Nigeria is rapidly advancing and scale of real growth stands second only to government plans. Key supporting factors will be the huge, young and urbanised population, large oil and gas reserves and an increasingly diversified economy.

Nigeria is the 2nd largest economy & leading oil producer

A lot of companies expanding into West Africa see Nigeria as a gateway to the region, even before Ghana. While Ghana’s main advantage is a stable democracy and thus a safe entry point for total newcomers to the African continent, Nigeria offers by far the largest market in the region, being home to nearly 170 million of the 250 million people living in West Africa. Nigeria is also Africa’s second-largest economy and its leading oil producer.

“Although trading in Africa has its challenges, the opportunity exists to invest in its future with particular emphasis on infrastructure and utilities such as electricity, water and telecommunications. Besides the need to upgrade roads and ports there is an absence of refrigerated space to accommodate agricultural and perishable product.”

– Photios Tzellios, Supply Chain Director, Shoprite

These bubbles represent the cities of Nigeria and the size of the bubbles indicates the population size of the city.
These factors form the basis for ambitious government plans. With its Vision 20:2020 Nigeria aims to be among the world’s top 20 economies by 2020.

Such plans are not as unrealistic as some might assume given the weak growth projections for many current top-20 economies, some of which have recently suffered credit downratings as a result of the ongoing global economic crisis. Nevertheless, obstacles to the ambitious target remain in the form of inadequate infrastructure, increasing sectarian violence arising mainly in the north of the country and, in some instances, restrictive actions by the Government.

Notwithstanding these challenges, we believe that Nigeria will continue to be a leading destination for international investors and that this, in turn, will generate strong potential for transportation and logistics service providers. Nigeria has the potential to establish itself not only as a gateway to West Africa, but to Africa as a whole.

**Economy and trade**

In spite of rapid import growth, the current account position remains positive. **Nigeria’s major trading partner is North America due to its geographic location, but trade with China and South Africa is growing.**

Nigeria is a member of the Economic Community of West African States (ECOWAS) and several other trade communities. To simplify Nigeria’s tariff system, the Government relaxed trade restrictions by replacing its 19-band tariff regime with the ECOWAS five-band Common External Tariff system. However, several protectionist measures remain in place and bureaucracy and graft remain severe impediments to trade.

For external trade earnings Nigeria is highly dependent on domestic crude oil production levels and the international oil price. It is the leading oil exporter in Africa and has the second-largest oil reserves after Libya.

However, business risks are elevated in the oil sector where sabotage on oil fields and pipelines and violent attacks on foreign workers are common.

Nigeria also has the largest natural gas reserves in Africa, but it presently has limited infrastructure in place to take advantage of this massive resource.

The IMF expects Nigeria to be one of the world’s fastest-growing economies over the 2011-15 period, which would help speed up the Government’s Vision 20:2020. Real GDP growth will continue to be driven by the non-oil sector over the short to medium term. Per capita GDP is quite moderate compared to Nigeria’s sub-Saharan African peers; it is expected to grow steadily at about 6.8% between 2012 and 2017. However, due to unequal income distribution, most of the population is still living below the poverty line and only about 10% could be considered middle class.

**Business environment**

While corruption has historically been a constraint on business development in Nigeria, the Government is in a continuous process of reform in order to eliminate corruption and mismanagement.

Still, the business environment in Nigeria remains very challenging. Starting a new business is a time-consuming and cumbersome process. Registering private property is also a challenge, while investor protection is poor.

The legal system is inefficient, as the judicial system is susceptible to political interference and the rule of law is generally weak throughout the country.

The results of the African Development Bank’s 2011 “Country Policy and Institutional Assessment” show that Nigeria has undertaken important reforms, particularly in public finance management, to improve efficiency in resource allocation and business regulation.

Structural reforms are also being made with amendments to the tax system being initiated to attract further investment. In contrast, increases in the minimum wage have undercut labour productivity and hiring flexibility.
Security and operational risk in the oil sector is particularly significant. Foreign workers in the Niger Delta region, in particular, are subject to frequent kidnappings by the network of militias and bandits long active in the region. Furthermore, the International Maritime Bureau has classified the waters off Nigeria as one of the worst pirate hotspots in the world. In Lagos and the capital, Abuja, road travel, especially at night, is dangerous owing to inadequate vehicle maintenance, poor driving conditions and the risk of armed robbery.

**Power**

Improvements in energy supply will depend on security, not only investment.

Top of Nigeria’s list of infrastructure shortcomings is the poor performance of the energy sector: According to BMI, 54% of manufacturers cited unreliable power as the most binding constraint to efficient production.\(^iii\)

Ageing transmission facilities and gas supply shortages, exacerbated by gas pipeline vandalism in the Niger Delta, are the primary problems. An improvement in security is therefore even more important than investment, which is highlighted by the fact that although the Government poured more than US$10 billion into the sector between 2000 and 2007, service actually declined over the period.

