NIGERIA Part 2

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The emerging voice of Africa

Encouraged by successful reforms, investors are aiding Nigeria along its path of economic development and diversification

As Africa's most populous country and with a host of natural resources at hand, Nigeria has steadily built on its position as a standard bearer for the continent as a whole.

Under President Goodluck Jonathan and his People's Democratic Party (PDP), this country of 170 million has forged for itself a key role on the international stage as it looks to build on its reputation around the world.

With steady GDP growth averaging at around 7 per cent over recent years, along with the recent implementation of a more prudent fiscal plan and a steady relationship with both Western powers and countries such as Russia and China, Nigeria remains one of Africa's most prominent players. And although the global economic climate has affected the country, income from relatively steady oil prices have helped Nigeria to continue to develop and improve.

Over 80 per cent of the government's revenue is derived from oil-related products and services, while 95 per cent of its foreign exchange earnings also comes from this sector. Inevitably, the global slowdown has hit the country's oil-related income over recent years. However crude oil output has remained steady recently at around 2.4 million barrels per day.

The country is keen to attract foreign investment and President Jonathan has repeatedly stressed his desire to create attractive economic conditions to achieve this. Nigeria's economy has also been boosted by new avenues for expansion, including the telecommunication, banking, construction and manufacturing industries. These areas are all expected to deliver opportunities for growth, with the country's banking and telecommunications sectors seen to offer particular potential.

Nigerian financial organisations are already broadening their scope to new territories. Seven lenders have moved in to Ghana, while the requirements of the oil industry are likely to provide further opportunities. The telecommunications industry has also seen recent investment, with South African firm MTN spending $3.1 billion on upgrading its mobile network in the country, an example of the direct investment being made to build and improve upon Nigeria's infrastructure.

On a visit to Berlin in April, President Goodluck Jonathan firmly reassured German businesspeople that Nigeria is safe for investment

With non-oil sector growth expected to help drive economic expansion, the government has also focused its attention on policy reform plans, including an increase in capital project budgets across a number of sectors. And while many of the hopes around these sectors have failed to live up to expectations in previous years – largely due to ongoing problems around infrastructure and administration – President Jonathan's pro-active approach to reforming public sector and dealing with corruption is beginning to be seen to have a positive impact.

The country's leader has already asked Nigeria's anti-corruption agency to look into claims that illegal fuel subsidy payments are being made, estimated at $6.8bn, while he is also hoping to drive home reforms in the domestic electricity supply market – a key requirement for future growth – by involving private companies to develop the country's network.

Importantly, the President has also been refocusing attempts to deal with the ongoing problems with Islamic fanatics Boko Haram in the north of the country.

This area has suffered from high unemployment and underdevelopment, leading to President Jonathan appointing new staff and adopting a new stance towards reforming the area to reduce social tensions and improve the local economy. These tactics are seen as a positive step in moving towards a more stable political set-up, and helping to ensure the country's progressive economic stance remains in place.

A new minimum wage is also being introduced to help the lowest paid sectors of Nigeria's workforce. Although this – along with funds put into failing banks – has caused inflation concerns, with the figure expected to remain stubbornly high at around 9.6-12.7 per cent over the next three years, the government intends to try to control this through a close focus on monetary and fiscal policy.

These actions have brought extended international attention to President Jonathan, who will remain in power until 2015 after he won the national elections on 16 April 2011, which were widely commended for their transparency and fairness.

Following that victory, German Chancellor Angela Merkel visited Abja in 2011 to congratulate Mr Jonathan (becoming the first head of state of a major world power to visit the country since President Jonathan's re-election), and Nigeria's leader returned the visit, travelling to Berlin in April 2012. The two countries are currently set to inaugurate a bi-national commission which will strengthen economic, security and diplomatic ties. There are also hopes that German companies can increase their investments and involvement in Nigeria's liquified natural gas industry, among others. The African country has the world's eight-largest reserves, with much of the resource relatively underdeveloped due to a focus on crude oil production, leaving the nation keen to involve foreign partners to develop the industry.

With such relationships abroad, and with a cohesive and forward-thinking plan of action for the country itself, Nigeria is continuing to attract investment and interest from companies and leaders based around the world. Add plans to build and improve all areas of the country's economic, political and social spheres, and Nigeria is well-placed to continue enjoying its prominent position as Africa's leading nation.

