The South African Institute
of International Affairs

Business in Africa Research Project

‘An Oil Giant Reforms’

The Experience of South African Companies Doing Business in Nigeria

Dianna Games

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About the Author

Dianna Games is a director of Africa @ Work, a South African-based company which focuses on the African market in the areas of publishing, research, public relations and event management. The Nigerian market is central to many of the company's activities, and Games has been travelling to Nigeria since 1996. She is the author of the pilot study, published in June 2003, that initiated the *Business in Africa* report series (see below). She has also written other research reports for SAIIA on African issues, and is the editor of the Institute's bi-annual journal, the *South African Journal of International Affairs*.

About the SAIIA Business in Africa Project

This is the second country case study in a comprehensive study of business conditions prevailing in Africa to be conducted over the next two years by SAIIA's Business in Africa project. The report forms part of a series of country and sectoral studies undertaken with a view to extrapolating specific policy recommendations for African governments on how to create a more supportive business environment in Africa.

The New Partnership for Africa's Development (Nepad) initiative emphasises the critical importance of the private sector to the continent's economic development. South

Africa's expanding track record as a significant and, even more important, an African investor is a notable indicator of business confidence in the future of the continent. It is also paving the way for the private sector to play a stronger role in the continent's development.

Although it is generally assumed that South African investors are less averse than others to taking risks in view of their knowledge of, and proximity to, the African market in terms of appropriate technology and well-suited products, the SAIIA Business in Africa project study aims to verify whether this is indeed the case. Moreover, the study identifies critical areas in which reform is essential if Africa's private sector is to contribute to growth.

The Business in Africa project is headed by Neuma Grobbelaar, Deputy Director of Studies at SAIIA, who is assisted by Hany Besada, Business in Africa researcher.

The following reports have been published by the project thus far:

Games D, *A Preliminary Survey: The Experience of South African Business in Africa*, Business in Africa Report 1, SAIIA, 2003

Grobbelaar N, *Every Continent Needs an America: The Experience of South African Business in Mozambique*, Business in Africa Report 2, SAIIA, 2004

Methodology and Rationale

This report is based on a series of interviews conducted both in Nigeria and South Africa over several months in 2004, complemented by research done by the author for media articles and for a number of other projects over the past few years. For this specific project, 22 companies were interviewed in both countries, and much anecdotal reportage gathered.

Information was also obtained from diplomatic and government sources as well as Nigerians who had been involved in dealings with South African businesses. The group of companies approached covered the sectors of banking, retail, property, telecommunications, transport, trade, information technology, franchising, power, retail, tourism, marketing and security.

Key data were drawn from a range of sources, including media reports in Nigeria, the IMF, the World Bank, the Economist Intelligence Unit, government documents and statistics and a range of sources on the Internet.

Although international sources provide a wealth of information on Nigeria, very little up-to-date research is available in Nigeria itself. Little has been done on the subject in South Africa, where research organisations have tended to focus almost exclusively on Southern African countries. As a result, much of the research in this report is original source material.

The purpose of the study is to identify some of the pitfalls associated with doing business in a country such as Nigeria, long thought of as one of Africa's most difficult business environments. It also aims to look at the advantages of entry into sub-Saharan Africa's most populous state and second-largest economy. Another reason is that Nigeria has played a key role in supporting and advancing the Nepad initiative, and therefore deserves special attention.

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Executive Summary

In the rush for markets into the rest of Africa after the country's 1994 democratic elections, South African companies did not regard Nigeria as a most favoured destination.

At the time of South Africa's liberation from apartheid rule, Nigeria was being run by a military dictator, Sani Abacha, who had taken power by force in 1993. Despite strong liberation-era ideological ties between Nigeria and South Africa there were few economic links. The stories emanating from Abacha's Nigeria did not bode well for South African business expansion into the country: apart from the logistical difficulties associated with entering a then unknown market a long way from home, there were stories of hangings, arbitrary arrests, state-sanctioned murder, growing poverty and a country that was increasingly isolating itself from the rest of the world. Only the most hardy business people joined the market at that time, and even then, they faced stiff competition in a market historically dominated by British and American companies. The country's suspension from the Commonwealth in 1995 over human rights abuses also helped to keep South African business at arm's length.

Instead, investors mostly kept to markets in Southern Africa: for those few who wanted to venture into West Africa, Ghana was the preferred choice. Not only was it also an Anglophone country, but it was politically more stable than Nigeria, despite having a reformed military man and coup leader — Jerry Rawlings — in power.

However, it was not long before South African companies recognised that despite the perceived difficulties of the country, Nigeria, with a population of around 130 million people, was a market to be reckoned with. Slowly business ties increased but it has only been since Nigeria's return to democracy in 1999 that relations between the two countries rapidly strengthened. A Bi-National Commission was established in the same year, and both Nigeria and South Africa were founding members of the New Partnership for Africa's Development (Nepad), along with Algeria, Egypt and Senegal.

