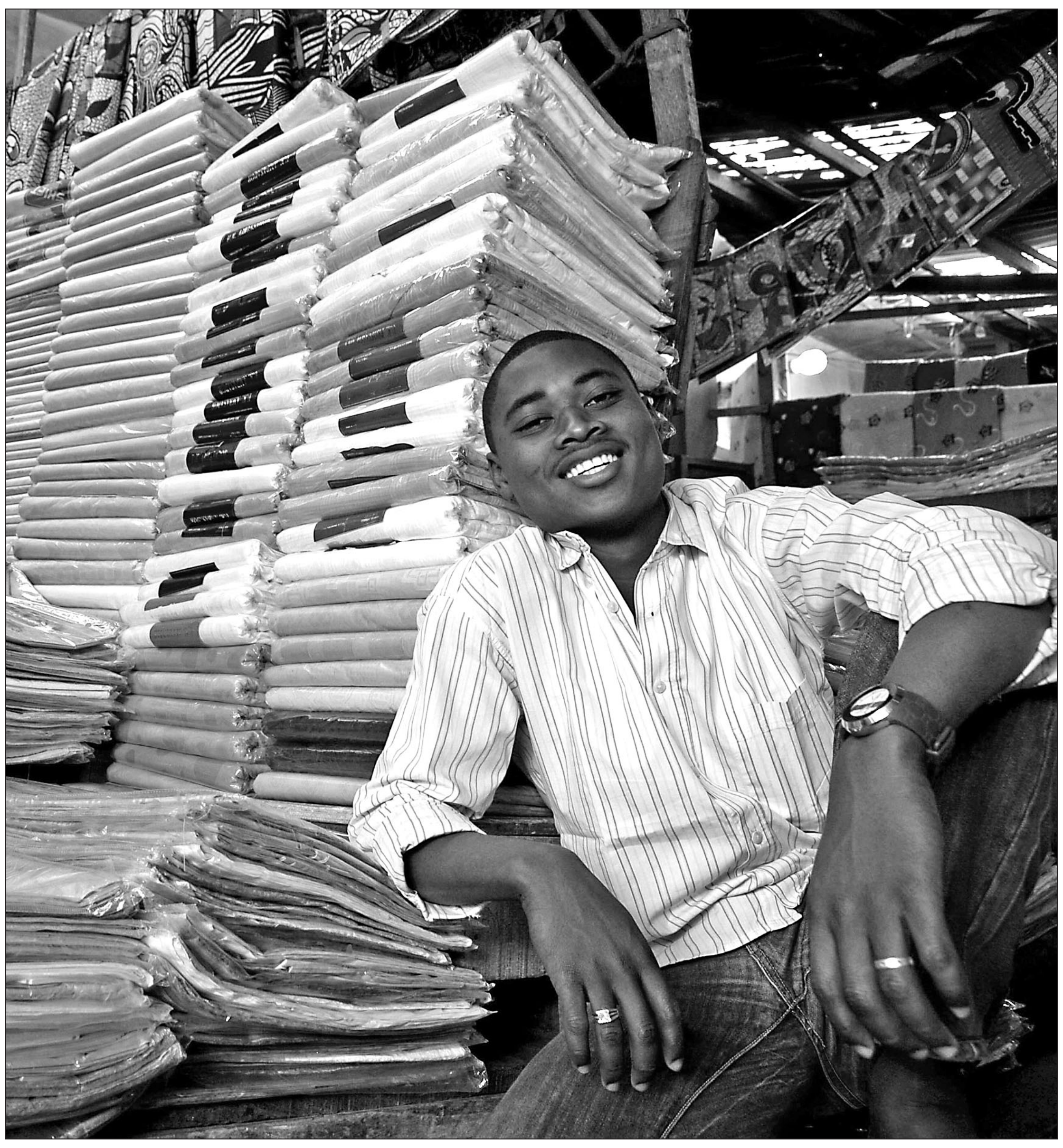
Lamido Sanusi, the central bank governor who has spent three years sanitising the banking system following a crash that mirrored the west's in terms of excess, says Nigeria could be hit by renewed recession in Europe, because of its continuing dependence on a single commodity. "The economy remains extremely vulnerable to volatilities in the oil price and those have an impact on government finances, in particular on the general liquidity in the system," he says.

Moreover, the cushion available to the state would be smaller than in 2008, were the oil price, on which the government typically depends for more than 80 per cent of revenues, to fall.

A period of lax control saw spending balloon from 2009 until the first half of this year. Foreign reserves halved and rainy day savings above the budgeted price of oil were divvied out to state governments and depleted.

Nasir el-Rufai, the former minister for federal capital territories, says that government has grown so unwieldy that any fall below the $70 a barrel for crude oil budgeted for in 2012 would make footing the salary bill a struggle. This has grown to a staggering 74 per cent of the national budget.

"We have created states and local governments and ministries as structures that are economically unviable," Mr el-Rufai wrote in a recent column.



Trading up: Nigeria has an expanding class of consumers Reuters

Meanwhile, the cost of subsidising fuel and providing credits to oil marketers is equal to more than the oil sector brings in in revenues. Mr Sanusi says: "Between January and November we earned $16bn from oil and spent $200,000 more than that on the subsidy and LCs [letters of credit] to our marketers. If you remove the subsidy you would at least take away all the demand that is fuelled by smuggling and rent seeking."

Ngozi Okonjo-Iweala, an outgoing managing director at the World Bank, has returned to the finance ministry and is promising to tighten up. Her goals, however, look modest, with the proportion of the budget dedicated to recurrent expenditure projected to fall just 4 per cent to 70 per cent during President Goodluck Jonathan's four-year term. This leaves little room for investment in infrastructure, education and health. Instead the government is hoping the private sector will bridge part of the gap.

In the past 10 years, those areas of the economy liberated from state control have tended to flourish. With no help, agriculture has grown consistently, spurred not by better yields or more inputs but by rapid population growth and the use of more land and labour. The government is now promising to prioritise commercialisation of the sector.

Trailing the telecoms companies and banks which have seen exponential growth, supermarket chains are moving in, shopping malls are going up and a flourishing and even lucrative arts scene has evolved.

But says, Bismarck Rewane, an investment consultant, the big winners have been what he calls "regime corporates" – big companies and individuals with ties to the government. "Oligarchies are naturally opposed to efficiencies. They are so few yet they are holding the country down," he says.

Mr Sanusi says this would change and opportunities would be democratised if reforms in power generation and the financial sector take root.

"If you look at the Chinese and the Indian economies you have China with millions of millionaires and you've got India with hundreds of billionaires, because it's the nature of these economies.

"India is more heavy industry with more information technology, while China is more light industry, processing and so on. That is what you want," he says.

The uneven spoils of growth

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of state. "This one is a different kettle of fish. It is much more worrying," he says.

It is not that Nigeria has been static.

Earlier market and fiscal reforms, together with the consistently high world price of oil, on which the state typically depends for more than 80 per cent of revenues have helped deliver consistent economic expansion of nearly 7 per cent a year over the past decade.

Service industries that expanded exponentially, booming construction, and growth in agriculture alerted foreign investors to Nigeria's renewed potential as the economic motor of an emerging Africa.

The banking sector and stock market have been cleaned up following a 2008 crash, although both have yet to take off again. Big hitting investors such as George Soros, and Jamie Dimon of J P Morgan Chase, are nevertheless circling in anticipation.

But while a recent survey by Renaissance Capital, the Russian investment bank, points to the opportunities for business presented by an expanding middle class, the broader trend has been of unequal growth and, in parts of the country, of deepening poverty.

The public perception is that corruption is growing at least as fast as the economy.

What needs to be done to prime Nigeria for a faster and more sustainable take-off is no longer a mystery. The question of who is going to do it and for how much longer government can afford to delay remains unanswered.

"What this economy needs is someone who acts like Margaret Thatcher for 18 months," argues Atedo Peterside, who is among top businessmen advising the president.

In the months since he formed a new government Mr Jonathan has piled up detailed plans for change: to fix the broken power sector, transform the graft ridden oil industry, and revive the agricultural sector to feed Nigeria and generate jobs.

If the country can grow at 7 percent or more, as it has done for most of the past decade, in spite of all the distortions and bottlenecks, then what if these were eliminated - or so the argument goes?

"It means that Nigeria could really grow at double digits, 10 to 12 per cent or more," says Ngozi Okonjo-Iweala, the former managing director of the World Bank who returned to the cabinet this year as finance minister with a wider remit to oversee the economy.

At issue is how much initial pain Nigerians will tolerate, and whether Mr Jonathan, whose campaign was financed by some of the very vested interests opposed to change, has the stomach for a fight.

"Every time I speak to the president, I get the impression that he's going to do it; he's going to put his foot down," says Lamido Sanusi, the Central Bank governor.

"But he's the president of Nigeria and I explain to people that some of us so-called technocrats need to be a bit more

'Nigeria could grow at double digits, 10 or 12 per cent,' says Ngozi Okonjo-Iweala, the finance minister

aware of what goes into the decisions he is making.

"I could make a perfectly sound economic argument. But what if his national security adviser were to say to him, you know if you did this, there's going to be a security problem?"

Tackling the fuel subsidy is building up to be the first, but by no means last, big test.

"He has come into the presidency when very important decisions need to be taken. The petroleum industries bill, the fuel subsidy, deepening democracy, power sector reforms. All could have a profound impact," says Deameari Von Kemedi, an environmental activist close to Mr Jonathan.

But, warns economist Bismarck Rewanethe, the government needs strategies in place deal with the fall out. "When institutions are weak and income inequality is rising the consequence can be chaos."

Reform of the domestic oil market is a sticky business

Subsidies

Parselelo Kantai explores the case for removing an expensive distortion

Barely six months after his resounding victory at the polls, President Goodluck Jonathan stoked the ire of the Nigerian public by attempting to tinker with petrol pump prices.

Weighed down by a growing import subsidy bill that threatened to wipe out oil export revenues, the ever-conciliatory Mr Jonathan found himself at the end of his political honeymoon when newspapers began reporting that he would abolish the oil subsidy in January next year.

The tsunami of outrage was predictable. "They've decided to kill the poor, citizens cry out" was a typical newspaper headline soon after the edict. It was less a wail than a call to arms.

Trade unions, civil society groups, politicians, as well as ordinary people declared their opposition.

With the cost of living already high, and high-level corruption scandals making a mockery of the government's calls for belt-tightening measures, cheap petrol is perhaps the only benefit citizens of the oil-rich federation enjoy.

It is an issue that unites Nigerians like few others in this often-divided country – and has been the bane of many governments.

The coup that removed interim president Ernest Shonekan in late 1993 came soon after he announced a petrol price rise. Even his successor, strongman General Sani Abacha, was forced into a temporary retreat when, a year later, he tried to do the same.

And when, just days after celebrating one year as the elected civilian president in June 2000, Olusegun Obasanjo announced he was raising pump prices from N20 to N30, the storm of protest only subsided when he relented and limited the

Filling up: cheap petrol is one of the few local benefits Reuters

increase to N25.

Toyin Akinosho, an oil analyst, says: "Once you take away the subsidy, you double or triple the generator costs of small businesses, which depend on smaller generators that use petroleum, not diesel. These are the generators that drive the informal economy."

Still, in the 25 years since military leader Ibrahim Babangida announced the first rise, pump prices have been hiked on 26 occasions. Fixed at N65 today, the price of petrol is paradoxically costing the exchequer more than it earns in oil exports.

Lamido Sanusi, governor of the central bank, says: "Between January and November this year, we earned about $16bn in oil revenues and we spent about $200,000 more than that on subsidy."

While deregulating the downstream oil sector – in effect ending the subsidy era – may be a poisoned chalice, Nigeria has few options. Although the country is the eighth-largest producer of oil in the world, its four refineries operate at less than a quarter of their capacity.

And even if they were to operate at full capacity, they would still only meet half the country's needs. The refineries have rarely reached a combined average of 40 per cent of capacity over the past 20 years, despite hundreds of millions of dollars spent on their maintenance.

A soon-to-be-released report on policy options says: "In 2010, they operated at a combined average of 22 per cent of refining capacity, compared with a global norm of at least 90 per cent." Over the past five years, the refineries have accounted for between 4 and 20 per cent of local demand, it adds.

The result of all this is a drain on the economy and a boon for oil marketers and middlemen. The government, forced to sell its unprocessed oil on the global market, guarantees any losses incurred by importers and protects domestic consumers from price fluctuations.

As global oil prices have risen, the situation has become untenable – something that even the trade unions, which have always opposed an end to subsidies, now acknowledge.

Peter Esele, president of Nigeria's Trade Union Congress, says: "A well managed deregulation that gets government completely out of the sector will give us a pump price in the medium term of less than the current pump price, if crude-oil prices were to remain at today's prices."

But there are no easy solutions. The Petroleum Industry Bill, which proposes sweeping reforms of the sector, including the break-up of the Nigeria National Petroleum Corporation, has been in parliament since 2008.

While analysts have pointed to the bill's flaws, the delay in debating it has much to do with interest groups frightened of its implications.

But even as the obvious advantages of subsidy removal are recognised, there is no consensus on how the process should be conducted.

Mr Esele says: "Our main concern is that much of the funds that will be freed from the removal of fuel subsidy will disappear through corruption and inefficiency. Corruption in is a huge industry and has crowded out investments in the real sector."

Like his predecessors, the difficulty for Mr Jonathan lies in what carrots he can offer to placate consumers as he wields the stick of subsidy removal.

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At the top table: Goodluck Jonathan – pictured with US president Barack Obama – has reached his position thanks more to fortune than ruthless ambition or design Getty

Jury still out on record of accidental president

Politics

Xan Rice considers the performance of Goodluck Jonathan's government

In Goodluck Jonathan's administration, the talk is not just of "reform" but "transformation" – an admission of how broken Nigeria's governance system is.

But is Mr Jonathan, a modest 54-year-old academic who reluctantly entered politics, the person who can pull it off?

After more than a year in a caretaker role as president, and nearly six months as an elected leader, it is a question that remains unanswered.

In winning 59 per cent of the vote in the April presidential poll, Mr Jonathan earned a strong mandate to govern, and his victory heralded a good deal of optimism that the country could be on the cusp on change.

But his choice of cabinet, which saw numerous poor-performing and tainted ministers retained, with only a few genuine reformers at the table, quickly damped people's expectations.

The limited progress since, with modest increases in power generation offset by inaction on graft and serious concerns over a growing insurgency in the north, has already led to talk that the president may be too weak to deliver on his promise.

"Nigerians are not looking for a strongman," says Ray Ekpu, a founder and former editor-in-chief of Newswatch magazine. "We had them before and they led us nowhere. But we are looking for someone who can build strong institutions, and the president still needs to prove he can do that."

Mr Jonathan's unusual path to the top – more down to luck than ruthless ambition or design – is something that both his supporters and detractors use to advance their arguments. The son of a canoe-builder, he was born in a remote village near the Niger delta.

After studying biology and zoology, earning a doctorate, he worked as an environmental officer before being persuaded by local elders to run for deputy governor in Bayelsa state in 1998. When his boss was impeached for corruption, he became governor.

In 2006, when Umaru Yar'Adua was seeking a running-mate for the presidency, he sought a candidate from the oil-rich but underdeveloped delta to try to help end the militancy there.

With other, more powerful, delta politicians being accused of graft, Mr Jonathan ended up as the surprise name on the ticket. He then found himself in the top job when Mr Yar'Adua became too sick to rule, and had to step down.

Initially, aides say, Mr Jonathan only wanted a caretaker job. Then he changed his mind. It was highly controversial decision because of the tacit agreement that the presidency should alternate between the mostly Muslim north and mainly Christian south every two terms.

Mr Yar'Adua, a northerner, had not yet completed his first term, so Mr Jonathan, a Christian southerner, needed the support of northern leaders in his People's Democratic party (PDP) to get his nomination, a fact that left many in the north displeased.

In return, Mr Jonathan agreed to serve only one term. His poll victory in April made him the country's first elected president from the delta region, and brought with it a huge weight of expectation from residents there, including militants who only recently stopped disrupting oil production in return for cash handouts from the government.

'He is a determined man, who uses a weak man's tools – building consensus – to get things done'

A member of the Ijaw tribe, Mr Jonathan is also the first leader to come from outside Nigeria's three biggest ethnic groups. Not having a national power base is not necessarily a disadvantage, according to Dimieari Von Kemedi, a former activist from the delta who is close to the president.

"He is a stubborn, determined man, who uses a weak man's tools – building consensus – to get things done," he says.

But immediately following Mr Jonathan's election win, it was clear that bringing Nigerians – and the political class – together, would not be easy. His PDP, which has dominated politics since military rule ended in 1999, emerged with a weaker majority in parliament.

It also lost several important state governorships to the opposition, with the Action Congress of Nigeria doing well in the south-west.

The biggest problem was in the north, where Mr Jonathan won relatively few votes, and where people are feeling increasing politically and economically disenfranchised. Following the election results, hundreds of people were killed in rioting in northern states.

Northern political and religious leaders linked to the political elite in Abuja, the capital, attracted much of the venom, with emirs' houses burnt and the Sultan of Sokoto, the most respected religious figure in the north, pelted with water on the street over his support for Mr Jonathan.

The president's hopes for reconciliation were further hit by the decision by his main presidential challenger, the austere former military ruler Muhammadu Buhari, of the opposition Congress for Progressive Change, to contest the election results, claiming rigging.

So far, the courts have ruled against Gen Buhari, though the appeal process continues. Meanwhile the insurgency by the Boko Haram Islamist militia, which has already carried out two suicide attacks in Abuja, and killed several hundred people in the north this year, has proved an unwelcome distraction for the government.

