Recent updates in Nigeria concerning the economy and private sector investments for ports

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Contents

Introduction - Africa

Source: EY Africa Attractiveness Survey - 2011

The continent has a population of 1.1 billion[1]

GDP of 1.7trillion dollars[2]

The continent is home to 6 of the world's fastest growing economies[3]

Africa is home to 12% of the world's oil reserves, 40% of its gold, 80% of its chromium, 90% of its platinum and 60% of the world's underutilized arable land[4]

Sub-Saharan Africa's GDP is forecast to grow by 4.5% in 2015, making it one of the fastest-growing economic zones in the world[5]

415 Ports[6]

4% of world container throughput[7]

84 weekly services[7]

Average vessel wait time of 14 days[8]

1 - UNICEF
2 - World bank 2014 statistics database
3 - World bank:2015 growth forecasts
4 - Economic Report on Africa 2013,CNN
5 - The African Exponent
6 - Ports in Africa
7 - UNCTAD Maritime indicators
8 - World shipping council
9 - Brookings Institute 2015

Nigeria - Overview

Nigeria has a population of 178.5 million[1]

GDP of 545.7bllion dollars[2]

The country is the home of the Biggest Economy by GDP in the continent[3]

Nigeria is the 41st largest export economy in the world[4]

Total natural resource rent accounts for 15.6% of the country's GDP [5]

6 Ports and 23 Concession agreements[6]

3rd highest container port traffic in Africa with 1,010,836 TEU*[5]

Vessels Average wait time of 6 days [5], global standard of 3-4 days[7] and African best practice of 14 days[7]

1 – World Bank ease of doing business 2016
2 – International Monetary Fund
3 – The Economist report
4 – Economic Complexity Index
5 – The world bank
6 – NPA
7 – Brooking Institute 2015

*TEU – twenty feet equivalent unit

Recent Development in the Nigerian Economy

AVIATION	▸ In order to encourage exports, the Federal Government removed all charges on agricultural exports produce in February 2015 and mandated the yearly training of pilots in other to improve safety. ▸ The Federal government approved a new national aviation policy in 2013, as part of efforts to reposition the aviation industry for growth. This policy designated Jos, Makurdi, Yola, Jalingo, Lagos and Ilorin airports as cargo airport. Also, the Federal Government has embarked on a rehabilitation program for all airports in the country.
AGRICULTURE	▸ In November 2015, the CBN launched the N40billion Anchor Borrowers Programme, aimed at facilitating rice and wheat production. ▸ The BOI launched a N5billiion fund in September 2014, to help small and medium scale industries committed to processing of agricultural products in Nigeria. ▸ Under the agricultural transformation agenda that was launched in 2011, Niger state acquired over 100,000 hectares of land and engaged over 50,000 rice farmers to actualize the goal of self-sufficiency in rice.
TELECOMMUNICATION	▸ The Federal Government approved the merger of the Nigerian Communication Commission and the National Broadcasting Commission in August 2012 to avoid the conflict of interest existing between the two federal bodies. ▸ The Bureau of Public Enterprise, with the approval of the National Council of Privatization approved the sale of NITEL and M-Tel assets to a private consortium for US$252 million in April 2015. ▸ The NCC in 2015 fined MTN Nigeria N1.04 trillion for contravening section 19 of the SIM Registration Regulations, specifying a fine of N200,000 per unregistered SIM
PETROLEUM	▸ The Federal Government in a bid to increase transparency and accountability in the petroleum sector, embarked on restructuring of the NNPC. The restructuring resulted in the appointment of a new management team in August 2014 and also the downsizing of the directorates from eight to four. ▸ In October 2015, the new GMD of the NNPC launched the 20 Fix Initiative, to reform the operations of the operations of the corporation, and guarantee profitability. ▸ The Federal Government in November 2015 revealed its intention to eliminate middle men from oil trade by replacing Offshore Processing Arrangement with the Direct Sale – Direct Purchase option
POWER	▸ The Federal Government in accordance with the Electricity and Power Sector Reform Act (ESPRA) 2005, unbundled the PHCN, privatized the resulting 18 successor companies and set up the the Nigeria Electricity Liability Management Company (NELMCO) and the Nigerian Bulk Electricity Trader (NBET). ▸ In 2014, the CBN launched the N213 billion Nigeria Electricity Stabilization Facility (NESMF), to provide funding to operators in the industry. ▸ In January 2015, the federal government reviewed the price of gas upwards from $1.50 per MmBTU to $2.30 per MmBTU, to boost gas supply to thermal power generation plants across the country
INFRASTRUCTURE	▸ The Federal Government ratified a National Integrated Infrastructure Master Plan (NIIMP) in February 2015 and is set to inject N485 trilion into the country to bridge infrastructure gap. ▸ The Lagos state government is currently working to interconnect areas in the state with a light rail system, which is set to open in 2017.

