



AT A CROSSROADS

With its vast oil wealth, fledgling democracy and pressing need for infrastructure and development, Nigeria is predicted to become the fastest-growing construction market in the world. But big problems, not least violence and corruption, persist. Here David Smith asks whether now is the right time to do business there

Nigeria's construction market is a sleeping giant. A new report predicts that its oil wealth combined with poor infrastructure and a rapidly urbanising population will make it the fastest-growing market in the world between 2010 and 2020. But Nigeria is also hamstrung by political instability and endemic corruption, which will give pause to companies considering whether to try for a piece of the action.

The report, from forecasters Oxford Economics and Global Construction Perspectives, says Nigeria must develop its infrastructure to fulfil the economic potential inherent in its vast oil and gas reserves. The government acknowledges this is true, and has pledged to invest billions of dollars to expand infrastructure, but detail is lacking and unwieldy bureaucracy leads to chronic inefficiency.

The scale of Nigeria's infrastructure needs is mindboggling. Only 3.2 per cent of GDP is being spent on the built environment, a figure woefully short of the 20 per cent investment one would expect from an emerging economy. The UAE, for example, is spending 25 per cent of GDP on construction. In a ranking of 133 countries' infrastructure quality, Nigeria was placed 126th. Telecommunications links are non-existent in most places. Out of every 100 people, only 0.9 have a telephone line. Lack of reliable power is another major problem - Nigeria was ranked 131st in electricity supply and many foreign contractors have to build their own generators. The road and railway sectors are other areas requiring major expansion.

In principal, almost every sector will present opportunities for foreign contractors if the government honours its

investment promises. And if it fails to do so, it will cripple Nigeria's potential economic growth.

Nigeria's infrastructure requirements will only increase. It is the world's eighth most populous country, with 155 million people, and has one of the fastest rates of urbanisation. "Nigeria must build good-quality housing and office space in the bigger cities to unlock the potential in the high levels of urbanisation," said Graham Robinson, of Global Construction Perspectives. "Urbanisation can unlock Nigeria's productivity as it has done in China and India, where mass migration from the rural environment made growth almost exponential."

Nigeria is expanding its construction industry from a very small base. In 2009, the market was worth US\$7.75 billion, a drop in the ocean compared to China or India. But the latent potential is there.

"As soon as Nigeria can resolve some political issues, we should see major infrastructure programmes - air transport, ports, railroads, roads, telephones. It's possible to spend a lot of oil revenue on infrastructure," Robinson said.

What has been lacking from Nigeria's government is a clear sense of direction. A ministerial document entitled Nigeria Vision 2020 makes construction a central pillar of the plan to become the world's 20th largest economy in 10 years time. But detail about how that will be achieved is sketchy, and so is reliable data on spending plans.

"The Nigeria Central Bank and the Nigerian Statistics Agency don't produce much reliable data," said Marina Petroleka, head of global infrastructure at Business Monitor International. "India, for one, is much more transparent."

Still, Petroleka makes bearish predictions about construction. "Our data predicts robust growth. For 2010 we forecast construction industry value real growth of almost 7 per cent, which will rise to 13 per cent in 2011, then remain about 10 per cent from 2011-2014. Infrastructure will account for half of construction industry value over the 2010-2014 period."

Petroleka admits, though, that only tentative predictions can be made about Nigeria. It could expand even more than she suggests, but a number of variables make the level of growth uncertain.

"Firstly, you have deeply entrenched corruption on a federal and state level. The government has taken steps to uproot that, but still has progress to make. The worst situation is in the most crucial region, the Niger Delta, where the oil comes from. Infrastructure has repeatedly been a target for militant terrorist groups and more than 200 foreigners have been kidnapped since 2006.

"The problems are exemplified by what happened to the German firm Julius Berger, the biggest foreign construction company in Nigeria. In July 2008, some of their ex-pat staff were kidnapped and they shut down all Delta operations overnight," she said.

The Delta terrorists seriously retard Nigeria's economy. Attacks by armed groups caused oil production to fall from an average of 2.3 million barrels a day in 2005 to 1.1 million barrels in July 2009. Militant attacks pushed up the cost of repairs for oil companies in Nigeria from an average of \$2.2 million in 1999 to almost \$400 million last year.