Plans for economic reform, especially in the oil sector, have yet to be translated into action. "There is increasing concern about whether Jonathan has the political will and a solid enough platform to get things done," says Nnamdi Obasi, a Nigeria analyst.

"But it's still early days, and a mixed picture. Some people say: 'I'm never more hopeful about Nigeria'. Others say that they've never been more despondent."

Nigeria

On a mission to build nation's credibility

Interview
Ngozi Okonjo-Iweala

William Wallis talks to the finance minister about her plans for reform

Twice she received death threats when she accepted an offer to return to Nigeria as finance minister with a remit to oversee broader economic policy.

And there has been a steady flow of gibes from sceptics in the national press about her willingness to stamp reformist credentials on an administration with plenty of good intentions, but not much of a record as yet for realising them.

So why would Ngozi Okonjo-Iweala give up her role as managing director at the World Bank and risk a hard-won reputation as a stubbornly prudent micromanager and outspoken advocate for change in Africa?

"When I did decide to come, then they unleashed on the internet a barrage of negative and debilitating [comment], and they are still doing it day by day," she says.

It clearly gets to her how cynical Nigerians can be about government, and how quick they are to tear the country's reputation apart. But she professes belief in President Goodluck Jonathan and, above all, optimism about her country's future.

"We could do a little bit of good, not even seeking to change the world, if we could make the budget right and set it back again on a reasonable path; if we could make the business environment better by cleaning out our ports; if we can launch reforms that will give our youth more jobs," she explains.

Ms Okonjo-Iweala played a central role in rehabilitating Nigeria's battered image when she last served as finance minister between 2003 and 2006 under Olusegun Obasanjo, the former president. It is something of a coup that Mr Jonathan has persuaded her to come back.

During her last stint in office, she helped persuade creditor nations that an oil-rich part of Africa notorious for its wasteful ways was sufficiently on the mend to merit a write-off worth about 60 per cent ($18bn) of the country's external debt.

The country began to prosper thanks to improvements in macroeconomic management and market reforms that set free parts of the economy, most notably telecommunications, from the dead hand of the state.

All change: finance minister Ngozi Okonjo-Iweala, who is a former managing director at the World Bank, plans to address government overspending Reuters

But she returns home with some past progress undermined by four years of directionless government, and fiscal mismanagement that led to tens of billions of dollars in windfall oil revenues being squandered.

Just eight weeks into her new expanded role, Ms Okonjo-Iweala is nevertheless back in combative form, sounding every bit as pugnacious as she was when she last oversaw the nation's finances.

"The president asked me to come because he felt we needed to rein things in," she says. Early proof of progress, she says, is that Fitch, the credit rating agency, has just upgraded the outlook for Nigeria from negative to stable.

She defends spending under the last government that depleted the rainy day fund she herself set up, saying it was a stimulus that delivered the equivalent of 5 per cent of gross domestic product during the global downturn. And $1bn has already been set aside for a sovereign wealth fund she is working on, in order to hedge against fluctuations in the world price of oil.

One of her biggest challenges however, will be to roll back a political system grown fat on petrodollars and accustomed to tucking in and forking out. As much as 74 per cent of the budget goes simply towards maintaining the cost of government. She wants to reduce this by 4 per cent before the next election.

An ally from the banking sector says that just having Ms Okonjo-Iweala as the gatekeeper helps deter wayward ministries' profligate plans. But she has other ideas for cutting costs.

"We're going first to weed out ghost workers and pensioners ... We'll also look at where we can gain efficiencies in terms of the way we work. We've already cut overheads," she says. Beyond that, the government is seeking public-private partnerships to help build the infrastructure the economy needs, but the state cannot afford alone.

"The whole process of privatising the power sector and making it open to investors requires huge resources – the resources needed to pay off workers so that [the] private sector can come in," she says. "No matter how much government money we get, it's not going to deliver the sums we require to build infrastructure, so we're looking aggressively at public-private partnerships."

'You can't load all these reforms on people without delivering for them. You have got to show them that you are delivering'

Measures that would go some way to eliminating corruption and waste are on the agenda, too. But these will inflict short-term pain on the population and, if history is anything to go by, will elicit prompt opposition from powerful interests likely to lose out.

Subsidies for fertiliser and fuel are slated for removal. Electricity tariffs are set to increase in what one policy analyst says is "an important precondition for a successful conclusion of the privatisation exercise", and toll gates are to be introduced on the most important highways.

"You can't load all these reforms on people without delivering for them. You've got to show them at each stage that you are delivering," says Ms Okonjo Iweala, adding that reforms will be "sequenced in a sensible manner".

"I'm an optimist about the country," she says. "One that knows all the warts and sees them, but believes that we can get out of it. Because if we don't, who will do it for us?"

Banks are back from the brink

Banking

Simon Mundy and **William Wallis** find confidence restored after a bad loan crisis

Nigeria's financial authorities have taken a ruthless approach to the country's weaker banks, as they look to restore confidence in a sector that was hit by a wave of bad debt in 2008.

An early step was to get rid of some of the individuals responsible for the bad practice that fuelled the crisis: eight bank chief executives were forced out in 2009 by Lamido Sanusi, the new governor of the Central Bank.

This year, it has been the turn of the banks themselves: strict capital rules have forced five banks to sell out to rivals in the past few months, while three have been taken over by the state.

The reforms are widely supported in the financial community, with a general view that Mr Sanusi has helped to restore stability to a sector that had been in the throes of an unprecedented crisis.

Yet if confidence has returned, it is barely reflected in the share prices of the banks, a number of which still trade at a discount to book value. "Banking stocks are such a steal," says Vivien Shobo, chief executive of the rating agency Agusto & Co.

Mr Sanusi, a former chief executive of First Bank – one of Nigeria's four biggest lenders by assets, alongside Guaranty Trust Bank, Zenith Bank and United Bank for Africa – says he is unperturbed by the banks' depressed valuations.

"I'm a banking sector regulator, and my focus is on the safety and soundness of the banks – not on the share price," he says.

"The banks are pushing to lend, they're reporting very strong earnings now. We're beginning to see credit growth and the capital market will follow."

Bank lending to the private sector grew by 10.9 per cent in the first eight months of this year, reflecting banks' gradual return to confidence.

Crucial to the resolution of the bad loans crisis was the establishment of the Asset Management Company of Nigeria: a state-owned "bad bank" designed to soak up some of the billions of dollars in non-performing loans held by the banks.

"The Amcon intervention was absolutely necessary, otherwise the ripple effect from the lack of confidence in the banking system would have been far more costly," says Ladi Balogun, chief executive of First City Monument Bank.

By the end of October, Amcon had bought $18bn worth of distressed and high-risk loans.

It had also pumped $4.5bn into Afribank, Bank PHB, and Spring Bank, which it acquired in August after judging that it would be unable to meet a September deadline to comply with new capital requirements.

"All the markets want to know is that you've been honest enough to identify a problem, and that you do understand what you're dealing with, and you do have a solution," Mr Sanusi says.

Another important aim for the Central Bank is to encourage banks to become more involved with the real economy – as opposed to lending to blue-chip corporate clients, their traditional focus.

Agriculture, for example, accounts for 1 per cent of bank lending, despite contributing nearly 40 per cent of gross domestic product.

Efforts to "de-risk" lending to smaller borrowers – such as through the state-backed Nigeria Incentive-based Risk Sharing System for Agricultural Lending, a new structure that will share in losses on loans to agriculture – will be crucial, says Ms Shobo at Agusto.

A state-owned 'bad bank' has been established to soak up billions of dollars in non-performing loans

She argues that the banks could gain lucrative opportunities by lessening their dependence on corporate lending.

"The corporates are overbanked; almost every company has lots of bank accounts, and they are able to dictate the terms on which they deal with these banks," she says.

"Small businesses need to be organised – if the banks consider them [a] good credit [risk], they will get money. Banks don't just want to hold on to their capital, but there is no real incentive to burn your fingers with bad credit."

There is further room for growth in servicing the international oil companies that extract Nigerian hydrocarbons, and which frequently turn to foreign lenders for funding, says Aigboje Aig-Imoukhuede, chief executive of Access Bank.

Nigerian banks often lack the capacity to finance big oil projects – a problem perpetuated by the oil companies themselves, Mr Aig-Imoukhuede argues.

"When you hear ExxonMobil is financing a deal with foreign banks, the banks can finance it because they're sitting on [ExxonMobil] deposits that should be in Nigerian banks," he says.

The long-awaited passage of the Petroleum Industry Bill, which will force oil companies to have more processing operations in Nigeria, is likely to boost local banks' business with the sector.

But for many, the most exciting opportunities appear to be in retail banking.

The vast majority of the population remains unserved by the formal banking sector – but depositors are being picked up quickly, and innovations such as mobile banking mean the pace of growth is set to accelerate.

Access Bank has taken on 700,000 new customers in the past three months, and wants to take its total client base from 5m to 30m within the next decade, says Mr Aig-Imoukhuede.

Yet in the retail segment, as in other areas, the banks remain wary of repeating the excessive risk-taking that led many to the verge of collapse.

"[Retail banking] is lucrative, especially if you can effectively do credit, where the margins are very high," says Mr Balogun of First City.

"But there's no point in acquiring customers at a loss This is not a race."

Confident outlook: banks are reporting increased earnings

Meltdown opens the way for a sounder exchange

Capital markets

It will not be easy to restore faith among bruised investors, says **Simon Mundy**

Nearly three years after the Nigerian stock market lost two-thirds of its value in the space of 12 months, many in the country's finance industry believe the collapse came with an important silver lining.

The heady rise that preceded it – the market capitalisation of the Nigerian Stock Exchange doubled in the year before its peak in March 2008 – was spurred in part by irresponsible bank lending and inadequate risk management by brokerages. Yet the traumatic end of that bull run has given the authorities a mandate to reform the market, targeting bad practice and working towards more stable, sustainable growth.

Oscar Onyema, appointed as chief executive of the stock exchange in January, admits that it will not be easy to restore faith among bruised investors. "This market is not used to downturns," he says.

After a tentative rally in 2010, the NSE All-Share Index lost about 15 per cent of its value in the first nine months of this year. Foreign asset managers, who account for the bulk of daily trading, contributed to the decline by selling Nigerian stocks to cover deteriorating positions in the US and Europe.

Nonetheless, Mr Onyema maintains, the NSE will "come out of it stronger and better".

His predecessor, Ndi Okereke-Onyiuke, was removed after claims that she had failed to sanction market participants properly for rule violations.

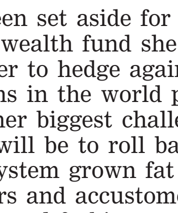
Banks had pumped up their valuations by lending brokers the money to buy their shares in large quantities, while many quoted companies flouted the requirement for timely filing of annual results.

Such practices will no longer be tolerated, says Mr Onyema. The "crackdown" on bad practice will go alongside steps to encourage innovation: short selling will be permitted by the end of this year; the NSE is working with Absa, the South African bank, to introduce its first exchange-traded fund and expects to host trading of options and futures in the next four years.

The nascent corporate bond market is also tipped for growth. To date, only nine companies have issued bonds and most corporations are accustomed to relying on banks for long-term credit.

However, the market has been boosted by regulators' decision to raise the limit for pension funds' investment in corporate bonds, and to provide tax breaks for issuers.

Mr Onyema wants the value of all securities traded on the NSE to increase from $60bn to $1,000bn by 2015, driven by new company listings, expanding markets for bonds and derivatives and consistent growth in the economy.



Oscar Onyema, CEO of the Nigerian Stock Exchange, says 'this market is not used to downturns'

Senior industry figures are quietly sceptical of the target. But they have been cheered by the fresh approach taken by Mr Onyema and two other central figures in the reform drive: Lamido Sanusi, governor of the central bank, and Arunma Oteh, director-general of the Securities and Exchange Commission.

"What the NSE is doing is a very sound thing," says Femi Awoyemi, managing director of ProShare, the market information service. "They're going back to the basics – recognising that the very structure upon which we built the market is faulty."

Yet it will take profound changes, he adds, to redress the "abysmal" imbalance between the capital market and the economy. Not only is the stock market relatively small, but crucial sectors such as agriculture and telecoms are barely represented.

Tax holidays should be considered, Mr Awoyemi says, to bring to the market companies such as MTN, the South African mobile phone group, which has its biggest operation in Nigeria.

The NSE is introducing a "sales force" to drive new listings, and is in talks with about 400 companies, Mr Onyema says. It is also lobbying the government to list state-owned entities, arguing that this will drive improvements in transparency and governance.

Those benefits will also accrue to the NSE itself when it completes a planned demutualisation – a step expected to bring stricter oversight of the brokerdealers who own it.

Mr Onyema faces pressure from those in the investment community who argue that the reforms should be deeper and faster. "They're moving in the right direction, but it's been slow," says Niyi Falade, chief executive of Crusader Sterling Pensions.

Mr Falade calls for rules on profit warnings, "which are totally absent from the market", the introduction of half-year financial reports and tighter supervision to address the "disconnect between audited results and unaudited results".

Yet even sweeping regulatory change may not reignite the interest of investors such as Mr Falade, whose funds have cut their exposure to equities by more than half since 2008.

With interest rates set to remain high as the central bank fends off downward pressure on the currency, Mr Falade says there is little incentive to invest in shares when short-term government paper offers double-digit yields.

Nonetheless, the stock market offers "significant opportunities" for long-term investors, says Tofarati Agusto, managing director of WSTC Financial Services, a boutique investment bank.

"There is turbulence, volatility – but it is one of the best times to be in the market because of the reforms," Mr Agusto says. "And we'd never be talking about this kind of reform if we hadn't had the meltdown."

DANGOTE CEMENT

Thanks to booming demand for infrastructure in Africa, cement helped make Aliko Dangote 557 percent richer last year, catapulting him to 51st place of Forbes global billionaires with a fortune estimated at $13.8 billion. Africa's richest man started out as a simple commodities trader in 1978, giving him a deep understanding of market evolutions and the importance of seizing opportunities. That's why he is preparing for a London listing of the subsidiary Dangote Cement next year to help finance aggressive pan-African expansion plans.

"There is enormous potential in Africa, and I want to play my part in unleashing it," said the 53-year old from his office in downtown Lagos. "The pent up demand for infrastructure offers great potential for investors."

For almost 20 years, the Dangote Group was a trader of a variety of commodities, but in 1997 the strategic decision was taken to move into production, which now accounts for the vast bulk of the company's revenues.

Aliko Dangote's business acumen has been widely recognised, most recently when President Goodluck Jonathan awarded him with the national honour of Grand Commander of the Order of the Niger (GCON) on November 14. The second highest national honour in the country, the GCON is usually given to Vice Presidents, Senate Presidents, and Chief Justices of the Federation, and Aliko Dangote is the first private individual in Nigeria to receive the award.

In June, the Dangote Group was voted African Business of the Year 2011 at an awards ceremony organised by African Business magazine and the Commonwealth Business Council (CBC) in London. This reflects the company's transition from a domestic giant into a dominant regional player, with Dangote Cement as the flagship brand. Perhaps to prove that this is not a flash in the pan, Aliko Dangote in October, emerged African Business Leader of the Year and African Entrepreneur of the Year in October, at an awards ceremony put together by the All Africa Business Leaders Award (AABLA) in collaboration with CNBC.

Last year, Aliko Dangote merged his cement investments across Africa with Benue Cement Company Plc (BCC). The new company, Dangote Cement Plc, is Africa's biggest cement maker, accounting for 30 percent of the Nigeria Stock Exchange's total market capitalization. In April, it became the first Nigerian company to join the Forbes Global 2000 Companies, and has plans to expand across sub-Saharan Africa – and further afield.

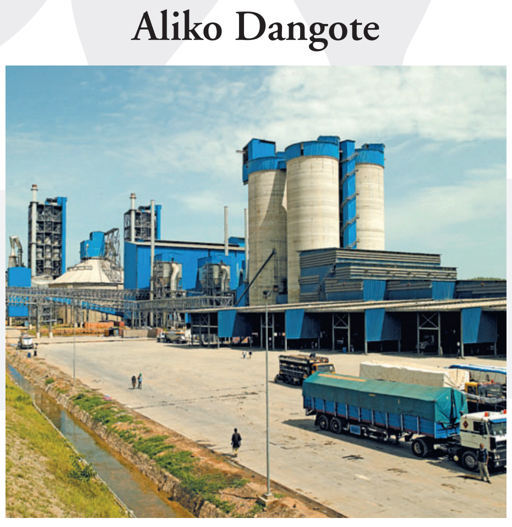
With a philosophy of locating production facilities to satisfy local needs, reducing transport and energy costs, the Group has plants under construction in Senegal, Zambia, Tanzania, Congo, Ethiopia, Cameroon, Gabon and Benin. In countries where the supply of limestone is not sufficient to make cement, such as Ghana, Sierra Leone, Ivory Coast and Liberia, it is building cement terminals for the bagging of imported cement.

In 2010, Dangote Cement earned revenues of N202.6 billion ($1.27 billion), up from N189.6 billion ($1.18 billion) a year earlier. Profitability rose vigorously, with net profit before tax up 59 percent at N101.3 billion ($630 million) and net profit after tax 74 percent higher at N106.6 billion ($670 million). The results were approved by the Nigerian Stock Exchange.

The Ibese cement plant in Ogun State, about 120 kilometres north-west of infrastructure-hungry Lagos, is scheduled to begin operations next month. The $800 million investment will produce 6 million metric tonnes per annum, serving both domestic needs and the West African export market. The Greenfield location was chosen because of its proximity to the Lagos port and also because all the raw materials required for producing cement barring are readily available in the Dangote Group's Ibese Mines. The state-of-the-art facility is being built to the highest environmental standards, with dust emissions less than one-third of the Nigerian regulatory maximum and its own gas-based Siemens power plant.