Nigeria’s four refineries operate at a fraction of capacity, while most businesses rely on generators. This makes Nigeria one of the most energy-intensive countries in the world.

**Labour**

Nigeria has a large workforce, but workers are mostly unskilled.

Nigeria is Africa’s most populous nation providing entrepreneurs with the continent’s largest labour force. This, coupled with a high rate of unemployment means that wages are likely to be relatively competitive, despite the increase in the minimum wage.

However, Nigeria’s poor human development performance means that skilled labour is not easily available and carries a premium to it. While labour productivity in Nigeria is comparable to its regional peers, it has improved faster than them, but is still below the rate of economic growth.

HIV/AIDS poses a significant risk to Nigeria and the country has the third-highest HIV infection rate in the world, which could negatively impact labour productivity in the long term.

**Agriculture as alternative to oil dependence**

Despite oil’s dominance, agriculture takes a significant share in the Nigerian economy, accounting for about 42% of GDP in 2012. Sustainable expansion of agriculture will play a major role in driving economic growth, reducing poverty and enhancing food security.

Nigeria is starting to take advantage of its agricultural potential and it lists among the countries with the most commercial agricultural opportunities in Africa – with arable land making up nearly 40% of total land area. Agribusiness is seen as

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**Key indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Population size (million, 2012)</td>
<td>168.8</td>
</tr>
<tr>
<td>Population growth (2012-2020, avg p.a.)</td>
<td>2.8%</td>
</tr>
<tr>
<td>GDP (US$ billion, 2012)</td>
<td>270.2</td>
</tr>
<tr>
<td>GDP growth forecast 2012-2017 (avg, y/y rate)</td>
<td>6.8%</td>
</tr>
<tr>
<td>GDP per capita (US$, 2012)</td>
<td>1 640</td>
</tr>
<tr>
<td>Global competitiveness index 2012 (global rank/144 (score 1-7))</td>
<td>115 (3.67)</td>
</tr>
<tr>
<td>Corp. Income Tax (CIT) rate</td>
<td>30.0%</td>
</tr>
<tr>
<td>Top exports</td>
<td>Petroleum oils and oils obtained from bituminous minerals, crude (85.9%); Natural gas, liquefied (6.9%), rubber</td>
</tr>
<tr>
<td>Logistics Performance Index 2012 (global rank/155 (score 1-5))</td>
<td>121 (2.45)</td>
</tr>
<tr>
<td>Global Competitiveness Index 2012 - Infrastructure (global rank/144 (score 1-7))</td>
<td>130 (2.28)</td>
</tr>
</tbody>
</table>
one of the best opportunities for the economy to reduce its dependence on oil.

**Retail**

Wholesale and retail trade is also an important sector, which accounted for 18.8% of GDP in 2012. The retail sector is currently undergoing a transformation with international supermarket brands entering the country, new malls being constructed and informal markets being converted into modern facilities.

Given the size of the population, potential for economic expansion, and under-served retail market, retailers are increasingly targeting Nigeria.

Another factor favourable to the growth of consumer industries is rapid urbanisation (50% of the population is urbanised). Lagos is expected to be the twelfth-largest city in the world by 2025. High rates of urbanisation, coupled with vast economic potential suggest that Nigeria will increasingly grow into an industrial and services-based economy.

**Logistics**

Logistics Performance Index

Nigeria’s poor infrastructure has constrained growth in the logistics industry. Time delays, bottlenecks for international shipments, poor tracking and tracing capabilities and poor logistics quality and competence are all industry risks that weigh on growth prospects for logistics and transport industries.

Nigeria ranked poorly on all these factors on the Logistics Performance Index 2012 and has lost significant ground since the 2010 rating. Adding to this are burdensome customs procedures, which are still a major stumbling block in the effective functioning of the Nigerian logistics system and add to business costs and risk for transport and logistics services providers.

**Transport infrastructure**

Transport infrastructure performs comparatively well but remains a hurdle.

Compared to many of its African peers, Nigeria has relatively advanced infrastructure networks that cover extensive areas of the nation’s territory. Transport infrastructure is inadequate though and has been described as one of the leading impediments to the country’s growth.

Roads are lagging far behind in investment and rail infrastructure is falling behind, too. On the other hand, airports and ports have seen considerable investment over the past few years, resulting in good international portals. It is estimated that raising the country’s infrastructure level to that of the region’s middle-income countries could boost annual real GDP growth by around four percentage points.

Nigeria’s infrastructure challenges, though substantial, are not daunting given the strength of the national economy. Due to its abundant petroleum revenues, Nigeria is better placed than many of its African neighbours to increase the share of fiscal resources going to infrastructure.

The Government has also been advocating the increasing use of public-private partnerships for several transport projects. But infrastructure investments have to be managed from the start to project completion, because historically, many of Nigeria’s projects have been left unfinished and the country is littered with examples of well-funded, but unfinished projects, including roads, factories and oil and gas plants.

