The Promise of Nigeria’s Entrepreneurs:  
A Perspective from the UK

Richard Fuller, MP and Samuel Kasumu

CHATHAM HOUSE
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FOREWORD

Entrepreneurs create the wealth that generates the taxes that fund public services. They help to spread wealth so that democracies based on freedom and the rule of law can be sustained.

There are two great hopes that Nigeria will validate this view of development once again, improving the length and quality of life for hundreds of millions of people. The first is that the Nigerian economy is at a point where market-based economic development will become self-reinforcing. The second, and for the purposes of this report more relevant one, is that the regulatory, financial and skills constraints faced by entrepreneurs in Nigeria are being lessened to such an extent that economic development can be realised on a broad scale.

This report is based on research carried out in Lagos only but the findings have relevance for the country as a whole as economic diversification remains a priority and entrepreneurs are a key part of that process.

For the UK, the expectation that the Nigerian economy is on the cusp of a similar period of self-reinforcing growth that enabled other large economies to rise is chilled by a realisation that the UK’s share of Nigerian imports has more than halved in recent years.

Despite the stereotype of corrupt practices, news coverage of physical threats and warnings of previous false dawns, we went to Lagos believing that the conditions for an entrepreneurial breakthrough were so strong that these concerns would become contextual factors for, rather than inhibitors of, rapid economic progress.

The vast entrepreneurial talent and the drive and ambition of the people who comprise the city of Lagos were evident and left an abiding impression. The sheer scale of raw talent, if harnessed with even a modicum of care in Lagos and beyond, can dramatically transform the economic wellbeing of the country.

Should Nigeria achieve its long hoped for transition from a country with huge promise to a country with broad-based economic growth, social progress and substantially improved livelihoods for its citizens, it could also become one of the largest markets for the United Kingdom and its companies.
The economic potential of Nigeria has been recognised and heralded for generations but remains untapped, so it is worth considering whether and why circumstances now would produce a different outcome.

Potential now will be realised by Nigerians for Nigerians, rather than by outsiders, providing a more secure, more self-reinforcing basis for growth than in the past where surplus wealth and talent was exported. Achieving Nigeria’s potential rests on the most fundamental and effective tool for development: the ambitions, ingenuity and drive of a new generation of Nigerian entrepreneurs.

In Lagos State, progress toward an enabling environment for entrepreneurs is being made for which the Lagos State Government deserves much credit. There can be no let-up in their efforts, because the economic benefits derived from these reforms will reinforce themselves, creating further positive momentum.

The UK Government has placed Nigeria at the forefront of its agenda to engage with leading nations of the coming century. Nigeria is vying with South Africa to become sub-Saharan Africa’s largest economy, is seeking a permanent seat on the UN Security Council and is projected to be the world’s third most populous country by 2100.

This report highlights some practical initiatives that the UK could take forward in support of the development of small and medium-sized enterprises (SMEs) in Lagos, and strengthening its economic and commercial relevance in Nigeria, to match its long-standing diplomatic and inter-governmental strength in an increasingly competitive environment.

This report focuses on the following areas to reinforce the positive trends for building an entrepreneurial society in Lagos:

1) Enhancing finance for small businesses,
2) Creating a more skilled workforce,
3) Utilising UK experience to reduce constraints to competitiveness, and
4) Leveraging connections between the UK and Nigeria.

In each there are suggestions for new partnerships that will add to the lasting bonds between the UK and Nigeria.
RECOMMENDATIONS

Enhancing finance for small businesses

In response to an evident and persistent finance gap that is holding back one of the most significant bursts of entrepreneurial wealth creation in the coming decades, it is recommended that:

- CDC be tasked to develop a Lagos-based co-investment fund targeted at early stage businesses that are “formal from day one”;

- The Department for International Development (DfID) liaise with potential partner firms from the City of London in accountancy, finance and other City services to create a “wrapper” of corporate formality for all investee companies of the co-investment fund; and

- The co-investment fund partner with Lagos-based venture capital firms, banks and the Nigerian Stock Exchange to develop reliable “financing pathways to growth” for small businesses.

DfID can utilise the expertise at CDC and the legal, accounting and financial services in the City of London to help develop a vibrant early-stage venture sector in Lagos.

By providing co-investment capital to local venture funds, DfID can leverage its capital to provide a significant boost to filling the “finance gap”. The financial commitment should be sufficient to “change the norm” of early stage business formation in Lagos, encouraging formalisation and helping to embed the UK corporate model into governance structures.

By working with legal, accounting and other financial services firms in the City of London, the co-investment fund can ensure investee companies are structured to be “formal from day one” providing local banks with greater confidence to lend against the assets of the business.

DfID should work in partnership with the Lagos State Government and UK City service firms to develop “formal from day one” support hubs in the State Government’s “enterprise zones”.

The Promise of Nigeria’s Entrepreneurs
In response to an evident skills gap existing side by side with widespread unemployment amongst the young people of Lagos, it is recommended that:

- DFID establish a UK vocational-skills strategy to train a generation of Nigerians to meet the emerging need for reliable, quality trades-people in Lagos and beyond;

- The Office of Qualifications and Examinations Regulation (OFQUAL) should modify its regulations to enable accreditation of qualifications offered overseas by UK-registered providers;

- DFID work with UK Further Education Colleges and other providers to offer packages of technical National Vocational Qualifications NVQ courses for specific trade skills (e.g. plumbing, construction, electrical); and

- DFID invest, for example via the Open University or Cranfield University, in hybrid distance learning curricula for entrepreneurship and business qualifications.

There is a huge amount of human talent which has not been “processed” effectively to sustain Nigeria’s SME growth. The UK has a strong reputation in Nigeria for its capabilities in education, but other than for university courses delivered in the UK, for which the reputation remains strong and the courses highly valued, that advantage has been eroded by fierce competition from providers from other countries.

However, rather than rely heavily on a model of providing UK-based higher education to Nigeria’s elite, the UK should adopt a broader strategy for skills development. A more cost-effective hybrid model with education being provided in Nigeria to UK accredited qualification standards will achieve greater penetration and better target Nigerians based on their talent rather than their wealth and background.
Leveraging connections between the UK and Nigeria

As an acknowledgement of the desire for the UK to strengthen and deepen its historical connections with Nigeria and the untapped potential of the Nigerian diaspora in the UK, it is recommended that:

- The Foreign and Commonwealth Office broaden its diaspora programme in coordination with DfID to include support for entrepreneurship and business growth, targeting Lagos for a pilot “Diaspora Marketplace”-style initiative;

- The football Premier League extend their Enterprise Academy Programme to Lagos reinforcing the strong brand recognition of Premier League clubs in Nigeria; and

- UKTI create and deliver tailored support for UK-Nigeria partnerships in financial services, the creative industries (including fashion, film and technology) and education.
INTRODUCTION

Nigerian Economy

Nigeria is an emerging economic powerhouse, with a population of over 160 million, a gross national income (GNI) per head of $1,430\(^1\) and an economy that is anticipated to grow at 7%+ per year in 2014–17. Oil has been the dominant driver of Nigeria’s economy, particularly over the last four decades, but there are signs this is beginning to change as non-oil sector growth is outstripping that of the oil sector.