"Our short term ambition is to become the leading cement producer in Africa."

Aliko Dangote



To facilitate its expansion plans, Dangote contracted China's Sinoma International Engineering Co. to build the Ibese plant and ex pansion at the Obajana Cement Plant, which is now one of the largest cement plants in the world with 10.5 million metric tonnes per annum capacity. A giant photograph showing the plant humming with activity sits behind Aliko Dangote's desk. A third Nigerian plant at Gboko, Benue State, produces 4 million metric tonnes yearly, and cement terminals at Tin Can, Apapa, Abule Oshun, Onne and Port Harcourt, have a combined capacity of 9 million metric tonnes annually.

"Our short term ambition is for the company to become the leading cement producer in Africa," says Aliko Dangote.

His strategy is to capture demand in the large commercial centers with a high and growing population and to supply land-locked countries which pay a high price for imported cement. Dangote is targeting 50 million tonnes of production in Africa by 2014. This calculation is based on the fact that per capita cement consumption in sub Saharan Africa is quite low: 73 kilograms compared to 441 kilograms in North America or 397 kilograms in the fast expanding BRIC (Brazil, Russia, India, China) countries. However the infrastructure deficit in Africa means demand is rising fast, with combined annual growth rates over the period 2004 to 2008 of 38 percent in Ethiopia, 16 percent in Tanzania and Sierra Leone and 13 percent in South Africa.

Where some competitors fear to tread, Aliko Dangote is confident in Africa. It will be no surprise that his ultimate aim is to become a leading international cement producer, in the same league as Lafarge, Cemex, Holcim, and Heidelberger.

Cement accounted last year for 45 percent of the Dangote Group's revenues. The company's vision is to become the leading supplier of essential needs in sub-Saharan Africa. Interests span cement, sugar, flour and salt – with four listed companies representing each division listed on the Nigerian Stock Exchange – as well as pasta, beverages, real estate and oil and gas. Anticipating future trends, the company is also developing interests in the telecommunications, steel and fertiliser industries, with plans underway to build the largest fertiliser plant in Africa. The $5 billion project is located in Edo State and will produce 2.5 million tonnes of fertilizer per annum.

www.dangote-group.com

Nigeria

Resource that has too easily gone to waste

Gas

Aim is to supply power stations and manufacturing, says Christopher Thompson

The orange flames on the horizon from the rigs off the Niger delta illuminate the fact that Nigeria has yet to exploit one of its most valuable natural resources: gas.

Although revenue from oil props up the economy, it is natural gas that could power it. The country has an estimated 187,000bn cubic feet of gas, the eighth biggest reserves in the world, which are largely untapped.

Most of the blame lies with the government. In its previous "gas master plan" in 2008 it tried to get companies to sell at least half of their gas production in Nigeria. But uncertain revenue streams and the billions of dollars in investment needed to channel gas to the nation's power stations did not appeal to investors.

The government says that flaring has been cut by more than half in the past four years. But given the lack of infrastructure needed to transport the gas for commercial use, the problem remains what to do after it has been stored. "Gathering the flared gas costs money. But what can the oil companies do with the captured gas," asks Jon Marks, editorial director of African Energy, the magazine. "If you are able to monetise it, especially meeting domestic demand, then all of a sudden there's much more incentive to do it."

There are signs the government may be translating talk into action, prompted by privatisation in the electricity sector. Last year, according to official documents, the power ministry expressed an "urgent need" to source 2bn cu ft more gas a day by expanding existing gathering and supply infrastructure to meet the government's target of generating 16,000MW of electricity by 2013.

That followed moves by Diezani Alison-Madueke, the minister of petroleum resources, to introduce a phased rise in gas prices, fixed by the state, to $2 per thousand cubic feet (mcf) to boost supply, especially to the country's struggling manufacturers. The price will reach $3 per mcf by the end of 2013. "Gas is central to the power equation," says Mr Marks. "It's the clean fuel that can clean up the Nigerian economy."

Chevron of the US is building a $2bn plant in Delta state to convert gas from its Escravos field into diesel fuels.

Meanwhile, the government hopes to provide gas to far more ambitious manufacturing projects. In March, it signed a memorandum of understanding with Saudi Arabia's Xenel, Chevron, and Nagarjuna, an Indian agro-processing company, for $10bn of investment in 10 plants.

Xenel will invest in a $3.5bn petrochemical plant that is expected to produce 1.3m tonnes a year of polypropylene and polyethylene, key ingredients in plastic bags, textiles, carpets, stationery, car parts and banknotes.

Nagarjuna's two plants will cost $2.5bn, each with a capacity of 1.3m tonnes year and will be located in Koko, Delta state, and Lagos.

Jon Marks: 'Gas is the clean fuel that can clean up the economy'

There are challenges in the export sector too, as the government's most ambitious project, a proposed 4,300km trans-Saharan pipeline to Algeria to export gas to Europe, has been quietly deferred.

In 2010, Nigeria was the fifth largest LNG (liquefied natural gas) supplier in the world, accounting for 18.1m tonnes out of a total world demand of 223.8m tonnes.

The government hopes to cement its position by expanding LNG facilities at Bonny Island and to build fresh projects aimed at the North American market. The Bonny Island LNG terminal – jointly owned by the NNPC (Nigerian National Petroleum Corporation), Anglo-Dutch Shell, France's Total and Italy's Eni – plans to add a seventh LNG train in 2012 which would increase overall export capacity to more than 30m tonnes a year (tpa),

Two other big LNG projects in development are the four-train Olokola plant (projected production 22m tpa) and the long-awaited $10bn two-train Brass LNG project in Bayelsa state that could export up to 10m tpa.

Brass's equity is held by the NNPC, ConocoPhillips, Eni and Total, but progress has been stymied by militant unrest in the Niger delta and market uncertainty since the original memorandum of understanding was signed in 2001.

That has been partially mitigated by the government opening bids in the summer for engineering, procurement and construction work, and by the NNPC's announcement in August that it had secured a much-needed $2bn loan from a consortium of Japanese banks after offering a shareholding in the project to LNG Japan.

But doubts remain, mainly because of politics. Analysts do not expect any final investment decision to be made until the government clarifies the industry's fiscal and operational terms.

That means the passage, or otherwise, of the Petroleum Industry Bill currently stuck in parliament. Time is running out, however.

"The PIB is on track," says the NNPC. "But the final investment decision [on Brass LNG] must be taken by the first quarter of next year, otherwise customers looking for long-term agreements will look elsewhere."

Foreigners delay their investments

Oil

Christopher Thompson explains the need for change in the industry

The vast glass and steel headquarters of the state-owned Nigerian National Petroleum Corporation in Abuja reflects the importance of an institution central to the fate of the nation.

Oil provides more than 90 per cent of export earnings and the country has the world's seventh largest reserves.

The Niger delta, the principal oil-producing region, is now quiet, after a 2009 amnesty helped end a decade of low-level insurgency and militant activity.

Goodluck Jonathan is the first president to have come from the delta and has pledged to tackle longstanding grievances relating to resource control, revenue allocation and environmental damage.

But despite the confident, modern lines of the NNPC's building, the corporation, a byword for waste and corruption, has underperformed for a generation.

In 2008 the cabinet approved a radical blueprint for reform. It is a sign of the complexity of the issues, and the influence of powerful vested interests, that it remains unclear when – or in what form – change will be adopted.

The case for renewal is overwhelming.

Most of Nigeria's oil is produced onshore or in shallow water, from joint ventures with international oil companies, with NNPC having a majority stake. For many years, government has baulked at financing the industry needs.

There are also transparency issues. The Minister of Petroleum Resources, Deziani Allison-Madueke, a former Shell executive, faced a poisonous campaign against her reappointment in June and now rarely talks even with the international media. The NNPC also presents an impenetrable image.

Levi Ajuonuma, the corporation's head of communications, says Nigeria has a target to increase capacity from current levels of 3m barrels of oil a day (b/d) to 4m b/d by the end of the decade. "[To do that] we need an enabling environment, to get investment and open up to other parts of the world like Germany, China and India," he says.

Mutiu Sunmonu, country chairman for Shell Nigeria, agrees that up to $40bn of investment is waiting for projects in deep water alone – such as expanding production at its huge Bonga field.

The same is true for other ultra deepwater investments including developing Total's potential 1m b/d Akpo field and Chevron's Agbami field.

The enabling environment requires clarity on the proposed Petroleum Industry Bill.

At more than 100 pages, it is a complex piece of legislation that was first introduced to the National Assembly in 2008 and has passed through several drafts. Simply put, foreign companies do not want to put their money into an industry with an unsure tax structure, vague local processing requirements and a yet-to-be defined role for the national parastatal.

Antony Goldman, a London-based Nigerian oil analyst, says: "The wait for the adoption of the PIB is very damaging. It's why the big new investments have been put on hold. The impact becomes exponentially more problematic [because] if reserves don't get replaced, there is the risk of production capacity in Nigeria dropping for the first time in 30 years."

The PIB proposes the restructuring of the NNPC to make it operate less like an opaque department of government and instrument for the dispensation of political patronage.

"The key idea of the PIB is to eliminate cash-calls, so the NNPC can go to the capital markets and raise funds," says Emmanuel Egbogah, former Special Adviser on oil to president Yar'Adua (2007-10) who helped compose the original PIB bill introduced in 2008.

But oil companies have opposed plans for the replacement of the existing, loose joint ventures.

Executives say they fear such measures might increase the space for political interference and further complicate governance.

> 'If production is disrupted, the locals forgo their dividend – it is an anchor of the amnesty'

The other problem the PIB purports to deal with is the delta region, where an insurgency, ended in 2009, cut oil production by 1m barrels a day at its nadir.

Based on a model used in the resource-rich US state of Alaska, the PIB would give an equity stake of up to 10 per cent to the host communities, who receive dividends.

"If oil production is disrupted, the locals forgo their dividend – it is meant to be an anchor of the amnesty programme," says Mr Egbogah.

More contentious is a new fiscal regime that could see the government tax take increase by $10bn a year and reverse some of the generous terms to which multinationals have become accustomed.

While the industry waits, the NNPC is courting investment. According to Mr Ajuonuma, feasibility studies are being conducted on a $23bn deal with Chinese state-backed companies to build three refineries in Lagos, Bayelsa and Kogi states with a combined capacity of 750,000 barrels a day.

A new oil licensing round is touted for next year but it is unlikely companies will commit substantial funds until it is clear what environment they will be operating in.

"There is a lot of acreage interesting to investors, but they won't come until the value of that is clearer," says Mr Goldman.

Locals see the benefits of an end to hostilities

Delta militants

The government truce has brought successes. But a lasting peace may still be elusive, says Christopher Thompson

Deep in the swampy forests of the Niger delta a revolution is in full swing. The traditional home of Nigeria's oil production is no stranger to insurgency: until recently, it was the locus of a protracted conflict between the federal government and locals demanding a greater share of the revenues from oil pumped from their ancestral lands. But the present struggle is being waged with scuba tanks, not Kalashnikovs.

Don Dixon, 28, was "a former secretary" in the Movement for the Emancipation of the Niger Delta (Mend), the biggest militant group in Delta State. He used to manage the logistics for a camp of 250 fighters on an island deep in the region's labyrinthine creek system.

Since April, Mr Dixon's life has taken a different track. After being flown to South Africa to study petroleum engineering, he started work as a full-time diver for Century Group, a Nigerian oil services company founded by Ken Etete, also a Delta man.

"We have taken an unusual route," says Mr Etete, whose company employs 40 former fighters on contracts around the delta, including one based at Shell's headquarters in Port Harcourt, previously a favourite militant target. "I saw these fantastic individuals with a lot of potential and they are driven by a need for a better quality of life."

By 2009, after more than a decade of insurgency, Nigeria's crude production had slipped from 2.2m barrels of oil a day to 1.6m b/d, and at times much lower as a result of damage to infrastructure and security disruptions.

"I went to school, got an education – but when I went to the local oil company I was told I didn't have any qualifications," says Mr Dixon, recalling a life spent apart from his family and on the run from government soldiers.

"When you see what the oil companies and the government get from us and they won't employ us, it makes people angry, so trouble started."

Trouble is an oblique way of referring to the ambushes, extortion, sabotage of oil installations and kidnapping of foreign oil workers which saw Port Harcourt – Nigeria's self-proclaimed "Garden City" – become a stage for running street battles between militant gangs and the army.

That was until an amnesty brokered by Umaru Yar'Adua, the former president, in 2009.

Under the deal, the militants agreed to give up their struggle and weapons in exchange for immunity and a guarantee of government-funded job training. The government says 26,000 militants emerged from the swamps to sign up. Although armed guards are still mandatory for many expat workers based in the delta, violence is down sharply.

An hour's drive from Warri – the region's second oil centre – lies the town of Sapele. Fourteen ex-fighters employed by Century are working there to refloat a 161-metre iron and steel dry dock once used by cargo ships. After years of vandalism, its hull flooded and it lies half-sunken on its side in the Ethiop river.

Oyibo Aspos, 26, is the project's safety supervisor. In what he refers to as his "first life", Mr Aspos was a gun-runner for Mend and saw friends and members of his family killed during the fighting. He reels off a list of the weapons he operated: "AK-47s, M3s, RPGs. We only knew peace within our gang," he says.

Pointing to the brightly coloured oxygen tubes floating on the river's surface Mr Aspos confidently predicts that, after five months of salvaging the dock's containers, pipelines and a crane, the insurgents-turned-divers will have the structure floating again within six weeks. "With work like this I don't think we can go back to the past," he says.

Others are not so sure. Despite progress made at companies such as Century, which plans to employ another 60 ex-militants, there are significant obstacles to a lasting peace.

> The theft of oil from pipelines continues to flourish at a rate of tens of thousands of barrels a day

The theft of oil from pipelines, the main source of revenue for militant groups, continues to flourish at a rate of tens of thousands of barrels a day, as smoke from the chimneys of illegal "mushroom refineries" floating above the delta canopy attests.

The government has bought off militant bosses such as Mend's Tom Polo, and tales abound of former commanders snapping up mansions in Abuja and Lagos. Oil production has recovered, thanks to new oil platforms offshore, but there are still high levels of violence in Rivers State where gangs are more fragmented.

In a more worrying sign for multinationals, attacks have increasingly moved offshore. Gunmen recently attacked a ship supplying an ExxonMobil oil platform. Three weeks earlier, an oil contract worker was kidnapped in the same waters.

In a country that has more than 50 per cent youth unemployment, many of the 17,000 militants who the government claims have received job training remain idle.

There are also concerns that money meant for training former fighters is being diverted before it reaches them. With regional elections approaching there is a tinderbox of frustration.

Patrick Smith, editor of Africa Confidential, says: "One of the functions of the militias was to lead the charge for the area's politicians, so some fighters could get dragged into the political competition.

"The other concern is the upsurge in piracy and hijacking by those groups that were not cut into the amnesty, or who don't believe they have benefited enough. So you have the ingredients for more violence."

But Century remains optimistic. With business booming and the oil industry vying to attract fresh investment from China and India, Mr Etete believes it is just a matter of tapping potential.

"The crises in Nigeria are economically driven. You need to give people the chance to earn a decent income and self-fulfilment," he says. "Commercially, there is big potential in the delta and beyond. For us, employing these boys is a no-brainer."

Oil theft: barges used to carry oil from sabotaged pipelines have been sunk but theft continues AFP/Getty

Domestic drillers ramp up to grab bigger market share

Local oil groups

Production by local companies to rise, writes Christopher Thompson

Several miles out from Port Harcourt, with the jungle coast of the delta region almost visible in the distance, lies what Adebayo Ayorinde hopes represents the future of Nigeria's oil industry.

The managing director of Afren, a FTSE 250 company, is standing on the Panama-registered Adriana jackup rig, operated in partnership with Oriental Energy Services, an indigenous oil company founded in 1990. They are drilling in the offshore Ebok field, which is projected to produce 17,000 barrels per day by next year.

"We have proven partnerships with indigenous companies. We've done it with two fields," says Mr Ayorinde. "[With] the majors divesting their fallow assets, there is plenty of low-hanging fruit."

According to Austin Avuru, chief executive of Seplat Petroleum, indigenous companies produce about 3 per cent, or 80,000 b/d, of Nigeria's total of 2.6m b/d oil production.

Following the so-called "local content" bill passed in April 2010 by President Goodluck Jonathan, however, some industry watchers expect indigenous production to reach 400,000 b/d by the latter part of the decade.

"Around 37 per cent of Nigerian licences are owned by indigenous companies and only 4 per cent have been developed. Because of our record, we can access those opportunities," says Mr Ayorinde.

In the not-so-distant past, Nigerian oil companies were often associated with graft or patronage. Many were simply front companies for politically connected individuals who would lease to a multinational oil assets that they had been given.

That perception, says Jacques Roomans, the founder of Sea Trucks, an indigenous oil services company, is changing, with a host of new entrants, such as Sahara and Conoil. They have developed their own technical and operational expertise, often in joint ventures with foreign oil companies.

"Over the past decade, many Nigerians have started businesses and manufacturing capabilities to service the operators," says Mr Roomans. Sea Trucks is investing $800m in the construction of seven deep-sea offshore construction vessels at the company's fabrication yards in Warri and Port Harcourt.

"Investment is increasing, so we are getting prepared to meet demand from the market, such as by upgrading our fleet. We put our money where our mouth is," says Mr Roomans.

