

# Investing in Nigeria

Wednesday June 28 2023

www.ft.com/reports

## Tinubu gets off to a dramatic start

New leader defies rock-bottom expectations by scrapping fuel subsidy, writes David Pilling

If it was the intention of Bola Tinubu, Nigeria's new president, to attract the attention of investors, he could not have picked five more potent words to achieve his aim.

"The fuel subsidy is gone," he blurted out during his May inauguration speech — departing from prepared remarks that had spoken merely of "phasing out" the costly policy. Its removal has been the third rail of Nigerian politics since subsidies were introduced in the 1970s.

The impact was immediate. The price of petrol almost tripled to N557 (\$1.20) a litre. Bonds rallied. The naira weakened on expectations that exchange rate simplification might follow.

Tinubu had spoken directly about that, too. "Monetary policy needs thorough house cleaning," he said in his speech. "The central bank must work towards a unified exchange rate," he added, referring to the 40 per cent spread between the official and the parallel rate. "This will direct funds away from arbitrage into meaningful investment in the plant, equipment and jobs that power the real economy."

Days later came news of the suspension of Godwin Emefiele, the central bank governor who presided over an opaque exchange rate regime for the eight-year tenure of President Muhammadu Buhari. Not long after, news that banks could bid freely for dollars sent the naira falling by more than 30 per cent, its biggest one-day drop in history. Tópe Lawané, managing partner of



Monetary shift: president Bola Tinubu plans policy changes to reinvigorate Nigeria investment — Kola Sulaimon/Getty Images

Helios Investment Partners, an Africa-focused private investment firm, says rationalising the exchange rate and subsidy regimes is vital to making Nigeria investible again. "We haven't made a new investment in Nigeria in possibly six or seven years," he notes — adding

that, hitherto, the continent's most populous country had been Helios' investment priority. The problem, he explains, was that "the policy environment just seemed to make it impossible. "Whether you're a private equity or a portfolio investor, the thing you cannot

price in is an inability to take your money out," Lawané says. "You can bet on a stronger or weaker currency, but you need some level of liquidity to live with the bet you're making."

Worries about getting hold of dollars trumped Nigeria's positives, he says,

from its huge domestic market to its buzzing tech sector — arguably the most dynamic in Africa. "The difficulty of getting your money out inhibits putting your money in," Lawané points out.

In remarks that sounded positively pro-business compared with Buhari, who had favoured state intervention and protectionism, Tinubu addressed all these private investor concerns: "We shall ensure that investors and foreign businesses repatriate their hard-earned dividends and profits home."

Chidi Odinkalu of the Fletcher School of Law and Diplomacy at Tufts University argues that Tinubu has done the minimum necessary given the hand he was dealt: "We shouldn't be impressed."

But Bismark Rewane, head of Lagos-based consultancy Financial Derivatives, says Tinubu's first weeks mark an "inflection point" in Nigeria's policy framework after the past eight years when growth and investment collapsed, oil theft spiralled, and kidnapping and violence spun out of control.

"Scrapping of the fuel subsidy is good for Nigeria," he says, noting that it was difficult to manage, politically, given politicians' low credibility with the public. "There are crony capitalist profits everywhere so, if we can get one big piece of that puzzle out, then all of the other pieces will follow."

Because much of Nigeria's debt is denominated in naira, traders believe a devaluation need not precipitate a debt crisis. Converting dollar receipts from oil revenues into a weaker naira would also strengthen government finances undermined by chronically low tax revenue, they add.

This air of optimism in the first few weeks of Tinubu's presidency comes as

Continued on page 3

### Inside

**Oil and gas industry misses out on boom**  
Theft, vandalism and under-investment blight the sector

Page 2

**New economic policy**  
Bold beginning, yet deep problems and rampant poverty remain

Page 3

**Investor hopes rise**  
President Tinubu's inaugural message on profit repatriation did not disappoint

Page 3

**Growth of middle class boosts cultural profile**  
Diverse talents enable central role in rise of African art

Page 5



**China increases focus on Nigerian potential**  
Chinese companies ready to build from the grassroots up

Page 5

### ADVERTISEMENT



**Ainojie 'Alex' Irune**  
President & CEO  
Oando Clean Energy

## Decarbonizing Africa For Prosperity

**For Africa, the energy transition is about access, security, and affordability. How can Africa achieve a just and inclusive energy transition for all Africans amid a climate crisis?**

For Africa, the concept of a just transition is an inflection point beyond decarbonization and global climate objectives. It is about the far-reaching implications of energy poverty on the continent's socioeconomic development against a backdrop of growing energy demand and a teeming population actively demanding a better future. It is about equipping our people with the requisite expertise and resources to drive the right transition for the African continent.