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Amid a flurry of promises from President Umaru Yar'Adua, an indefinite ceasefire was called in October 2009. Oil production immediately showed the first positive growth in the industry for four years and raced ahead of its African rival Angola. It was expected to reach 2.25 million barrels a day in 2010, when the ceasefire was called off in February, 2010, and the Movement

for the Emancipation of the Niger Delta (MEND), resumed "all-out onslaught against installations and personnel".

It was dreadful news for Nigeria's beleaguered giant state oil firm NNPC, which has spent millions of dollars repairing vandalised pipelines since 2000. In 2009, it lost about 132 million litres of petroleum products as a result of theft and diversion. Losses and liabilities totalling more than \$2.5 billion are pushing the company towards extinction.

This is where the link between militant activity and the construction industry becomes clear. Not only does terrorism dissuade foreign contractors from entering the area to build better infrastructure, it also prevents efficient exploitation of natural resources. Oil provides more than 95 per cent of Nigeria's foreign exchange earnings and about 85% of budgetary revenues. The more efficiently it is mined, the more Nigeria can spend on infrastructure.

A second major problem is political instability. Despite concerns over the legality of elections Nigeria has had a democratic government since 1999, ending decades of dictatorships. But the government has been in a state of flux for months. Mystery surrounds the health of President Umaru Yar'Adua, who spent three months in hospital in Saudi Arabia being treated reportedly for heart problems before returning to Nigeria incognito in February 2010. His wife, Turai Yar'Adua, has denied access to him and speculation is rife that he is gravely ill. Thousands of demonstrators in Lagos have protested against the secrecy. Vice-president Goodluck Jonathan is Acting President and has another year in office before the next elections, but the situation has led to a power vacuum, with serious effects for peace and stability. Yar'Adua's disappearance disrupted peace talks with MEND, for one thing. In April Jonathan assembled a new cabinet to consolidate his position against Yar'Adua supporters. Jonathan made a senior executive at investment bank Goldman Sachs, Olusegun Aganga, finance minister. Aganga is seen as a reformer, and is expected to back efforts »

A collage showing contrasted Lagos, Nigeria: overcrowded, traffic-jammed, dilapidated, beautiful etc

BRITISH COMPANIES HAVE ALREADY LOST OUT HEAVILY TO CHINA AND OTHER COUNTRIES

THERE IS CORRUPTION, BUT THAT DOESN'T MEAN YOU CAN'T DO BUSINESS. YOU NEED TO UNDERSTAND THE ENVIRONMENT AND WORK AROUND IT

» for greater transparency and the fight against corruption.

"Doubt over the leadership has endangered peace efforts in the Niger Delta and frozen political reforms," said Petroleka. "Instability is another reason why it's difficult to assess the potential for foreign construction firms." For instance, government spending commitments are unclear. In October 2008 President Yar'Adua said the country needed \$510 billion for railways, roads, transmission lines, and power plants. But earlier this year Acting President Goodluck Jonathan downgraded the figure to \$100 billion over five years.

Corruption is another problem. "To be fair, it might as well be a trillion dollars," said Petroleka. "The funding gap is massive and the headwinds preventing investment are too great. Corruption and inefficiency infest the whole of the bureaucratic edifice and hinders absorption rates of finance. The government can earmark \$700 million for roads, but it doesn't mean it will all be spent on roads."

A stark illustration of the corruption issue is provided by the plight Nuhu Ribadu, the country's first chief of the fledgling Economic and Financial Crimes Commission (EFCC). He won international acclaim for his arrests and seizures of assets but he was fired in late 2007. He fled Nigeria in January 2009, saying his life was in danger. However he told Reuters in April this year that he believes that threat has gone and that he would be willing to return. The Nigerian press even reported that Acting President Jonathan was considering making Ribadu his special adviser on fighting corruption.

Inefficiency and corruption are not the only annoyances for foreign contractors, Petroleka says. "The law of concession is fragmented. It's hard to get contract enforceability. Foreign companies see the Nigerian legal system as unwieldy and nebulous.

"It's also difficult to get finance. Nigeria's banks are some of the strongest in Africa but don't have long-term lending capacity. And foreign banks are extremely cautious about betting on Nigeria.