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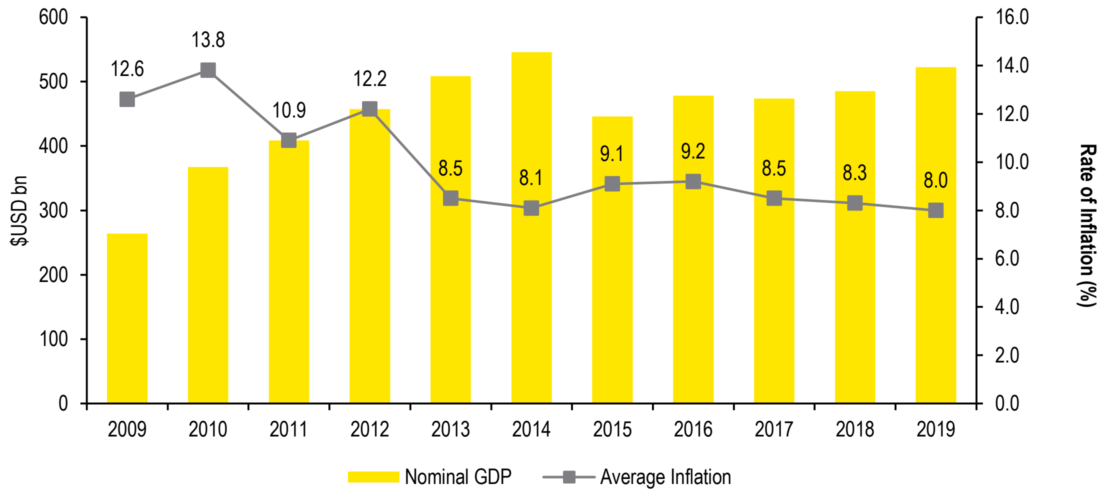
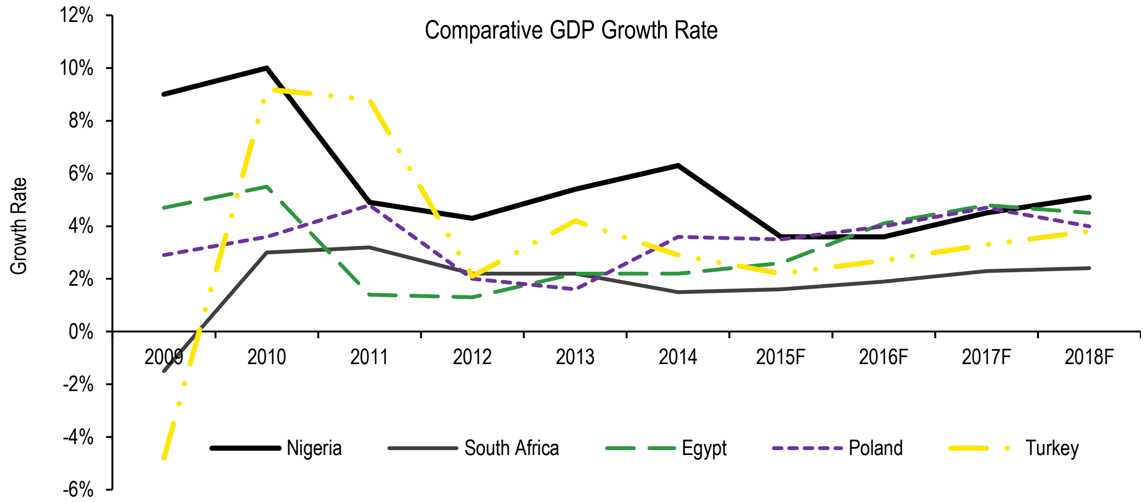
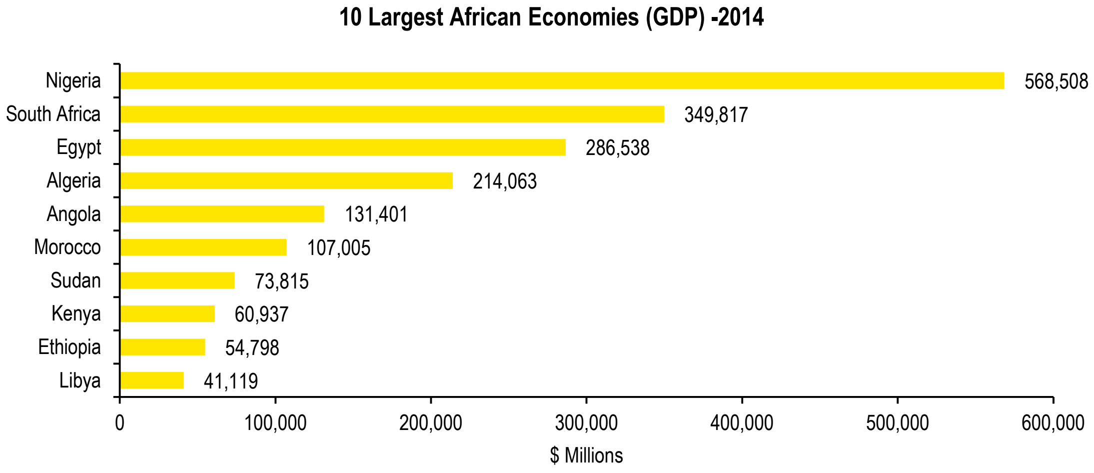
Review of Nigerian economy

Nominal GDP and Average Inflation



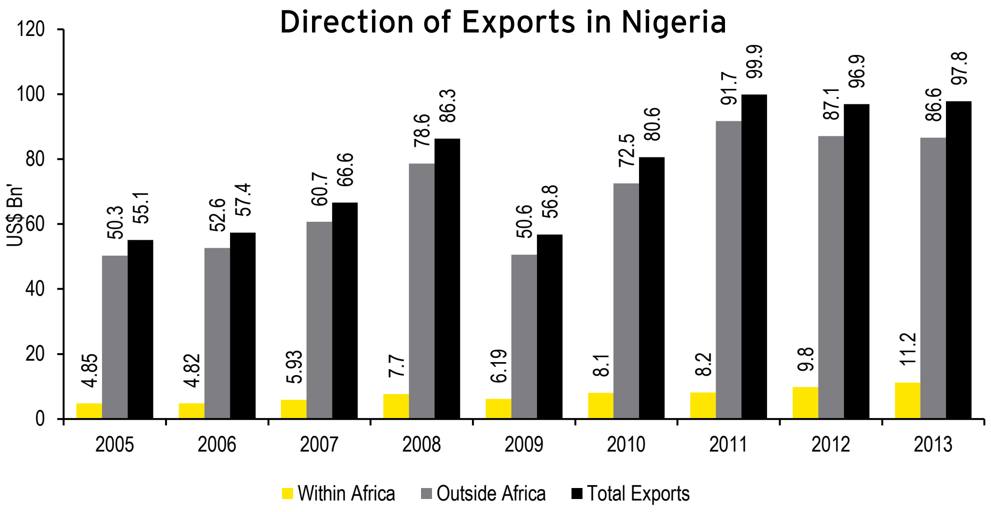




- Nigerian economy is currently the biggest in Africa with a nominal GDP of US$568.51 billion in 2014.
- Over the last five years (2010 to 2014), the Nigerian GDP has grown at an average of 6% annually.
- Port services are vital to the African economies. They enable the successful transportation, movement and sale of commodities.
- With Dangote Group planned fertilizer plant which comes up in 2017, the Federal Government flagged off rice and wheat production programs, a host of key agri-business companies – Flour mills, Dangote, Transcorp, Olam, amongst others, will be a major driver of growth into the future if all is sustained.
- Other sectors including Infrastructure, Automobile and Solid Minerals, portend very high growth.