<table>
<thead>
<tr>
<th>Sector</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Sectors</td>
<td>-6.1%</td>
<td>0.5%</td>
<td>4.6%</td>
<td>0.1%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Non Oil Sectors</td>
<td>9.0%</td>
<td>8.3%</td>
<td>8.5%</td>
<td>8.8%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Total</td>
<td>6.0%</td>
<td>7.0%</td>
<td>8.0%</td>
<td>7.4%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>


However the inability of government to provide adequate services in areas critical to business is a serious constraint on private sector growth. In 2011, a World Bank assessment of the impact of these shortcomings stated that:

*Taken together, the total indirect costs of poor quality infrastructure, crime and security, and corruption amount to over 10% of sales for Nigerian firms. This is twice as high as in South Africa, Brazil, Russia and Indonesia.*\(^2\)

Ease of Doing Business

In the World Bank’s “Doing Business Report 2013”, Nigeria is ranked 131\(^{st}\) of the 185 countries reviewed.\(^3\) Most other countries in the Economic Community of West African States (ECOWAS) group rank similarly, or just behind Nigeria. There is substantial progress still to be made in a range of regulatory and other areas. Crucially for Lagos, however is the ranking for Ghana which, in 64\(^{th}\) position on the list, is the standout performer in West Africa.

These results matter not only for the practical burden on the setting up and operating of a small business in Nigeria but also because of the impact on the country’s global reputation as a location for business. If Nigeria is to fully achieve its commercial ambitions, then it must plug itself effectively in to the global business system and be seen to be the most compelling

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\(^1\) World Bank, World Development Indicators. http://data.worldbank.org/country/nigeria


place to conduct business in West Africa, not because of its scale or future promise but because of its business environment.

A February 2011 UK White Paper on trade strategy, *Trade and Investment for Growth*, noted that:

> Poor transport and communications infrastructure and costly and unreliable power supplies limit the functioning of African enterprises and households. Transport costs can account for as much as 75% of the total value of exports. These weaknesses in connectivity contribute significantly to raising the cost of doing business, which, in turn, constrain trade and undermine competitiveness.4

**Education and Employment in Nigeria**

Secondary school achievement has regressed, as 10.5 million school-age children in Nigeria do not attend school, more than double the number of the next highest ranking country for out-of-school children, Pakistan.5

The national unemployment rate was 24% of the working age population in 2011.6 Many people are employed, partially or fully, in the informal economy, but the pressures to create sustainable, formal employment are considerable and growing, with perhaps as many as 60 million of the working population underemployed.

**Lagos**

In the last national census, the population of the city of Lagos was 8 million people, with 12 million residents in the wider metropolitan area.7 As the state with the largest economy in Nigeria, it acts as a draw on people seeking commercial advance from across the country and further afield in West Africa.

Lagos is in competition with Accra to be viewed as the location of choice in West Africa for financial and other global business services that require strong international transport links, quality services, and residential and educational offerings for their staff.

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7 2006 Nigeria National Census.
Lagos is projected to become the world’s third most populous city by 2015, after Tokyo and Bombay, with over 25 million residents in its metropolitan area. Lagos thus not only has a large population, but also a rapidly growing one, with all the resultant pressures on infrastructure and on the local economy to provide employment, income and escape from deprivation for its residents.

The World Bank acknowledges the progress that Lagos made in reducing poverty from an estimated 44% of the population in 2004 to 23% in 2010. However, the National Bureau of Statistics Poverty Index report released in January 2013 records a substantially higher poverty rate of 48.6% for Lagos state.

The Micro-, Small- and Medium-Sized Business Sector in Nigeria

The Federal Government coordinates its small-business policy agenda through the Small and Medium Development Agency of Nigeria (SMEDAN). In 2010, SMEDAN undertook a national survey of micro-, small- and medium-sized businesses to understand better how to develop policies to support this sector of the economy.

The survey defined each type of business by reference to their assets and to the number of employees, as shown in Table 2.

<table>
<thead>
<tr>
<th>Business Type</th>
<th>Employees</th>
<th>Assets Naira (GBP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Fewer than 10</td>
<td>Less than N5m (£20,000)</td>
</tr>
<tr>
<td>Small</td>
<td>10 to 49</td>
<td>N5m to N49m (£20,000-£200,000)</td>
</tr>
<tr>
<td>Medium</td>
<td>50 to 199</td>
<td>N50m to N500m (£200,000-£2m)</td>
</tr>
</tbody>
</table>

Source: SMEDAN, 2010 Survey

The survey found that there were over 17 million micro-businesses, 21,000 small businesses and 1,600 medium-sized businesses in Nigeria, employing over 32 million people. For the sake of comparison, in 2012 in the UK, there were estimated to be 3.5 million sole proprietors and 1.2 million small companies and partnerships.

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9 Nigeria Economic Report No1, May 2013, World Bank
11 SMEDAN is the successor organisation to the first Federal Government departmental effort on behalf of the sector in 2003.
Lagos State accounted for 5% of the national total of micro-enterprises, but more than 20% (4,535) of the small- and medium-sized businesses.

Manufacturing businesses made up nearly 30% of all SMEs (excluding micro-enterprises). The split of businesses by industrial sector in Lagos mirrored that for Nigeria overall, other than the higher proportion of SMEs in the field of education.

Table 3. Number of Small and Medium Enterprises by Sector.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Nigeria Total</th>
<th></th>
<th>%</th>
<th>Lagos State</th>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td></td>
<td></td>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6652</td>
<td>29%</td>
<td></td>
<td>1195</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>4041</td>
<td>18%</td>
<td></td>
<td>545</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Health and Social Care</td>
<td>2654</td>
<td>12%</td>
<td></td>
<td>526</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>2323</td>
<td>10%</td>
<td></td>
<td>452</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Hotels &amp; Restaurant</td>
<td>2209</td>
<td>10%</td>
<td></td>
<td>335</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>5039</td>
<td>22%</td>
<td></td>
<td>809</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>22918</td>
<td>100%</td>
<td></td>
<td>3862</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: SMEDAN, 2010 Survey.

Female entrepreneurs were commonplace in the micro-business sector, comprising 42% of owners, but the survey found that this proportion fell to below 14% for small- and medium-sized businesses.

UK Trade with Nigeria

As Table 4 shows, the UK has been losing ground as a trading partner of Nigeria over the past decade, with its share of Nigerian imports falling from 9.5% in 2003 to 3.9% in 2011.

Table 4. Imports to Nigeria (goods only), £ millions.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>14,881</td>
<td>20,540</td>
<td>24,532</td>
<td>29,228</td>
<td>39,006</td>
<td>54,438</td>
<td>43,373</td>
<td>47,665</td>
<td>59,080</td>
</tr>
<tr>
<td>UK</td>
<td>1,420</td>
<td>1,573</td>
<td>1,605</td>
<td>1,664</td>
<td>2,202</td>
<td>2,836</td>
<td>2,079</td>
<td>1,996</td>
<td>2,298</td>
</tr>
<tr>
<td>UK %</td>
<td>9.5%</td>
<td>7.7%</td>
<td>6.5%</td>
<td>5.7%</td>
<td>5.6%</td>
<td>5.2%</td>
<td>4.8%</td>
<td>4.2%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

Source: IMF Direction of Trade Statistics via ESDS.