"The government keeps reiterating they want to get the private sector involved through Public Private Partnerships (PPP). Initially, I was optimistic, but I've seen PPP coming to stalemates, hamstrung by the weak legal framework," she said.

As important as the reality on the ground is the widespread perception overseas that Nigeria is a difficult place to do business. "Building infrastructure is not just about investment. It's also a matter of expertise. Nigeria doesn't have the human capital to take on huge projects. It must attract foreign firms, but first must improve its image," she said.

The traditional caution of some British companies about working in Nigeria could be heightened if a new Bribery Bill becomes law later this year.

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"The law will make giving and receiving bribes an extra-territorial offence," said Richard Laudy, a lawyer with Pinsent Masons. "This means a British company could be tried in the UK for bribery abroad. The new law will also create a new corporate offence of bribery. It could be a concern for companies thinking about working in Nigeria, which has a reputation for corrupt business practises. It might come down to how confident they are that business systems won't offend the legislation."

Not everyone is full of trepidation about Nigeria. A more positive view is expressed by Bernard Obika, an executive

director at consultancy firm Roughton International. The British-born Obika manages Roughton's Africa projects and is also President of the Engineering Forum of Nigerians, which promotes engineering in Nigeria. He admits to a heartfelt desire to see foreign firms lending their expertise to the country.

"Nigeria is a developing country and has a lot of problems, but foreign firms, especially British firms, should not be put off. There is corruption, but that doesn't mean you can't do business. You need to understand the environment and work around it.

"My advice is to work with donors as a point of entry. Our first project was funded by the Department For International Development (DFID), and we also have projects with the African Development Bank (AFDB). The donors provide protection, guidance and transparency, which is invaluable when you are new to the market. They are not unlimited, but there is sufficient international donor interest to go around," he said.

"We've gone on to develop successful partnerships with local firms, though we do vet them carefully to make sure they have robust internal policies regarding corruption. Yes, there is corruption, but there are many pockets where you can work without necessarily getting involved with it," he said.

Obika says hesitant foreign companies should consider that higher risks often bring higher rewards. "If you want to make 5% profit, go with the established market, but the World Bank has said Nigeria offers high potential returns on investment. Telecommunications companies, such as South Africa's MTN, have made returns of over 35%.

"Lack of international interest also makes it an easy place to choose the best projects. British companies are in a great position because 'made in Britain' still carries weight. The Commonwealth links are strong. We're involved in rehabilitating the 3000-km railway line built by the British in the 19th century and we wouldn't have won that contract if we hadn't been British," he said.

Dr Sunday Popo-Ola, a Nigerian-born engineer and a research fellow at Imperial College, London, agrees that the British are too cautious. He says companies from Italy, Germany and France are doing well in Nigeria, whereas the British are holding back.

"UK shareholders are always looking for immediate results, so companies are less willing to take risks. The key is to set up in partnership with Nigerian firms as they know the system. Most of their engineers were educated in the UK, so it shouldn't be a problem to partner them. The UK has the same design codes and units for electricity and measurements, which makes it easier for British companies."

It is critical for European companies to act now, or they will cede valuable ground to the Chinese, Obika says. "The Chinese are going in heavy all over Africa. They need to build their capacity overseas to sustain growth at home," he said.

His view is confirmed by World Bank data, which says China invested \$5.4 billion dollars in Nigerian infrastructure between 2001-2007. That level of investment is even higher now, though, predictably, more up-to-date statistics are unavailable. The reason for China's interest is clear: The Financial Times has reported that China's state oil company CNOOC aims to bag a sixth of all Nigeria's proven oil reserves.

"British companies have already lost out heavily to China and other countries," said Obika. "Roughton bid for the huge

RIGHT: Weapons surrendered by mend leader and other militants in Bayelsa after a Nigerian Government offer them Amnesty



THE DELTA

Since Nigeria declared independence from British colonial rule in 1960, oil has been produced in the Delta. The government has passed laws placing oil resources under the control of multinational oil companies, such as Chevron and Royal Dutch Shell.

The region has seen decades of militant uprisings. The largest militant group, MEND (Movement for the Emancipation of the Niger Delta), says residents lack electricity, piped water, health clinics and schools. They point to degradation of the environment due to unchecked pollution by the oil industry. As a result of land dispossession, many have no ability to fish or farm.