Perhaps no company represents this paradigm shift better than Oando, one of Nigeria's largest fully vertically integrated indigenous oil company – from exploration to marketing – whose distinctive, multicoloured, circular logo is seen on forecourts across the country.

> '[With] the majors divesting their fallow assets, there is plenty of low-hanging fruit'

"We operate on land, swamp and offshore," says Wale Tinubu, Oando's chief executive, explaining his company's evolution.

"We started out from a garage in Lagos with less than $100, doing some very basic trading. Then we got a chance to transport diesel and later rented the largest bitumen shipment ever [at the time] from London."

Like First Hydrocarbon Nigeria, a local company that last year paid $187m for Shell's onshore oil mining lease 26 field, Oando has a production strategy based on snapping up marginal assets from the majors and maximising production of the remaining oil and gas.

"We are securing proven fields from majors and developing them," says Mr Tinubu, whose company has partnerships with companies such as Shell, ENI and Perenco. "At present we have 5,000 b/d of production. That will double in the next 12 months."

Oando, which is listed on the Nigerian and Johannesburg stock exchanges, is considering becoming the first Nigerian oil company to list its upstream assets in London next year, he says.

Yet despite the lure of the lucrative export markets, it is domestic demand that excites Mr Tinubu most.

"The big project is the laying of the gas infrastructure for power – that's where we are concentrating on growing," he says.

"We are pioneers in this field; the multinationals see everything as an export project and the government doesn't have the capital itself [to invest] after [paying] the fuel subsidy."

So far Oando has built 100km of pipeline to industry in Lagos to supply electricity and has a $200m project to build a 128km pipeline in Akwa Ibom and Cross River states.

Supporters hope the proposed removal of the national fuel subsidy, which fixes the price of a litre of petrol at N65 (40 cents), will spur indigenisation. At present Nigeria consumes more than 286,000 b/d, most of it imported.

While the possible passage of the Petroleum Industry Bill through parliament could see indigenous companies receive better terms in joint ventures, not all of them are banking on its success.

"The PIB is only an enabler – it won't make or break us," says Mr Tinubu. "We are doing business in a revolutionary way."

An education: school standards are unclear and proprietors are allowed to charge what they like Alamy

Schools that attract committed teachers and the unscrupulous

Private education

Parselelo Kantai considers the flaws in a poorly regulated, tax-free system

M.I. Durand is something of an institution in Lagos. For the past 41 years, she has devoted herself to teaching the impressionable young sons and daughters of the city's elite.

In 1995, she joined the small ranks of private school proprietors and opened Greenwood House School. Starting with only 24 kindergarten and primary school pupils, she has watched numbers swell to more than 600.

Greenwood occupies an unusual place in the commercial system that is the Lagos private school sector. While it offers the full repertoire of international school requirements – dual-track Nigerian and British curricula, expatriate teachers, expensive facilities and a large helping of after-class activities – its tuition fees come to $500 a term for a primary school pupil.

Most private schools offering comparable facilities in the gated upscale suburbs on the city's islands charge an average of $10,000 a term for primary school pupils. This does not include enrolment, registration and extracurricular fees, which often add up to thousands of dollars. Secondary schooling will sometimes cost more than double that amount.

"I did not do it for business. I am a born teacher. In fact, I did not even have to advertise. My good name has done the advertising for me over the years," says Mrs Durand.

Since the federal government formally liberalised the sector 10 years ago, schools have become big business. While states such as Lagos have instituted free basic education, many parents have long been wary of a chronically underfunded public system that offers few guarantees for quality.

Taking advantage of uncertainty and aspiration, investors have designed schools into packages able to fit even the most meagre family budget, squeeze into the most crammed neighbourhood – and stretch profits beyond the dreams of avarice.

That appeared to be the opinion of boycotting parents, as a new school term began last September. In the low-income neighbourhoods of Owode-Ajegunle and Ojota on the Lagos mainland, an increase in fees in some cases as low as N2,000 ($12), provoked parents into keeping their children at home.

Education provision is considered a service rather than a business; private schools are not taxed. In addition, the sector is poorly regulated: standards are unclear and proprietors are allowed to charge what they like. So while it has many committed educationists, it also attracts charlatans.

"It is appalling how we now have matchboxes calling themselves private schools. How can you cram children in four or five rooms with little or no facilities for learning and recreation yet say you are running a school," asks one educationalist.

Ironically, as both the public and private education sectors have expanded in recent years, literacy has fallen, although there are wide discrepancies between individual states. Today, the national average stands at 57 per cent, down from 72 per cent 20 years ago.

Seemingly unable to chart a path away from the years of World Bank-directed austerity in the 1980s, the government has stumbled from one education policy road map to another, each laboriously drafted and invariably defeated by a shortage of financing and lack of political commitment.

> Ironically, as both the public and private education sectors have expanded in recent years, literacy has fallen

Among other things, this has left many of the 102 Federal Government Colleges – the public jewels in the educational crown – heartbreakingly run down. King's College Lagos, the country's premier secondary school whose distinguished alumni formed a chunk of the nationalist elite, was recently discovered to be in a state of such appalling disrepair that the old boys were forced to intervene.

During the oil boom, many among Nigeria's rich favoured an English public school education for their children. But as the naira lost its value, parents have been forced to make adjustments.

Boarding schools in Canada, South Africa and Ghana now serve as alternatives. For those who choose local schools, they are faced with the dilemma of chasing a limited number of reputedly good international schools with few guarantees that their children will be accepted and, beyond word-of-mouth appraisals, only a dim idea that they are getting their money's worth.

The subject of waiting lists intrudes on many conversations in the island suburbs. "I registered my son when he was four months old. He was 11th on the waiting list. There are just not enough schools to go to. Sending your child to England now is quite expensive," says a Swiss-educated mother whose two children eventually managed to get into the American International School on Victoria Island.

And the matchboxes apply as much to the poor as to the rich. While private schools in upscale suburbs boast elocution classes, ballet and piano lessons to match their British or US curricula, there are many that have no playgrounds or adequate sports facilities.

Both land and construction costs are prohibitively expensive in Lagos, a big factor in determining school fees. While space may be found cheaply outside the city, Lagos traffic makes commuting long distances almost impossible.

"The old schools have already made back their money. The newer schools have to charge more to recover their investment," says one proprietor.

It was this combination of factors that drove Joke Chukwumah, a banker, to open her own school. When she was unable to find a school she liked for her two children, Mrs Chukwumah took a long hard look at the situation and resolved to open one.

Today, she is the proprietor of the Children's International School, that sits on a five-acre property that she rents from a neighbouring Italian school with a small student population. She says she would have had to spend about $23m if she had bought the land and built the school from scratch.

"I didn't want to be a good local school. I wanted my students to get international exposure," she says. Recalling her English public school education, which started when she was 10 years old, she adds: "I very much believe that children should stay at home for as long as possible before they go abroad. It's about values. It's important for the children to be around the family."

Rivers State:

Stable governance and a robust legal framework guarantees streams of opportunities for investors.

Long before the commercialisation of crude, Rivers State was known as Oil Rivers – but not for its petroleum. The 11,000 square kilometre region was once famed for its palm oil, a hint that opportunities for investors don't stop at the vast petroleum reserves for which Rivers State is best known for today.

Oil has been both a blessing and a curse to Rivers State, bringing great wealth but also a climate of insecurity that destabilised the regional economy. Since his election in 2007, Governor Chibuike Rotimi Amaechi has been determined to stamp out this blight and make Rivers State work again, unleashing both the full potential of the oil and gas sector and the other natural resources of the area.

"We are blessed with abundant oil and gas reserves that account for the bulk of our $21.1 billion gross domestic product, an economy larger than many African States," said the Rt. Hon. Rotimi Amaechi. "However, those resources have not been managed well. My focus from the outset has been to clean up governance and create a stable business environment so that investors and the population at large can benefit from our natural advantages."

Since he took the reins, Governor Amaechi has been implementing a deliberate series of reforms. The legal and regulatory framework has been amended to enable a secure business environment, and incentives such as the free trade zone around Port Harcourt have been developed. The state is working with the United Nations Development Program to develop a transparent system of good governance.

Governor Amaechi has also been tending to the financial health of the public sector. The recent debt crisis in Europe underlines the importance of healthy public finances, and Rivers State now has a better rating than the state of Nigeria. It is graded B positive rating from Standard & Poors and AA- from Fitch.

"Rivers State is well and truly open for business," he said. "We welcome investors, both local and foreign, to come and take advantage of the many opportunities on offer, and help us improve the life chances of everyone here."

RT. Hon Rotimi Chibuike Amaechi

The capital Port Harcourt, known affectionately as the Garden City, was founded in 1912 by the British to export the coal that geologist Albert Ernest Kitson had discovered, and is now the chief oil-refining city in Nigeria. With a population in excess of 1.5 million, it is the beating heart of the oil rich Niger Delta, boasting an international airport, two major seaports, two refineries and for recreational purposes, two stadiums. Since security was restored to the region, it has been producing a steady output of 2.29 million barrels per day. The capital city is also looking to the future, with the development of an ICT centre run as a public-private partnership with a banking institution, offering new opportunities in information and communications technologies.

The state has been investing heavily in infrastructure with 900 kilometres of roads and 10 major bridges under construction, as well as six land reclamation and shore development projects and other amenities such as a modern shopping mall. The administration has also committed to a monorail system for the Port Harcourt.

The construction of the major business artery, the East West road, is expected to open up virgin economies, creating investment opportunities in the construction of housing and recreational facilities. To relieve the pressure on Port Harcourt, a number of industrial areas including the Ahoada estate are planned or being constructed, and will link up with the Onne oil and gas free trade zone. Rivers State is also keen to secure its own energy independence, with a number of installations being built including the 150 megawatt Omoku and the 130 megawatt Trans-Amadi power stations. Storage facilities for liquefied petroleum gas are also in the pipeline.

Important though they are, however, Rivers State is not just about the oil and gas sectors. There is an abundance of cultivable land which has yet to be exploited, offering agricultural potential. The main root crops are yam, cassava and cocoyam, while grains include maize, lowland rice and beans. Vegetables and fruits also thrive in this climate, particularly melon, pineapple and plantain. Major cash crops include palm oil, rubber, coconut and jute. RISONPALM, a 10,000 palm plantation, is ready for privatisation and there are plans to develop a similar sized estate and a rubber plantation for private investors. Rivers State is also developing a local version of Benin's successful Songhai Farm model, which aims to train agricultural entrepreneurs and develop a sustainable agricultural system based on agro-biology. The seas offer under-exploited fishing opportunities.

River States' sandy beaches and forests teaming with wildlife suggest a tourism potential waiting to be tapped. The area was also a major theatre in the slave traffic and palm oil trade of the nineteenth and early twentieth century, leaving behind important historical artefacts, war relics and monuments.

The most important resource of Rivers State is not commodities, however, but people. In today's world, education is key, and Governor Amaechi is working with education professionals to tailor training opportunities to the demands of the global economy. The University of Port Harcourt, which counts President Goodluck Jonathan and the Rt. Hon. Rotimi Amaechi among its successful alumni, the Rivers State University of Science and Technology and other tertiary institutions are turning out highly skilled graduates able to compete in the hi-tech industries of tomorrow as well as the commodities businesses. The government is also planning to build 750 modern primary schools and 24 world-class secondary schools.

"I want the people of Rivers State to realise their full potential," said Governor Amaechi. "We have been working hard these past four years, both internally and with international partners, to create an environment that generates confidence in the future."

To learn more about how you and your company can partner with Rivers State, Nigeria, please contact

Ibim Semenitari at: isemenitari@riversstate.gov.ng

www.riversstate.gov.ng

Nigeria

New minister wants private sector to turn on the lights

Power sector

Christopher Thompson on the latest efforts to rectify electricity shortages

If there is a single issue that symbolises Nigeria's developmental malaise in the post-independence, era it is that of energy.

How can one of the world's largest oil exporters not meet its own electricity needs? It is a problem that has remained unresolved for nearly 30 years.

If Bart Nnaji has his way, Nigerians might finally get some answers.

The minister of power, a former professor of engineering at Amherst University in the US, hopes to be remembered as the man "who turned on the lights, permanently".

But he is well aware of the scale of the challenge – and the litany of failed promises which have accompanied government efforts at power reform in the past.

The power sector was riddled with corruption, he says. "At present Nigeria produces 4,000 megawatts, which is up from 2,500MW in May 2010 when [President Goodluck Jonathan] took over. Now we want to leapfrog to where we need to be."

The snag is that where Nigeria "needs to be" is a moving target.

"We don't actually know," Mr Nnaji admits, with surprising frankness. "We estimate the country needs between 30,000MW and 40,000MW [a year] and about $50bn is needed to get to the target. At present, we are not even utilising our existing capacity of 5,200MW."

Regional contrasts are instructive. South Africa, the continent's biggest economy by gross domestic product, generates 40,000MW for a population one-third the size of Nigeria's 150m people.

Last year, amid much official fanfare, President Jonathan released the latest in a long series of "visions" for national development. The road map, entitled "Vision 20: 2020", made increasing power generation its centrepiece.

"The strategic context of power in national development cannot be overemphasised," it stated, noting that only 40 per cent of Nigerians have access to public electricity, whose infrastructure largely dates from the 1970s and 1980s.

The document put a target of generating 35,000MW as its goal by the end of the decade, with half that to be achieved by 2014.

More than two-thirds will be supplied by natural gas, but the country's vast untapped thermal coal reserves will also contribute, as well as renewable sources such as wind, solar and biomass in rural areas.

So what makes Mr Nnaji confident the latest vision will not remain a mirage?

"Privatisation. We want to privatise power plants that are operating at less than half capacity, so that investment will help them recover," he says.

"By privatising the parastatals, they become creditworthy – at the moment they cannot buy power from abroad – so it becomes a willing-buyer, willing-seller arrangement."

Early signs are encouraging. In October, a conference for preliminary bidders for the 11 distribution and six generation companies – including the Power Holding Company of Nigeria (PHCN), formerly Nepa, jokingly expanded as

> Bart Nnaji, the minister of power, is hopeful the latest vision will not be a mirage

"Never Expect Power Always" – was held in Abuja, attracting more than 100 companies from developed economies and emerging Bric nations.

Supported by World Bank investment guarantees – "an important stamp of approval" according to Mr Nnaji – among those shortlisted are the Israel Electric Corporation, US-based Contour Global and India's Tata and Essar.

A few days after the conference, Fred Hochberg, the head of US Export-Import Bank, came up with what Nigerians hope will be the first tranche of funds for the sector – $1.5bn in lines of credit for bidding US companies.

"The $1.5bn is just a start," says Mr Hochberg, adding that the bank would "certainly" consider additional financing if it were needed.

Mr Nnaji says the process, for which the advisers are the Madrid-based consultants AF Mercados, will be complete by the second quarter of 2012.

But not everyone is happy. In 2001 Mr Nnaji's company, Geometric Power, became the first indigenously owned private sector power company to finance, design and build an emergency power plant in Abuja, the capital.

It later completed a $400m power project in Aba, a city of 2m people. Critics point out that it could benefit handsomely from the privatisation process.

Potentially more worrying is opposition from the unions, some of which led nationwide prayer meetings against Mr Naji's Senate nomination this year.

In May, in response to the privatisation plan, a mass walkout by the National Union of Electricity Employees (NUEE) which threatened to shut down power supply across the country was only averted when the government appointed a union representative to the PHCN.

Notwithstanding inevitable job losses, the unions argue that privatisation by itself is no panacea for the power sector's ills, given the billions of dollars in capital investment needed and the long cost-recovery times.

Moreover, they say that if electricity prices were deregulated – the second cheapest in sub-Saharan Africa after Zambia – the poor would be hit the hardest, although the government is considering phasing in any tariff increases.

Mr Nnaji observes: "Well, I would say [in response]: What is the price of darkness?"

For the would-be reformer it is a matter of pragmatism – and part of a larger struggle for reform in the sclerotic economy.

"Success in the power sector will stimulate reform elsewhere," he says. "The aspirations of the nation depend on our success."

No choice but to play a waiting game

Road haulage

The industry provides an illustration of what is wrong with the country's logistics, says **Robert Wright**

Godwin Ajani stands by the cab of his truck in the queue to deliver his container and complains bitterly. His trip, to Lagos from nearby Ogun state, should, he says, take only a day. But he has now spent four days in a queue outside Apapa, Nigeria's busiest container terminal, which is run by APM Terminals, a division of Denmark's AP Møller-Maersk, edging his truck forward every few minutes day and night.

His frustration reflects not only the problems inside the port but also those with the entire logistics system. The decrepit trucks are testament to how slick multinational logistics companies have yet to apply their organising power to the movement of the country's goods.

The lack of co-ordination among truck drivers, who go from job to job without long-term contracts, illustrates how poorly the sector deploys resources.

These problems have clear effects on the economy. Besides the delays, bad organisation prevents the introduction of modern stock management techniques, systems to transport agricultural goods and a range of other services.

David Negi, who owns a road haulage business, regularly visits the Apapa queue to check on the progress of his trucks. He says the industry's difficulties are deterring him from expanding his fleet. Each of his four trucks manages barely three trips a month, instead of the four needed to make a reliable return.

"I ought to buy more trucks, but I'm backpedalling," he says. "I have to think of something else to do."

The problems are not confined to Apapa. A short distance away, at the smaller Tin Can Island Container Terminal, Yann Magarian, the operations manager, says poor road layout contributes to similarly epic queues there.

"Because of the problems with the infrastructure, the trucks, can wait outside for three, four, five days," he says.

