

Nigeria Business Risk Brief- May 2023

Overview

The political and economic risk profile in Nigeria varies significantly from region to region, with medium levels of violent conflict in the oil-rich Niger Delta and in the Southeast where there is separatist agitation, high levels in the North where there is banditry and ongoing insurgency, and less risk in the Southwestern commercial centers of the country. Nationally, although Nigeria has been improving on the Fragile States Index overall since 2016, political and economic risk remains elevated.

Recent developments that impact the risk profile of the country include a general election that was less violent than many observers predicted, a cash shortage due to a disorderly rollout of a currency redesign, and a groundbreaking Petroleum Industry Bill that is in the early stages of implementation. Nigeria has enormous natural and human resources and is the largest economy in Africa by both population and GDP. Strategic sectors include oil and gas, information and communication technologies, and key agricultural value chains such as cocoa, oil palm, cashew, maize, and cassava, among others.

FFP’s Business Risk Brief (BRB) model builds on the Fragile States Index for a targeted assessment of 1)

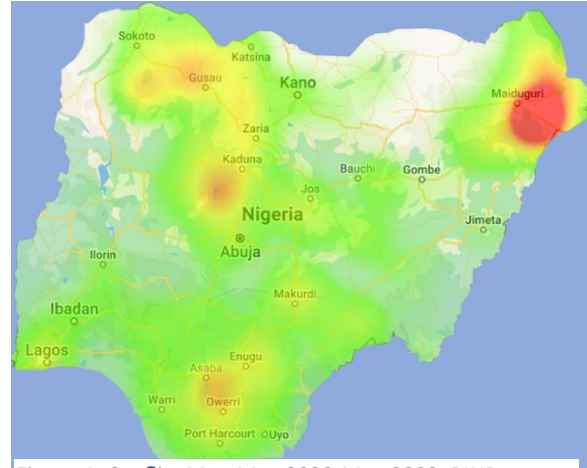
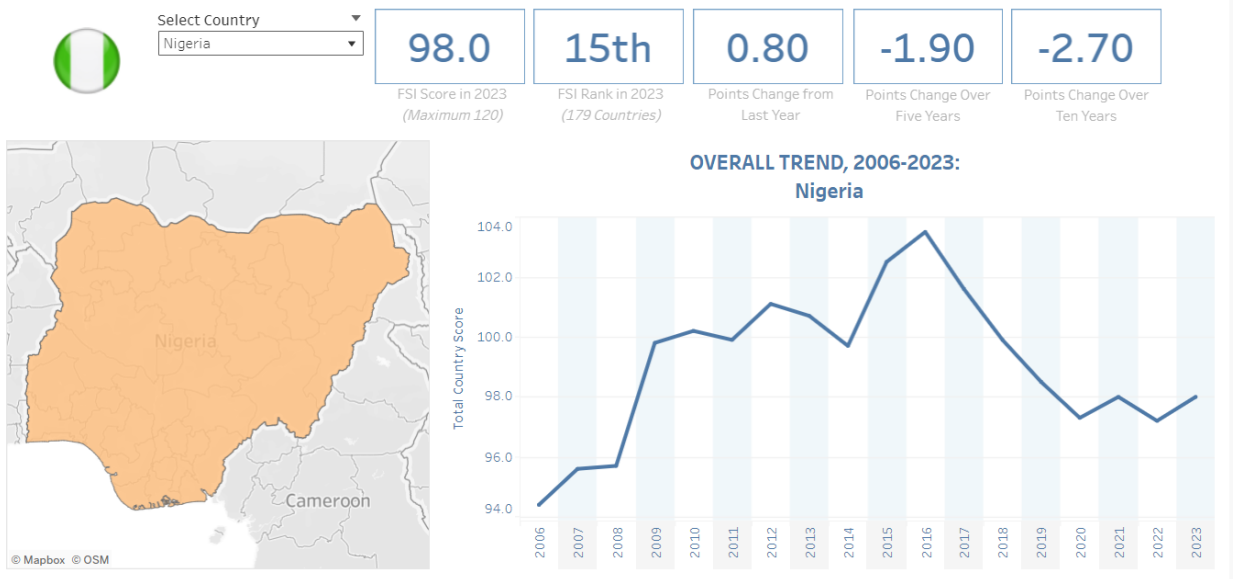