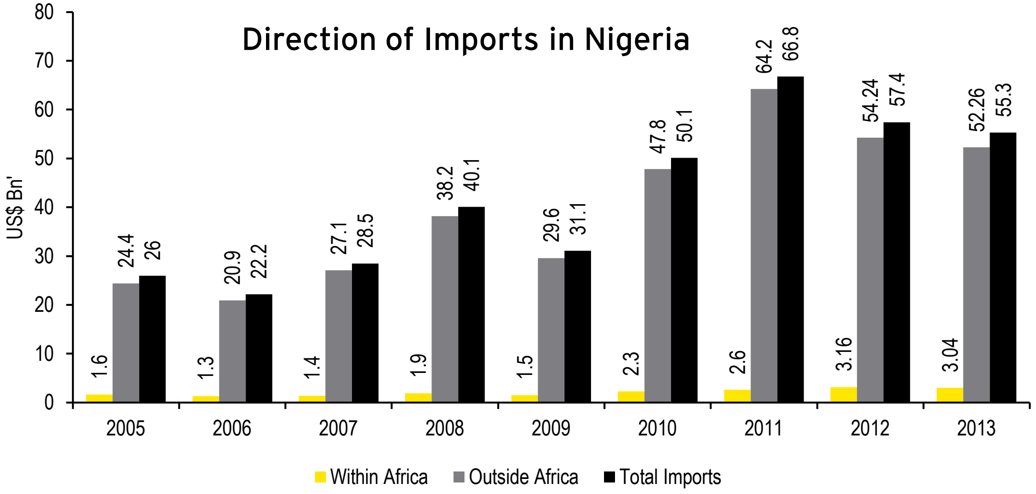
Source: Oxford Analytics, BMI

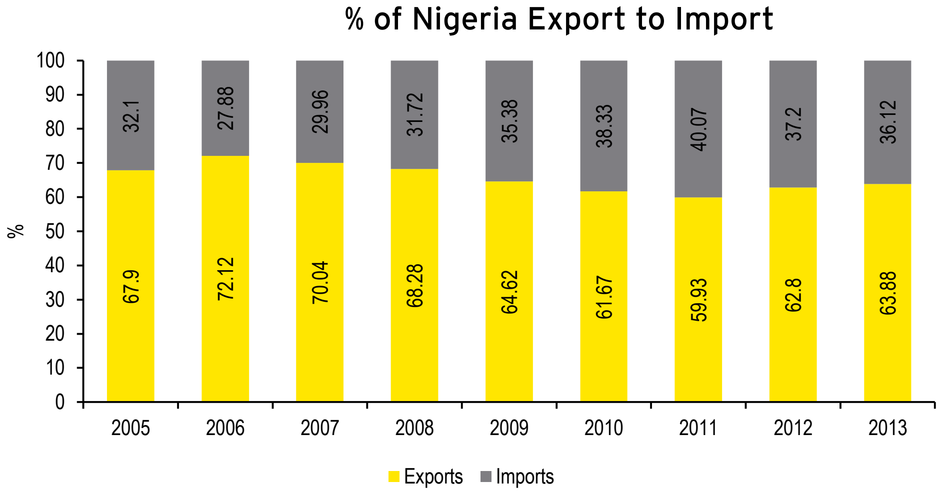
Nigeria trade pattern



- Increased investments in infrastructure has helped improve Nigeria's trade with other African states. Internal African trade grew from $6.45bn in 2005 to $14.24billion in 2013, representing a 120.8% increase. External trade grew by 85.9% over the same period to $138.9 billion.
- An increase in exports over the 2005-2013 periods has led to an expansion in the country's current account, increasing the country's positive trade balance from $29.1 billion in 2005 to $42.5 in 2013