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Nigeria's mobilised finance sector is making massive progress

The nation's banks are functioning again thanks to a highly comprehensive rescue package from the Asset Management Corporation of Nigeria (AMCON)

The Asset Management Corporation of Nigeria (AMCON) has gone a long way towards stimulating new growth in Nigeria's financial system since it was established in 2010. Set up by the Central Bank of Nigeria (CBN) and the Ministry of Finance, the corporation's role is to positively assist the economy by complementing the recapitalisation of affected Nigerian banks; provide opportunities for banks to sell off non-performing loans; free up valuable resources and enable banks focus on their core activities; and basically, get banks lending again.

Tasked with cleaning up the banks' balance sheets following a multibillion-dollar rescue of eight failing institutions, AMCON absorbed their non-performing loans, exchanging them for government-backed bonds. By buying up the bad loans that were crippling the banks, the corporation has enabled them to continue doing business and making new loans to facilitate the running of the economy.

Lamido Sanusi, Governor of the CBN, has praised AMCON for what it has achieved so far in its campaign to reduce non-performing loans.

"With AMCON buying up the banks' toxic assets, the remaining bank debt will only be between 300 billion and 400 billion naira [$1.89bn-$2.52bn]; this will reduce the credit crunch in the system and allow banks to resume their lending roles to the economy," he says.

Thanks to AMCON's intervention, the Nigerian financial sector is back in business

"We have acquired approximately N3.14 trillion-worth of loans, of which we have recovered N600 billion so far."

Mustafa Chike-Obi, Managing Director and CEO of AMCON

"We are very satisfied with progress so far," comments AMCON's CEO and Managing Director, Mustafa Chike-Obi. "We have set an ambitious target for this year in terms of debt recovery. We have acquired approximately N3.14 trillion-worth of loans of which we have recovered N600 billion so far."

Jibril Aku, Managing Director of Ecobank Nigeria, has also praised the CBN and the creation of AMCON, highlighting that the latter "helps resolve the portfolio challenges of the banks so that they can resume their business and lend to the sector."

Alex Otti, Managing Director of Diamond Bank PLC, further testifies to AMCON's success. He says: "The banking industry cannot be forgotten in this ambitious growth that the government has set for itself, and AMCON and the CBN have played a key role in repositioning the industry."

Nigeria's banks are queuing up to praise AMCON for its assistance. The Managing Director of Afrinvest West Africa Limited, Ike Chioke, adds: "AMCON puts banks back on the path of liquidity to enable them commence lending."

"The strong banks probably dipped in terms of profitability but absolutely nothing happened to their capital base," states Olusegun Agbaje, Managing Director, Guaranty Trust Bank. "The setting up of AMCON has obviously helped because that allows the banks to sell off some of their assets."

Despite AMCON not being equipped with regulatory powers, the institution has contributed significantly to improving relationships between the private and the public sectors, and has introduced more transparency and good governance to the Nigerian financial sector.

"I think the Central Bank does this with its reform agenda and standards," says Mr Chike-Obi. "We have helped free banks from being undercapitalised – by injecting liquidity into the banks we have helped the banking system.

"ANCOM is well-governed and transparent and it can set an example to other institutions, not just banks, as to how a government agency can be run in a transparent way and with integrity," he adds.

With the Nigerian banking sector now back on track there are real growth opportunities for the sector. AMCON will continue to strive towards creating a stable financial sector.

AMCON completes deal with largest debtor

Nigeria's Asset Management Corporation is shaking up the financial sector with its NPL-restructuring programme

The Asset Management Corporation of Nigeria (AMCON) has concluded a deal with its largest debtor, Zenon Petroleum, to settle a N140 billion ($880 million) loan. The news has received mixed reactions from the financial sector because it comes after the publication of a blacklist of AMCON debtors created by the Central Bank of Nigeria (CBN). Those listed are prohibited from receiving further loans from Nigeria's banking sector until they settle with AMCON. Zenon Petroleum was on the blacklist.

Mustafa Chike-Obi, CEO and Managing Director of AMCON, explained in a CNBC Africa interview why Zenon had not been subject to the rules of others on the blacklist. He said: "Zenon's settlement was initiated before the blacklist was created – we have been valuing Zenon's assets for six months; this has been a long process."

