Q&A Summary

Opportunities for Financial Services in Nigeria, Angola and Ghana

Peter Carter
British Deputy High Commissioner to Nigeria (Lagos)

Richard Fuller MP
Vice-Chairman of the All-Party Parliamentary Group on Nigeria

Alderman Roger Gifford
The Rt Hon the Lord Mayor of London

Chair: Henry Bellingham MP
Parliamentary Under Secretary of State at the Foreign and Commonwealth Office for Africa and Prosperity (2010–12)

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SUMMARY OF Q&A

Questions
The panel did not cover the security situation in Nigeria, which is drawing away the efforts of the Nigerian government from very important programmes including anti-corruption towards counter-terrorism. There are concerns with what is happening in the north and how that may derail the very ambitious plans of the Nigerian government.

The speakers identified that there are funding issues for SMEs and micro-businesses. Are there prospective solutions that could be contributed and where could this be on a win-win basis? How can the risks of dealing in these markets be mitigated?

Peter Carter
Peter Carter argued that it is impossible to ignore the security situation. He then explained that terrorism in the north remains largely confined there despite efforts to bring it further south and there is continuing criminal violence in the Delta Region with oil theft from the pipelines. Lagos has its share of criminal violence; there were nine kidnappings, mainly of foreigners, in the two months that he was there. He continued to say that it is also correct that the federal government is struggling with the terrorism, particularly in the north; it is working on a semi-political settlement at the same time as sending in the army to disrupt Boko Haram. However, Lagos sometimes feels like a different country and it is not a city or region of Nigeria in crisis; the federal government is weak, the state government is strong. Certainly, many of the commercial opportunities will be either in or around Lagos and certainly across the south west of Nigeria rather than elsewhere in the country. Therefore, security is a factor, but for companies already active in Nigeria or considering becoming active, it is not a decisive factor. It is possible to mitigate the risks, manage your business and life in Nigeria in a way so that the security situation is not a crucial factor.

Richard Fuller MP
Richard Fuller explained that with regards to funding SMEs and micro-businesses and mitigating risks from other issues, his view is that it is at venture funding level. Clearly, to run a venture fund where the average investment size is 50,000 dollars, you will be challenged to make that
commercial. From a government point of view there is a potential market failure if you are looking to create successful ladders of financing that can end with listing on the Nigerian or London stock exchange.

He also claimed that in Nigeria there is evidence of aversion to sharing, including a cultural aversion to people sharing businesses with other people, which is a hurdle to be overcome. But as earlier, for the quantum of businesses that have potential desire to attract funding, there will be plenty of opportunities on a venture capital model at that small scale level below where private equity funds will come.

In terms of risk mitigation, Richard Fuller said there were a whole range of risks just put as contextual factors, including security in the north. But for risk mitigation from the point of view of an investment, it could be done by using the fund-to-fund models and co-investment. He explained that you would have to look to use some of the expertise that the CBC and others have in first time funds, to people already investing money because some businesses start on a friends and family basis and then you would put your money in alongside their money. The other aspect of risk mitigation is to use the skills, expertise and brand reputation of the firms which are in the City of London, to assist in this effort. That will help with mitigating risk and also enable better ties with local banks.

Questions

Is UKTI able to identify the source of investors’ funding and ensure that it does not include ransom money from kidnappings? Secondly, the west coast of Africa is now more dangerous than Somalia; what is the UK government planning to do about it?

The diaspora of Nigerians could be very useful in engaging with Nigeria. In the City of London, the majority of Nigerians are solicitors; in Nigeria it is a much closed profession, keeping UK firms out. How will the City, UKTI and the FCO in Lagos engage better with the views of the Nigerian diaspora?

Peter Carter

Peter Carter explained how criminality in Lagos is a problem and will continue, although there are now more police on the streets. Regarding how ransom money is laundered, he assured that in the work that they do attention is paid to their own due diligence, ensuring companies they wish to present as potential partners operate to the highest standards of corporate
opportunities for financial services in nigeria, angola and ghana

Alderman Roger Gifford

The Lord Mayor explained that on the legal side they have a fundamental issue in that they are open to foreign law firms opening in London; there are estimated to be two hundred to 700 foreign law firms operating in London, probably between 400 and 500. However, in many markets that is not reciprocated, including China, India and Nigeria; Japan has only recently opened up after thirty years of trying. The Lord Mayor said that while this is clearly a fundamental issue, it does not mean that the United Kingdom should close down its system to foreign law firms; this is because of the jobs, taxes and the great wealth of cultural opportunity that come with them. He argued that they struggle with the authorities in many countries, including Nigeria, in trying to gain openness to the system. Gradually, the Law Society and the bar counsellor have also been playing their part, but it is a struggle.

Questions

In the late 1960s the Nigerian insurance industry was in the hands of the British and partly the Indians; there has been a localization of that industry. Nigerians should be the African leaders in insurance alongside South Africa; however, one of the biggest problems has been exchange control, because the government has not trusted its own insurance industry. Therefore, whenever the insurance industry has got outside Nigeria, it has not been allowed to operate. There is a certain amount of Nigerian investment in the insurance industry in other countries, notably through IGI, but Nigeria needs
to be much more open. In 1969, in both Nigeria and Ghana, there were many ACIs and ACIBs; the linkage between the insurance, banking sectors and training establishments in the United Kingdom, Nigeria and Ghana has been truly commendable. What are the speaker’s views on the current situation regarding the insurance industry?

The British government might want to help the banks deploy capital into the SMEs market. The Nigerian banks are fixated and focused on large companies and the oil industry. How will any British investment be filtered down to the areas which need the investment, which are agriculture, manufacturing and small to medium sized businesses?

Peter Carter

Peter Carter agreed that the insurance market in Nigeria has been extremely difficult to break into, but there have been moves recently to update the regulatory framework around it to make it more welcoming. On the back of that, it is worth insurance companies taking another look and he would be happy to facilitate that.

Richard Fuller MP

Richard Fuller argued that revenue equals quantity times price. If one customer pays an enormous amount of money, then the revenue is right there. For banks, clearly the opportunity to earn revenue from a larger number of clients at a smaller price point requires two things. Firstly, that you have a broad set of capable people within your institution who understand commercial banking; for many Nigerian banks that is still a significant work in progress. He claimed that maybe there is some assistance that can be provided. Secondly, as you spread your quantity, if the risk profile is disproportionally high, then you will be less willing to go into those sectors. Richard Fuller clarified that he is not an expert in the economic history of Nigeria, but does believe there is a transition underway from monopolistic sectors to a tide of small businesses formalizing from being informal market stalls and becoming shops to actually having factories. That will increase the quantity and reduce the risk. The key thing for the UK government is that it does necessarily need to give its support directly to the banks, but rather to start enabling those efforts by the banks. This is so that when they see a small business looking for its first hundred thousand pound loan, they can see that the business has from the start been acting in an appropriate way, all the books are correct, the registrations are correct and that it has been formal
from day one; if you can have a fund or co-investment fund that seeks to permeate that way of doing business in early stage companies, then you will provide a supply of businesses to those banks. They are trying to go down the one customer big revenues, too many customers small revenue model; so they will be provided with more fundable businesses to support. Richard Fuller claimed that this is a better approach; the SMI/EIS approach, which the Nigerian government tried in the past, failed because some of the conflicts are inherent within some of the banks. Instead, this external approach, seeding early stage funding, but formalized from day one, will have a positive impact.