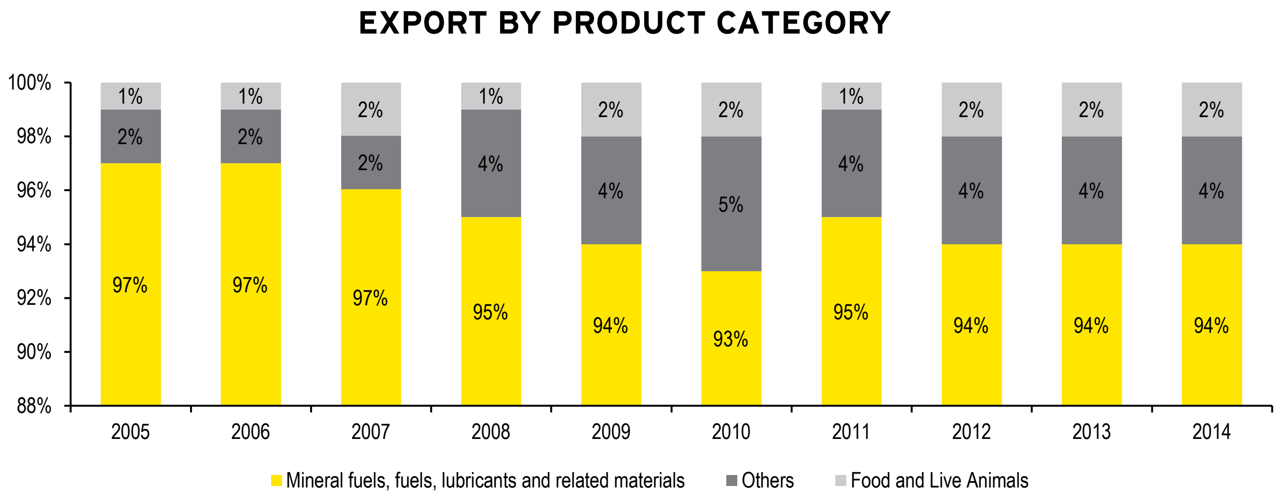
Source: BMI

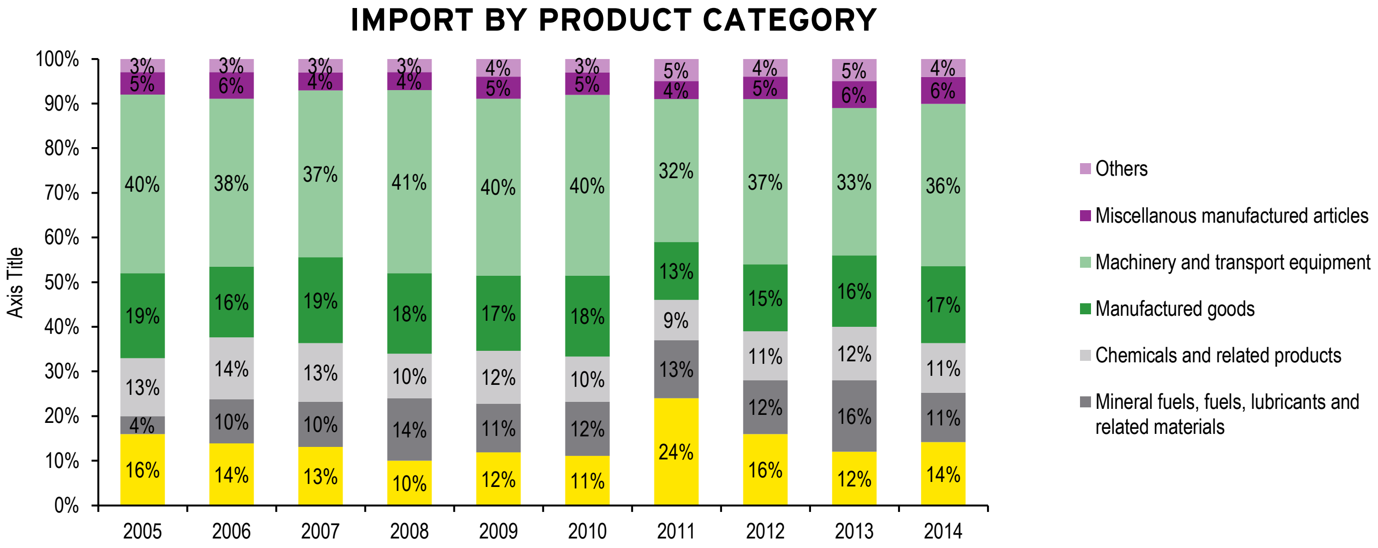




Source: BMI, CBN

Nigeria trade pattern





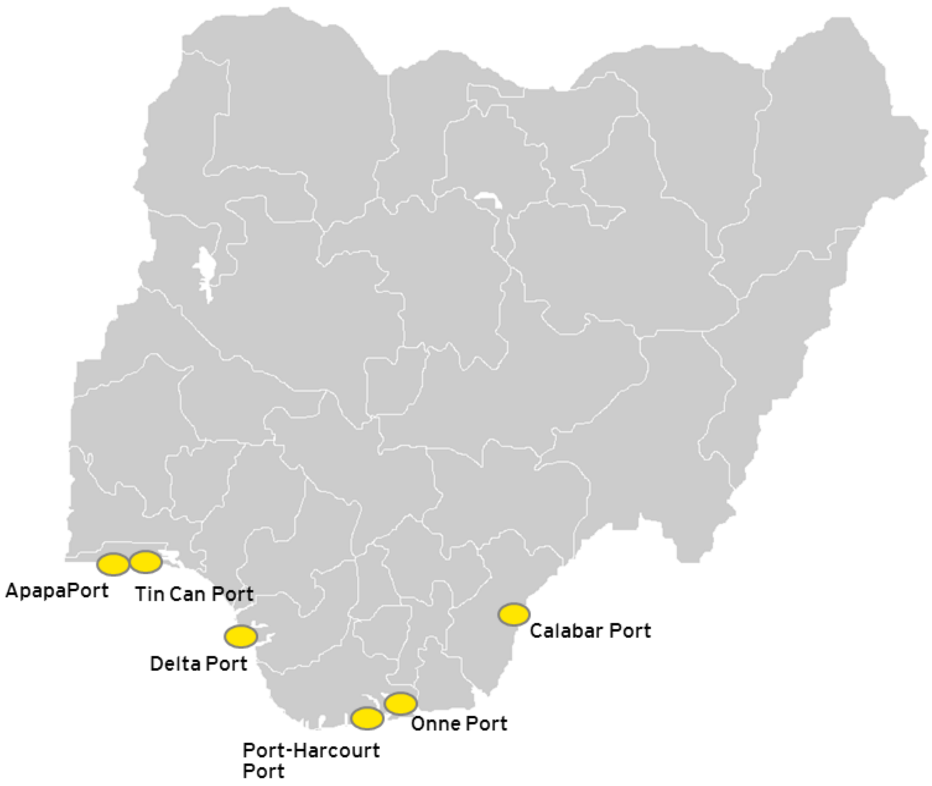
- Nigerian exports are largely dependent on crude oil production. In the last five years, receipt from crude oil product has accounted for 94% of our total exports.
- On the import side, Machinery and transport equipment were accountable for 36% of the imports in 2014, manufactured goods comprised 17%, while food and live animals made up 14%.

Source: UNCTAD

Nigeria ports - Overview

Nigeria has 6 ports

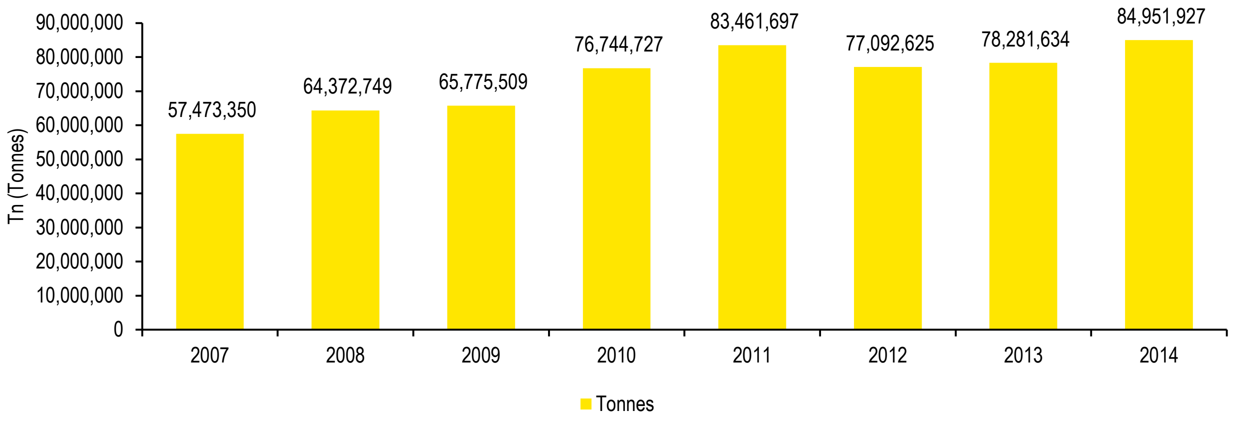
Map showing Trade corridors in Nigeria (Sea)



Legend

Sea corridors

Nigeria Cargo Throughput



FEASIBILITY OF NEW PORT DEVELOPMENT IN NIGERIA

	Port	Capacity(TEU)	Financing Secured	Construction Commenced	Concessionaire Secured	Site acquired	Planned Completion Time
1	Ibaka Port	*	*	*	*	✓	2018
2	Calabar deep sea port	*	✓	✓	*	✓	2017
3	Lekki Port	2,500,000	✓	✓	✓	✓	2018
4	Badagry Port	2,000,000	*	*	✓	*	*

Source: UNCTAD, World Bank, AFDB, NPA

* Data not available

Nigeria port reforms

Coastal and Inland Shipping (Cabotage) Act 2003

- The act was passed in an effort to improve indigenous participation in maritime and coastal trade within the country's waters.
- The act restricts foreign-owned vessels from trading in Nigeria's coastal waters without a waiver, which is granted by the transport minister, on certain conditions.