Yet Lars Molgaard, managing director for the Nigeria cluster of Damco, the logistics arm of AP Møller-Maersk, says that if waiting times could be reduced, the logistics industry could be brought up to European standards.

"That would enable us to develop supply chain management," Mr Molgaard says. "In Europe, the retailers control everything from the factory until it hits their stores. That, potentially, we certainly foresee in Nigeria with its size."

Such improved organisation would only be good news for Mr Ajani, who gestures to his dirt-encrusted feet to show the effect of waiting in tropical heat with no proper sleep and no opportunity to wash.

"I'm very, angry," he says. "Inside – no sleeping; nowhere to go," he adds, gesturing at his cab. "Four days – hungry."

At the heart of the problem, says Mr Molgaard, is the absence of the kind of long-term contracting that underpins the industry elsewhere in the world.

The cost and timing of each trip for both trucker and customer are consequently uncertain. "The main problem is that the Nigerian trucking market is, for the vast part, a spot market," he continues. "So you book your trucks case by case."

> At the heart of the problem is the absence of long-term contracting that underpins the industry elsewhere

This uncertainty may even be contributing to congestion, says William Ross, process manager at APM Apapa. Although the terminal at times refuses to accept deliveries of empty containers for space reasons, he insists that drivers sometimes continue to stay in the queue, apparently waiting to organise a job that will allow them to take a full container out with them.

"On Sunday evenings, we've had no returns," Mr Ross says. "The gate is completely clear; we're accepting empties and you still have that long line outside the gate."

Mr Molgaard is trying to arrange longer-term contracts with truckers to stamp out inefficiency. "We try to have the next job ready for them when they go to the terminal. At least that way, we don't risk that they wait, go in, drop an empty container at one terminal and pick up a full one from another," he says. "That can easily cost a day or more."

Yet the challenge may be at least as much the mood of sullen resignation that hangs over many drivers in the queue, as any organisational issues.

Mr Molgaard says he would like to use modern, computer-based supply chain management systems.

But, with so few of the promised infrastructure improvements beyond the container terminals having been carried out, that remains a distant goal.

"There are too many things that need to change with the basic operations," he says.

After years sitting in queues, struggling with potholed roads and unexpected hold-ups, he fears, many in the industry may accustomed to complaining but unable to believe real change is possible.

"In this market, everybody has been living with congestion for years," Mr Molgaard says. "For them, it's just life."

Passage to Apapa: containers spend an average of 21 days at the port – a period APM Terminals aims to slash to seven days Robert Wright

Ports Changes in customs checks could have an even bigger impact than infrastructure upgrades

The market in the Lagos suburb of Apapa lies outside the gates of Nigeria's busiest port, and close to the second busiest at Tin Can Island. Many of the noisy, belching trucks passing by are carrying the consumer goods that are sold there and which the country's fast rising trade with China has made more readily – and cheaply – available.

The challenge for officials at both terminals, which are struggling to cope with growth rates well into double figures, is to keep the process going.

The queue of trucks outside the terminals, with drivers waiting days to deliver empty containers, illustrates the size of the problem. These are the hardest-pressed parts of Nigeria's port system, and customs procedures and infrastructure such as roads all need to improve markedly if growth is not to be choked.

It is certainly clear that one of the traditional problems with African ports – a shortage of modern equipment – has largely disappeared. Neither port has the latest, most efficient rail-mounted cranes to lift containers on and off ships, as the quay walls are too weak to bear them, but their operators have invested hundreds of millions of dollars since they were privatised in 2006.

According to William Ross, the process manager at APM Terminals Apapa, better computer systems and cranes mean most ships can now dock almost on arrival, instead of after the 30 days that used to be the average waiting time.

Despite this, many problems lie beyond the terminal operators' control, including the sheer difficulty of moving goods reliably through Lagos's heavily congested streets.

However, the biggest potential change would be if Nigeria's customs service could be persuaded to cut down on its exhaustive inspections. Although APM Terminals has persuaded officials to allow most screening to be done by X-ray scanner, large numbers of containers are still selected for time-consuming manual examination. The areas used for such checks take up substantial space at both terminals.

Both terminals have brought down dwell times – the average period a container spends in port after arrival – from more than a month before privatisation, but considerable room remains for progress.

The average dwell time at Tin Can Island is 24 days; at Apapa it is 21.

Mr Ross is seeking to persuade customs officials that certain reliable customers should be allowed to bring containers in and out with only occasional inspections, as happens in most countries.

His eventual goal is to work with customs to bring dwell time to a week. But even the more modest goal of two weeks would be worthwhile, he says.

"If we can halve dwell time, it will allow [the terminals] to import more and export more."

Robert Wright

Mobile operators look to dial into rural market

Telecoms

Eyes turn to new opportunities as growth slows in urban areas, writes **Simon Mundy**

The red and white mobile phone signal masts scattered across the Lagos skyline are an eye-catching symbol of the growth of Nigeria's telecoms market.

The country is home to about 20,000 towers, with 2,500 added each year, says IHS, the biggest operator of masts.

By the end of 2011, Nigeria will have 93m mobile subscribers, estimates Business Monitor International – up from 266,000 in 2001. Three years ago, Nigeria overtook South Africa to become the continent's biggest mobile market.

With fibre optic cables improving broadband connectivity and a new generation of smartphones expected within two years, mobile data are also expected to enjoy rapid growth in the medium term.

On closer inspection, however, the masts also illustrate the inefficiencies that depress profits for the mobile operators – and drive up costs for consumers. Most emit the acrid smell and noisy whirr of the diesel generators that are essential because electricity supplies are so unreliable.

"Ninety per cent of these towers are running on a generator 24 hours a day. That costs $500m a year," says Issam Darwish, chief executive of IHS. He thinks a fully functioning national grid could cut by half the country's mobile phone tariffs, which are far higher than those in developed countries.

At about 55 per cent, the penetration rate is higher than in Africa's poorest countries but lower than in neighbours such as Ghana and Senegal.

This is partly because the mobile operators have largely neglected rural areas to focus resources on the cities, where greater population density means a correspondingly higher return on infrastructure investment, says Mervin Miemoukanda, a telecoms analyst at Frost & Sullivan, the research group.

Yet this stance is beginning to change, he adds. "In the main urban centres and the big towns, the pace of growth is slowing. But in rural areas, we still have a lot of growth opportunities, because 60 per cent of the population live in the countryside – and in many of those areas there are still no mobile networks."

Capital investment by the mobile operators is likely to be more restrained than in the past. Again, the signal masts bear witness to the exuberance with which the operators expanded in the early part of the last decade.

> Growing numbers of poor Nigerians are using mobile phones to save and transfer money

Masts in developed countries typically have as many as six transmitting dishes, as operators look to save costs by sharing infrastructure. But telecoms companies in Nigeria frequently installed towers – at an initial cost of $100,000 a piece – within a stone's throw of one that had already been put up.

"These guys were just building abundantly – they were scrambling for market share," says Mr Darwish.

"Arpu [average revenue per user] was high, because you were still capturing the top part of the [social] pyramid. The banks were awash with money – and banks loved the telecoms companies, because they had so much cash coming in – and they gave them whatever they wanted."

The investment environment has since seen some important changes. Arpu has come down sharply, with a growing number of people on low incomes entering the market.

The days of plentiful bank credit are a distant memory, as bruised lenders adopt a cautious stance following the debt crisis in 2008.

Perhaps most significantly, competition has become increasingly fierce. After India's Bharti Airtel bought Zain's African assets for $9bn last year, it cut prices aggressively to gain market share, putting downward pressure on tariffs across the industry.

Saudi Arabia's Etisalat has been gaining customers since entering the market in 2008, while Globacom, the only Nigerian company among the leading mobile operators, stands to gain an advantage in the race for growth in data services as it owns an $800m fibre optic cable that links Nigeria with the UK.

All three, as well as more than 20 smaller groups, are seeking to snatch customers from the market leader, South Africa's MTN, which says that 41m of its 158m customers are in Nigeria.

One of the most important aspects of the telecoms boom is proving to be mobile money.

As growing numbers of poor Nigerians acquire mobile phones, they are able to use them to save and transfer money more safely and more easily than through any method previously available.

The scale of mobile banking still lags behind that in Kenya, where 14m people have signed up for Safaricom's branchless banking service.

But there is no reason why it cannot enjoy similar popularity in Nigeria, says Alastair Lukies, chief executive of Monitise, the UK mobile money group that recently gained approval from the Central Bank of Nigeria to roll out its service in the country.

High life: central Lagos

"It's about sitting with someone and saying: if you use this service, you can get money to your mum 500 miles away much more cheaply and much more securely than giving it to a bus driver," he says.

"If you go into a country like Nigeria and make another 10 per cent of the population [use banking], that can only be a good thing. The opportunity is huge."

Frustration boils over among the have-nots

The north

William Wallis profiles a region that is increasingly disenfranchised

Chaos in Kano: rioting breaks out in April as President Goodluck Jonathan heads for election victory Getty

The polls that cemented Goodluck Jonathan's presidency in April were feted by some election observers as among the fairest to have taken place in Nigeria. This was not necessarily a ringing endorsement, given the scale of past fraud, but a measure of progress nonetheless.

Yet violent protests that erupted in several states in the predominantly Muslim north attest to how little parts of the electorate there felt invested in the process. Several hundred people were killed as rival factions clashed.

As well as being the result of anger at the consolidation of power by a southern Christian (at a time many in the north felt it was their turn to rule), the violence was a measure of frustration at the absence of dividends flowing to the region since the advent of civilian rule in 1999.

The north has been hit, industrialists and politicians there say, by the liberalisation of the economy, by a loss of political ascendancy and by a flood of cheap and often smuggled Asian goods. Together with the collapse of power and transport infrastructure, the latter has seen large numbers of factories close and hundreds of thousands of workers lose their jobs.

Audu Grema, a development consultant in Kano says inequalities resulting from market reforms were always likely in a region traditionally more dependent on the government.

Many of the state-owned or protected industries established in the north as part of earlier efforts to promote economic balance, were lossmaking when the government's privatisation programme accelerated.

The north's inhabitants, although more numerous, are also among the poorest in Africa, and therefore represent a less attractive market for the banks, telecoms and retail companies booming in pockets of comparative affluence in the south.

In an effort to address historic injustices in the Niger delta, states in the southern oil-producing region receive 13 per cent of income from the oil that is pumped from their territory. As world oil prices have risen over the past decade, this has led to a widening gulf in income between southern states and those without oil – with the exception of the coastal commercial capital, Lagos, which raises 75 per cent of its own revenue from taxes.

Left unaddressed, these imbalances could have long-term destabilising consequences. Already, they are seen by a host of intellectuals as one of the causes of the Islamist insurgency that has engulfed the north-east this year.

"The new revenue formula that gives so much to the south and very little to the north-east has solved one problem and created another," says Shehu Sani, a civil rights activist in Kaduna in the north.

According to official figures, the leading oil-producing state, Rivers, received N1,053bn between 1999 and 2008 in federal allocations.

By contrast the north-eastern states of Yobe and Borno where more than 100 people were killed this month in attacks by Islamist insurgents, received N174bn and N201bn respectively.

Broken down on a per-capita basis, the contrast is even starker. In 2008 the six

> It will take something like a Marshall plan to redress imbalances

states in the north-east received N16.8bn for a population of 18.97m or N886 per person. The more populous north-west received even less, with N21.77bn for a population of 35.7m or N609 per person.

By contrast, Rivers state was allocated N2,520 per capita, and the oil producing south on average N2,111 per capita. This imbalance is compounded when the weight on the federal budget of an amnesty programme for militants in the delta and the 1 per cent allocated to a special development body are added. The theft of oil takes millions more weekly from federal revenues.

"It will take money to appease the delta. People there feel their resources have been used to develop other parts of the country. We have to appreciate that. The question is how much," says Bashir Borodu, former chairman of the Nigerian Association of Manufacturers and a leading northern businessman.

Lamido Sanusi, the central bank governor, also a northerner, goes further. "It would be highly irresponsible not to recognise that with these numbers, you are creating an unequal society," he said in an interview.

State governors from the Niger delta are nonetheless lobbying for an even greater share of oil revenues."The distribution of income was in favour of the north for 40 years after independence," says an adviser to Mr Jonathan, who himself hails from the delta. Yet he says he is "thinking about the north in a way no northerner has, in terms of what we are going to do to bridge the inequality of north and south".

Mr Sanusi says that, with a concerted effort to invest in the region, rebuild infrastructure and promote agriculture and mining, the problem can be addressed. It will take something like a Marshall plan to do it, he says, however, and none is yet in place.

Olusegun Obasanjo, the former president who initiated talks with families of Islamist insurgents this year, agrees. He believes the threat the insurgents pose to national security is every bit as serious as that by delta militants. Similar solutions may be necessary too.

"If you can address the grievances in the delta, there is no reason you cannot address the grievances of these people as a start, and then look at the wider injustices of poverty, corruption and lack of education. I still believe there is a slim chance we may still be able to get it right."

Terror: Escalating militant attacks suggest foreign backing

It bore all the hallmarks of an international terror strike. On November 4, two suicide attackers detonated their car bombs outside security force headquarters in different cities, while masked militants picked off victims in the ensuing chaos. Within hours, dozens of people lay dead many of them security officers.

This was not the Middle East or Afghanistan, but northern Nigeria, where a small, localised rebellion has turned into a wider insurgency that may have links to global jihadist networks.

Attacks by Boko Haram have cost more than 425 lives in 2011 alone, according to Human Rights Watch. The group says it wants strict Islamic law in Nigeria, and that its main enemy is the police.

But the range of its victims, who also include soldiers, civil servants, traditional leaders, Islamic and Christian preachers, churchgoers and UN staff, points to a more blurred agenda.

"They hit the anti-terror police and also Christian targets," says Audu Grema, a development consultant in Kano, referring to the November 4 attacks in Maiduguri and Damaturu.

"So what do they want? What is their motive? This is very worrying."

Boko Haram, which means "western education is forbidden", has roots that stretch back to the early 2000s, and succeeds other northern groups that resisted secular authority.

Led by Mohammed Yusuf, a young, charismatic preacher who was deeply critical of mainstream Islam, Boko Haram built up a strong following among the impoverished youth in Maiduguri, capital of Borno state.

"Part of Yusuf's preaching was that Nigeria's rulers have been corrupted and the state has failed," says Eric Guttschuss, Nigeria researcher at Human Rights Watch. "It was cult-like, but in a place with poverty, high unemployment and illiteracy, that message holds appeal."

As it grew in numbers, the group was preparing for the inevitable clampdown by police, which occurred in July 2009. In days of clashes across several states, more 800 people died.

Boko Haram itself suffered heavy losses. Yusuf was arrested and executed by police, along with his father-in-law, Baba Fugu Mohammed, and dozens of other members.

After months of quiet, the group reformed, appearing organised, well armed and one step ahead of the police. It freed 150 of its members from a prison last year, and then began assassinating police and government officials in the north-east.

In December 2010, the militants launched larger, more brazen raids, using bombs. Violence continued throughout the first half of

Mohammed Yusuf: preached that the state had failed

this year. Strikes later widened in scope and geography. On June 16, a suicide attacker detonated a car bomb outside the police headquarters in Abuja, more than 400 miles from Maiduguri, killing several officers.

On August 26, another bomb-laden car smashed into the main UN compound in Abuja's diplomatic district, killing 26 people and injuring more than 100.

The decision to hit an international target, and the sophistication with which it was done, raised fears that the militants had established links with global terror groups, notably al-Qaeda in the Islamic Maghreb (AQIM), which operates in north Africa.

"The UN attack was inspired by foreign sponsors," says a civil society activist in northern Nigeria, speaking anonymously for his safety. "They wanted to create news."

The government's heavy-handed counter-insurgency efforts, have not been successful, and may have driven more people towards Boko Haram. Shehu Sani, president of the Civil Rights Congress in Kaduna, estimates the group has "thousands" of members.

"Some people in the north-east admire it for fighting a corrupt system. Others fear it, but they cannot criticise it," he says.

Boko Haram's hierarchy is unclear, but its leader is believed to be Abubakar Shekau, who was one of Yusuf's deputies in 2009.

There is also a shura council of about 20 men, who move between northern Nigeria and neighbouring Niger, Chad and Cameroon, says Mr Sani.

He tried to broker a meeting between former Nigerian president Olusegun Obasanjo and Yusuf's family in August.

Relatives of several other slain Boko Haram members were also present at the talks in Maiduguri.

They gave Mr Obasanjo three demands for the violence to end: the release of the group's jailed followers, compensation for all deaths, and the rebuilding of all demolished houses and mosques.

A close relative of Yusuf's, Babakura Fugu, who had a prominent role in the talks, was gunned down a day later. His assailants remain unknown.

During the meeting, the family members admitted Boko Haram had foreign backers, Mr Sani says.

Besides the global terror links, there are fears that the weapons that have flowed out of Libya since the toppling of the Muammer Gaddafi's government could strengthen the group's arsenal.

"They will attack again," Mr Sani says. "It's now a war that's going on."

Xan Rice

Laid low by culture of cronyism

Guest Column

MATTHEW HASSAN KUKAH

Frustrated for so long by a succession of efficient and insatiably corrupt governments, ordinary Nigerians have never felt more trapped. A cloud of resignation and cynicism hangs over the populace.

The presidency of Goodluck Jonathan was supposed to have got off to a good start. People had hoped it might have gathered speed on the journey to a new dawn. Sadly, we have been slowed down.

In a tragic outbreak of violence in April that followed what was considered a great improvement on the electoral process, a fringe Muslim group engaged in a running battle with security agencies.