The restructuring of non-performing loans (NPLs) is helping to ensure a more secure financial future for Nigeria. Those who borrowed from the banking system and are not able to repay will not be in a position to receive credit again five or six years down the line. AMCON is ensuring that only borrowers with the ability to repay loans are granted credit in future.

Sale of bridge banks on hold

AMCON has revealed that it is holding onto its three bridge banks until it can divest of them while making a return on its investment. AMCON stated in November this year that they were not yet ready to sell. One option is to list the banks' shares on the stock exchange. Mr Chike-Obi predicted that the Nigerian Stock Exchange will reach 40,000 basis points by the end of 2013, and so there will be a possibility of offloading the banks to investors in 2014.

AMCON bought the defunct Spring Bank Plc, Bank PHB Plc and Afribank Plc last year after they failed to meet a deadline to recapitalise – and in doing so injected N679 billion to raise their capital adequacy ratio to 15 per cent. They were then renamed Enterprise Bank, Keystone Bank and Mainstreet Bank, respectively.

The value of the nationalised banks is being determined before AMCON takes any decision on the best way to privatise them. RenCap and Citibank have been appointed to value the three bridge banks and advise on how maximise their value before disposing of them.

Banks and private equity investors expressed interest in acquiring the nationalised lenders, but have been slow in moving forward with acquisitions.

AMCON took banks off life support

The Asset Management Corporation of Nigeria (AMCON) frees banks from toxic assets to boost credit flow into the economy

The global economic crash of 2008 had a devastating effect on the Nigerian banking industry, leaving it in a critical condition. It became heavily burdened by a number of problems. The banks were left with a crippling amount of non-performing loans (NPLs), with the NPL ratio in a number of banks as high as 60 per cent.

The tumultuous state of the banks meant that they were reluctant to lend. As the credit line dried up, Nigeria's real economy began to suffer greatly. The stock market declined up to 60 per cent from its pre-crash highs of early 2008.

The Central Bank of Nigeria (CBN) had identified that eight of the country's banks were in a grave financial condition, and subsequently injected N620 billion ($3.9 billion) in an attempt to keep them afloat. Confidence in the sector was at an all-time low. These events marked the all out failure of top-level management at the banks, leaving the CBN no choice but to hire interim managers to run them. Due to the loss of confidence and the global economic downturn, the foreign credit line was withdrawn from a number of the country's banks.

The need for urgent resolution was clear, leading to President Goodluck Jonathan, with the assistance of the CBN and the Ministry of Finance, to establish the Assets Management Corporation of Nigeria (AMCON). The organisation was the mechanism they envisioned that would take the country's banking sector off life support.

Under the successful leadership of Mustafa Chike-Obi, Managing Director and CEO of AMCON, it has so far proved to be the principal revitalising force of the Nigerian banks, and ultimately the country's economy.

"AMCON has become the best thing that has happened to Nigeria's financial economy," wrote Odilim Enwegbara, an international financial analyst from Nigeria.

"AMCON's intervention saved 90 per cent of the jobs in the banking sector," Mr Chike-Obi states earnestly.

President Jonathan has listed AMCON amongst his proudest achievements.

However at the beginning, the role of AMCON was unclear to some in Nigeria. Mr Chike-Obi recalls: "People thought we came to take over the banks, not knowing that we intervened to prevent Nigerian banks from collapsing and helping depositors from losing their money." At the time, the general perception was that depositors' funds in a number of banks were at risk.

The proof of AMCON's successful intervention is certainly on paper. By acquiring the Nigerian banks' NPLS, it has managed to take 80 per cent of NPLs out of the system.

"What our banks went through was the same thing that other banks all over the world have gone through; it is part of a cycle. Through more stringent regulatory measures, we are trying to make sure that the banks' NPLs do not exceed 5 per cent," Mr Chike-Obi said in an interview in November 2011. Now most of the banks are under 5 per cent ratio.

The total assets of banks grew significantly, by 35 per cent between 2009 and 2011.

In a progress report released by President Jonathan's administration, it states: "Several banks fell short of the CBN capital adequacy ratio pre-AMCON. Following AMCON's intervention, all the banks in Nigeria now have positive capital adequacy ratio…[the] injection of funds by AMCON into the banks have improved their liquidity thereby enabling them to concentrate on their core business of lending."