A report by Barclays Bank indicated that fewer than 40% of the leading 250 UK businesses that trade with Africa currently export to Nigeria – a low number considering the focus of the sample – compared with 60% who export to South Africa.\(^{14}\) This means that only 100 of the

\(^{14}\) Barclays Bank, ‘Africa: The UK’s emerging trade partner’ (undated).
UK’s largest companies do any business with Nigeria, a significant gap compared to those willing to do business in South Africa.

Looking ahead, the same report considered the potential for future exports to Africa. Respondents were bullish, but only one in five said that the potential would be maximised by UK exporters. Kah Chye Tan, the author of the report, commented that the UK should “embrace the entrepreneurial spirit”.

The UK cannot and should not rest on the value of its historical connections with Nigeria. The UK-Nigerian relationship is at a point of potential significant deepening and strengthening. In an increasingly multipolar world with emerging powers vying for access to African commodities and markets, other models and competitors will fill any void from UK inaction. While diversified international relations are a natural – and important – choice for Nigeria, the UK must make the case to Nigeria of the particular value of a strong partnership.
Meeting with Mrs Sola Oworu, Lagos State Commissioner for Trade

The Commissioner outlined the huge gap in training for artisans, plumbers, tailors, hairdressers and similar trades. The State Government recognises that there are issues both with the quantity of training available, and the quality and reliability of the training provided. A major focus of policy is to improve practical education: “it is a clear gap”.

The Commissioner spoke positively about apprenticeships and the quality and reputation of UK qualifications. City & Guilds has been working with technical colleges to improve vocational training courses, but this was seen as a start of a much bigger requirement.

The State Government is keen to support skills development by providing appropriate spaces in their enterprise zones. Having trialled smaller areas dedicated to support clustering of start-up and early stage businesses, the State Government is committing to larger zones to meet the expected demand.

The Commissioner also spoke about progress with the development of a reliable land registry which she sees as a key stage in the State Government’s efforts to build a consistent, responsible formal business sector. Consent processes have been improved. However, a lot of properties are still not properly registered with the government and the potential for disputes remains a strong disincentive to lending.

Improving registration of businesses is another area for improvement. A Federal responsibility, the time requirement had been reduced to 30 days, but the target should be 48 hours or less.

The Commissioner left us with an encouraging call for action: “It is unfortunate that the British left the gap for others to take their place. Britain became too conservative, and left others to take the risks.”

In common with many other developing countries, Nigeria recognised the importance of a vibrant small-business sector to achieving its development goals. At the state level, Lagos has benefitted from a continuing and steady stream of pro-business policies under Governor Babatunde Fashola and his predecessor, Governor Bola Tinubu.
Recognition of the critical role of SMEs in national economic policy has gained strength over the past two decades, with most of the historical focus being to improve access to finance.

**Efforts to Promote Financing to Small Businesses – NERFUND**

The National Economic Reconstruction Fund (NERFUND) was established in 1989 with the objective to:

> provide needed medium – to long-term financing to viable Small and Medium scale production enterprises. The grand objectives are to increase the quantum of goods and services available for local consumption and export, provide needed employment, expand our production base and add value to the economy.\(^{15}\)

It offers two credit products: a micro-enterprise loan and an SME credit facility. The micro-enterprise loan offers credit up to N5 million (£21,000) at a single-digit interest rate with a three-year repayment period. Personal guarantees and an equity contribution equal to 10% of the loaned amount are required. The SME credit facility can be for up to five years and carries an interest rate of approximately 13.5% with a fixed asset collateral requirement.\(^{16}\)

All of the businesses in the SMEDAN 2010 survey had start-up capital of under N10 million (£40,000), with most businesses being started on less than N50,000 (£200).

By December 2012, NERFUND had received over 30,000 applications for loans totalling N150 billion (£630 million). Of these, it had approved loans for 1,612 projects, valued at over N5.2 billion (£22 million) and disbursed funds to 1,342 of these projects, valued at N4.5 billion (£19 million).\(^{17}\)

Just 3% of approved projects and funds (51 and N142.9 million (£600,000) respectively) were from Lagos State.

**Efforts to Promote Financing to Small Businesses – SMIEIS**

In 2001, President Olusegun Obasanjo launched the Small and Medium Industry Equity Investment Scheme (SMIEIS). It required banks to set aside 10% of their pre-tax profits to invest as equity in SMEs.

\(^{15}\) National Economic Reconstruction Fund, www.nerfund.gov.ng

\(^{16}\) Ibid.

\(^{17}\) Nerfund, press release, January 2013.
According to SMEDAN, by 2010 over N42billion (£175 million) had been set aside, but there had been a significantly lower uptake than expected due to limited expertise in commercial banks to handle equity investments and also to the absence of formal records, plans and registers to facilitate due diligence.

According to Central Bank figures for June 2009, N28 billion, or two thirds of SMIEIS funds, had been invested in 333 businesses, equally split between manufacturing and service sectors. Lagos State comprised N11.6 billion (41%) of funds invested in 187 (56%) of businesses.

Efforts to Promote Financing to Small Businesses – SMECGS
A loan guarantee scheme for small and medium businesses (SMECGS) was initiated in 2010, offering up to N100 million (£400,000) in the form of credit guarantees to qualifying businesses.

In 2010, as part of more general efforts by the Central Bank to respond to the credit crisis, N200 billion of debenture stock was issued by the bank to help restructure the existing loan portfolios of banks to SMEs. The facility was to be managed by the Bank of Industry, with a particular focus on manufacturing businesses.18

Unlocking Pension Assets
In the US and Europe, pension funds have been major providers of capital for private equity and venture-capital funds. However, until recently, regulations in Nigeria, in common with many other African countries, restricted the investment types in which local pension funds could invest. Historically, domestic financial markets, other than for Government bonds, were not highly developed and lacked depth and transparency on transactions and pricing. Over time, this led to a concentration of pension assets in a limited range of securities and as the amount of pension funds started to increase with increased employment, this concentration became more acute. As public and private equity markets matured, the opportunity to diversify became more available. The Federal Government relaxed the restrictions in 201019 allowing Nigerian pension funds to invest up to 5% of their funds in private equity.

18 Intervention Fund For Refinancing and Restructuring of Bank Loans to the Manufacturing Sector, 2010.
HOW DFID IS SUPPORTING NIGERIA’S ENTREPRENEURIAL POTENTIAL

In a speech in the City of London, Justine Greening, MP, the UK Secretary of State for International Development outlined new priorities for DFID for investing in growth in emerging markets.