**Completing unfinished projects would further accelerate infrastructure upgrades.**

Nigeria’s infrastructure networks mirror the spatial concentration of economic activity in the south. The south is characterised by relatively high population density, and this is where many of the country’s cities and larger towns are clustered.

Meanwhile, there is also an important concentration of both population and agricultural activity in the north of the country. Fortunately, unlike some of its neighbours Nigeria has developed infrastructure backbones that are national in reach.
Nigeria’s port system has traditionally put a brake on economic development, due to poor performance and high costs. After a comprehensive reform of the port sector, beginning in 2000, the ports have undergone a major overhaul with operational management being converted to a landlord model.

Terminal concessions now attract private investment on a scale unprecedented for Africa. Partial privatisation has helped eliminate overstaffing at the ports, cargo theft and excessive port-related charges, in addition to unlocking funds for infrastructure improvements.

Still, a number of key challenges remain, such as poor customs performance and corruption. There is also a need to improve both marine and landside access to ports.

There are a number of ports in Nigeria, with the two most important ones located in Lagos. Apapa and Tin Can Island Port together form Lagos Port Complex and serve Lagos as well as western Nigeria. Apapa Container Terminal is West Africa’s largest container terminal.

Aside from the two Lagos ports there are several ports serving the oil and gas sector, such as Delta Port, which is located in the petroleum and natural gas producing Niger River Delta region of Nigeria.

Onne Port is located about 19km from the city of Port Harcourt. Onne Port has been designated as an Oil and Gas Free Zone by the Government of Nigeria and it serves as a hub port for oil and gas operations throughout West and Central Africa.

Because of the absence of a deep-water port, plans have reached an advanced stage for the construction of two deep-water ports in Lekki near Lagos and Ibaik in Akwa Ibom River State. The port at Lekki, which may become operational by the third quarter of 2016, at an estimated cost of US$1.55 billion, will be part of the Lagos Free Trade Zone. The port is located 65km east of Lagos Mainland and could become the gateway to the West African region, which currently lacks a clear maritime hub.

Air transport

While Nigeria has a well-developed air transport sector, Lagos has not established itself as a regional air transport hub.

Nigeria’s aviation sector has seen enormous growth over the past few years, largely due to the rapid expansion of domestic services. Today, Nigeria is well served by air transport, with sufficient competition to offer competitive fares in the domestic market.

The size of Nigeria’s air market is second only to South Africa in sub-Saharan Africa. Nigeria has 22 airports, four of which are international airports. Still, Lagos has not yet assumed its place as an air transport hub for the region. The primary reason for this is that the Federal Airport Authority of Nigeria has not been reformed and has not been allowed to proceed with the concessioning of airport terminals, which are in dire need of investment, to the private sector.

By contrast, on the eastern and southern side of the continent, a strong hub-and-spoke structure has developed around Johannesburg, Nairobi, and Addis Ababa. Additionally, air travel to and from Nigeria, as well as within, is sometimes hampered by fuel shortages that cause flight cancellations.

A number of projects are currently underway at airports across Nigeria. In February 2011, the Government approved a new international airport in the capital, Abuja, the construction of five new terminals at five airports, the redevelopment of five existing terminals and six cargo terminals.

Rail

Nigeria’s railway network is dilapidated and vastly underutilised. Traffic volumes (both freight and passengers) have consequently collapsed due to deficient performance and erratic service, despite the potentially significant demand for rail.

The inability to transport commodities at reasonable cost by means of a bulk transportation system could severely impact the country’s ability to leverage opportunities from bulk products. Often, the food grown in the north ends up rotting in the fields because the cost of driving it to markets is more than its value.

The rail network is comprised of eight lines with an overall length of more than 3 500km. Investment projects in the sector concentrate on railway modernisation, line rehabilitation and completion or upgrading of existing rail lines.

In addition, Nigeria also plans to participate in the AfricaRail project by upgrading lines from 1 067mm gauge to 1 435mm gauge. AfricaRail is a project to rehabilitate and
construct 2,000km of new railway, linking the railway systems of Cote d’Ivoire, Burkina Faso, Niger, Benin, Togo and ultimately Nigeria, at an estimated costs of US$2 billion.

**Conclusion**

Based on our analysis, we’ve assessed the investment potential for Nigeria’s transportation and logistics sector as shown in the graphic below.

### Nigeria – Investment potential assessment

| 1. Demographics and resources |  
|------------------------------|---|
| 2. Economics                 |  
| 3. Business environment      |  
| 4. Trade and logistics       |  
| 5. Transport and infrastructure |  

**Key:**
- Attractive
- Average
- Unattractive
- Strong improvement expected
- Some improvement expected
- Stagnation/marginal change expected

### End notes

5. AFRICARAIL, online: http://64.33.72.83/africarail.program.htm