The leaders of this group used their provocative sermons to challenge the social conditions and the corrupt lifestyles of the political elite. Their contempt for western education and lifestyles has been influenced by the belief that those who have secured a western education had become a bad advertisement for that system.

Against a background of official corruption, injustice, growing inequalities and social decay, they persuaded their followers that western education was indeed the cause of our ills. It was therefore, in their view, *haram*, or sinful.

The police force and the media then began to spread the word that these people were against western education. Hence, they became known as Boko Haram, which translates as "education is sinful".

The trouble this group has wreaked on the nation has thrown up genuine concerns about the state of the union and the capacity of the political elite to put aside their greedy hold on power and place the challenges of national cohesion over and above their narrow interests.

It is easy to blame Mr Jonathan. However, although he is not the cause of the problems, he sought our votes by promoting the belief that he could provide solutions.

It is tragic that the ruling Peoples' Democratic party, PDP, which has majorities in both houses in the National Assembly and a great majority of the governorships, has been unable to hammer out a strategy for building consensus among the elite, especially after the elections.

This consensus was placed under severe strain during the elections, which divided Nigerians along ethnic and regional lines. More sensitive steps could have been taken to accommodate the various segments of the elites. Not mending this crack has made the presidency vulnerable

The tragedy is that with absence of government presence in the lives of citizens, corruption is the only system that seems to work

and this is what inchoate groups such as Boko Haram are exploiting.

To appreciate how we got here, we need to step back a bit.

Even at the best of times, holding together the motley collection of peoples and cultures that make up Nigeria is an almighty task.

However, with hindsight, some measure of patience, discipline and commitment could have enabled the new bureaucratic and political elite to settle down after independence.

Sadly, the abrupt termination of civilian rule in 1966 and the tragic entry of the men in khaki into our political life, sent the nation back to the bottom of the hill. By disrupting civilian rule, the military threw itself into politics and began a process that ended up stunting our political development.

For almost 30 years, the production of oil whetted the appetite of the officers and strengthened their hold on power. Competition for access among the various factions of the elites further deepened the religious, ethnic and regional cleavages both within the military and outside.

Thus, although the creation of states and local governments was presented as a strategy for opening up the political space and bringing government and development closer to the people, the corrosive effect of corruption instead turned them into conduits for the theft of state resources.

Cronyism and patronage have emerged as a culture and reduced us to a nation that feeds on handouts from the elite.

The pervasive impact of corruption can be felt across every spectrum of society. The tragedy in Nigeria today is that with a near total absence of government presence in the lives of citizens, corruption is the only system that seems to work. There is hardly any institution in the country that is not weakened by this virus.

Hunger continues to stalk the land. Darkness still envelops us – most of us have no electricity. The education system is gasping for breath. The main business that survives and thrives is the business of politics. It provides the oxygen for the survival of the elite.

This is the weak spot that groups such Boko Haram are exploiting. The president needs to stand up and deliver before it is too late.

Matthew Hassan Kukah is the Catholic Bishop of Sokoto and author of several books on Nigeria, including Religion, Politics and Power in Northern Nigeria and, most recently, Witness to Justice: An Insider's Account of Nigeria's Truth Commission

Nigeria

Motoring ahead: the nation is projected by 2050 to have 433m people, behind only India and China Reuters

Youth could be source of wealth, or conflict

Next generation

The country's greatest asset is its young people, reports **Xan Rice**

On a Sunday night in Kano, the country's second-biggest city, smoke from roadside barbecues mingles with motorcycle exhaust fumes. Strip lights illuminate ping-pong tables, and a row of televisions glow bright with Premiership football. So many young men and women mill around that a vendor pushing a wheelbarrow of groundnuts has to fight his way through them.

This is a snapshot of 21st-century Nigeria, a large country filling up fast. With 162m people, according to the latest Population Reference Bureau statistics, the country is already home to one in two west Africans, and to nearly one in six people on the continent.

It is the world's seventh most populous nation, but is growing faster than any country ahead of it.

By 2050, it is projected to have 433m people, more than the US, and behind only India and China.

Last year, the British Council and the Harvard School of Public Health published the *Next Generation* report on the country, saying it stands at the edge of the greatest transformation in its history.

It describes Nigeria's greatest asset as its youth, not oil, and it is easy to see why. Some 43 per cent of Nigerians are under the age of 15, compared with just 16 per cent in the European Union. Although the average woman gives birth to five or six children, the fertility rate is declining, so the overall proportion of children in the population is falling.

With the "baby boomers", the large number of people born immediately after the second world war, entering the job market, the corresponding share of working age people is rising. A similar demographic shift occurred in east Asia from the mid-1970s, with the so-called "demographic dividend" credited with driving rapid economic growth.

The prospect of a similar occurrence in Nigeria excites economists at some investment banks. Renaissance Capital, the Russian bank, notes that the number of 15-24 year olds will grow slowly or decline across most of the world in the next 10 years.

But in sub-Saharan Africa, the number of 15-24 year olds will rise 15-20 per cent every decade until 2040. "Where is the young, cheap labour going to come from [in the future]?" asked Charles Robertson, Renaissance Capital's global chief economist, visiting Nigeria in November, answering: "Africa".

> 'Where is the young, cheap labour going to come from? Africa – [but] without jobs, you will have a lot of angry young men'

In a recent report on Africa's prospects, the investment bank cited urbanisation as another important driver of economic growth – the supply of labour is greater in cities, and transport and other inputs are more cost effective. It pointed out that Nigeria is more urbanised than many other countries on the continent.

At independence, fewer than one in five Nigerians lived in towns and cities. Today, it is one in two. By 2030, nearly two-thirds of Nigerians will reside in urban areas, and Mr Robertson says the period until then could be one of "very rapid [economic] growth".

The authors of *Next Generation* also see cause for optimism, concluding that if Nigeria's recent economic growth continues, education and health facilities improve, and jobs are created, the average citizen could be three times richer by 2030.

Those are a lot of big ifs, especially considering the poor history of governance and service delivery.

School enrolment is much better than a generation ago. While half of Nigerians in their mid-40s have had no education, primary school enrolment is now 95 per cent. Nearly one in three children goes on to secondary school, and one in 10 to tertiary education. Yet standards are still low and access is geographically skewed.

Half of Nigerian Muslims, who mainly live in the north, have no schooling, a factor in the growing north-south economic divide.

And then there is the job market. While the finance ministry puts the unemployment rate at 21.7 per cent, it is significantly higher for people under 30. Three in 10 graduates are without jobs and a tertiary education does not significantly improve the likelihood of employment.

The federal government acknowledges the problem. Ngozi Okonjo-Iweala, the finance minister, says her goal is job-creating growth. Merely keeping unemployment at current levels would require 15m new jobs in the next decade. If it is to be halved, that figure rises to 24m, expanding the job market by 50 per cent.

As *Next Generation* states, the same factors that can boost an economy, can also spark civil conflict. "Without jobs, you will have a lot of angry young men causing trouble," says Mr Robertson.

Time for some language lessons

Trade with China

Xan Rice looks behind the trade figures at influence on the ground

Omolade Ademiluyi completed secondary school a year ago, when she was 15. Her new classmate at university is Kehinde Osinowo, a burly chartered accountant turned evangelist. He is 57.

She wants to succeed in business. He wants to save the souls of foreign workers, which is how they find themselves together in the sweltering, fifth-floor lecture room at the University of Lagos learning to speak Chinese.

"China is growing fast," says Miss Ademiluyi, who hopes to win a scholarship to Beijing. "If I can graduate speaking the language, there will be real opportunities for me here."

It is a good bet. China-Nigeria trade is booming, exceeding $7.7bn last year, according to official Chinese statistics, a nearly threefold jump since 2005.

In 2011, bilateral trade may reach $10bn, China says. The numbers are even more striking when you consider that Beijing has been unable to gain a significant foothold in Nigeria's petroleum market, and imports only modest quantities of Nigerian oil.

Instead, it is exports from China that are driving the trade – and making the Chinese presence in Nigeria impossible to miss.

The Chinese embassy in Abuja says more than 100 "big" Chinese companies operate in the country, from StarTimes, which has a joint venture with the Nigerian Television Authority offering digital TV packages, to the telecoms company Huawei, whose low-cost smartphones and tablets are promoted in big cities.

Large state corporations are visible, in particular China Civil Engineering Construction Corporation, which is building light rail networks in Lagos and Abuja, as well as road and rail links elsewhere.

Many other companies are lining up. At the Lagos Trade Fair in November, China was the only country to have its own hall, where more than 50 companies displayed their wares.

"It's not so easy to do business here, but it's the biggest market in Africa," says Richard Xu, sales manager at Huamei, which makes fridges and freezers.

With business having cleared the way, it made sense for the Confucius Institute, the Beijing-based organisation that promotes Chinese culture, to follow. It launched its first language course last year for 40 people.

A year on, about 120 students are enrolled in morning, evening and weekend lessons.

Each three-month course costs N10,000 ($63). Tai chi and kung fu lessons are thrown in free.

The main language teacher is a Nigerian woman, Victoria Arowolo, who used to work in real estate. Then, a few years ago, she accompanied her husband to Shanghai, where he was doing his masters. With time on her hands, she decided to learn Chinese. When they returned to Nigeria – her husband had landed a job with Huawei – Ms Arowolo spotted a gap in the market.

China-Nigeria trade is booming, exceeding $7.7bn last year

"I noticed how many Nigerians there were who were interested in doing business with China," she says. "People wanted to be able to speak at least basic Chinese, so they could introduce themselves."

Ms Arowolo wrote the first Chinese learning manual in Nigeria, *Chinese Language Made Simple*, which comes with a CD and costs N1,000. The book was published last year and has sold more than 500 copies, with the biggest order coming from a private secondary school that has made Chinese a compulsory subject. A dozen other schools also pay for a tutor from the Confucius Institute, as does a Nigerian oil company.

There is no shortage of native speakers to practice with. Tens of thousands of Chinese are working in Nigeria, either for Chinese companies or for themselves – precise figures are impossible to obtain.

Some of the latter are doing so illegally, having overstayed their visas in order to sell goods in markets and shops. This has caused resentment in cities such as Kano, in the north where cheap Chinese goods have damaged local industries.

The traders now feel they are being squeezed out of retailing too. Zhai Yunpeng, commercial attaché at the Chinese embassy, acknowledges the problem.

"We don't encourage Chinese to come here and trade locally, though we cannot stop them," he says. "We are working on this matter to find out more details of what is happening. When a country has so many foreign traders, it becomes difficult."

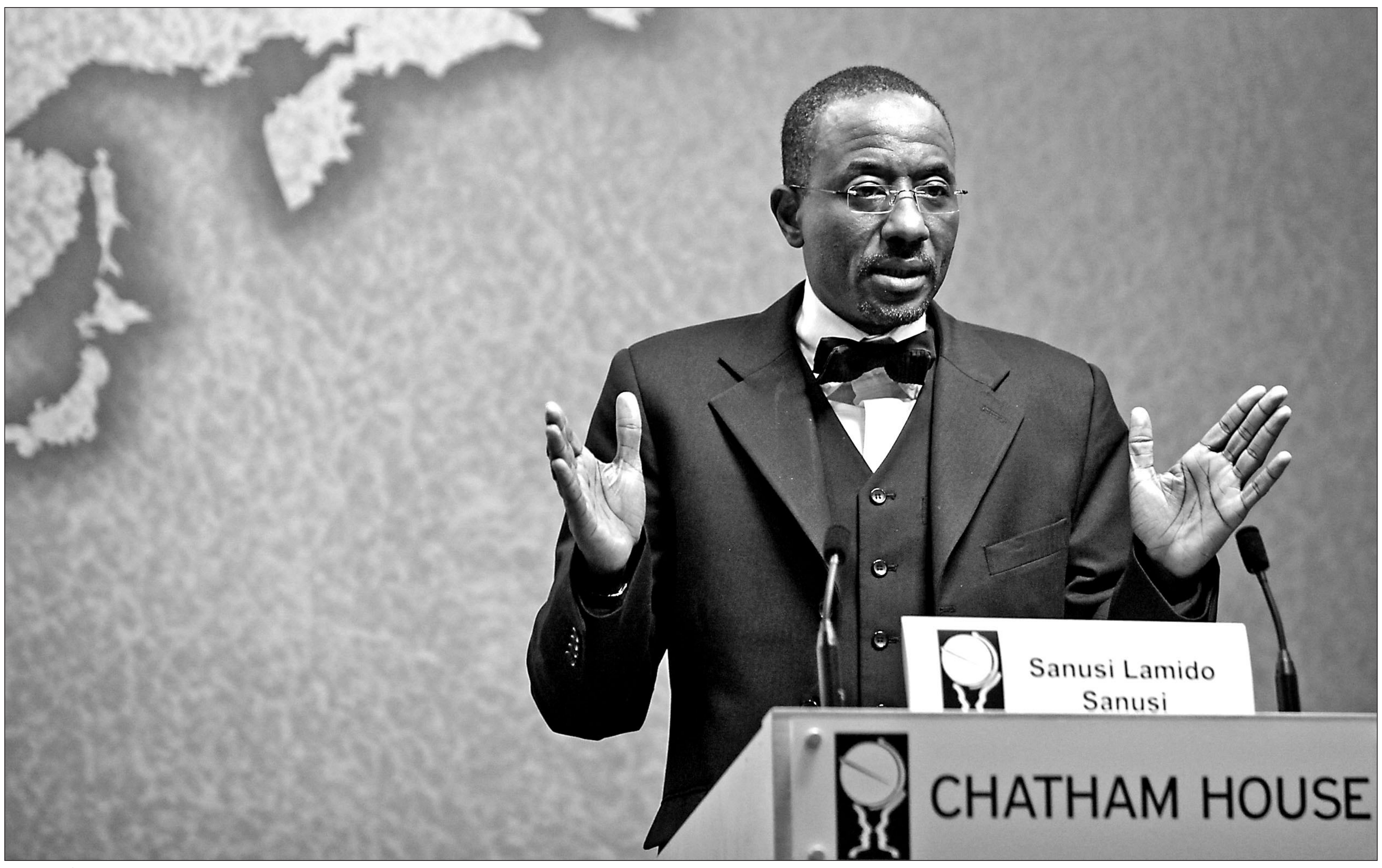
But Mr Osinowo, the pastor who sat in the front row of the class with a Chinese-English dictionary and Ms Arowolo's textbook on his desk, is not complaining.

"I felt I had a calling to work among Chinese traders in Lagos," he says. "The only thing stopping me was the language barrier."

Movers and shakers in the new administration

Technocrats

William Wallis profiles some of the people responsible for the governance of a sometimes unruly country



Lamido Sanusi: the central bank governor helped keep the flame of reform alight during several years of lacklustre government under Umaru Yar'Adua Bloomberg

Ngozi Okonjo-Iweala
Finance minister

When former president Olusegun Obasanjo brought Ms Okonjo-Iweala in from her previous job as vice-president at the World Bank, where she had spent a 20-year career, he needed to prove that reforms were paying off.

He had staked his reputation on fighting corruption and on winning a reprieve from a crippling $32bn external debt.

On both counts, he was foundering. Between 2003 and 2006 Ms Okonjo-Iweala helped turn the situation around. With a Harvard degree in economics and a PhD from Massachusetts Institute of Technology, she spoke the right language at G8 summits, winning over the likes of Tony Blair, then Britain's prime minister, and Sir Bob Geldof, the campaigning rock star, when they were seeking an African champion to lend weight to their pursuit of debt relief.

After spending several years back at the World Bank as a managing director she returns to the cabinet as finance minister with a new enlarged brief to oversee economic reform.

Lamido Sanusi
Central bank governor

Mr Sanusi helped keep the flame of reform alight during several years of lacklustre government under the ailing president Umaru Yar'Adua, who died in office last year.

Following the stock market crash in 2008 when the extent of margin and "insider" lending by some of the country's banks became clear, he has helped restore sanity to a financial system grown rotten at its core.

Under his watch, the CBN has pursued criminal cases against four bank executives charged with money laundering and fraud.

An Islamic scholar and experienced private sector banker, Mr Sanusi is enforcing new regulations and encouraging the banks to lend more and more effectively to the private sector.

A left leaning intellectual, he is also a champion of development and is using the central bank to promote agriculture growth and wants to see tariffs used more effectively to protect and stimulate industry.

Akinwumi Adesina
Minister of agriculture

Akinwumi Adesina worked for years in Nairobi as the deputy head of the Alliance for Green Revolution in Africa, which is chaired by Kofi Annan, the former UN secretary-general and promotes food security and sustainable agriculture based on smallholder farmers.

An agronomist by training, Mr Adesina's experience and contacts with the likes of the Bill and Melinda Gates Foundation, as well a stint at the Rockefeller Foundation could help provide the bold experimentation the sector requires. Agriculture in Nigeria has seen impressive growth in the past few years thanks to population increases, use of land and labour but yields have barely increased since independence.

The appointment of an independent thinker and expert at a ministry traditionally led by political appointees and that became synonymous with fertiliser rackets has raised hopes of a genuine revival in farming.

Anyim Pius Anyim
Secretary to the government of the federation

The secretary to the government of the federation sits between the presidency, ministries, national assembly and civil service, the interface of public administration.

Anyim Pius Anyim was a surprise choice for a position typically reserved for seasoned technocrats. President of the senate in 2000-2003 and a career politician from Imo state, his appointment appeared designed to appease the east, excluded from the presidency and senior national assembly appointments.

Effective implementation of President Jonathan's "transformation agenda" will depend as much on Mr Anyim's proven talents as a politician as his ability to harness the administrative scope of one of Nigeria's most powerful offices.