In a focused list of initiatives, including strengthening property rights, supporting the improvement of the legal environment for business and investment, and enhancing access to finance for women, the Secretary of State added:

*I want to look at other innovative ways to do more direct investment, including more projects based on returnable capital, which sees an investment fund, investing in local companies, creating jobs, [and] generating a return that can itself be reinvested.*

The DFID team in Nigeria note in their current (2012–15) plan that:

*Unleashing Nigeria’s growth potential will create more jobs, raise incomes and reduce poverty. It requires reducing the constraints on businesses (such as poor power, transport and access to finance), building investor confidence, and making markets work for poor men and women.*

In the financial sector, DFID’s priority is to increase access to consumer services for the vast majority of Nigerians who are “unbanked”. In education, DFID’s main priority is to increase the number of children receiving schooling.

Across all of its priority areas in Nigeria, DFID currently has a portfolio of 27 projects with a commitment value of £860 million, and plan to add up to a further 15 projects with a potential commitment of £716 million.

DFID was a main sponsor of the YouWin (Youth enterprise with innovation in Nigeria) business-plan initiative undertaken by the Nigerian Government and a local delivery partner, Lagos Business School. YouWin encouraged “aspiring entrepreneurial youth in Nigeria to develop and execute business ideas that will lead to job creation.” There were 1,200

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22 YouWin, www.youwin.org.ng
winners in the first competition announced in 2012. The second YOUWIN competition was specifically targeted at female entrepreneurs and received over 60,000 applications.

**Case Example: Visit to the Enterprise Development Centre**

The Enterprise Development Centre, organised by Lagos Business School, provides an educational foundation to many aspiring entrepreneurs and teaches young people how to manage their business.

During our discussion with students and entrepreneurs in one of EDC’s lecture theatres, the passion for business was evident and in many ways the issues were similar to those faced by entrepreneurs in any other country.

Motivations were often drawn from personal circumstances, or from having identified a need and then sought to provide a solution. One young entrepreneur had started an interior-design business in order to balance commitments to her family life. She believed that the main issues were not solely funding, but also about having the knowledge to know how to grow a business effectively.

Another stated that many teaching recruiters looked abroad for talent, so she set up a training company for local nannies to improve outcomes for toddlers and to improve the skills of those who engage with children.
THE “FINANCE GAP” – IMPACT AND POSSIBLE ACTIONS

For small businesses to become established, create wealth and grow, finance needs to be readily available. Finance also needs to be accessible in forms, and on terms, that are conducive to productive and sustainable growth.

Sources of Capital

Most entrepreneurs look to their own savings or to their parents, family and friends when they seek the initial capital to start their business. In Nigeria two thirds of businesses are started on this basis according to the SMEDAN report.23

<table>
<thead>
<tr>
<th>Source</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Savings</td>
<td>15028</td>
<td>53%</td>
</tr>
<tr>
<td>Loan</td>
<td>6091</td>
<td>22%</td>
</tr>
<tr>
<td>Family Source</td>
<td>5121</td>
<td>18%</td>
</tr>
<tr>
<td>Cooperative</td>
<td>1405</td>
<td>5%</td>
</tr>
<tr>
<td>Parents</td>
<td>259</td>
<td>1%</td>
</tr>
<tr>
<td>Friends</td>
<td>243</td>
<td>1%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>28147</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: SMEDAN, 2010 Survey.

The same survey found that access to finance was the top priority area for policy assistance from the government, beating other major concerns such as reliable utilities and improved transportation infrastructure.

The 2010 SMEDAN survey identified widespread informality in the micro-, small- and medium-sized enterprises (MSME) sector, with many businesses having no business plan, no legal protection over their patents, limited insurance coverage and widespread problems gaining access to finance.24

Bank Lending

The World Bank 2011 report on the investment climate in Nigeria included a survey of financing for SMEs and a comparison between the situation in the country and South Africa, Indonesia, Russia and Brazil.25 The survey highlighted some specific and critical shortcomings in the Nigeria SME banking sector, specifically:

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23 SMEDAN, 2010 National MSME Collaborative Survey.
24 Ibid.
- **Limited scale of SME lending.** Access to finance is particularly difficult for SMEs firms. Only 9.5% of small firms have overdrafts and 13.4% have lines of credit and loans, compared to about 71.8% and 46.6% of large firms.

- **Greater use of personal guarantees.** Close to 89% of Nigerian firms report that their most recent loan required collateral – more than in any comparator country. In particular there was a much higher requirement for personal wealth to be provided as collateral.

- **Far higher collateral requirements.** Collateral amounts were also far higher in Nigeria than in several comparator countries. Average requirements in Nigeria were 160–170% of the value of the loan or line of credit – compared to 70% in Brazil and 115% in Russia.

- **Greater bias to short-term loans.** Consistent with the finding that average loan duration was relatively short, firms in Nigeria also rely heavily on internal sources and retained earnings to finance long-term investment in fixed assets (86% of long-term financing). Borrowing from formal sources (banks, non-bank financial institutions) accounts for only 6% of long-term financing.

- **High proportion of loan applications rejected.** Only 19.4% of firms had applied for a loan in the year before the survey, and 60% of these were rejected. In comparison, about 20% of firms in Brazil and 17% of firms in Russia said that they had had an application rejected in the previous year.
The United Bank for Africa Group PLC (UBA) is a leading bank in Nigeria being formed from a merger of UBA with Standard Trust Bank plc, and Continental Trust Bank Limited.

UBA arranged a roundtable of SME customers in Lagos to provide testimony of their experiences in securing loans and other financial support. There were strong opinions on the issue from the room of entrepreneurs and small business owners.

Concerns raised included the availability of bank staff with depth of experience and skills in commercial banking and the lack of appreciation for a solid track record of good banking (relationship banking skills), in addition to commonplace concerns about interest rates and collateral requirements.

The owners of Harvest Bakery, located in the Mushin area of Lagos spoke eloquently of how banks could improve to help them grow their business. The process of approving loans was highly time-consuming, and the conservatism of procedures meant that the approved loan amount was cut at each stage resulting in a totally inadequate sum finally being offered.

Another Managing Director cited the absence of long, or even medium, term lending, requiring him to refinance machinery purchases every year – with higher administrative costs and uncertainties over pricing. Frustrations with the process caused his parent company to relocate an expansion to the Middle East.

Another CEO mentioned that it appeared to make no difference how long one had been in business – the struggle for finance was always the same.

The roundtable highlighted the difficulties that banks in Lagos already have in recruiting and training commercial banking staff. UBA itself is acutely aware of these difficulties and of the potential rewards if it can be a leader in providing those skills to the growing SME market.
**Private Equity in Sub-Saharan Africa**

According to the Emerging Markets Private Equity Association (EMPEA), the amount of money raised for private equity investments in emerging markets has risen from a low of $23 billion in 2009 to $40 billion in 2012.\(^2^6\) Over the same period, however, the amount of private equity investments in emerging markets barely changed from $22 billion in 2009 to $24 billion in 2012.

The share of private equity investments in Sub-Saharan Africa was estimated by EMPEA at $1.1 billion in 2012, or just 5% of the total for emerging markets. There has been no trend for this share to increase over the past four years.