Between 2009 and 2011, liquidity growth was 60 per cent and the banks' deposit base grew by 26 per cent during the same period.

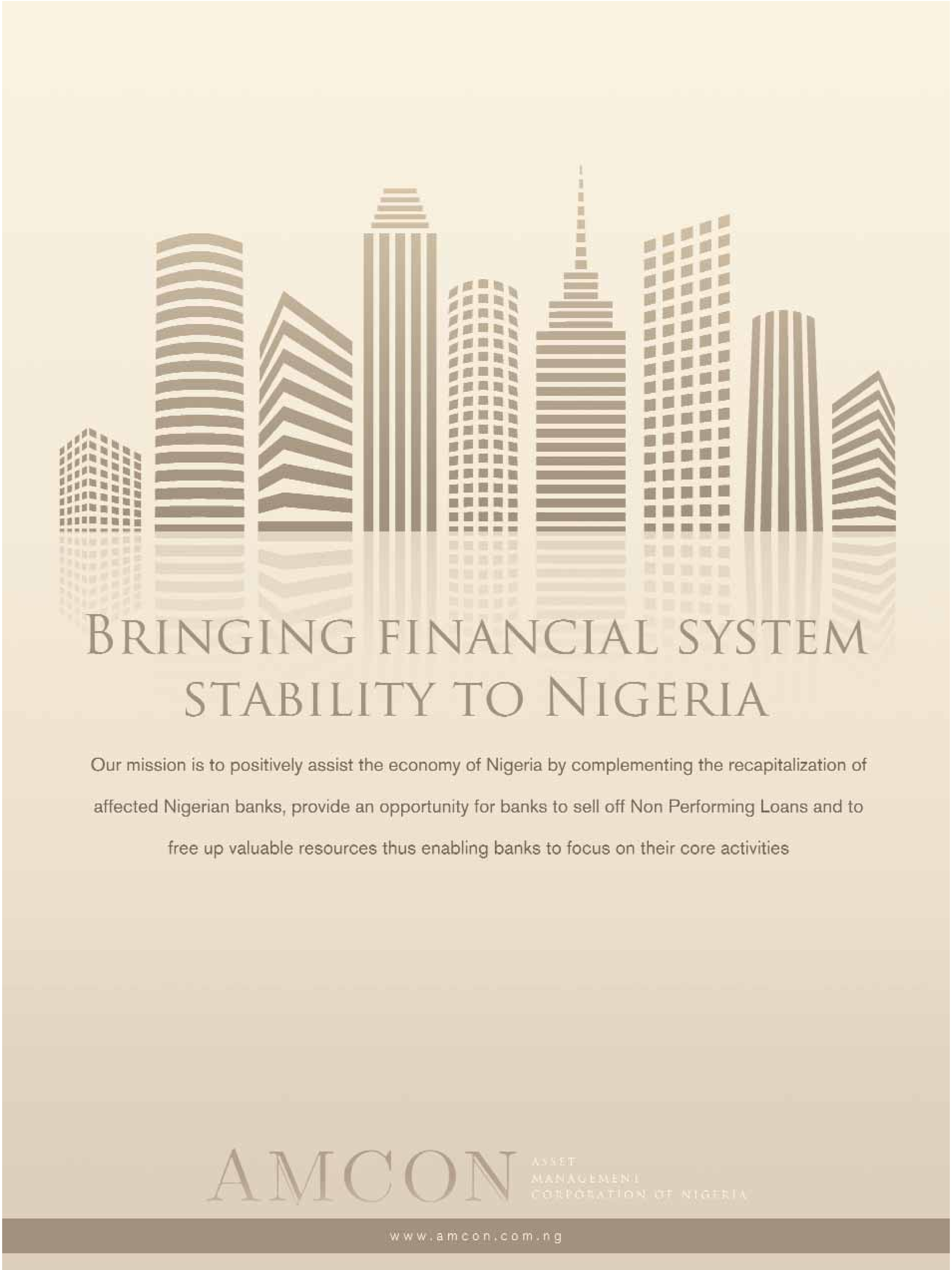
"AMCON's intervention saved 90 per cent of the jobs in the banking sector."