Royal Haskoning BV Feasibility study and effect

- The federal government hired the advisory firm to execute a feasibility study. The report concluded that the administration of the Nigerian ports was characterized by an unusually high degree of centralization which led to inefficiency.
- The study recommended the adoption of the "landlord" approach, whereby the public sector is responsible for port planning and regulatory tasks; and maintains ownership of port-related land and basic infrastructure.
- The study recommended the following reforms
  - Make the FG via the Ministry of Transport, responsible for developing and improving maritime policy.
  - Concessionaires must be able to pay suitable compensation to the Port Authority for concession of the land and operations and manage commercial risks associated with their operations.
  - Concessionaires must finance and implement investments and maintenance for superstructure and equipment.

Source: Nigeria Port Authority

Nigeria port reforms

Concessions

- Based on the feasibility study, the FG embarked on a ports reform program including concession of its terminal operations .
- The objective of the reform was to create an efficient port system that would grow the nation's economy, make it private sector-driven and boost local and global competitiveness. Specifics of the reform agenda includes:
  - Reduce turnaround time for vessels.
  - Reduce cargo dwell time.
  - Enhance security of ships at berth and cargoes at terminals.
  - Attract private funds and freeing public resources for social services.
  - Create efficient and user-friendly ports.
  - Security of persons in the ports.
- The port concession program was completed in 2006 after an international competitive bidding process. This led to the emergence of 16 private terminal operators on the Build, Operate and Transfer (BOT) model.
- The reform brought about ceding of cargo handling operations at the port to private terminal operators, leaving the Nigerian Ports Authority (NPA) as the landlord.

LADOL Free Zone

- The Lagos Deep Offshore Logistics (LADOL) and Samsung Heavy Industries built a N51billion vessel fabrication facility, for the provision of logistical, engineering and other support services for deep water offshore oil and gas exploration.
- LADOL Free Zone has been authorized by the Nigerian Export and Process Zones Authority and established pursuant to the Nigeria Export Processing Zones Act (Act No 63 1992).
- The facility is the first fabrication and integration yard in Africa with an area of 121,000 square metres consisting of an assembling area, a painting shop, utility and warehouse area, with a production capacity of 10,000 metric tonnes.

Source: Nigeria Port Authority

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Current state of ports in Nigeria

CONTAINER TRAFFIC STATISTICS AT NIGERIAN PORTS: 2007 - 2014

YEAR	INWARD				OUTWARD			
	NO OF EMPTIES	LADEN		TEU	NO OF EMPTIES	LADEN		TEU
		NO	TONN			NO	TONN	
2007	979	407,828	2,697,353	356,551	382,481	247,076	298,627	75,399
2008	2,844	400,119	7,794,894	551,682	286,897	47,197	685,248	61,300
2009	177	416,351	5,802,550	577,267	376,276	57,830	897,994	76,317
2010	738	430,923	7,534,972	603,479	337,308	66,289	1,224,443	82,458
2011	97	536,719	9,252,781	753,411	435,134	66,202	1,239,600	86,566
2012	273	556,900	4,298,373	783,279	496,237	72,774	662,815	97,318
2013	437	623,409	10,729,910	887,211	503,225	79,718	1,435,972	105,455
2014	106	649,514	5,428,846	935,309	522,942	102,081	750,620	128,177
TOTAL	**6,651**	**4,021,763**	**53,539,679**	**5,448,189**	**3,340,500**	**739,167**	**7,195,319**	**712,990**

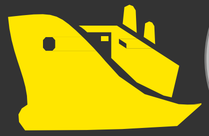
- Nigeria carried out port reforms between 2003 and 2006, and concessioned 16 companies to manage the ports.
- The users of the ports still consider Nigerian ports to be a nightmare, according to the LCC and MAN. Blames are placed at the Nigerian Customs and other uniformed agencies at the ports.
- Following improvement in the port terminal operations and shipping system as a result of the port concession, the Nigeria Ports Authority (NPA) is spearheading a new course of making Nigeria the hub of international trade in West Africa.
- In 2014, the NPA launched the Electronic Ship Entry Notice (“e-Sen”) an electronic payment means to ease port transactions and reduce ship dwell time.
- The current management of NPA also embarked on various programs to enhance efficiency in port operation, especially in the area of channel development and management.
- According to a senior official of Bonny Channel Management Company, the NPA plans to reach a depth of 15 metres within the shortest possible time.

Source: Nigeria Ports Authority

Nigeria ports- New port development: enablers

Forecast Throughput Growth

66 Million Tonnes 2009



111 Million Tonnes 2019

Security	Average wait time
Port charges	Trade barriers

1	Global Economy	• A significant slowdown in the global economy will lead to a reduction in trade activities as exporting nations will likely concentrate on spurring growth internally. This would lead to lower levels of activities in the ports.
2	Commodity prices	• A prolonged slump in commodity prices will lead to a slowdown in shipping and trade. Port capacity utilization will stagnate/decrease, this will negatively impact the viability of new port projects.
3	Infrastructure	• The success and viability of the proposed new ports will depend largely on supporting infrastructure required for the evacuation of goods from the port, such as rail and road.
4	GDP growth	• Sustained GDP growth in Nigeria will drive trade , foreign direct investment and consumption. These factors will drive throughput growth and increase utilization at ports across the continent.
5	Consumption	• Increased consumption due to rising incomes will drive the demand for imported goods. This will drive the development of new ports facilities.
6	Government policy	• Effective implementation of trade agreements like African Growth and Opportunity Act, the EU trade partnership agreement and the establishment of free trade zones will bolster trade and drive development of new ports.

Source: BMI, Commonwealth Business Council, AFDB, World Bank

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Nigeria ports - Key investment drivers

REGULATORY REFORM

- Eradication of bottlenecks and bureaucracy existent in the maritime sector and also the reduction of the average wait time it takes to clear goods from the ports, will drive investments.
- The passage of the Petroleum Industry Bill (PIB), will encourage growth in the maritime sector, as a strong regulatory structure guiding the operations of participants is currently non-existent.
- The ongoing restructuring of the NNPC aimed at achieving transparency and credibility in the market, is expected to engender investor confidence and lead to increased activities in Nigerian ports[1].

