

NIGERIA

Fast Growth; Big Problems

No other emerging market offers the potential of Nigeria. Projected to have the world's fourth-largest population by 2040 and to become an economic leader by the mid-21st century, the oil-rich nation is trying to improve governance and modernize its economy. But its challenges are immense—not least the corruption, oil theft, poverty, and a brutal insurgency.

The International Monetary Fund (IMF) predicts that Nigeria's economy will grow by 7 percent this year and by slightly more next year; then it will ease to 6.8 percent by 2019. But what's really exciting is where this prolonged expansion path could lead—if Nigeria's problems can be overcome. By the middle of this century, according to projections by Goldman Sachs, Nigeria could boast the world's 13th-largest economy, right behind France and Germany. Moody's puts Nigeria in the top 15 within the same time frame, up from 28th place now. Former Goldman economist Jim O'Neill includes Nigeria in a select group of "MINTs" along with Mexico, Indonesia, and Turkey—four large emerging economies that all have "very favorable demographics for at least the next 20 years, and their economic prospects are interesting," O'Neill wrote.

"I am especially excited about Nigeria because of it being nearly 20 percent of Africa's population, and if they find success it will be really important for the African continent," O'Neill told Grant Thornton, a consultancy, in March. "I also think they have a generation of leaders that are trying to behave differently from the past in terms of stronger and better governance. In a broader context, I am among those that believe this could be sub-Saharan Africa's 'moment,' so to speak, as with the benefits of modern technology, the better governance, and with improving infrastructure, it looks quite promising."

The IMF does not project so far ahead, but it is quite positive about the near-term outlook. “Structural reforms under the Transformation Agenda are ongoing,” the fund noted in its April 2014 country report. “Growth is expected to remain strong, driven by agriculture, trade, and services.” However, it cautioned that “significant in-

frastructure gaps and weak institutional capacity still retard growth prospects.”

A Long Road Ahead

Dealing with generational legacy issues is rarely quick or easy, and Nigeria is not without its share of problems, many of which dominate international press reports about the country. President Goodluck Jonathan, who holds a doctorate in zoology from the University of Port Harcourt, took office in May 2010, seeking to implement conservative economic

policies while boosting public and private investment. A year later, he launched the Transformation Agenda, with an emphasis on bringing private investment into oil, gas and power.

“Nigeria’s development efforts have over the years been characterized by lack of continuity, consistency and commitment (3Cs) to agreed policies, programs and projects as well as an absence of a long-term perspective,” read the agenda. “The culminating effect has been growth and development of the Nigerian economy without a concomitant improvement in the overall welfare of Nigerian citizens. Disregard to these 3Cs has resulted in rising unemployment, inequality and poverty.”

Since then, Nigeria has privatized much of the power sector (see the infographic on the following pages), and essential investments are starting to flow. Recent pension reforms, in addition to a gradual easing of some old-age poverty, may help steer local funds into infrastructure. Inflation is under control, bureaucracy is improving, and welfare reforms are promised.

Small steps, perhaps, but in the right direction.

Most of the reforms have so far benefited the more developed and peaceful south of the country, doing little to help the underdeveloped northern region, where violence from Boko Haram feeds on poverty and systemic corruption.

The Lessons of Ebola

Often criticized for its corruption, social problems, and inefficiency, Nigeria showed the world a dramatically different face dur-

ing its recent brush with Ebola. Rapid response, well-organized public officials, dedicated health workers, and good preparations helped prevent the virus escaping into the densely packed shantytowns of Lagos, one of the world's largest metropolitan areas with a population of 21 million.

“Nigeria is now free of Ebola,” Rui Gama Vaz of the World Health Organization told reporters in Abuja, the capital. “This is a spectacular success story.” Vaz was speaking in late October, just three months after Patrick Sawyer, a Liberian-American, landed in Lagos with symptoms of fever, diarrhea, and vomiting.

Eight deaths later, Nigeria is celebrating the dedication of Dr. Stella Ameyo Adadevoh, who—according to reports—refused to believe Sawyer’s denial of any exposure to Ebola, physically restrained him in his hospital bed, and resisted official pressure to discharge him. This dedication cost Adadevoh her life.