"By injecting liquidity into the banks we have helped the banking system so they can make loans in the real economy."

Mustafa Chike-Obi, Managing Director and CEO of AMCON

Now, confidence in the system has been restored, and AMCON's CEO assures that the Nigerian banking sector is very sound, and adds: "By injecting liquidity into the banks we have helped the banking system so they can make loans in the real economy."

Considering the success story that AMCON has been, and the praise being heaped upon it, it is ironic that Mr Chike-Obi's outright objective is to see its dissolution. The hope is that one day there will no longer be a need for it. "I just want to make sure that it achieves what it is designed to do and becomes a smaller part of the Nigerian economy. I would love to be redundant as quickly as possible," he says.


Bringing financial system
stability to Nigeria
Our mission is to positively assist the economy of Nigeria by complementing the recapitalization of affected Nigerian banks, provide an opportunity for banks to sell off Non Performing Loans and to free up valuable resources thus enabling banks to focus on their core activities
AMCON
ASSET
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"We are determined... to reform the oil and gas industry to root out inefficiency and corruption."

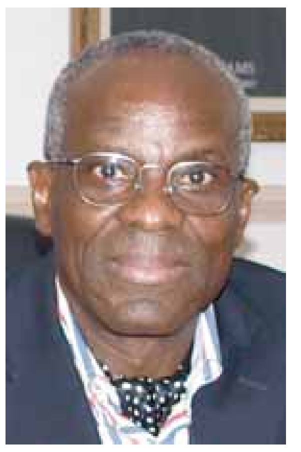
Diezani K Alison-Madueke, Minister of Petroleum Resources

"Much of the gas discovered in this country was found by looking for oil."

Chief Tunde J Afolabi, Founding Managing Director of Amni

"The growth of the oil industry has been quite phenomenal over the past couple of years."