Figure 1: Conflict Map May 2022-May 2023; PIND Foundation

2) Risk of Physical Damage or Abandonment, 2) Risk of Permanent Loss of Equity, and 3) Risk of Inability to Access Funds. Although risk is elevated, particularly within the Risk of Physical Damage or Abandonment category, in practice this will depend on the location of a particular business and the degree to which a business is de-risked through blended financing, impact investment, and partnerships with peacebuilding organizations for early warning and conflict sensitivity.

	Risk of Physical Damage or Abandonment				Risk of Inability to Access Funds		Risk of Permanent Loss of Equity	
	Violent Conflict	Violent Crime	Riots	Environment and Extreme Weather	Currency Inconvertibility	Exchange Transfer	Property Rights	Corruption/Governance
Nigeria	9.4	8.8	3.6	8.5	7.2	7.5	7.6	8.5
ECOWAS	6.6	6.7	4.1	6.3	6.4	6.5	6.3	7.1
OECD	3.7	2.7	4.1	3.3	3.1	3.6	3.0	3.3

Figure 2: The BRB ratings are generated through a proprietary system building on FFP’s Fragile States Index across 179 countries. FSI indicators are mapped to the BRB indicators along with additional metrics to operationalize the specific BRB risks and then normalized, scaled, and aggregated with weighted averages for comparison across indicators and countries of concern. Scores are on a scale of 1-10 with 1 indicating low business risk and 10 indicating high risk,

											
Security Apparatus	Factionalized Elites	Group Grievance	Economy	Uneven Development	Human Flight	State Legitimacy	Public Services	Human Rights	Demographic Pressures	Refugees/IDP	External Intervention
9.0	9.6	8.6	8.8	8.1	6.7	8.2	8.8	8.6	9.6	6.4	5.6

The Fragile States Index shows a slight worsening from FSI 2022 to FSI 2023, particularly in the Economy Indicator, which worsened from 8.3 to 8.8 as a result of rising inflation, floods, and a shrinking in the industry and oil and gas sectors. On the positive side, while international observer missions underscored problems with the transparency, logistics, and process of the election in February 2023, it was less violent than many expected, with increased engagement of youth and civil society, suggesting a softening of ethnic and sectarian divisions in the country that could lead to a more enabling environment for governance and inclusive development over the long term.

Risk of Physical Damage or Abandonment (9.1/10.0)

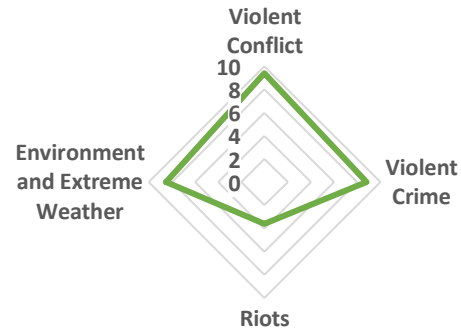
Violent conflict, crime and flooding present elevated risk to businesses in Nigeria. The 2023 Fragile States Index shows continued high levels of pressure in the associated indicators for Group Grievance, Security Apparatus, and Demographic Pressures.

Violent Conflict: Violent conflict is most acute in the Northeast, where over 550 people were killed from January to March 2023,¹ in connection with violent extremist threats from Boko Haram and the Islamic State. During the same three-month period about 400 people were killed in the Northwest, largely in connection with banditry and communal militias² which often overlaps farmer-herder violence and illegal mining.³ About 200 people were killed in the Middle Belt, mainly in connection with farmer-herder violence.⁴ Across the Niger Delta, about 130 people were killed, largely due to gang violence, communal violence, and separatism.