Nigeria was perhaps lucky that Sawyer arrived with visible symptoms. But after

some early mistakes and initial hesitation, the government rapidly adapted an emergency-operations center that had been established earlier with foreign aid to fight polio. This provided unified command and enabled contact tracing. The widespread mobile phone network was crucial, as was the existing Lagos hospital and ambulance system, which is much better than in many other parts of the country, and indeed most of sub-Saharan Africa. Some 1,800 health workers were quickly trained and 900 possible contacts were traced and monitored in more than 18,000 visits.

“Nigeria acted quickly and early and on a large scale,” John Verteffeulle, an epidemiologist with the U.S. Centers for Disease Control and Prevention who spent time in the country, told reporters. “Tracing was central to the success of the response.”

Critics noted that the Ebola response contrasted sharply with the government's lethargic and so-far-ineffective handling of the April kidnapping of more than 200 schoolgirls by the Boko Haram militant group.



 **Q&A**
*H.E. Chinedu
Ositadinma
Nebo*
Minister of Power

How does power privatization fit into the Transformation Agenda?

Nigeria has conducted the largest privatization of public utilities in Africa—a model for other countries. But it wasn't just the government handing over the power sector; privatization was the realization that government alone could not continue to run the power sector as a matter of social welfare. Government did not have the funds, and it needed to give Nigerians the level and quality of power supply that they clamor for.

What motivates you, as Nigeria's minister of power?

Power is the key to unlocking Nigeria's potential, in industry, manufacturing, and SMEs [small and medium enterprises]. Without power, none of this is possible. In the past, some companies even left Nigeria because of inadequate power supplies. I see myself in a historic position to help address that huge vacuum. The government is committed to taking electricity to the most distant rural populations.



Technology for Growth



Peter Jack
Director General, NITDA

NIGERIA'S NATIONAL INFORMATION TECHNOLOGY DEVELOPMENT AGENCY (NITDA) LIES AT THE VERY HEART OF THE COUNTRY'S GROWTH STRATEGY. DIGITAL TECHNOLOGY MEANS BETTER JOBS AND HIGHER SALARIES; IT ALSO MEANS LEAPFROGGING MANY TRADITIONAL STAGES OF DEVELOPMENT WITH A MIX OF IMPORTED AND HOMEGROWN PROGRAMS AND PLATFORMS. SOME US\$25 BILLION OF LOCAL AND FOREIGN INVESTMENT COULD BE NEEDED OVER THE NEXT FIVE TO TEN YEARS TO BUILD OUT INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) INFRASTRUCTURE.

Peter Jack is nothing if not ambitious: he sees Nigeria's ICT sector possibly rivaling oil and gas as a generator of gross domestic product. Jack, a postgraduate chemical engineer with an MBA from the University of Lagos, was recently appointed director-general of NITDA with a mandate to get things moving.

“We plan to position NITDA as a prime catalyst for transformation,” Jack said in an interview. “We are going to engage with all sectors; our principal strategy is stakeholder partnerships. We are going to position ICT as a credible economic sector, possibly surpassing oil and gas in the future. And we plan to use ICT to catalyze growth in other sectors, to be an enabler in sectors such as oil and gas, agriculture, industry, housing, and so on.” ICT currently generates an estimated 9 percent of Nigerian GDP.

Created in 2001, NITDA is charged with promoting ICT development by drawing up standards, fomenting e-government, fostering ICT training, and sponsoring infrastructure development, particularly in rural



areas. Jack, who studied information technology policy at Seoul National University in South Korea, sees that Asian nation as a potential role model: "In 1997, after the Asian financial crisis, South Korea adopted an ICT-focused economic development strategy and successfully positioned ICT as a 25 percent contributor to GDP."

Omobola Johnson, Nigeria's minister of communication technology, is equally optimistic. More people in Nigeria have mobile phones than have a bank account, she points out, meaning that the potential for going straight to mobile financial services is huge.

Currently about 28 percent of Nigerians have some Internet access, but broadband penetration, counting mobile and fixed, is just over 6 percent. However, around 75 percent of people

have mobile phones that use the older GSM-2G technology and cannot access the Internet. Now the challenge is to extend networks further into poorly served rural areas and upgrade the whole system to 3G or even 4G technology to allow for services such as mobile banking.