INFRASTRUCTURE DEVELOPMENT

- New port(s) development and expansion of the existing ones will lead to an increase in port activities. The port of Apapa is currently unable to accommodate a great number of larger vessels[3].
- Traffic congestion around ports, as a result of poor road networks around the ports has reduced participation, as it takes a longer time for cargo to be transported from the ports. The traffic to Lagos ports is shared between the Apapa-Oshodi expressway at Tin-Can port and the point road of the Apapa Port, on a 60-40 percent basis[3].
- Development of port infrastructure, such as the construction of two deep-water ports in Lekki and Ibaka are expected to drive investment and increase participation in the Nigerian Maritime sector.

IMPROVED SECURITY

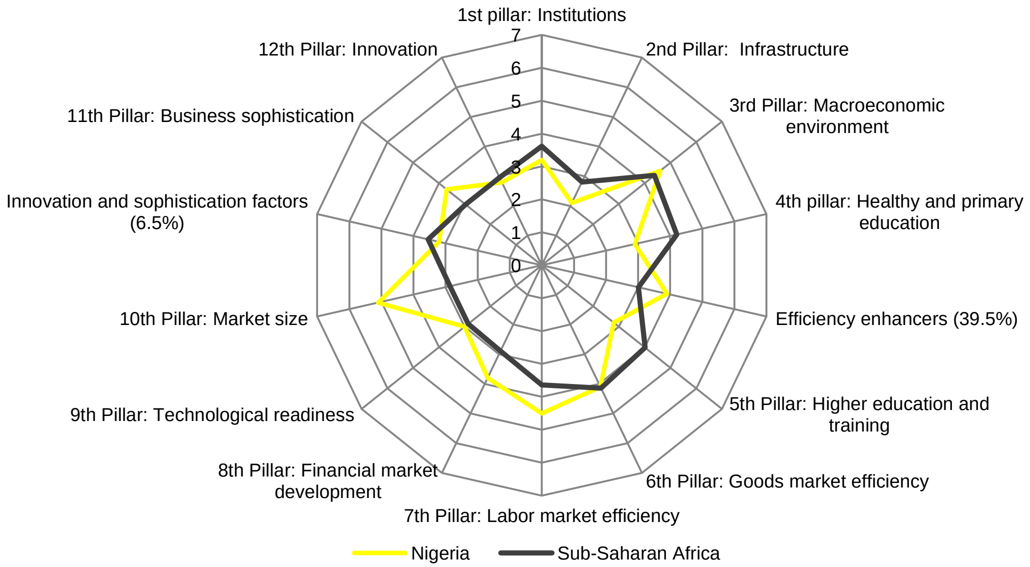
- Reduction of kidnappings of maritime operators, will engender investor confidence to carry out their activities through ports. In 2013, the average ransom payment per person in the Niger Delta region was USD$50-60,000[2]. Better protection of participants will lead to the growth of the maritime sector.
- the ending of insurgency by Boko Haram in the North East, will lead to increased trade in the region and in the process lead to an increase of activities in the ports, which will drive investment.

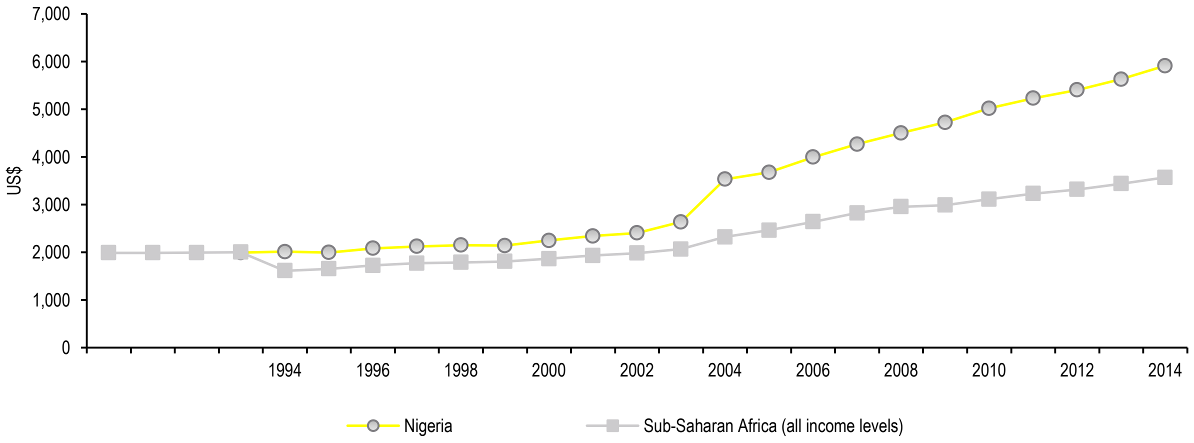
INCREASED CONSUMPTION

- The development of modern retail channels, e.g Shoprite, SPAR and Goodies, in the country has driven the demand of foreign manufactured goods and in the process increased importation activities in the Nigeria maritime sector. Further expansion of more retail chains , with Walmart expected to come into the market in 2016[4], will lead to a further increase in the activities in the Nigeria ports.
- The rising middle class in Nigeria is a major growth driver of investment in the maritime sector. The Nigeria middle class at 12.9million people accounts for 10.5% of the total population in Africa[5] The increase in the disposable income of the middle class, will lead to an increase in the demand of luxury goods, that are primarily imported into the country, which will drive the level of activities in the Nigerian ports.

1 NNPC
2. International Maritime Bureau (IMB)
3. Business Monitor International
4. Financial Times
5. African Development Bank (AfDB)

