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Focus on Nigeria

Nigeria Post Election: Does the new political climate offer opportunities for the informed investor? Brendan Plessis, XL Catlin's Head of Emerging Markets discusses.

Nigeria is the largest economy in Sub-Saharan Africa, but has been hit hard by the oil price rout which historically accounts for over 90% of exports and 60% of government revenue. The oil shock coincides with a major political transition underway since the election of President Muhammadu Buhari last year. Buhari's election signaled a decisive break after 16 years under the former ruling People's Democratic Party (PDP). Buhari represents a seismic shift from the political status quo in Nigeria, with mixed impact for the business environment. Regulatory and tax enforcement is already tightening and anti-corruption and security measures are improving. While Buhari will face external and internal headwinds to his agenda, he will likely usher in significant institutional change in the coming years – change that needs to be recognized and capitalized on by investors. To that end Nigeria is in severe need of infrastructural investment and multilaterals such as The World Bank , IFC and the recently created AFC are unequivocally on board to support the developmental needs of the country. This is not unique to Nigeria. Indeed big infrastructure needs are shared across most Sub Saharan countries notably Ghana, Cote d'Ivoire, Angola and Ethiopia all of which present significant challenges and some opportunities.

The Nigerian business climate under Buhari is evolving, offering opportunity to shrewd investors and presenting risks to the unprepared. Again we point to the infrastructure needs which range from utilities including power, transmission, water and also transport. All of which ought to represent an attractive return on equity to investors subject to government support in ensuring structuring and efficacy of the projects. To that end Buhari has adopted a pragmatic policy agenda dominated by three priorities: ending corruption, tackling insecurity and diversifying the economy. Buhari's zero tolerance approach to corruption starkly contrasts his predecessors and will significantly alter the business climate. The changing context will work in the favor of those companies that abide by strong anti-corruption policies. Firms that adopt stringent anti-corruption internal protocols, such as open and transparent records, will be well placed to succeed in Buhari's Nigeria.

The anti-corruption drive will prompt a stricter regulatory environment. Businesses in strategic sectors (notably oil and gas, telecoms and firms with links to security) will face particularly heightened scrutiny by regulators. A recent and unprecedented action by The Nigerian Communications Commission is indicative of the new power of regulators.

Businesses further face the risk of a more stringent fiscal regime, as the administration seeks to fund its national development plan. The 2016 budget is expansionary (nearly 30% greater than 2015) despite falling oil revenues. To shore up non-oil revenue the administration will focus on plugging holes in revenue collection, increasing customs duties and more in-depth audits. In a few cases, the government may look to renegotiate contracts altogether, but this will be limited in scope outside of the oil sector, which will undergo significant reform based on the global impact of shifting oil prices from which Nigeria is far from immune.

Investors can leverage opportunity by engaging with the economic priorities of the regime. Buhari's approach has already been demonstrated in monetary policy with the refusal to ease the naira's peg and the introduction of foreign exchange restrictions for imported goods. In 2016 there will be increasing direct and indirect support for domestic firms in key import substitution sectors – notably agriculture and light manufacturing. Foreign companies that work with domestic champions and local businesses in priority sectors will be well positioned; those that just seek to export into the market may face trade restrictions stemming from the import substitution policy. However, one could reasonably expect ministers in energy, transport, mining and agriculture to push for more pragmatic engagement with investors.

Buhari's credibility has also increased the cooperation of international powers in tackling the Boko Haram insurgency. Buhari has made inroads against the group; but the security situation remains precarious in the North East. Bilateral and multilateral commitments whether for the military or for rebuilding the North East, will help stabilize the situation and gradually improve the investment environment in the north. The US and France are stepping up their counter-terrorism assistance and intelligence.

Buhari's Nigeria offers opportunities for investment, if carefully calibrated to align with administration priorities. Working with anti-corruption policies and increased regulatory oversight will pose challenges to those who are not prepared to conform. Nigeria will not become an easy business environment overnight, but understanding and engaging with Buhari's policy priorities can offer significant upsides for the savvy investor.

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