Dahiru Mohammed, CEO of DAMAGIX

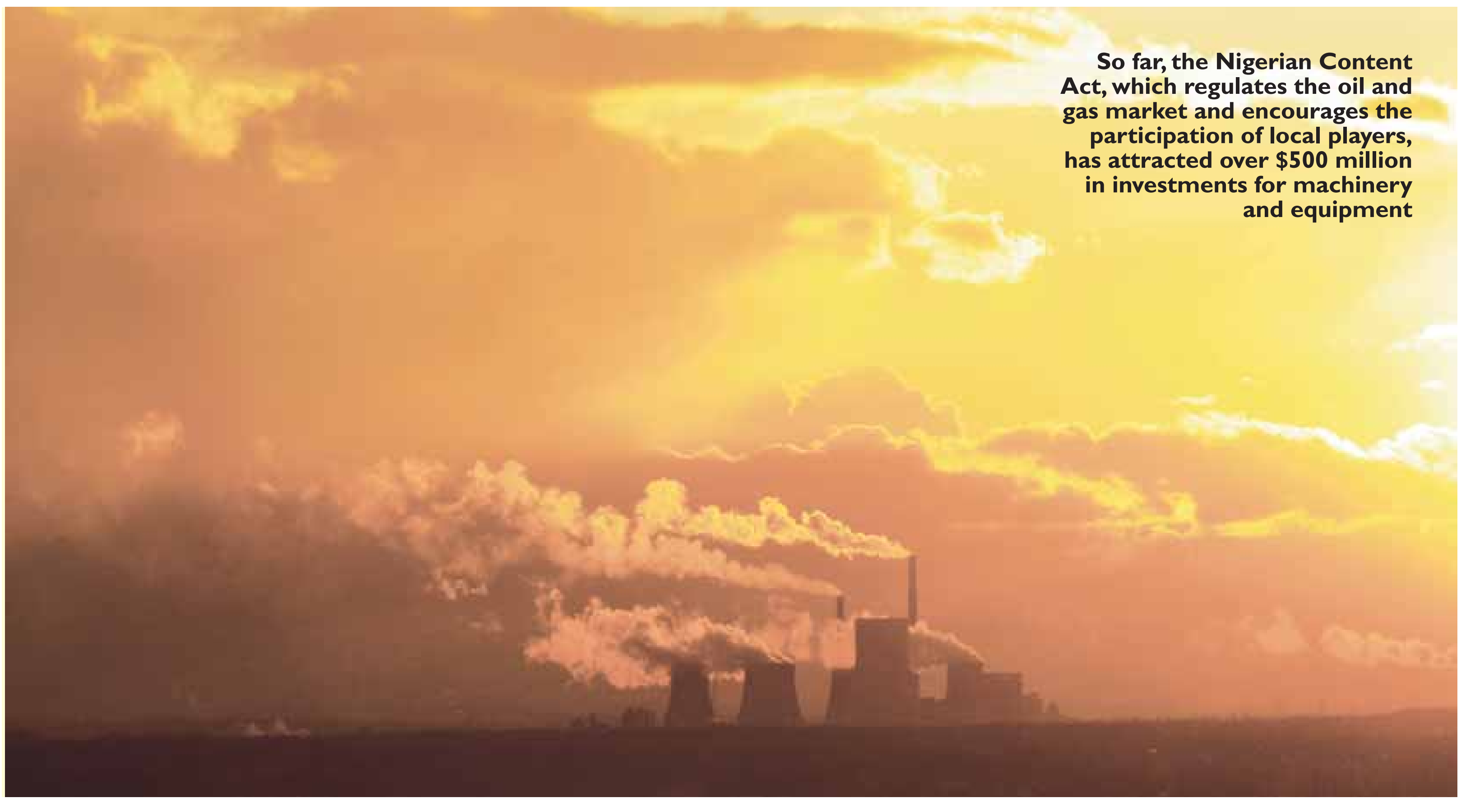


"There are quite a lot of new opportunities for German investors in oil and gas."

Layi Fatona, Managing Director of NDEP

Local businesses take a more active role in the exploitation of oil and gas

The Nigerian government is committed to a real social and economic development through better use of its resources



So far, the Nigerian Content Act, which regulates the oil and gas market and encourages the participation of local players, has attracted over $500 million in investments for machinery and equipment

Since its entry into the Organisation of Petroleum Exporting Countries (OPEC) in 1971, Nigeria has emerged as the largest oil producer in Africa. The oil sector has been the main cause for growth in the Nigerian economy in recent decades, and still accounts for over 95 per cent of exports and 40 per cent of state revenues, according to IMF data.

The seemingly inexhaustible source of oil in Nigeria was discovered by the British in the middle of the last century in the Niger Delta. Soon black gold miners and oil companies came to the region to exploit Nigeria's reserves. That translated into benefits for the Nigerian government and work for local communities, but also tensions and conflicts.

The country has proven oil reserves, expected to reach 40 billion barrels in the coming years, but it will have to provide the conditions for new companies to come to participate. In 2011 only three wells were drilled, compared to 20 during 2005.

Fire, sabotage, mismanagement and lack of understanding have hindered the normal operations of the oil companies, who sometimes work at 40 per cent capacity.

Companies working in the swamps of the Niger Delta have, in recent years, increased their production rates steadily; however, they are still far from their maximum potential. Last year, oil production stood just over 2.5 million barrels per day, significantly lower than the estimated capacity of 3 million barrels per day.

Something similar happens with Nigeria's gas reserves, the largest in Africa, which still have not been taken full advantage of, due to lack of infrastructure. Since there is no channelled area, many companies prefer to burn the gas associated with oil extraction rather than process it.

Currently 75 per cent of the gas emanating from the extraction wells is burned off, with a consequently high environmental cost. In order to stop the flaring of gas and at the same time, tap the unexplored potential of this energy source, the Nigerian government is making great efforts to promote the construction of pipelines and encourage the production and use of natural gas in the region.

The measures, which include a series of tax incentives and regulated facilities in the state program Petroleum Industry Bill (PIB), chase streamline oil and gas exports while providing electricity to the needy local market.

With this new regulatory framework, the Nigerian authorities seek to attract investments worth $108 billion between 2012 and 2025. Nevertheless, it is not only the oil and gas sector that stands to benefit; it is expected that proceeds from the plan will also reach the Nigerian people.

The government is keen to invite local companies to participate in the oil market. So far, only 5 per cent of the oil extraction is done by Nigerian companies. Moreover, the federal government, in accordance with the OPEC, aims to supply national industry with fuel from domestic production, thus cutting out in some cases, the middle man.