Global Competitive Index 2015-2016



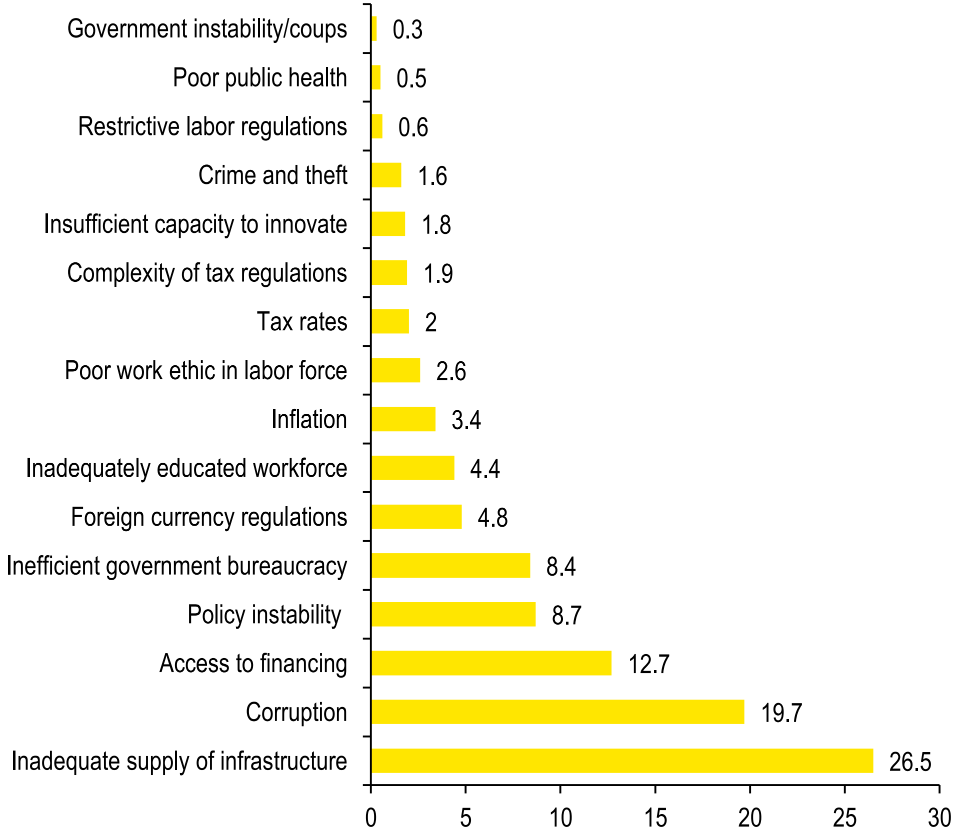


	Rankings (Out of 140)	Nigeria
GCI 2015-2016	124	3.5
GC1 2014-2015 (OUT OF 144)	127	3.4
GC1 2012-2014 (OUT OF 148)	120	3.6
GC1 2012-2013 (OUT OF 144)	115	3.7
Basic requirements (54.1%)	136	3.2
1st pillar: Institutions	124	3.2
2nd Pillar: Infrastructure	133	2.1
3rd Pillar: Macroeconomic environment	81	4.6
4th pillar: Healthy and primary education	140	2.9
Efficiency enhancers (39.5%)	81	3.9
5th Pillar: Higher education and training	128	2.8
6th Pillar: Goods market efficiency	100	4.1
7th Pillar: Labor market efficiency	35	4.5
8th Pillar: Financial market development	79	3.8
9th Pillar: Technological readiness	106	3
10th Pillar: Market size	25	5.1
Innovation and sophistication factors (6.5%)	114	3.2
11th Pillar: Business sophistication	94	3.7
12th Pillar: Innovation	117	2.8

Population (millions)…………..173.9
GDP (U$ BILLIONS)…………..573.7
GDP per capita (US$)…………..3,298
GDP (PPP) AS A SHARE OF WORLD TOTAL (%)…….0.97

Source: World Economic Forum

Global Competitive Index 2015-2016



Most Significant Headwinds in doing business in Nigeria

The most problematic factors for doing business in Nigeria	
Inadequate supply of infrastructure	26.5
Corruption	19.7
Access to financing	12.7
Policy instability	8.7
Inefficient government bureaucracy	8.4
Foreign currency regulations	4.8
Inadequately educated workforce	4.4
Inflation	3.4
Poor work ethic in labor force	2.6
Tax rates	2
Complexity of tax regulations	1.9
Insufficient capacity to innovate	1.8
Crime and theft	1.6
Restrictive labor regulations	0.6
Poor public health	0.5
Government instability/coups	0.3

Source: World Economic Forum

Global Competitive Index 2015-2016

1st Pillar- Institutions	GCI Score	Rank out of 140
Property rights	3.8	100
Intellectual property protection	3.1	119
Diversion of public funds	2.1	132
Public trust in politicians	1.7	132
Irregular payments and bribes	2.6	132
Judicial independence	3.3	96
Favoritism in decisions of government officials	2.1	132
Wastefulness of government spending	2.2	131
Burden of government regulation	3	109
Efficiency of legal framework in settling disputes	3.4	83
Efficiency of legal framework in challenging regs	3.2	91
Transparency of government policymaking	3.4	121
Business costs of terrorism	3	135
Business costs of crime and violence	3.1	125
Organized crime	4.1	109
Reliability of police services	2.6	134
Ethical behavior of firms	3.3	123
Strength of auditing and reporting standards	4.8	57
Efficacy of corporate boards	4.9	49
Protection of minority shareholders’ interests	4.1	64
Strength of investor protection, 0–10 (best)	5.8	55
2nd pillar: Infrastructure	**GCI Score**	**Rank out of 140**
Quality of overall infrastructure	2.4	133
Quality of roads	2.7	125
Quality of railroad infrastructure	1.5	103
Quality of port infrastructure	3	112
Quality of air transport infrastructure	3.4	111
Available airline seat km/week, millions	321.5	53
Quality of electricity supply	1.4	139
Mobile telephone subscriptions/100 pop	77.8	117
Fixed-telephone lines/100 pop	0.1	139
3rd pillar: Macroeconomic environment	**GCI Score**	**Rank out of 140**
Government budget balance, % GDP	-2.3	57
Gross national savings, % GDP	17.4	91
Inflation, annual % change	8.1	125
General government debt, % GDP	10.5	7
Country credit rating, 0–100 (best)	39.6	77

4th pillar: Health and primary education	GCI Score	Rank out of 140
Malaria cases/100,000 pop	28,430.30	70
Business impact of malaria	3.6	61
Tuberculosis cases/100,000 pop	338	129
Business impact of tuberculosis	5	90
HIV prevalence, % adult pop	3.2	126
Business impact of HIV/AIDS	4.5	106
Infant mortality, deaths/1,000 live births	74.3	137
Life expectancy, years	52.5	133
Quality of primary education	2.5	128
Primary education enrollment, net %	63.9	138
5th pillar: Higher education and training	**GCI Score**	**Rank out of 140**
Secondary education enrollment, gross %	43.8	125
Tertiary education enrollment, gross %	10.4	113
Quality of the education system	2.7	125
Quality of math and science education	2.6	132
Quality of management schools	3.7	102
Internet access in schools	3	124
Availability of specialized training services	3.6	106
Extent of staff training	4	62
6th pillar: Goods market efficiency	**GCI Score**	**Rank out of 140**
Intensity of local competition	5.2	60
Extent of market dominance	3.6	78
Effectiveness of anti-monopoly policy	3.1	119
Effect of taxation on incentives to invest	4.1	32
Total tax rate, % profits	32.7	51
No procedures to start a business	9	103
No days to start a business	30.8	115
Agricultural policy costs	4.5	20
Prevalence of non-tariff barriers	4.8	18
Trade tariffs, % duty	12.9	126
Prevalence of foreign ownership	4.8	56
Business impact of rules on FDI	4.9	34
Burden of customs procedures	2.8	135
Imports as a percentage of GDP	14.4	139
Degree of customer orientation	3.8	123
Buyer sophistication	3	105