**Figure 1. Sub-Saharan Private Equity Fundraising**

![Graph showing private equity fundraising in Sub-Saharan Africa from 2002 to 2012](image)

Source: EMPEA statistics, quoted by Ernst & Young

Private equity investment in sub-Saharan Africa is equivalent to 0.09% of GDP compared with 0.14% in India, 0.18% in Brazil and 0.86% in the US. The value of the African private equity market is estimated at US$25 billion, with 130 active fund managers, of which 50 are “substantial”.\(^2^7\)

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\(^2^7\) Riscura, press release, 5 December 2012.
Fairview Capital, a US-based Fund of Funds Manager with deep experience of equity investing in Africa, noted in a 2012 report that:

As of September 2011, there are over 10 funds currently raising at least $500 million in capital each to pursue African private equity investment strategies. Since 2008, a total of 30 Africa-focused private equity funds have raised approximately $6 billion. In addition, Fairview Capital has tracked over 10 high-quality pan-African partnerships that have each raised at least $200 million in capital commitments over the last three years. In a signal of their longevity and maturity, 6 firms will be raising their third fund in the near future, 3 will be raising their fourth and one will be raising its fifth fund.28

Funds active in seeking capital in early 2013, listed by Africa Assets, the database for funds investing in Africa, are shown in Table 6.

<table>
<thead>
<tr>
<th>Launch</th>
<th>Fund Name</th>
<th>GP</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-13</td>
<td>African SME Mezzanine Fund</td>
<td>Jacana Venture Partnership</td>
<td>$75m</td>
</tr>
<tr>
<td>Sep-12</td>
<td>Satya Capital Africa Fund II</td>
<td>Satya Capital</td>
<td>$300m</td>
</tr>
<tr>
<td>Sep-12</td>
<td>TBL Mirror Fund 2</td>
<td>TBL Mirror Fund</td>
<td>$50m</td>
</tr>
<tr>
<td>Aug-12</td>
<td>FMO-Fairview Fund of Funds</td>
<td>FMO, Fairview Capital Partners</td>
<td>$200m</td>
</tr>
<tr>
<td>Aug-12</td>
<td>Real Estate Fund</td>
<td>British American Investment Company (Britak) Ltd</td>
<td>$100m</td>
</tr>
<tr>
<td>Aug-12</td>
<td>Nigerian ICT VC Fund (TBD)</td>
<td>Nigeria’s IT Development Agency (NITDA)</td>
<td>$15m</td>
</tr>
<tr>
<td>Jun-12</td>
<td>Medu Capital Fund III</td>
<td>Medu Capital</td>
<td>$300m</td>
</tr>
<tr>
<td>Jun-12</td>
<td>ICT Communications Infrastructure Fund (TBD)</td>
<td>Convergence Management Partners</td>
<td>$500m</td>
</tr>
<tr>
<td>May-12</td>
<td>BTG Pactual Africa Infrastructure Fund TBD</td>
<td>BTG Pactual Bank</td>
<td>$1,000m</td>
</tr>
<tr>
<td>Apr-12</td>
<td>Kibo Fund II</td>
<td>CIEL Capital</td>
<td>$80m</td>
</tr>
<tr>
<td>Feb-12</td>
<td>Lereko Metier Sustainable Capital Fund (LMSC)</td>
<td>Lereko Metier</td>
<td>$65m</td>
</tr>
<tr>
<td>Jan-12</td>
<td>Duet-TLG Growth Capital Fund</td>
<td>Duet Africa Private Equity (with TLG Capital)</td>
<td>$150m</td>
</tr>
<tr>
<td>Jan-12</td>
<td>Moringa Fund</td>
<td>Compagnie Benjamin de Rothschild (CBR)</td>
<td>$130m</td>
</tr>
</tbody>
</table>

28 Fairview Capital, www.fairviewcapital.com
In 2011, the Carlyle Group launched the Carlyle Sub-Saharan Africa Fund, which focuses on buyouts in South Africa, Nigeria, Kenya, Tanzania, Ghana, Mozambique, Botswana, Zambia and Uganda. According to Africa Assets, the target fund size was $500 million and in 2012 the fund received a $50 million investment from the Africa Development Bank.

Most analysts agree that the availability of private equity capital for sub-Saharan Africa, excluding South Africa, is increasing rapidly and that Nigeria is a prime destination to put this capital to work because of the scale of the opportunities available.

Ernst & Young cite the demand for infrastructure investment and the potential of a growing middle class in Africa as the primary drivers for private equity investments, spurred by hopes of greater regional economic integration. It concluded:

Investments in Africa may have one of the largest mismatches in the world between the size of the region’s opportunities and the amount of capital required to access them….With an entry price far lower than nearly any other market, investors are able to acquire influential stakes in a wide range of investments with a limited outlay of capital.

Ernst & Young estimate the average private equity investment per deal in Africa in 2010 at $14.2 million, compared with $40.3 million in China and $26.4 million in India.

Data on exits is patchy. One article cites 118 exits between 2007 and 2012 and quotes an 11.2% annualised rate of return for the 10 years ending September 2012, using information from the African Private Equity and Venture Capital Index. The index, established recently by AVCA and Cambridge Associates LLC comprises 40 institutional-quality private equity and venture capital funds based in Africa that invest third-party limited partner capital.

The private equity market in sub-Saharan Africa is broadening, deepening and becoming more integrated with global capital markets. This offers significant opportunities for commercial enterprises in Lagos, but the global capital model is not the only approach being promoted.

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30 Ernst & Young, ‘Private Equity Roundup’, February 2012
31 Ibid.
Tony Elumelu and “Africapitalism”

Tony Elumelu was an instrumental figure in the consolidation of the banking sector in Nigeria, and has subsequently emerged as one of the leading business figures in Africa. He says that past models of aid funding have not achieved the desired economic outcomes in Nigeria.

Mr Elumelu has talked about “Africapitalism” – a hybrid of traditional free market economics but one that emphasises the importance for Africans to develop the theory on their own terms. Essential nuances are for investors to focus on longer-term returns and to embrace social returns more proactively than in traditional Western private equity models.

In his words:

I do not suggest that entrepreneurs should build companies in Africa or that capitalists should invest in Africa out of goodwill, in essence because they are the economic equivalent of Father Christmas. I suggest that Africa offers compelling economic and business opportunities that can, at the same time, meet a range of social objectives.

In fact over the past decade we have seen that, in many respects, private sector development has much greater potential to improve self-sufficiency and prosperity in both the economic and social spaces of Africa than charity and development assistance ever have, or ever could.

Unfortunately, the story heard about Africa is more often about the charity than the prosperity, something we hope to dispel through our words and our actions.

Mr Elumelu’s vision of Africapitalism builds on the growing confidence of Africa’s entrepreneurs who believe that locally led, private-sector solutions are a better way forward in meeting the growing social and consumer needs of Africa.
The Role of Development Finance Institutions (DFIs)

Across Africa, DFIs have led the way in providing support for the growth of private equity markets.

**African Guarantee Fund (AGF)**

In 2012, AGF was established by the African Development Bank in partnership with the international development agencies of Denmark and Spain. An initial investment of $50 million was made to support the objective of AGF:

*to significantly increase the access of African Small and Medium Sized Enterprises (SMEs), to finance from the financial sector.*

AGF will provide guarantees to financial institutions lending to SMEs up to $2.5 million for a loan portfolio and $500,000 for either an equity capital or an individual guarantee.

