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WEF on Africa 2014: Positioning Nigeria for infrastructure investment

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In 2008, when Kingsley Eze, a Nigerian entrepreneur, met with Norman Markgraaff in South Africa to explore partnerships in real estate projects in Nigeria, it was clear to both parties that he was swimming against the tide. Corruption and 419 fraud letters hung like a halo over Nigeria. Boko Haram was yet to join the mix. As Chief Executive of Private Estates International, Norman had been in the real estate business for over 35 years, built thousands of housing units, expanded the business into other parts of Africa but had never considered the Nigeria market.

Kingsley had a simple strategy for the meeting. He would acknowledge the gory stories of fraud but would show that they were not endemic to Nigeria. He would recount how Vodacom passed up an opportunity to acquire a GSM license in Nigeria, and how MTN, which at the time was the number 3 operator in South Africa, took the leap of faith with Nigeria and became the biggest phone operator in Africa. When Norman asked for another example, Kingsley discussed the performance of Shoprite, a South African retailer that had recently entered the Nigeria's retail space. If that meeting was held today, Kingsley would have proudly informed Norman that Shoprite has become so successful that it plans to build 44 retail outlets within the next three to four years. According to the Economist magazine, the seven Shoprite outlets in Nigeria sold more bottles of Moet & Chandon champagne than all the Shoprite outlets in all of Johannesburg combined.

That is the quantum of return on investment Nigeria delivers. According to Jim O'Neill, an economist, Mexico, Indonesia, Nigeria and Turkey (MINT economies) are expected to produce the highest return on investment in the next 10 years. In fact, Nigeria is poised to become one of the world's largest economies in the 21st century overtaking economies such as Italy, France and the United Kingdom.

This goal is realisable. Between 1999 and 2012, Nigeria's GDP grew at an average of 7.9 percent. This is remarkable when compared with a GDP growth rate of 2.2 percent in the United States, 1.8 percent in the United Kingdom and 0.4 percent in the Euro zone, notwithstanding that Nigeria is starting from a much lower economic base. In this same period, Nigeria became the second largest economy in Africa (behind South Africa) with a GDP per capita that grew from US$700 to US$2,600.

In this same period, Nigeria has become an attractive destination for Foreign Direct Investments (FDI). Between 2010 and 2013, Nigeria attracted over US$20 billion in FDI, equivalent to 10 percent of the total FDI to Africa. This reversal of fortune has been attributed to Nigeria's current political, economic and demographic realities. Nigeria has had 14 years of uninterrupted democratic rule. The external debt portfolio decreased from US$36 billion (in 2006) to US$4.5 billion (in 2010) resulting in a debt to GDP ratio of 19 percent, one of the lowest in the world. Inflation has remained in the single digits. With 170 million people, Nigeria is one of the ten largest populations in the world. With over 60 percent of the population below the age of 25 years, Nigeria has more people eligible to work than otherwise.

Despite the phenomenal economic growth, unemployment is still a major challenge. Poor infrastructure is a key driver of the unemployment profile. Nigeria's economic growth is more remarkable given its low infrastructure stock. According to the National Planning Commission (NPC), Nigeria's infrastructure stock is about 35 percent of its GDP compared to 87 percent for South Africa. This situation offers significant opportunities for the savvy infrastructure investor. For instance, Nigeria generates about 3,600MW of power, which is about 13 percent of its projected electricity demand by the year 2015 (28,360 MW). There are not many countries in the world that provide this level of suppressed effective demand: people willing and able to pay for as long as the service is provided.

The NPC estimates that Nigeria needs over US$2 trillion in infrastructure investments over the next 30 years (2013-2043). To meet this investment need, Nigeria needs to ramp up its spending on infrastructure from the current 3-5 percent of GDP to an average of 9 percent over the next 30 years. Given Nigeria's high GDP growth projection for the period, such a ramp-up would be particularly challenging for the government. Therefore, private sector investment is critical to meet this need. The government has shown commitment to private sector-led growth. In September 2013, government privatised 15 power companies. Another 10 power plants are in the process of being privatised providing further proof of government's commitment.

Despite these opportunities, there is no doubt that investing in Nigeria is not for the faint of heart. The country still presents significant challenges for business development. The 2014 Doing Business report places Nigeria as 147 out of 189 countries, this is a 9-step drop from 2013. The 2014 Economic Freedom report placed Nigeria as 129 out of 175 countries, also a 9-step drop from its 2013 position. In terms of corruption, Nigeria is ranked 144 out of 177 countries on the Transparency International's 2013 Corruption Perception Index. Although the anti-corruption institutions still exist, there has not been any high profile case to communicate government's commitment to fighting corruption. However, continued commitment to privatisation of major government enterprises may be a way to reduce the size of government bureaucracy and stem the resultant leakages.

There is no doubt that Nigeria presents a compelling case for the infrastructure investors, like Norman, who are able to move beyond the gory "single story". Private Estates International set up office in Nigeria in 2010 and is currently developing a track of land measuring 1,100 hectares into the new Enugu Lifestyle & Golf City. The city, which is built around an 18-hole golf course, has a residential, commercial and industrial layout. This investment happened because an entrepreneur was willing to tell a compelling investment story and the investor was willing to listen with objectivity.

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