Politically, the leaders are close, apart from a bruising showdown in 2003 over the Zimbabwe issue at the Commonwealth summit, at which they took opposing positions on how to tackle that country's errant leadership. South Africa's Department of Trade and Industry has taken a number of trade missions to Nigeria over the years, and each country has received visits from top officials, up to the level of president.

Nigeria is now South Africa's biggest trading partner in West Africa and its third biggest trading partner on the continent, after Zimbabwe and Mozambique. Most of the South African business involvement in Nigeria does not take the form of large-scale investments, but is typically found in joint ventures, partnerships and the provision of technical and other support.

The main findings of the research done into the experience of South African companies doing business in Nigeria include:

- There is no doubt that South Africans appreciate the **size** of the Nigerian market and the **huge opportunities** available, and they are prepared to deal with many difficulties to penetrate it.
- The inherently **flawed structure of the economy** makes it difficult for outsiders to do business. The economy has had little policy direction and leadership between the oil boom of the 1970s, through successive military governments, up to the current government. This has led to the entrenchment of many negative practices. Fundamental structural problems include corruption; the poor state of the infrastructure, most notably in the power sector; skewed government spending priorities;

neglect of potentially lucrative sectors; massive urban decay; a 'get-rich-quick' mentality that pervades much of business and even government; and a complex and weighty bureaucracy which still dominates the economy.

- The **lack of predictability in policy-making and regulation** has been of concern to South Africans because it hampers long-term planning and can change the viability of projects overnight.
- The government lacks institutional capacity to enforce **intellectual property protection**, has a weak judicial system and an inability to resolve problems quickly.
- It is clear that **business relationships** between nationals of the two countries have been complicated by their very different ways of doing business. There have been bad experiences on both sides. The South Africans have been accused of being patronising, bringing in local partners and then ignoring their advice, and of under-mining local goods and services. The Nigerians, on the other hand, have been described by some South Africans as being corrupt, exploitative and inclined to think only of short-term gain rather than long-term partnerships. However, the greater the contact between them, the easier relations are becoming, as trust and understanding are built up with partners and clients.

Corruption is identified as a major problem that persists throughout the chain of business.

- **Corruption** is identified as a major problem that persists throughout the chain of business, from government to the boardroom. It ranges from 'signature bonuses' on large contracts to getting goods through ports and even, at times, getting past roadblocks. However, those who have been working in Nigeria for a long time concede that the situation has improved, and say they perceive the government's attempts to address corruption as sincere, if still ineffective. However, it is in government, and evens at ministerial level, that the most serious complaints about corruption are heard.

- The **experiences** of business people differ depending on the size and profile of the company for which they work, and on their readiness to work in an environment like Nigeria. Some South Africans find fault with everything and are in that country under duress. Others enjoy the energy and colour of life in Nigeria, but are similarly downbeat about work and prospects in that country, while yet others take the challenges in their stride, and have a very positive outlook.
- Nigeria is a **high-cost business environment**. The costs include food and accommodation to the logistics of, for example, having to run generators to meet basic power needs. Rents are high and hotels cost on average nearly three times as much as in South Africa. However, the biggest cost factor is the poor operating environment.
- The distance of Nigeria from the South African market causes **logistical problems** which also push up costs, result in delays along the supply chain and generally make life more expensive and difficult. Getting imports through the system has been identified as a major problem for business. The soliciting of bribes is commonplace at the ports. If these are not paid, goods can be detained indefinitely. Importers also face long clearance procedures, high berthing and unloading costs, and erratic application of customs regulations, usually linked to corruption. It can take up to four months for goods to travel from source to end user.
- On the positive side, the increasing number of **joint ventures and partnerships** has led to the transfer of skills and technology as well as training of staff, both in-house and in South Africa.

This has positive spin-offs for the relationship in that it provides employment, skills upgrades and opens new opportunities.

- The significant investment made in Nigeria by the high-profile South African company **MTN** has persuaded a number of South African businesses that Nigeria is a market worth exploring. The size of MTN's investment and the rapid take-up of its services have shown the company's confidence in the pent-up demand for its products, which has been amply confirmed by results. Conversely, the **Vodacom** debacle has raised concerns about the quality of corporate governance in Nigeria and about associated issues such as respect for contractual obligations.
- The way business is being conducted in Nigeria is changing for the better. **Globalisation** has begun to make its mark through greater competition in the market, and an injection of highly trained Nigerians from the diaspora into top jobs. These new business leaders are bringing with them a 'new economy' approach to doing business, and applying international perspectives to issues such as corporate governance and best practices. It is hoped that in time, the liberalisation of the economy, which the government is trying hard to promote, will bolster these positive influences.