**The Netherlands Development Finance Company (FMO)**

FMO has a 15-year history of private-equity investing in Africa, both as a direct investor and a backer of some of the continent’s leading private-equity managers. FMO executed 35 contracts with fund managers focused on Africa during 2012, which contributed to raising the value of its African equity fund portfolio to €294 million. In August 2012, FMO partnered with Fairview Capital Partners to create a $200 million Africa-focused “fund of funds”.

**Commonwealth Development Corporation (CDC)**

The UK historically has been a pioneer, and a trusted partner, in developing active equity capital investment in developing countries. The model established by CDC has been copied, with variations, by other countries.

It is worth repeating some of the key accomplishments of CDC:

- It has invested in 155 funds worldwide, managed by 84 fund managers.
- Of these, 51 funds are in Africa, managed by 31 fund managers.
- CDC’s total committed capital to Africa is just over $2 billion.

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34 Ibid.
Considering that private equity investments in sub-Saharan Africa total $1.1 billion annually, CDC is a significant and experienced investor in the region. It also plays a catalytic role in developing local investment expertise in African countries, including Nigeria, by backing first-time fund managers.

The lessons learned from this experience and the relationships established with the professional investing community in the region are assets worthy of further evolution and application.

Since 2004, CDC has operated as a “fund of funds”, and has made 142 commitments (including, presumably, repeat commitments as funds raise consecutive funds), half of which were commitments to first-time funds.

Commercially driven “fund of funds” would be hard pressed to match such a high level of commitment to untested, unproven investment teams.

The Finance Gap
The evidence from the various discussions in Lagos confirms other studies that the critical gap in financing is in the range of $50,000 to $2 million. Dalberg, in their November 2011 report, call this the “missing middle” and estimate this gap to be from $140 billion to $170 billion for sub-Saharan Africa.  

The experience gained by CDC in the evaluation and support of first time fund managers in developing countries is a highly distinctive capability that can play a valuable role in assisting the development of an effective early stage financing sector in Lagos.

It is recommended that DfID fund CDC to develop a Lagos-based co-investment fund targeted at investing in early-stage businesses that are “formal from day one”.

The objective of “formal from day one” is to increase the ability of corporate entities to support bank lending, on a longer-term basis, and with more competitive levels of collateral, than is currently the case in Nigeria.

“Formal from day one” means that investee companies are required, from the date of investment, to adhere to the highest standards of corporate governance, financial and statutory record-keeping (including taxation records), and clear legal and regulatory standards.

By making such “formal from day one” requirements of early-stage businesses seeking capital, the process of formalisation of the wider economy can be encouraged.

**It is recommended that DfID liaise with potential partner firms from the City of London in accountancy, finance and other City services to create a “wrapper” of corporate formality for all investee companies of the co-investment fund.**

It may be fairly said that the goal of many local investment funds at present is to adhere to high standards of governance to attract debt support from commercial banks. We propose that the UK leverage the global leadership of the City of London by creating partnerships with London-based firms to offer, directly or via their local partners, the highest standards of professional support – even to the very smallest of investee companies.

The opportunity for a small, or start-up, investee business in Lagos, to have access and support from global leading firms such as Clifford Chance in legal services, or Deloitte or KPMG in accountancy and McKinsey or LEK in advisory, will be commercially attractive and a differentiator for the co-investment fund.

**It is recommended that the co-investment fund partner with Lagos-based venture firms, banks and the Nigerian Stock Exchange to develop reliable “financing pathways to growth” for small businesses.**

This initiative will have greater chance of success, and longevity, if strong partnerships can be established with the locally based banks, which will become the mainstay of finance for Nigeria’s commercial growth. The Nigerian Stock Exchange should be seen as a partner too, as it represents a main destination for firms on these “financing pathways to growth”.

The Promise of Nigeria’s Entrepreneurs
THE “SKILLS GAP” – PROCESSING TALENT MORE EFFECTIVELY

Availability of Skilled Workers

Critical to the growth in all economies, and at all stages of economic development, is the ability to produce sufficient quantities of needed skills. For Lagos State, there is bad news and better news. The bad news is that there are widespread critical shortages in technical and vocational skills. The better news is that Lagos has abundant skills in management talent and in entrepreneurial ambition. Processing, not availability, of talent is the issue.

This combination should augur well for the future, but as the population of the city rapidly increases there is a need to address the skills gaps quickly if economic momentum is to be sustained, and if the ambitions of the state’s young population are to be met.

Anecdotal evidence of the gap in the supply of technical training is found in estimates that Nigeria spends N900 billion ($6 billion) on foreign construction workers every year, despite a quarter of the local working-age population – perhaps more – being unemployed. Another anecdote suggests that less than 1% of applicants for technical jobs have the competence required for the position offered.

Over one in three of the SMEs surveyed by SMEDAN in 2010 reported a lack of skilled workers, with the only exception being in the mining and quarrying sector. In the education, business services, finance and retail trades, more than 40% of respondent businesses cited a lack of skilled workers.\(^\text{38}\)

Lagos State Technical and Vocational Education Board (LASTVEB)

The Lagos State Government has recognised the large gap between the supply and the demand for skilled workers, and has taken actions towards filling it. In 2010, they established the Lagos State and Vocational Education Board (LASTVEB), a non-government organisation with the mandate:

To up-skill and integrate young people into the labour market and self-employment by providing high quality technical skills.\(^\text{39}\)

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\(^\text{38}\) SMEDAN, ‘2010 National MSME Collaboration Survey’, Appendix Table 37.
In 2012, the Executive Secretary of LASTVEB, Engr. Olawunmi Gasper stated that one of their new activities would “take more youths out of the streets and cater for those who cannot access tertiary education.”

The work being done by LASTVEB is still unable to satisfy demand, with a reported 514% increase in demand for technical colleges. Six thousand people graduated in 2012 from the five technical colleges in Lagos State but there is demand from hundreds of thousands of young people for training in Lagos.

Britain has world class training providers and the potential demand for their services in Lagos is high.

The UK Government can act to help UK education providers overcome UK and Nigeria based hurdles to achieve this potential.

The City & Guilds Group is a UK-based organisation, underpinned by a Royal Charter that has over 100 years of experience in providing workplace excellence in a range of skills. The Group operates in over 81 countries, though actively in fewer. City & Guilds has developed a comprehensive range of UK qualifications and, by working in multiple foreign countries, has helped develop curricula and qualifications suited to those countries’ needs.

Ever mindful of the importance of reputation and reliability in the City & Guilds brands, the group’s penetration of foreign markets has been cautious and it, like other UK-based providers, faces competition from other countries, particularly Germany, Australia, the US and Canada.

OFQUAL is the responsible body in the UK for providing accreditation for qualifications, examinations and assessments. The quality of its accreditation has the potential to be of key value in the UK’s export of vocational training.