Nigeria recently announced that it would license seven infrastructure companies to expand broadband networks and adopt an open-access policy whereby carriers will be required to lease network space to competitors. The government's National Broadband Plan 2013–2018 quotes studies showing that “every 10 percent increase in broadband penetration in developing countries results in a commensurate increase of 1.3 percent in GDP.” 3G coverage is due to reach 80 percent of urban areas by 2018, with a minimum speed of 1.5 Mbit/second. Subscribers would multiply fivefold, to around 30 percent of the national population.

Jack said he hopes to create 600,000 ICT-related entrepreneurs and two million jobs during his four-year term at NITDA.

NIGERIAN POWER SECTOR

FINANCING

US\$7bn/5yrs

President Obama's Power Africa initiative aims to double the number of Africans who have access to electricity

US\$4.68 bn

Total investment portfolio of Nigerian banks in the power sector (Dec. 2013)

US\$5bn p.a.

Yearly funding needs for power sector over the next five years

US\$700 m

UBA line of credit for acquisition of power assets in the recently privatized power sector

US\$550 m

Amount the federal government provided to its sovereign wealth fund to help guarantee power trading and spur investments to build the country's electricity market

GENERATION COMPANIES

600 MW Shiroro Hydro Power Plc (Hydro)
942 MW Ughelli Power (Thermal)
987 MW Afam Power Plc (Thermal)
1,020 MW Sapele Power Plant (Thermal)
1,320 MW Egbin Power Plc (Thermal)
1,330 MW Kainji/Jebba Hydro Electric Plc (Hydro)



INDEPENDENT POWER PRODUCERS

These are power plants owned and managed by the private sector. Note: There were Independent Power Producers (IPPs) present in Nigeria prior to the privatization process.*

*70 licenses issued by NERC to IPPs to improve power in the country.

642 MW Shell - Afam VI
480 MW Agip - Okpai
270 MW AES Barges

NATIONAL INTEGRATED POWER PROJECTS

Conceived in 2004 as a fast-track publicly funded initiative to add significant new generating capacity to Nigeria's electricity supply system, along with the electricity transmission and distribution and natural gas supply infrastructure that is required to deliver the additional capacity to consumers throughout the country.*

1,131 MW Alaoji Generation Company Nigeria Ltd.
508 MW Benin Generation Company Ltd.
634 MW Calabar Generation Company Ltd.
381 MW Egbema Generation Company Ltd.
254 MW Gbarain Generation Company Ltd.
506 MW Geregu Generation Company Ltd.
508 MW Ogorode Generation Company Ltd.
754 MW Olorunsogo Generation Company Ltd.
265 MW Omoku Generation Company Ltd.
513 MW Omotosho Generation Company Ltd.

*"A Guide to the Nigerian Power Sector", KPMG, December 2013
Pending completion

NATIONAL INTEGRATED POWER PROJECTS

- Kaduna Electricity Distribution Company Plc
- Abuja Electricity Distribution Plc
- Jos Electricity Distribution Plc
- Kano Electricity Distribution Company Plc
- Yola Electricity Distribution Plc
- Enugu Electricity Distribution Plc
- Benin Electricity Distribution Company
- Eko Electricity Distribution Company Plc
- Ikeja Electricity Distribution Company Plc
- Ibadan Electricity Distribution Company Plc
- Port Harcourt Electricity Distribution Company Plc



US\$1.3 bn

Deal with the Chinese government that involves construction of a hydroelectric plant in Zungeru (Niger State) and that is expected to add 700 MW to the national grid

An Opportunity for Growth

INFRASTRUCTURE REQUIREMENTS

US\$2.9 trn

required for infrastructure development efforts through over the next 30 years in Nigeria (2014-2045)

US\$900 bn

required for the energy sector alone

US\$10 bn

required for capital expenditure by generation and distribution companies in the next few years to enable the nation to add 5,000 MW

US\$1.5 bn

annual requirement over the next five years to ensure reliability and stability of the transmission grid



President Goodluck Jonathan hands over share certificates and licenses to new owners in September of 2013

SOLAR POWER

OPERATION LIGHT UP NIGERIA



The project is conducted in partnership with foreign firms such as Philips and Schneider and aims to provide 24-hour solar-powered energy in all parts of the country.