1970-1995 Various political movements emerge. These were usually nonviolent, such as Ogoni poet-turned-activist Ken Saro-Wiwa, who was executed by the government in 1995. Others followed advocating violence, enjoying widespread support among 20 million residents.

1998 The majority Ijaw people voiced concerns about losing control of resources, in the Kaiama Declaration. Government troops occupied the Bayelsa and Delta states. Soldiers killed at least three protesters and arrested 25 more.

Jan 2006 MEND kidnapped four expatriates working for Shell subsidiaries and demanded a greater share of oil wealth.

Feb 2006 MEND attacked a Shell terminal, blowing up two pipelines and

kidnapping nine foreigners.

Apr 2006 A MEND bomb exploded near an oil refinery in the Delta, a warning against Chinese expansion.

Sep 2008 MEND declared an "oil war" and announced daily attacks on oil terminals before ordering a unilateral ceasefire which lasted until January 2009.

May 2009 Government forces launched a major offensive against all armed groups, but one month later President Umaru Yar'Adua announced an amnesty for militant leaders who gave up weapons.

July 15, 2009 MEND declared a new 90-day ceasefire.

Oct 15, 2009 End of ceasefire.

Dec 2009 MEND expressed frustration over stalled peace talks due to the absence of ailing President Umaru Yar'Adua.

Jan 2010 MEND called off ceasefire threatening "all-out onslaught" on the oil industry. Three British workers and one Colombian were abducted by gunmen near the main oil city of Port Harcourt then released six days later.

Metro project in the capital, Abuja, but we were the only UK company. There were bids from almost everywhere except the UK. The Chinese have won the works contract and other major contracts. If we don't act now in Nigeria an opportunity could be missed and it will be difficult to get back in once it has been missed."

Obika argues that many construction leaders don't appreciate the extent to which Nigeria has modernised since democratic government replaced military dictatorship in 1999.

"Lots of companies had their fingers burned in the 1970s and 1980s and I hear a lot about 'political instability', but many of the negative perceptions are dated now. Nigeria is definitely a place where you can sue people if they don't comply with a contract. The President has repeatedly said 'we must enforce the rule of law'.

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"I'd say be cautious, but be aware the climate is changing. I have spent eight years trying to build business in Nigeria and it was very difficult, but in the past two or three years the business environment has got a lot better," he said.

Obika is also far more positive than Petroleka about the development of PPP. He says a major airport and a main road through Lagos have already been successfully concessioned.

"The most important thing is that the regulatory framework is now there in the form of the Concession Regulatory Commission. Six or seven years ago, no one knew anything about PPP, but a steep learning curve is gathering momentum. At a conference on PPP in Tunisia last year, Nigeria sent a large contingent of around 60 people," he said.

The banking system has been reformed and is second to South Africa's, in Africa. "The banks were struggling in the credit crunch, but a new governor of the Central Bank overhauled them. He carried out an audit, and sent a lot of CEOs packing. Then he buttressed the remaining banks, which are profitable.

"It's true long-term capital is hard to come by, which can be a problem for some investors, but Nigeria's banks are quite avant-garde, and spreading to other parts of Africa. Foreign firms, operating elsewhere in Africa can link operations through the banks."

Popo-Ola adds that Nigeria's government has realised the necessity of fighting corruption to prevent financial waste, and also improve the nation's image abroad. "For 20 years, nothing changed. But the government is now investigating corruption. The Economy and Finance Crime Commission is investigating embezzlement and companies are being prosecuted.

"The situation in the Delta is still a big problem, but they have realised that sitting and talking to rebels is the way forward, like the British did with the IRA. They are losing their oil to the state and they want something in return – better education, houses and roads. As the government improves the quality of life, corruption will decrease."

Nigeria is at a crossroads. This is amply demonstrated by both the Ribadu episode and the mix of potential and vulnerability in Goodluck Jonathan's government. One direction leads to violence, chaos and increasing poverty, pushing Nigeria further downward toward 'failed state' status. On the other hand, if its politicians can pacify the Delta and curb corruption, then convince the rest of the world it has changed for good, the sleeping giant will stir to life. **icon**