OFQUAL currently requires awarding organisations for qualifications overseas, such as City & Guilds, to demonstrate demand or support for that qualification in the UK in order for OFQUAL to accredit that qualification. In overseas markets, such as Nigeria, the suitability of a qualification will be significantly hampered if it is offered by a provider whose home country does not accredit the qualification. The ability of UK providers to tailor courses to foreign market needs is being artificially curtailed by OFQUAL’s self-imposed restrictions.
OFQUAL should modify its regulations to enable accreditation of qualifications offered overseas by UK-registered providers

In their 2012 report, the Association of Colleges noted the need for “greater clarity and consistency of aims across government” to enhance the impact of the UK’s vocational and educational training (VET) providers. The report also called for the development of a single brand

*to support, contextualise and multiply the impact of the individual efforts of providers and suppliers.*

The focus of the report was to attract more students to attend UK-based colleges for their vocational qualifications, seeking to mirror the comparative success of the UK’s higher education sector. However, the report’s recommendations can be equally applied to a strategy of localising UK VET providers and qualifications in developing countries, and that is the strategy we recommend is given priority in Lagos State particularly, and Nigeria more generally.

The unmet demand for vocational qualifications in Lagos State is one of mass, not elitist, education. In many cases, evaluation for qualifications requires a physical presence (for example, to check alignment of a brick wall, or to demonstrate how to cut hair). These characteristics suggest that a hybrid model using well regarded UK-accredited qualifications, distance learning and local delivery centres would be an effective approach.

**It is recommended that DfID work with UK further education colleges and other providers to offer packages of technical NVQ courses for specific trade skills (e.g. plumbing, construction, electrical).**

A commercially minded approach might also build on this with two related initiatives. First, DfID might extend its support from the provision of the “soft” needs of vocational colleges in Nigeria (e.g. curriculum), and fund the renovation of the college buildings themselves.

Second, it might establish a branded “business” selling the services of trades people that have passed the UK-accredited courses offered by UK further education colleges. In a

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market where trust in the quality of a tradesperson is low, such a branded business would have the opportunity to create a reputation for distinctive competences in its chosen trades.

**Training Lecturers in Entrepreneurship**

In 2012, Nigeria's National University Commission partnered with SMEDAN to enhance the training of university lecturers on entrepreneurship.

At a Commonwealth Education Council meeting recommendations were made for enterprise to become a compulsory part of all Commonwealth countries’ education systems. Current assessments of poor teaching levels within the education system in certain Commonwealth countries may make this ambition hard to achieve. Enterprise education could be better delivered by private organisations, business schools and NGOs, at least in the short term, if it is to have a meaningful impact.

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**Lagos Business School**

On his visit to Nigeria, Prime Minister David Cameron delivered his main speech at Lagos Business School.

The school is the only university to offer a full-time MBA in Nigeria. Over the years, the school has partnered with Cranfield University and the University of Edinburgh, but it has found that American institutions are stronger at promoting executive training.

British university brands have more of a presence in Nigeria but are not as strong in executive education. Online undergraduate and postgraduate courses are very popular because of the flexibility, price, and the brand value of a foreign certificate.

- It is recommended that DfID invest, for example via the Open University or Cranfield University, in hybrid distance learning on entrepreneurship and business qualifications.
The value of diasporas in strengthening the relationships – cultural, economic and political – with their countries of origin has increased as global mobility has increased. The potential role for the UK’s Nigerian diaspora is significant.

There are 191,000 UK residents born in Nigeria, more than double the 87,000 recorded ten years earlier (itself double the number recorded in 1991), making Nigerians the seventh largest foreign-born population in the country.41

Table 7. Granted Leave to Remain in the UK: Nigerian Origin.

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<tr>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
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<th>2009</th>
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<th>2011</th>
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<tbody>
<tr>
<td>Total</td>
<td>4,618</td>
<td>5,310</td>
<td>4,439</td>
<td>3,966</td>
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<td>9,219</td>
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<td>6,093</td>
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<td>Asylum</td>
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<td>10</td>
<td>5</td>
<td>3</td>
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<tr>
<td>Long Residence</td>
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<td>261</td>
<td>345</td>
<td>264</td>
<td>327</td>
<td>586</td>
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<tr>
<td>Discretionary Grants</td>
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<td>81</td>
<td>81</td>
<td>152</td>
<td>535</td>
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<td>1,478</td>
<td>720</td>
<td>4,635</td>
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<tr>
<td>Other/Unknown</td>
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<td>430</td>
<td>400</td>
<td>267</td>
<td>52</td>
<td>37</td>
<td>25</td>
<td>27</td>
<td>1,463</td>
</tr>
</tbody>
</table>

Source: UK Home Office.

The number of British Nigerians will be significantly larger as there are many families of Nigerian origin on their second, third or more generation. Although the diaspora is spread across the UK, a majority of Nigerian-born British residents live in London.

Table 8. Granted Entry to Study in the UK: Nigerian Origin.

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Study</td>
<td>7,520</td>
<td>7,150</td>
<td>7,580</td>
<td>8,990</td>
<td>12,700</td>
<td>13,100</td>
<td>13,700</td>
<td>13,200</td>
<td>83,940</td>
</tr>
</tbody>
</table>

Source: UK Home Office.

The Nigerian Diaspora is also focused on educational advancement. In 2010/11 there were more than 17,000 Nigerian students registered at British universities.\(^42\) The number of Nigerians granted entry to study in the UK increased significantly after the financial crash.

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\(^{42}\) International student statistics: UK higher education UK Council for International Student Affairs, January 2014, [http://www.ukcisa.org.uk/content/2196/international-students-in-UK-HE](http://www.ukcisa.org.uk/content/2196/international-students-in-UK-HE)
Global remittances remain one of the most significant international financial flows. According to the World Bank, Nigerians living abroad contribute more to Nigeria’s GDP than 34 of the 36 states in the country, with much of the money used to support education, health, and business start-up related activity. Remittances from the UK to Nigeria totalled $3.8 billion in 2011, one-sixth of the UK’s total global remittances.  

In summary, the Nigerian diaspora community in the UK is large, well educated, already providing significant financial support to Nigeria, and has the potential for strengthening Nigeria’s entrepreneurial development.

The majority of successful “returning” entrepreneurs that were interviewed in Lagos were from the US, and had benefited from both their academic and their business experience and contacts there.

The UK should learn from some of the success stories of returning members of the Nigerian Diaspora, and develop programmes to build and maintain commercial connections and business networks. It may be British Nigerians that lead the re-establishment of UK trade links with Nigeria on a massive scale.

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43 World Bank, Annual Remittances Data, econ.worldbank.org
Sim Shagaya and Konga.com

Sim Shagaya lived in Washington and studied for an MBA at Harvard Business School. He wanted to return to Lagos straight after completing his MBA but instead headed to South Africa as he had an attractive job offer from a regional investment bank. Sim returned to Nigeria in 2006. He used his savings to set up a business buying rights for digital billboards. His business grew to be in the top five advertising firms in Nigeria.

Sim’s new venture, Konga.com, is less than a year in operations but has already raised capital from Kinnevik AB, a Swedish venture firm, that is active in the African technology and media space.

Sim started by focusing Konga’s product range on baby and beauty products but has since broadened its range considerably in light of consumer demand. Since its launch last year, the company has grown rapidly and now employs over 150 people.