Although Nigeria ranks among the top ten countries in the world for oil reserves, most crude is exported. Therefore, Nigeria must create a larger network of refineries and modernise the existing ones.

The Nigerian National Petroleum Corporation (NNPC) has said that its three refineries at Port Harcourt, Warri and Kaduna will reach 90 per cent capacity by December 2013, so they are trying to attract investment to help them increase their production.

Chinese companies are already taking advantage of this opportunity, and so far have started the construction of three new greenfield refinery projects.

The government's implementation of the Nigerian Content Act, which has regulated the oil and gas market since 2009, has attracted investment worth more than $500 million for manufacturing machinery and equipment for the industry.

The Minister of Petroleum Resources, Diezani K Alison-Madueke in a recent press conference in Yenegoa, the capital of the region of Bayelsa, reiterated her support for this initiative that promotes public-private initiatives and partnerships between local and foreign companies in the hydrocarbon industry.

"Government is committed to this programme and would continue to encourage our partners in the private sector and international community to support the implementation, which is not an effort to drive foreigners out of the industry but a requirement to develop genuine partnerships between local and foreign companies," she said.

With the proposed Petroleum Industry Bill, Nigeria's government aims to attract $108 billion in investments in the oil and gas industry between 2012 and 2015

Nigeria must build more refineries if it is to add value to its production of crude oil and natural gas at home for domestic use

The Armada Perkasa FPSO, one of Amni's major crude oil production, storage and export facilities

Creating value in the indigenous upstream oil and gas sector

Amni Petroleum has shown that an indigenous oil and gas company can survive and prosper in Nigeria – no mean feat, given the intense competition in this highly lucrative sector

Since its incorporation in 1993, Amni International Petroleum Development Company Ltd has discovered and developed vast gas reserves, and has forged strategic partnerships with major players including Abacan, Total and Afren. The company was originally granted two five-year Oil Prospecting Licences (OPLs) which it successfully developed, and has since gone from strength to strength.

Exploration and drilling activities began in early 1995, in partnership with Liberty Technical Services, a subsidiary company of Abacan Resource Corporation of Canada. Full production started in December 1996, and during the first year of operation, a total of 6 million barrels of oil was produced, most of it exported.

As a result of this successful work programme, the OPLs were converted into long-term Oil Mining Leases (OMLs) in 1998 and 1999.

As part of an initiative to bring more accountability to operations in mid-1998, the partnership between Amni and Abacan was dissolved. Amni assumed sole operatorship of the concession, but the company faced enormous challenges, mostly financial, during this period. However, these hardships strengthened the company, giving it the advantage of experience, and Amni has lived up to the Latin motto "*fortitudine vincimus*" (through endurance we conquer).

Today Amni has set new standards for itself, and is determined more than ever to exceed them.

In 2005, Amni entered into agreements with Canada-based Total through its subsidiary Total E&P Nigeria Limited (formerly Elf Petroleum Nigeria Limited), under which Total acquired a 40 per cent interest in OMLs 112 and 117. Total relinquished its rights to the crude oil from the current developed reservoirs in Ima Field effective from April 2007.

Total subsequently relinquished both its right to participate in and any future right of re-entry into the development of Okoro/ Setu Fields. This allowed Amni, in March 2006, to enter into agreements with Afren Energy Resources, a wholly owned subsidiary of Afren Plc, for the Okoro/Setu (exclusive area) fields development.

However, Amni still maintains healthy deals with Total, with whom they have an agreement for IMA Gas, by which Amni develops the gas reserves until production, with Total then covering costs out of revenues from gas production.

The outlook for 2012 and 2013 is good, with Amni aiming to have at least eight producing wells under full field development – and the company is, as ever, looking for interesting partnerships. Founding Managing Director, Chief Tunde J Afolabi, a professional geologist with over 30 years experience in the oil and gas business, says:

"When Amni succeeds, its partners succeed, and vice versa. It is a symbiotic relationship where one does not look at the other as a junior or senior partner.

"The fact that we have operated all over the world with a varied background and the fact that we speak the language in terms of what it takes to succeed in business, I think is something that any company that is in business and who would like to partner would find comforting – they would not be joining with a novice, and they will succeed."