Andrew Azazi
National security adviser

Keeping the peace in Nigeria is never an easy job.

With one insurgency in the Niger delta more or less under control, retired General Andrew Azazi, national security adviser, finds himself occupied with tackling the emerging threat of Islamist extremism.

In 2011, Boko Haram (western education is a sin) took its campaign to Abuja, with devastating attacks against police headquarters and the UN. A former head of military intelligence, Gen Azazi was an informal adviser to the president long before his appointment as NSA in October 2010.

He is looking to build on delicate relations with foreign allies to support efforts to prevent jihadist groups from consolidating their foothold in Nigeria, while also dealing with a host of more localised security difficulties.

Hassan Tukur
Principal secretary to the president

In a political and business culture that celebrates nothing so much as the "big man", President Goodluck Jonathan is something of an anomaly: as self-effacing as he is reserved, and with no obvious obligation to any particular "godfather".

But the presidency remains the main institution in government, occupied with everything from the development of long-term strategy to dealing with day-to-day crises.

It is the job of the principal secretary to keep the presidency focused and on top of issues.

Hassan Tukur is a career foreign services officer, fluent in seven languages, who has quietly worked at the centre of every administration for 30 years.

A Muslim from Adamawa State, he is one of very few northerners to have the confidence of the president, with a growing reputation as the official who understands what is needed and how best to deliver it.

Deziani Allison-Maduekwe
Minister for petroleum

The first Nigerian woman minister for oil, Ms Allison-Maduekwe, has rattled cages since her appointment last year.

A former employee of Royal Dutch Shell, her father was in charge of the company in Nigeria. That may have initially reassured the status quo But not for long.

The Petroleum Industries Bill she has championed would secure a greater share of revenues for the state.

Lobbying efforts by the oil majors have led to the bill being watered down and delayed.

The minister, who wields growing influence, is reputedly close to President Jonathan and hails from his Bayelsa state in the oil producing Niger delta.

Princess Stella Oduah
Aviation minister

One of a clutch of powerful women in the cabinet, the aviation minister describes herself as an "Amazon" on her own website. British Airways and Virgin Atlantic have discovered this to their cost.

A businesswoman with interests in oil and gas Ms Oduah has picked a fight with the British carriers, fining both a combined $235m for alleged price fixing, and threatening to prevent BA from landing at Lagos, a move that would cost it one of its most lucrative routes.

This was a retaliatory measure after Nigerian airline Arik Air had slots removed from Heathrow.

Tycoons put a professional veneer on business of giving

Philanthropy

A fresh generation wants to make its mark, reports **Parselelo Kantai**

Many people may be sceptical about the rash of foundations on the Nigerian landscape.

Charity, rather than a more schematic philanthropy, has long been the preserve of leading politicians' wives, providing, some would say, a gloss to the patronage networks that continue to hold the country's politics together.

The entry of deregulation-era business oligarchs, brings in a high-profile dimension in what was previously something of a sideshow.

About a year ago, Tony Elumelu, former United Bank for Africa supremo, started a new chapter. Having been forced into early retirement by a central bank directive on chief executive tenure limits in the banking industry, Mr Elumelu, 48, found himself at a loose end.

Being one of the oligarchs who benefited from economic liberalisation and banking reform, Mr Elumelu has become a philanthropist.

"I wanted to build something catalytic and profound. African businesses need role models. I myself was influenced by western role models growing up.

"But, given what I have achieved, I started realising that it was actually possible, even in this environment, to achieve a lot.

"I do not believe that giving cash donations or the usual award of cash scholarships is the way to go. I wanted to engage," Mr Elumelu says.

His vehicle is the Tony Elumelu Foundation (TEF), a pan-African venture set up in August 2010 to finance promising business start-ups and SMEs on the continent, deepen public-private partnerships, and mentor a new generation of business managers.

Adopting the view that Africa's problems require African solutions, Mr Elumelu coined what he calls "Africapitalism" – wealth creation for social good.

"Africapitalism is not capitalism with an African twist; it is a rallying cry for empowering the private sector to drive Africa's economic and social growth," he says in the foundation's newsletter.

A decade before the Tony Elumelu Foundation, TY Danjuma, a retired military-era general turned businessman, set up his own foundation. It reputedly has a $500m endowment and focuses on social service delivery in marginalised areas.

Other foundations have been established since. The Fate Foundation was perhaps the first to signal the shift of philanthropy towards the business sector. Targeting young business leaders and small entrepreneurs, the Fate Foundation says it has fostered the growth of more than 1,000 businesses since its inception in 2005.

Its founder is Fola Adeola, who started Guaranty Trust Bank and, together with Nuju Ribadu, the Action Congress of Nigeria presidential candidate, made an unsuccessful run at the last election.

While many of the new foundations have restricted themselves to the domestic scene, it is an emerging sense of internationalism, most recently embodied by Mr Elumelu's foundation, that has brought attention to Nigerian philanthropy.

> It's about money, ego and legacy. It serves the need for businessmen to increase their international profile

"It's about three things: money, ego and legacy. It serves the need for wealthy Nigerian businessmen to increase their international profile while maintaining local relevance," says a Lagos-based public relations consultant.

It may well be that Nigeria's wealthy have taken the cue from the western buzz around African-targeted philanthropy, and closer to home, the success of such initiatives as the foundations of Kofi Annan, the Ghanaian diplomat who served as the seventh Secretary-General of the UN, and Mo Ibrahim, a Sudanese mobile communications entrepreneur and billionaire.

Whatever the case, the TEF, newest kid on the philanthropy block, has moved swiftly to secure an international profile. Recently, the foundation went into partnership with Tony Blair's African Governance Initiative to create public-private partnerships across the continent.

The Blair-Elumelu partnership is something of a coup for the TEF. Unfazed by Mr Blair's diminished international stature since the Iraq war, and charges of image laundering, Mr Elumelu justifies the partnership as strategic.

He says: "I'm not concerned about his reputation, I'm more interested in leveraging his experience. I'm not in a position to judge his past. Also, Tony Blair helped a number of African countries, especially in the area of debt forgiveness."

The development of an Africa-centred philanthropy could well run the risk – like so many western aid initiatives – of throwing good money after bad. The TEF is, however, optimistic that its grounded knowledge of the continent and its emphasis on investment rather than charity, makes it less likely to make the mistakes of its western predecessors.

"We believe our knowledge of the continent means that $10m invested by us will have more impact than $100m spent by others," Mr Elumelu says.

At the moment, however, Nigerian philanthropy is in uncharted waters. The lack of a regulatory framework means the lines between private equity financing and philanthropy can easily be blurred. There is little scrutiny of the source of funds.

Still, as the concept of African philanthropy is projected across the continent, new relationships are being fostered.

One of the TEF's initial investments is in a large collective farm in southern Tanzania, where Heirs Holdings, the foundation's investment vehicle, has injected an undisclosed amount to develop potato varieties, a first for an African philanthropic organisation.

Tony Elumelu: in partnership with Tony Blair's African Governance Initiative

Driving the imagination and hips of a continent

Rhythm of the beat: Nigeria's entertainment industry is expanding rapidly and the local music business has embraced online marketing AFP

Art and culture

Parselelo Kantai reports on the Naija entertainment phenomenon

It is not clear where or when the term "9ja" (or Naija) originated as slang for Nigeria. Commonly used by young people in the age of social networking sites, it has become a powerful evocation of hip Nigeria.

Across Africa and beyond, the mention of Naija chimes with a vaulting youth culture and fast expanding entertainment industry. Nigeria may be the continent's troubled big brother; Naija is a different proposition altogether – the party-animal sibling with all the latest music.

The change in the country's reputation has everything to do with the phenomenal growth of the entertainment industry. Hit releases from Naija's young artistes are a standard feature of nightclubs in capitals across the continent, capturing the imagination and hips of a generation of Africa's youth in much the same way Congolese music did for an earlier one.

Likewise, the international success of the country's artists, writers, photographers and fashion designers.

But it is the success of the Nollywood film industry that is most responsible for the buzz around Naija. For the past 15 years, the video-film industry has churned out low-budget productions at an astonishing rate, said to average between 20 and 40 a week, each of which sells about 30,000 copies, with blockbusters selling as many as 500,000 copies. Employing about 1m people, it has become one of the largest private sector employers in the country.

Purchased cheaply by African TV stations and wilfully pirated both in and outside Nigeria, Nollywood productions have turned their leading actors into continental celebrities. The likes of Genevieve Nnaji, Rita Dominic and Jim Iyke are regularly trotted out by Nigerian embassies for promotional roadshows.

The government may be using Nollywood to extend the country's diplomatic reach, but it has been slow to formulate strategies to exploit the industry's potential further. As in most African countries, the creative economy has developed before government policies have been devised.

The rise of Naija has recently interested the World Bank. In a report on the potential of creative economies, the Bank notes that exports of "creative goods" from developing countries more than doubled their share of the world economy from 20 per cent in 1996 to 42 per cent in 2005.

Recognising the potential of the Naija entertainment industry, the Bank recently launched a $200m fund to finance individual artists. Managed by the Nigerian Bank of Industry, the aim is to deepen links between art and entrepreneurship.

Working with the British Council, the initiative has so far trained 300 "creative entrepreneurs" and is engaging government and industry stakeholders to draft an intellectual property law.

"We discovered that while there was a huge number of people in the creative industry, they were not necessarily skilled business people," says Ojoma Ochai, assistant director at the British Council.

But for Nollywood, as well as the Naija entertainment industry as a whole, the lack of government support has deepened the crisis of intellectual piracy.

Produced fast and cheap, Nollywood films arrive in Nigerian households through an informal but highly efficient distribution system set up by electronics traders selling video cassettes and recorders.

While Nollywood has gamely fought the pirates over the years, the failure of government agencies to clamp down on piracy, as well as official inertia in regulating intellectual property has deeply frustrated the industry. "Where is my government? I have worked in this industry for 20 years and have never seen the hand of government coming to support us, even as we are criticised for making poor quality films," says Yinka Akanbi, a film director.

There is little doubt that piracy is the biggest problem. So much so, says Ms Ochai, that "the artists have now surrendered to the pirates".

In the past, marketing was conducted independently of the pirates, she says. Today, established artists as well as hungry newcomers are willing to cut deals with pirates in the hope that subterranean marketing will raise their profiles.

Not everybody has given up just yet, however. The internet has provided producers with new ways of sidestepping the pirates. Increasingly, filmmakers and music producers are selling their wares online, using social networking sites as both marketing and distribution tools. And in Nollywood, there is an increasing recognition that the box office may be just as profitable as direct DVD sales.

> If Nigeria is continent's troubled big brother, Naija is the party-animal sibling with all the latest music

"Before 2009, there was hardly any Naija film that wasn't going straight to DVD. Now, you're seeing a situation where at least two are heading straight to cinemas every month," says Ms Ochai.

Naija music has adapted faster. At Storm 360, a leading record label in Lagos, online marketing has become part and parcel of the business.

"We're more than just a record label. We like to look at ourselves as lifestyle producers. We build the artist as a brand, get him on to big shows and release the music online," says Olisa Adibua, a co-director at Storm.

The label has also developed a unit devoted to marketing releases online. "There are 3.7m Nigerians on Facebook. Social networking has made it easier to market music, but it's also taking the industry to another level. It's like instant karma. You can start a spark without moving from the comfort of your bedroom," says Mr Adibua.

Taking advantage of the power of the Naija brand, the label has also made links with record labels in east Africa to channel its music.

"When we were starting out, people were calling my father and asking him how he could let me pursue such a profession.

"Today, mothers are bringing their daughters to my record label," he says.

Demand proves insatiable for Nollywood on the net

Profile
Iroko Partners

Diaspora fans are providing profits, says **Simon Mundy**

Jason Njoku's company attracts a monthly audience of 1m

Nollywood, Nigeria's low-budget film industry, has left its mark across much of Africa, with copies of the movies on offer at markets throughout the continent. Most of these are illegal copies, however, meaning most Nigerian film-makers derive little financial benefit from their international popularity.

Yet the internet is beginning to change that, says Jason Njoku, a London-born web entrepreneur who has attracted a worldwide monthly audience of more than 1m to his Nollywood streaming service.

"The demand has been insatiable," Mr Njoku says. His company, Iroko Partners, is racing to keep up: it has bought the online distribution rights to 1,600 films since November last year.

"We've never done any marketing at all, ever. It all comes down to the content. It's just word of mouth, basically.

"It's kind of cool to be Nigerian at the moment. Africans, especially those abroad, are turning back to the cultures and the value systems they're used to.

"In Nollywood, you have an all-black cast with names that may sound like your own. In any Nollywood movie there's always this sense of overcoming adversity – it's very aspirational."

Nollywood sprang up in the 1990s as home video cameras allowed films to be produced at lower cost. Even now, a typical budget is only $30,000. The industry turns turn out more than 2,000 films a year, making it the world's second-biggest film industry by output after India's Bollywood.

But Nollywood has suffered financially because of piracy and a huge increase over the past decade in the number of production businesses. Its financial plight was the trigger for a $200m entertainment fund pledged last year by President Goodluck Jonathan – although little of that money has been distributed so far.

The fragmented nature of the industry, with more than 500 production businesses, is a boon for Mr Njoku, whose experience has been unlike that of Netflix, the US film streaming site, which has faced tough negotiations with five or six big Hollywood studios.

Run on YouTube's infrastructure, his Nollywood Love website was cash flow-positive within two months of its launch last December, with all revenues coming from advertising.

Turnover for the first year will be "comfortably above $1m", Mr Njoku says, and much of the profit will be ploughed into improving the service, with a spruced-up website due to launch next month.

Mr Njoku's success with Iroko follows a string of failed internet ventures after he graduated from Manchester University in 2005. "I was poor, broke, doing the whole entrepreneurial thing of failing miserably," he says.

The turning point came when he realised the scale of Nollywood's popularity among his Nigerian family and friends in the UK.

"I was surprised that someone who has access to *EastEnders* and *Sex and the City* would put those aside and start watching Nollywood. But people I knew in the west had stopped watching English content and were looking to Nigeria."

Much of this demand from the diaspora has been filled by pirate videos. New York authorities, for instance, seized more than 10,000 bootleg Nollywood films in November 2010.

> 'In any Nollywood movie there's always this sense of overcoming adversity – it's very aspirational'

While slow download speeds and limited internet penetration meant online distribution in Africa was restricted, Mr Njoku identified a vast, untapped market among African Nollywood fans in North America, Europe and other developed regions.

The proposition was also bound to be attractive to the film producers, who had previously gained almost no income from foreign sales of their films.

The idea might easily have flopped for lack of investment, however. Nigerian banks are widely accused of a reluctance to lend to small businesses. Raising debt or venture capital from abroad was out of the question. "The words 'internet' and 'Nigeria' are toxic to most," says Mr Njoku.

The required £100,000 ($160,000) of initial funding was provided last year, in return for a 50 per cent stake in the business, by Bastian Gotter, a university friend of Mr Njoku who had gone into a career as an oil trader at BP.

Mr Njoku moved to Lagos and immediately set about buying the rights to films. But establishing market prices proved complicated in the absence of competing buyers.

"I'm the only person who has ever approached [producers] to license this content legally," Mr Njoku says. "When I started, I was buying movies for less than $200. But when I was able to look at how the monetisation patterns worked out, I realised it was way too little. It didn't seem fair to me."

Mr Njoku's driving up of licensing fees – he now pays between $3,000 and $10,000 a film – has raised the barriers to entry for others looking to emulate his model. For the moment, he is more concerned with the existing competition, in the form of more than 50 pirate websites offering Nollywood films illegally.

Iroko's five-strong legal team wants have the sites shut down to protect its newly acquired copyright.

Yet Mr Njoku is confident the long-term trends are on his side. Africa contributes a tiny share of Iroko's profits. It has more viewers in Malaysia than in Nigeria, and Africa as a whole provides only 10 per cent of its viewers.

But that proportion will rise to 90 per cent, Mr Njoku predicts, as broadband penetration on the continent expands.

Growing pains: traditional, small-scale farmers are benefiting from modern fertiliser and improved seeds but they still battle to obtain credit Bloomberg

Fresh blood for farming sector 'whose real enemy has been oil'

Agriculture

Simon Mundy reports on plans to revitalise an industry that employs two-thirds of the workforce

Idowu Oladepo grabs the stem of a tall maize plant, pointing to its fat, bright yellow cob. The farmer, in the village of Igbo-Ora, in south-western Nigeria, says modern fertiliser is bringing significant improvements in the yields generated by some local growers of such crops as maize, cassava and rice.

His enthusiasm is shared by other local farmers, who are increasingly aware of the benefits to be gained from fertiliser, improved seeds and modern machinery. Yet their ability to realise these gains is held back by the difficulty of obtaining credit: most small farmers cannot use their land as collateral because they do not hold formal title to it, and Nigerian banks are reluctant to lend to a sector they see as excessively risky.

Even if they did increase production, the farmers say, a lack of infrastructure and storage facilities means that much of the crop would go to waste. Meanwhile, they seethe at the mention of government subsidies, which, they say, are largely lost to corruption.

The farmers in Igbo-Ora reflect the country's broader failure to make the most of its potential in agriculture.

The sector accounts for nearly two-thirds of the workforce and 40 per cent of gross domestic product. It generated much of the economic growth over the last decade, as the population grew and usage of arable land increased. Yet the overwhelming majority of farming is conducted on a traditional, small-scale basis, with smallholders eking out a meagre living using inefficient techniques.

There are hopes that this situation will change. Akinwumi Adesina, was appointed minister of agriculture in July after a garlanded career as an agricultural economist – a marked contrast with his predecessors in the role, who were typically political appointees.