He describes Konga.com as an African version of Amazon, but as in every successful enterprise the model is highly tuned to the specific demands of customers. Orders are generally paid for in cash on delivery, rather than by online credit card payment. The postal system is unreliable so Konga.com uses its own courier system to ensure delivery to meet customer requirements.

Sim’s story is an inspiring example of what a young entrepreneur from the Nigerian diaspora can achieve when they return to Lagos and harness its entrepreneurial potential.

African Diaspora Marketplace

The African Diaspora Marketplace (ADM) is a joint initiative of the US Government’s international aid organisation, USAID, and the international money transfer company Western Union. As promotional material for the ADM says:

“The African Diaspora is a deeply committed, yet largely untapped, source of innovative, entrepreneurial solutions to poverty and economic development in Africa.”

Initiated in 2009, ADM set out to identify 10 to 20 small businesses via a business competition, the winners of which would receive matching grants of $50,000 to $100,000 each.

The objective of the competition was:

*to support the entrepreneurial spirit and resources of the U.S.-based African Diaspora community and other entrepreneurs who have a demonstrated relevant connection to or experience in Africa, to promote economic development in Africa by facilitating Diaspora direct investment (DDI) and other investment in viable small and medium business enterprises.*

To qualify, the US citizen applying to the ADM programme had to own at least 25% of the business and be able to match the grant being sought. The programme attracted over 700 applicants with the first time winners announced in January 2010.

A second ADM programme was launched with winners announced in June 2012, with an additional feature of support for follow on financing for winning proposals that subsequently achieved their milestones. Six of the seventeen winners in the second ADM programme were from Nigeria, including a renewable energy services company, Comprehensive Design Services; an agribusiness, Poultry Heath Products Nigeria Ltd.; and an information technology firm, Trafficafric Ltd.

ADM is part of a wider engagement of the US diaspora communities in international development. The “Diaspora Network Alliance” has identified six “strategic diaspora engagement mechanisms” listed below.  

- Diaspora Philanthropy via collective remittances for development purposes.
- Diaspora Volunteer Corps – public service volunteering in countries of origin.
- Diaspora Direct Investment, including ADM.
- Diaspora Capital Markets to raise debt capital for development projects.
- Diaspora Tourism and Nostalgic Trade to increase tourism receipts.
- Diaspora Advocacy and Diplomacy to strengthen democracy and governance.

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46 The Diaspora Network Alliance, http://www.diasporanetworkalliance.org/engagement.htm
It is recommended that the Foreign and Commonwealth Office broaden its Nigeria diaspora programme in coordination with DfID to include support for entrepreneurship and business growth, targeting Lagos for a pilot “Diaspora Marketplace”-style initiative.

Premier League Affinity Power
Over 40 million Nigerian male adults say they support a British Premier League football team. That is more than half of Nigeria’s male population. This scale of support is second only to the United Kingdom itself.

The Premier League runs an Enterprise Academy, offering young people an opportunity to learn about business. Over 130,000 young people have taken part through over 200 schools in the UK.

It is recommended that the Premier League extend its Enterprise Academy Programme to Lagos reinforcing the strong brand recognition of Premier League clubs in Nigeria.

Diaspora Led Sector Partners Programme – Creative, Education, Finance
UKTI has embarked on useful supply chain partnering strategies for UK-based firms looking to establish local operations in Nigeria, and other countries, in order to better serve global multinationals.

A variation on this theme, creating partnerships between UK firms and UK diaspora communities has the potential to provide further support for entrepreneurial development in the UK and overseas.

The creative sector in Nigeria is estimated at $6 billion in annual sales, and is a rapidly growing sector. Nigeria’s film industry, the third largest in the world, produces more than 2,000 movies each year and the fashion industry in Nigeria, as elsewhere in Africa, is forecast to have a growing impact on world fashion in the decades ahead.

The British Council has been an active supporter of the development of Nigeria’s creative sector. It has supported the “Nigerian Creative Expo” for the past two years, bringing together industry leaders to develop strategies and investment plans for the sector. Over 250 people attended the 2012 Expo “Investing in Nigeria’s Creative Economy.”
In 2010, the Nigerian Government provided a $200 million loan facility to support exports of Nigeria’s creative talents and to promote financial support to a sector that is “light” on collateral.

The creative industries globally are highly entrepreneurial and this sector should be a focus for UK support to enable Nigeria’s entrepreneurial potential to be fulfilled.

It is recommended that UKTI create and deliver tailored support for UK-Nigerian partnerships in financial services, the creative industries (including fashion, film and technology) and education.
CONCLUSION

This paper set out to explain how Nigeria’s economy might be brought closer to realising its much discussed potential. Lagos has been the focus of the study as it demonstrates what can be achieved and what further can be done with targeted support.

The analysis has brought a UK perspective to the role that SMEs play in supporting broad-based economic growth and social progress, and has argued that supporting initiatives to improve their development is in the enlightened self-interest of British business, the government and the UK taxpayer. The UK has much to gain from a deep engagement with Africa’s largest market, strategically positioned, with immense resource wealth and a shared language. However, disparities in the number of companies doing business in sub-Saharan Africa’s two largest economies suggest that there is some way to go in overcoming barriers – real and perceived – to engaging in Nigeria. The paper argues that UK-based Nigerians will have a key role to play in overcoming these barriers and strengthening commercial ties between the two countries.

Economic diversification and transformation are essential if Nigeria’s citizens are to see a marked improvement in their well-being. The country is already faced with serious security, development and governance challenges, and with a fast growing population, effectively supported SME growth can play a significant role in mitigating future challenges, through the employment, revenue generation and pressures for public service delivery from government that they bring.

This report sets out options for targeted interventions by UK government departments and institutions as a means to build on existing momentum in the SME sector. In the areas of finance, skills and leveraging existing ties, it is clear that the UK has strengths it can play to, to enhance its engagements in Nigeria, should they be strategically deployed. There are existing initiatives both in the UK and in Nigeria, which provide a useful springboard for further, and better, action.
About the APPG

The APPG on Nigeria is an independent, impartial and semi-official cross-party group of MPs and peers, which plays an important calibrating role in Westminster and beyond. Through meetings, events and country visits, the APPG develops knowledge of Nigeria in the UK Parliament and helps to foster positive relations between the two parliaments. The group tracks and assesses UK government policy towards Nigeria and the bilateral relationship, helping to support improved policy and engagement with Nigeria. The APPG is interested in issues of conflict and security, human rights, good governance and development; diaspora links between the UK and Nigeria; and in business and private sector growth. The APPG receives administrative and research support from the Chatham House Africa Programme.

About The Africa Programme

The Africa Programme at Chatham house develops independent policy focussed research on issues affecting individual states of Africa, their relations in the international system and African regional and continental politics.

Since its establishment in 2002, the Africa programme has grown to become one of the world's leading independent centres for policy research and debate on Africa's international politics. With the transformation of Africa's international position, the programme has worked to improve the quality of information available to international policy- and decision-makers.

The Programme's research priorities emphasize issues affecting individual African states and the continent as a whole that are currently under researched, and the major African issues of main interest to the international community.