Though referred to as the next renewable powerhouse, Africa has been unable to exploit its abundant but underutilized renewable energy resources because there are barriers to unlocking this in the near term, including developing our energy infrastructure amid a global climate crisis. Since the beginning of the industrial era, Africa has accounted for less than 4% of the world's total cumulative greenhouse gas emissions. Still, the continent is on the front line of a climate crisis while the burden on economies and livelihoods is disproportionately high.

Therefore, pushing for total abandonment of fossil-based fuels in favour of greener energy sources will further exacerbate energy poverty in a continent that, amidst all of the above, is struggling to play catch up in the race to industrialization.

The energy mix is still being contended, the developed countries have a view of what it should be but as Africans, we have a different view and must be allowed to curate an energy mix that recognizes our peculiarities and sets the continent on a pathway to an inclusive transition. A step in the right direction was made in this regard at the Executive Council of the African Union on July 15, 2022, where the African Union Commission adopted the African Common Position on Energy Access and Just Transition. This approach ensures Africa has the right to a differentiated energy development pathway to spur universal access to energy and transition without compromising its development efforts.

Four key actions must be deployed as a prerequisite for a just transition; de-risking and promoting private sector investment, a holistic approach to power generation, innovative financing and instituting comprehensive policies to foster transformative decarbonization.

African governments must create an enabling environment by developing and instituting policies to attract high-quality investments and boost public-private partnerships. They must improve and harmonize regulatory frameworks for energy generation, invest in the modernization and expansion of energy

infrastructure. Today, the investments required to meet Africa's growing energy demands far outweigh the funds available from public sources. The private sector, specifically oil and gas companies, have balance sheets that can take the risk to facilitate this transition. The private sector will lead this transition and thus must be encouraged by an enabling environment to do so.

As leaders in the private sector, striving towards achieving a carbon-neutral Africa, we will continue to exploit the continent's clean and renewable energy sources to solve the continent's energy deficit. In the short term, a mix of renewable energy sources, natural gas and low-carbon hydrogen will be critical in expanding modern energy access. Africa has an enormous amount of renewable energy capacity, estimated to reach 310GW by 2030 in addition to its natural gas reserves. We must deliberate about how we harness the resources within our reach, such as sunlight, and identify opportunities to produce energy in more carbon-friendly ways because we cannot afford to decarbonize Africa into poverty.

**How is Oando adapting its business model to the new normal and what are some of the bankable renewable projects you are working on in the short to medium term to ensure energy access, security and affordability?**

The Coronavirus pandemic was a global awakening. Like everyone else, we realized we needed to act quickly to mitigate the energy and climate crisis. Being part of an industry that directly contributes to greenhouse gas emissions and global warming, we have a responsibility to create a path that enables us transition as a country to more sustainable modes of operation. This birthed Oando Clean Energy Limited (OCEL), the clean energy subsidiary of Oando PLC.

Since its incorporation in 2021, the mandate for OCEL remains the design and development of climate-friendly and bankable energy solutions. The first step in our clean energy journey was to address the highest contributors of carbon emissions in Nigeria such as transportation and energy consumption. We partnered with Lagos state to drive the transition of their municipal transport to electric-powered buses through the development of an Electric Vehicle (EV) infrastructure ecosystem, marking Nigeria's first electric mass transit. Developing the infrastructure was less about the vehicles and more about the impact of fossil commuting on the environment and how we could significantly reduce pollution by transitioning the State's current public transport system.

Lagos, the most populous city on the continent, has seen a four-fold increase in vehicles on its roads, with over 1,000 mass transit buses operating in the state. Lagos contributes 243,000kg of carbon dioxide equivalent from its public mass transit per day, making it a suitable development ground for sustainable technologies that can be modelled across Africa. We are confident this will create a spill-over effect and accelerate electric mobility possibilities within the state and country.