Source: World Economic Forum

Global Competitive Index 2015-2016

6th pillar: Goods market efficiency (cont'd)	GCI Score	Rank out of 140
No procedures to start a business*	9	103
No days to start a business*	30.8	115
Agricultural policy costs	4.5	20
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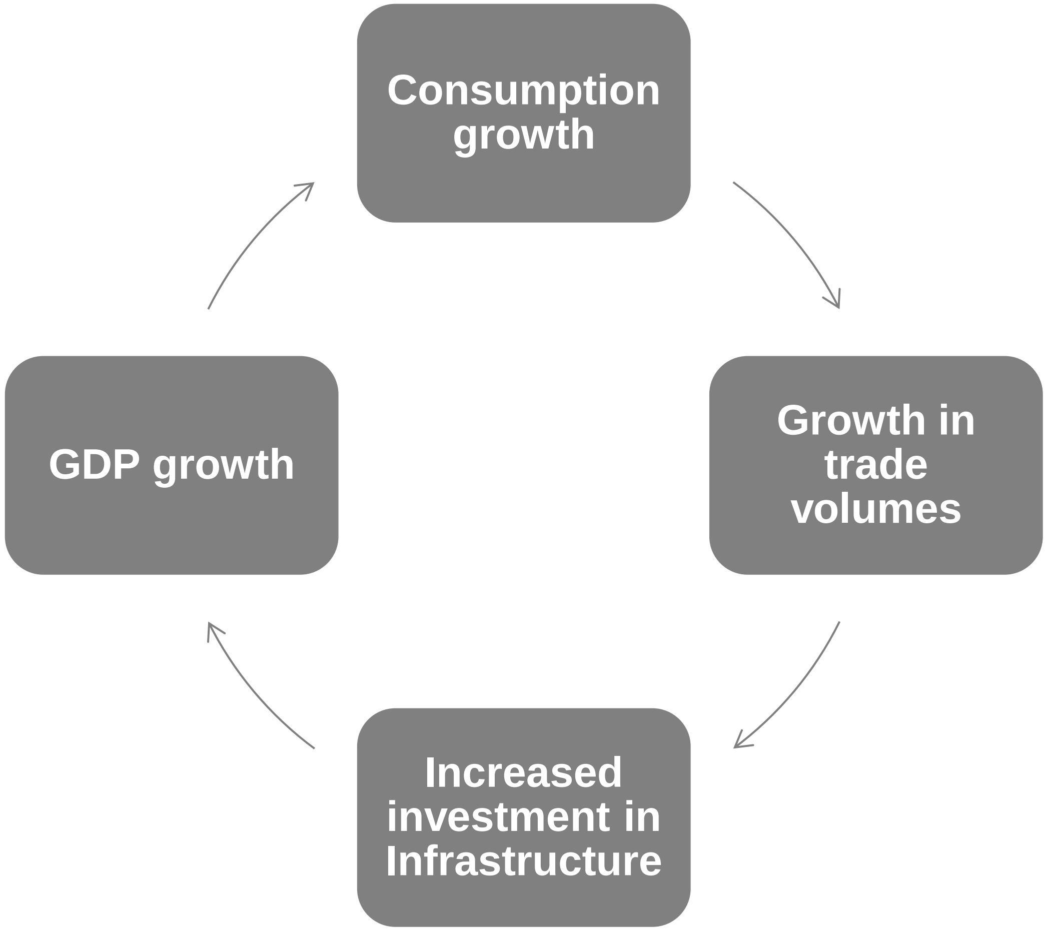
Degree of customer orientation	3.8	123
Buyer sophistication	3	105
7th pillar: Labor market efficiency	**GCI Score**	**Rank out of 140**
Cooperation in labor-employer relations	4.4	63
Flexibility of wage determination	5.3	47
Hiring and firing practices	5	9
Redundancy costs, weeks of salary*	15.4	67
Effect of taxation on incentives to work	4.9	13
Pay and productivity	4	69
Reliance on professional management	4.7	39
Country capacity to retain talent	3.2	90
Country capacity to attract talent	3.7	50
Women in labor force, ratio to men*	0.76	87
8th pillar: Financial market development	**GCI Score**	**Rank out of 140**
Availability of financial services	4.1	86
Affordability of financial services	3.5	122
Financing through local equity market	4	43
Ease of access to loans	1.6	135
Venture capital availability	2	128
Soundness of banks	4.7	77
Regulation of securities exchanges	4.6	47
Legal rights index, 0–12 (best)*	6	44

9th pillar: Technological readiness	GCI Score	Rank out of 140
Availability of latest technologies	4.2	99
Firm-level technology absorption	4.3	91
FDI and technology transfer	4.4	71
Individuals using Internet, %*	42.7	84
Fixed-broadband Internet subscriptions/100	0	137
Int'l Internet bandwidth, kb/s per user*	3.1	126
Mobile-broadband subscriptions/100 pop*	11.7	110
10th pillar: Market size		
Domestic market size index, 1–7 (best)*	5	21
Foreign market size index, 1–7 (best)*	5.2	42
GDP (PPP$ billions)*	1,049.10	21
Exports as a percentage of GDP*	17.2	126
11th pillar: Business sophistication	**GCI Score**	**Rank out of 140**
Local supplier quantity	4.7	44
Local supplier quality	3.8	102
State of cluster development	3.5	85
Nature of competitive advantage	2.6	129
Value chain breadth	3.5	99
Control of international distribution	3.3	109
Production process sophistication	3.2	109
Extent of marketing	4.2	76
Willingness to delegate authority	3.6	89
12th pillar: Innovation	**GCI Score**	**Rank out of 140**
Capacity for innovation	3.8	82
Quality of scientific research institutions	2.5	129
Company spending on R&D	2.8	108
University-industry collaboration in R&D	2.8	122
Gov't procurement of advanced tech products	2.8	117
Availability of scientists and engineers	3.6	98
PCT patents, applications/million pop*	0	113

Source: World Economic Forum

Conclusion – Looking Forward



- Nigeria's economy faces significant headwinds from the fall in commodity prices.
- Despite the headwinds, GDP growth for Nigeria is forecast to average 4.67% between 2016 and 2024.
- GDP growth will drive consumption. This will in turn drive growth in exports and income.
- Increased trade will lead to increased capacity utilization in the existing ports and consequently drive the development of new ports.
- Investment in port infrastructure and simplification of cargo clearing processes and other investment bottlenecks will in turn drive GDP growth.

Source: BMI

Thank You

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