RENEWABLE ENERGY

SOLAR

Average solar insolation
5.25 kWh/m²/day

WIND

Wind speeds range from 1.4 to 3.0 m/s (coastal and offshore) in the south and from 4.0 to 5.1 m/s in the far north

BIOMASS

Government plans sugarcane and cassava plantations for bioethanol production

GEOTHERMAL

Major potential geothermal sites have been identified

HYDRO

22% of electrical power supply
13% of exploitable hydropower in use



US\$100 m

pledged by the World Bank for a development plan in Nigeria to diversify the country's reliance on oil

More than US\$3 billion is generated through the bidding

SEPTEMBER 30th, 2013

President Goodluck Jonathan formally hands over share certificates and licenses to 14 new core owners of PHCN successor companies.

FEBRUARY 2013

The privatization agency sends a request for proposal (RFP) to 48 prospective bidders. Afam and Kaduna discos were among the 17 PHCN successor companies advertised for sale in December 2010 along with 15 other PHCN successor companies that went through a full competitive tender process, culminating in the submission of technical and financial proposals in July 2012.

OCTOBER 2012

NCP approves 14 preferred bidders for the PHCN's generation and distribution companies. Manitoba Hydro International (MHI) takes charge of TCN in a US\$24.7 million contract expected to run for three years, aiming to reorganize TCN into a market-driven company that is technically, financially and commercially viable.

DECEMBER 2010

The NCP advertises for EOLs from prospective core investors interested in acquiring controlling stakes in the 11 successor distribution firms created from PHCN

MARCH 2011

Deadline for submission of EOLs; 180 applications received, including from 72 prequalified bidders.

JULY 2010

Nigerian Bulk Electricity Trading Plc (NBET) incorporated in line with the "Roadmap to Power Sector Reform" and the requirements of the Electric Power Sector Reform Act (EPSRA).

AUGUST 2010

President Goodluck Jonathan launches the Power Sector Roadmap. Unbundling of PHCN companies commences.

OCTOBER 2005

Inauguration of the Nigerian Electricity Regulatory Commission (NERC). Mandated to conduct the monitoring and regulation of the electricity industry, issue licenses to market participants, and ensure compliance with market rules and operating guidelines.

NOVEMBER 2005

Incorporation of the Transmission Company of Nigeria (TCN) as a product of the defunct National Electric Power Authority (NEPA). CPCS Transcom Limited (Ottawa) hired by the Bureau of Public Enterprises (BPE) to advise on privatization of the 11 distribution companies and 6 generation companies.

Enactment of the Electricity Power Sector Reform Act (EPSRA) provides legal backing for the power sector reform program. EPSRA calls for unbundling the national power utility company into 18 successor companies: 6 generation companies; 11 distribution companies (discos) covering all 36 states; and one national power transmission company (TCN), all under the umbrella of the Power Holding Company of Nigeria (PHCN).

The National Council on Privatization (NCP) constitutes the Electricity Power Sector Implementation Committee (EPIC) to undertake a comprehensive study and review of the entire industry to prepare grounds for liberalizing the power sector to attract private investment and ensure competition in the market.

1999

2005

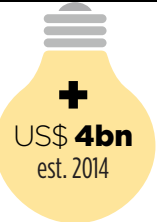
2010

2011

2012

2013

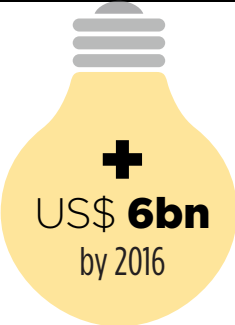
PRIVATIZATION TIMELINE



+ US\$ 4bn
est. 2014

ELECTRICITY MARKET

NIGERIA



+ US\$ 6bn
by 2016

POWER GENERATION CAPACITY

Nigeria 4,000 MW
+160m

South Africa 44,000 MW
51m

United States 1,000,000 MW
315m
and population (millions)

6,976 MW

total installed generation capacity, with expectation of expansion from the National Integrated Power Projects (NIPPs)

20,000 MW

estimated generation capacity by 2018

55%

of total population has access to electricity in Nigeria

US\$8.5 bn

Gas Master Plan

The Federal Government has earmarked US\$8 billion for execution of the Nigerian Gas Master Plan with specific interest in meeting the country's gas-to-power demand.

75%

of Nigeria's power generation depends on natural gas

260 trn ft³

total reserves of natural gas (note that Nigeria's gas reserves are triple the nation's crude oil reserves)

1st in Africa

in proven gas reserves

9th largest

in global reserves



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