The future of downstream is electric. Though e-mobility might seem far-fetched considering the continent's energy deficiency, we see this as an opportunity to design and lead the creation of what our future should look like. We are confident that this will make private uptake of EVs a lot easier.

We are also making significant inroads in the power sector. Demographic trends and development plans show the country's growing energy demand is inescapable. We are clear in our minds that a sustainable solution to ensuring all Nigerians have access to power will include deploying innovative and captive power solutions that address the unique needs of each community. To this end, we have partnered with the Rural Electrification Agency (REA) of Nigeria to deploy solar mini-grids towards achieving energy security, power accessibility and affordability across rural communities.

Nigeria is one of the fastest-growing markets for solar power in the world. According to the Global off Grid Market Report, Nigeria is the 5th largest market in terms of volume of solar products sold. Sales of off-grid solar systems (50 - 100W output) have increased exponentially year on year since 2018. Yet approximately 90% of solar panels used in Nigeria are imported with China taking the lead position.

We see this as an opportunity for value accretion. Our strategic ambition is to establish a 1GW solar module assembly factory in Nigeria. In the initial stages, we will assemble but using locally sourced materials i.e., glass and aluminium with our utopia being to manufacture locally, thus enabling capacity development and making us the go-to destination for solar modules in Nigeria.

Other verticals we are looking at include producing energy and alternative fuel from waste through biochemical processes, such as anaerobic digestion, fermentation, and thermochemical processes, such as pyrolysis and gasification. In addition, we'll explore the country's wind energy potential by developing a 1 Gigawatt (GW) coastal and offshore wind farm.

Whilst this is not a comprehensive list of all we are working on, it gives you a glimpse into how keen we are to explore the full spectrum of the renewable energy value chain to create value for the nation.

These are daunting feats which cannot be achieved from a place of comfort. Every step of the way, we have approached and tackled each challenge by collaborating with private sector partners and the Government where necessary.

OCEL's DNA is no different from Oando's. We welcome audacious projects and are unafraid of being the first. We have an army of experienced and passionate individuals fueled by a desire to turn challenges into opportunities if the end journey is one of positive impact. So, we are confident about our abilities to manage the complexities around new technology introductions, more so within Nigeria's unique and sometimes challenging terrain.

**How has Oando scaled the challenge of financing its renewable energy projects?**

Achieving energy sufficiency for all Africans would require an almost four-fold increase in financing to approximately US\$100 billion annually till 2040, above current spend. Despite the promise of the energy transition and being the most vulnerable to the impacts of climate change, Africa has received only about 2% of global renewable energy investments in the past two decades.

Africa has a profile that is not risk friendly, but it is our job as Africans, to de-risk and create the requisite confidence needed to attract investments. Approximately 70% of renewable projects are stuck in conceptual design and feasibility stage. The inhibitors to these projects include scalability, inefficient market, and limited technical skill for expansion amongst others.

At Oando, we deploy an evidence-based approach to showcase the viability and bankability of climate adaptation projects. We understand that risks must be taken at the early stages of these projects, and as a leader in the transition journey, we are ready to take on those risks. Our project structuring efforts include developing business plans and feasibility studies emphasizing the sustainability of our initiatives and aligning them with the criteria required for these funding groups. We embrace innovation, exploring products and services that are sustainable. These efforts collectively position us to attract interests to fund our initiatives and drive the clean energy transition in Nigeria. We also leverage the support of our parent company, Oando PLC, to mitigate these risks.









# AFRICAN ROOTS, WORLD CLASS SERVICE.

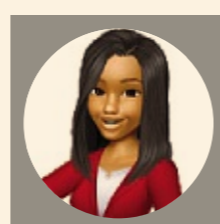


PEOPLE | TECHNOLOGY | SERVICE

Bank the Eazy way with **\*966#** NO DATA REQUIRED  
EazyBanking



For enquiries and feedback, kindly contact **ZenithDirect**, our 24hr interactive Contact Centre:



+234 1 278 7000, 0904 085 7000, 0700ZENITHBANK  
zenithdirect@zenithbank.com

Zenith Intelligent Virtual Assistant (ZiVA) -  
0704 000 4422 (WhatsApp)

[www.zenithbank.com](http://www.zenithbank.com)