Mr Adesina has attracted attention with his ambitious plans to reverse the decline in agriculture since independence in 1961. Formerly the world's biggest palm oil producer with 27 per cent of global exports, its market share had slipped to 0.07 per cent by 2008. It has a similar proportion of the market for groundnuts, having accounted for 42 per cent of international trade in the crop in 1961.

Meanwhile, food imports are increasing at 11 per cent a year, leaving the country vulnerable to inflationary pressure as global food prices rise. Mr Adesina has vowed to achieve big increases in production of commodities such as cocoa, cotton and cassava within four years.

In a hard-hitting internal document seen by the FT, he ascribes Nigeria's "inability to compete" in agriculture to factors including low rates of mechanisation and fertiliser use, a failure to develop competitive marketing bodies, and relatively low government investment – 2 per cent of gross domestic product.

Mr Adesina's proposed reforms include the establishment by the central bank of a "risk-sharing" facility that would partially guarantee bank loans to agriculture, and is intended to make $3bn in loans.

> Once the world's biggest palm oil producer, with 27%, its share had slipped to 0.07% by 2008

Special zones for processing staple crops, stimulated by tax incentives and state-funded infrastructure, will help drive a "rapid transition to an export-oriented agricultural economy".

The inefficient fertiliser subsidy system will be replaced with one that distributes discount vouchers directly to farmers, cutting out the corrupt middlemen who undermine the existing model.

Ivana Osagie, head of the seeds division at Notore, the country's leading fertiliser producer, says that Mr Adesina has brought fresh impetus to a ministry that was "neglected" for decades, as successive governments were distracted by the lucrative revenues from oil and gas. "The real enemy to agriculture in Nigeria has been oil," she says.

Notore, however, has turned hydrocarbons to its advantage. Its factory in the port of Onne is run using the abundant local supply of natural gas, which it converts into nitrogen-based fertiliser. The company is building a network of local representatives across Nigeria's farming regions – including in Igbo-Ora – encouraging awareness of best practice, and providing better-quality fertiliser than is available from other sources. The company also plans to distribute improved seeds on a large scale, Ms Osagie says.

Mr Adesina is keen to encourage more private Nigerian fertiliser producers to help spread fertiliser use beyond the 11 per cent of farmers who currently use it in significant quantities.

But improving the productivity of smallholders will only take the sector so far, says Chris Okeke, a prominent commercial lawyer, who recently decided to pursue farming on a full-time basis.

Mr Okeke's investment group, Wicklow, has acquired 71,000 hectares of land in order to develop large farms that will benefit from greater economies of scale, he says. "Nobody ever showed me a country that was built on peasant farming," Mr Okeke says, pointing to the productivity increases achieved as large-scale farming took off in Brazil. "No matter how efficiently you run that peasant model, it will never substitute the $4bn [of annual food imports]. Although it's not popular with the aid agencies, you have to concentrate on the bigger players."

Mr Okeke argues that wage labourers employed on his farms will gain the skills they need to set up their own commercial operations, while he is establishing local hubs that will give other farmers access to fuel, storage and soil testing facilities. "The success of the small people is based on the big ones," Mr Okeke says.

The debate around the best ways to boost agricultural production is attracting more attention from the government, raising hopes of effective intervention to boost "the whole value chain", says Ndidi Nnoli-Edozien, president of the Growing Businesses Foundation.

Although Nigeria is the world's second-biggest importer of rice, there is no reason why it could not meet its own requirements in the crop – and indeed become a big exporter, she says.

"But there are quite a few people making quite a bit of money from importing rice, so you've also got to look at the way business interests are aligned. "We've got to create an environment that makes it more economically worthwhile to invest locally. And then you have to pray that the policy framework will remain consistent," she says.

Meat business is bullish about changing tastes

Company profile
Zambeef

The chain wants to win customers from street markets, says **Christopher Thompson**

Getting hold of fresh steak in Nigeria often requires a strong stomach.

"Which piece do you like?" inquires the market vendor in Warri, pointing to three pieces of indiscriminate flesh dripping from butcher's hooks on his makeshift wooden stall.

A glance to the side reveals the meat's provenance. Barely 10 metres away lies the mutilated carcass of a freshly slaughtered cow, still being jointed, with the butchers occasionally swatting flies.

The vast majority of Nigerians buy their meat from such open-air markets. But Zambeef, a London-quoted agriculture company with headquarters in Zambia, hopes to change that by becoming the country's first chain of over-the-counter butchers.

"Lagos slaughters more cattle in a day than Zambia does in a month – but the vast majority takes place in backstreet slaughterhouses with poor hygiene and poor cattle," says Yusuf Koya, Zambeef's executive director. "So for us Nigeria is a market not to be ignored."

Zambeef moved to Nigeria in 2005 as part of a joint-venture with Shoprite, the South African supermarket group. It was joined by Game, the consumer goods store owned by America's Walmart, Spar, a Netherlands-based supermarket chain, and Chigo, a Chinese retailer of electronics, among others, all looking to tap the small but growing middle class.

Shoprite was looking for reliable suppliers of meat to hungry Nigerian shoppers brought up on *suya*, sticks of meat marinated in spices and cooked thoroughly over charcoal.

Despite bullish predictions, growth was initially constrained by the lack of a reliable, hygienic meat supply and having to truck cows, pigs and chickens – sometimes imported – along Nigeria's potholed roads to a Lagos processor and on to the butcheries.

So Zambeef came up with a novel solution: build an abattoir.

The company purchased an unused farm in Ogun state, 60km north of Lagos, as part of a $3m investment to build a feed yard, abattoir, processing plant and a freezer room.

Now it is able to rear, slaughter, process and store meat.

"Some of the states do have abattoirs, but they fell into disuse," says Pieter Swanepoel, managing director of Zambeef's west Africa operations.

"Nobody was willing to pay a fee per cow killed when the guy in the market would do it for less or just take the head as a fee."

A world away from the roadside butchers in Warri is the plush Palms shopping mall in Victoria Island, Lagos, an air-conditioned retail playground for expats and well-heeled locals.

Insulated from the heat and the flies outside, it is home to one of Zambeef's flagship butchers, whose busy trade in steak, chicken and sausages generates a monthly turnover of nearly $500,000.

The profile of a typical customer browsing the counter's sirloins and hamburgers is what Zambeef describes as "high net worth to middle income".

However, it is increasingly attempting to attract the street-market shopping classes raised on grilled intestines and cattle hooves.

"Our beef, chicken and pork competes with the markets, where they hack off a piece, give a price and customers haggle it down as much as they can," says Mr Swanepoel, who points out their shelves are empty of pork chops, because of shortages at the local markets.

"We have a continuous supply and if market customers buys their meat at Shoprite, they know exactly what they're buying and at what price."

Another project is education. Most Nigerians did not know the difference between a T-bone steak and a sirloin or why one would be more expensive.

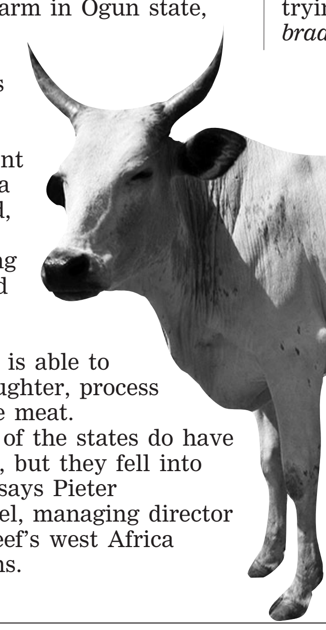
"Our customers must be educated enough to know the difference between a sausage and a pattie and why there's a price difference," says Mr Swanepoel. "And that offers an interacting opportunity with our customers."

After a slow start – Zambeef had just one outlet until 2009 – the company now has butchers inside three big Shoprite stores in Nigeria. It expects to have 10 Shoprite butchers by 2015, aided by the new abattoir which will be operational by next year, slaughtering 100 cattle a week.

Zambeef has also opened five Master Meats outlets in Lagos over the past two years, pioneering the concept of "bespoke butchery".

"It was a brand new concept – if the customer says 'I can only afford X' then the butcher will cut the customer that specific amount," says Mr Swanepoel.

"At the end of the day we're trying to change *suya* into a *braai* [barbecue] meat."



On the hoof: Lagos slaughters more cows in a day than Zambia does in a month

Shift in shopping habits brings bags of opportunities

Retail

Businesses vie for share of market, says **Simon Mundy**

Apple's iPhone may have swept across most of the world, but there is little sign of it in Nigeria, even among the elite.

The US electronics company has not authorised the sale of the phone in the country – indeed, only one Nigerian retailer is licensed to sell any Apple products at all.

Yet that solitary retailer, Superior Equipment, has been enjoying annual sales growth of about 30 per cent for the past four years at its site in Victoria Island, an upmarket part of Lagos.

Next year it will double its turnover, predicts Chike Oyeka, chief executive, who is planning to open four further outlets: one in Surulere central in Lagos, and three in other cities including Port Harcourt, in the oil-rich Niger Delta.

Mr Oyeka's ambitions reflect those of Nigeria's young, upwardly mobile consumers.

"A few years ago our customers were mostly Nollywood people and the like," he says. "Now it cuts across all walks of life . . . Nigerians are very aspirational; they always want the latest and the best."

The growth of a new middle class was the subject of a report published in September by Renaissance Capital, a Russian investment bank that focuses on emerging markets.

The survey interviewed 1,000 Nigerians with annual incomes of about $7,000, and concluded that the country's middle class was "booming", with big potential for growth in sales of items such as washing machines, presenting opportunities for mass retailers.

Gross domestic product per capita could reach $2,500 by 2016, up from $390 in 2001, Renaissance forecast.

However, Aggrey Maposa, west Africa chief executive for RMS International, an African business research group, warns that claims of a growing middle class should be treated with caution in a country where official statistics are thin on the ground.

"I agree that there is a great deal of growth in the GDP," he says. "However, I am sceptical of the idea that many more people are becoming middle class.

"I'm of the opinion that the people who are rich are getting richer. There is a lot more money spent, but by the same people."

Despite Nigeria's stubborn inequality levels, however, advances in telecommunications promise to drive new growth in consumer spending among those on lower incomes.

Mobile banking is expected to enjoy an rapid uptake, enabling the poor to manage their finances and resulting in greater disposable income.

There are signs of a shift in shopping habits among middle-income groups.

The formal retail sector remains relatively undeveloped: even among Renaissance's relatively prosperous focus group, 73 per cent still did some of their shopping at open-air markets, compared with 62 per cent who used convenience stores.

The main difference lies in cultural attitudes rather than prices, says Mr Maposa. "The prices are quite comparable. But the lower classes still find it a bit awkward to go and do their shopping in [supermarkets]."

As tastes move towards formal sector retail, however, US-style shopping malls are springing up across Lagos to accommodate electronics retailers, jewellers and clothes shops eager to take advantage.

So far, most have been concentrated in the wealthy areas of Victoria Island and Ikoyi and the upmarket Lekki Peninsula, where The Palms opened in 2006, with 21,000 square metres of retail space housing 69 shops.

But retailers' desire to target more than the island-dwelling elite is reflected by the opening in November of the Ikeja City Mall – with a five-screen cinema – on Lagos's bustling mainland.

South African supermarket groups are seeking to snap up much of the prime space in the new malls. With little competition from indigenous rivals or the big international groups, they are battling with each other for an early foothold in the mass retail sector.

Shoprite will open its sixth Nigerian store next year, while Cape Town-based Woolworths will open three outlets in December. Massmart, which currently has only one branch in Nigeria, is expected to expand more aggressively when its takeover by Walmart of the US is completed in the next few months.

"Walmart will absolutely transform the retail environment, and it will happen faster than we think," says Nick Blazquez, president of the African operations of the drinks company Diageo.

"If the big retailers of this world – Tesco, Carrefour – want to grow, where are they going to grow? Nigeria, and Africa as a whole, represent a huge opportunity. I fully expect significant investment over the next few years by these global retailers."

Guinness, one of Diageo's main brands, opened its first brewery outside the British Isles in Nigeria in 1962. Diageo now sells a range of drinks in the country, and has seen unprecedented levels of growth in the past three years, with net sales rising from £265m (£420m) to £475m.

It is halfway through a £225m investment programme to increase its bottling capacity in Nigeria.

Growing incomes and urbanisation are driving "premiumisation", says Mr Blazquez.

"A 330ml bottle of Guinness here in Lagos costs N200. That's twice as much as you pay for Harp [lager], which is the same price for 660ml.

"But people are prepared to pay that premium . . . because it's a good quality brand and they like to be seen drinking it."

As with many other products, per capita beer consumption remains low compared with other countries, providing big growth potential, Mr Blazquez adds.

"The image of Nigeria is somewhat tarnished . . . but there's an awful lot of really good stuff. Brand Nigeria is not a true reflection of the opportunities here."

Top buy: washing machine sales have big potential

Difficulty making the right connections

Railways

Robert Wright reports on the parlous state of the country's network

Colonial-era films of Nigeria's ports, even some relatively minor facilities, such as Burutu in the Niger delta, feature one piece of equipment that is now absent.

Whether on the quayside at Apapa, still the main port for the sprawling city of Lagos, or in Akassa, on the outermost edge of the Niger delta, the there was always some kind of rail facility for moving the goods onwards.

However, competition from road transport and a lack of maintenance have combined to see both Nigeria's rail traffic and the tracks themselves gradually deteriorate.

Now, however, there is widespread agreement that the lack of a good rail network – particularly to handle freight movement on the long journeys from the ports to inland cities such as Abuja, Kaduna and Kano – is seriously hampering development.

Michael Schabas, an international railway consultant working with Murtala Hammanyero Nyako, governor of Adamawa State in the north-east, says poor roads mean that it costs $2,000 and takes three days to move a truckload of cattle from the state to market in Lagos. Many others in the transport industry bemoan the lack of rail transport.

Lars Molgaard, managing director for the Nigeria cluster of Damco, the logistics arm of Denmark's AP Møller-Maersk, ranks the condition of transport infrastructure as one of the most serious issues facing the economy.

Idris Umar, federal transport minister, made the latest pledge to revive the railways in July while visiting work on a new 186km line linking Abuja and Kaduna that is being built by China Civil and Engineering Construction Company.

He told journalists accompanying him that Nigeria had a 25-year plan to ensure the railway system, which he admitted had been "comatose" for decades was "fully resuscitated".

"Countries that have developed all over the world got to that level because of the presence of an effective railway transportation system," he said.

Yet one of the main questions will be whether Nigeria can avoid repeating the mistakes of previous efforts to revive the railways, including a modernisation push between 1978 and 1982 led by rail consultants from India that enjoyed initial success but failed to prevent chaos when the consultants went home.

There are already concerns about the most recent efforts. The Nigerian Railway Corporation this year had to close parts of the just-rehabilitated Lagos to Jebba line amid complaints about the standard of CCECC's work on the line and the materials used. A weekly Lagos to Ilorin express service was finally launched in late October, however. Cement – one of the commodities most in demand in Nigeria – is also being carried on the line.

"They've spent money restoring it two or three times," Mr Schabas says of the rail system as a whole. "They've paid a lot of money to contractors to restore the track, but then they're unable successfully to manage or maintain it successfully. They don't have the traffic and they can't operate it successfully."

All change: bringing the network up to scratch will involve as many technical as managerial issues Reuters

Idris Umar, federal transport minister, says he has a 25-year plan to ensure that the 'comatose' system will be 'fully resuscitated'

Questions about the railways' future involve technical as well as managerial questions.

The Victorian-era builders of the railways constructed most of the system to the same, narrow 1,067mm track gauge used on some Welsh mountain railways, rather than the 1,435mm standard gauge used on the British mainline and most other rail systems around the world.

While the narrow gauge allows the trains to negotiate sharper bends than a standard gauge system, it imposes significant restrictions. Indecision about whether to stick with the narrow gauge or build new, standard-gauge lines means that Nigeria is developing a patchwork of different track gauges.

Mr Schabas is advocating a new, standard-gauge line on the more than 1,000km route between Yola in Adamawa State and the port of Calabar, in eastern Nigeria, rather than trying to rehabilitate existing narrow-gauge lines.

"With standard gauge, you can double-stack containers and run reasonably fast intercity passenger trains, whereas, if you stick to narrow gauge, you cannot do much faster than 100kph," Mr Schabas says.

The new Abuja to Kaduna line is also standard gauge, but the refurbished Lagos to Jebba line remains narrow gauge.

Yet the delays and false starts that have bedevilled many of the rail projects are all the more frustrating, according to many people in the logistics industry, because the potential benefits of better communications between the hinterland in areas such as Adamawa and the coast are so substantial.

Mr Molgaard, like many involved, points out that parts of the interior boast a climate similar to the Brazilian state of Mato Grosso, which, thanks to its good road and rail connections, is able to import large quantities of fertiliser and export significant quantities of wheat, soya and meat. Admawa at present exports very little.

"It's fantastic farmland up there, but getting perishables down is another thing," Mr Molgaard says.

Mr Schabas, however, remains optimistic that a new, standard-gauge line can not only give areas such as Adamawa proper access to the coast, but might eventually form part of a still more ambitious project.

The state governor has commissioned him to produce a feasibility study to link the planned railway across Niger and the Sahara to Libya's rail system, eventually giving Nigerian farmers a quick route for their produce to Europe's Mediterranean ports.

It is a project far grander even than anything that west Africa's former colonial masters dreamed of accomplishing.

"If this were one country, this railway would have been built a century ago and would be carrying 50m tonnes of traffic a year," Mr Schabas says. "The economic logic is compelling."