These threats, particularly those associated with Boko Haram, have had a negative impact on Nigeria’s business environment and ability to attract Foreign Direct Investment (FDI) flows across sectors.⁵ While the overall level of risk to businesses in the Northeast due insurgency is considerably reduced since its peak in 2015, violence remains high. Boko Haram is not currently a risk factor in the southern commercial hubs surrounding Lagos and Port Harcourt.

Overall, the level of violence has been largely steady since 2016. However, the election in February 2023 was less violent than many predicted, perhaps signaling a potential softening of ethnic and sectarian boundaries which could presage an incremental reduction in violence, particularly if a longer-term expansion of the middle class, educated youth, civil society, and traditional leadership are further empowered as stakeholders and partners with

Nigeria BRB Score
Risk of Physical Damage or Abandonment



government to promote inclusive development and good governance across the country. Notably, however, in the short term, economic distress has worsened in Nigeria, with multidimensional poverty worsening sharply between 2017 and 2021.⁶

Violent Crime: Nigeria ranks fifth in the world for criminality on the Organized Crime Index with high scores in non-renewable resource crimes, drug trade, and criminal networks.⁷ According to SBM Intelligence, over 3,370 people were kidnapped across the country from July 2021 to June 2022, with a combined confirmed ransom payment of over 1.6 billion Naira⁸ (3.5 million dollars.)

Several oil companies have scaled back their onshore operations in recent years due in part to the accumulated losses associated with oil theft and

¹ <https://p4p-nigerdelta.org/>

² Ibid

³ <https://www.accord.org.za/conflict-trends/banditry-in-nigeria-insights-from-situational-action-and-situational-crime-prevention-theories/#:~:text=Some%20of%20the%20factors%20that,activities%20in%20the%20North%20West.>

⁴ <https://p4p-nigerdelta.org/>

⁵ <https://www.cbn.gov.ng/out/2022/std/insurgency%20political%20risk%20and%20foreign%20direct%20investment%20inflows%20in%20nigeria%20a%20sectorial%20analysis%2027-57.pdf>

⁶ <https://data.worldbank.org/indicator/SI.POV.MDIM?locations=NG>

⁷ <https://ocindex.net/country/nigeria>

⁸ [202208_The-economics-of-Nigerias-kidnap-industry.pdf \(sbmintel.com\)](https://www.sbmintel.com/2022/08/the-economics-of-nigerias-kidnap-industry.pdf)

spills.⁹ A 2022 article suggests that 470,000 barrels of oil are lost per day due to theft and vandalism.¹⁰

Flooding: In 2022, over 70,000 hectares of farmland were flooded and over a million people displaced¹¹, especially in Kogi, Anambra, and the Niger Delta states of Bayelsa, Cross River, Delta and Rivers.¹² Effects included injuries, death, and cholera outbreaks.

Protests: In 2023, protests over cash shortages and the February and March elections were largely peaceful, although the legitimacy of the election was challenged in the courts by opposition candidates.

Risk of Inability to Access Funds (7.4/10.0)

Declining oil production, high inflation, supply shortages, and rising interest rates imposed significant pressures on business and restrained the investment environment.

Nigeria faced significant challenges following the oil price crash of the COVID-19 pandemic, including an increase in its balance of payments deficit to \$14 billion, and enacted foreign exchange limitations in response.¹³ In 2020, the reserves were only at 8.3% of GDP¹⁴ (globally the median is about 17%), and highly reliant on oil prices and production. However, unlike most other oil-rich nations, global increases in the price of oil did not improve Nigeria’s economic performance in 2021.¹⁵ Declining oil production, bottoming out in 2022¹⁶ has hit Nigeria’s government

finances especially hard. The current account balance went negative in 2019 and has remained in the red through 2021, reducing Nigeria’s ability to manage the naira and putting pressure foreign exchange reserves. In 2021, Nigeria had enough foreign exchange reserves to cover about 7 months of imports.¹⁷ Since then, according to the Central Bank of Nigeria, gross foreign exchange reserves reduced by 14.5% between December 2021 and May 2023.¹⁸ In this context, commercial bank liquidity has been strained, as banks are working to both finance trade and provide forex lending to the central bank.¹⁹

Along with much of the rest of the world, Nigeria experienced high inflation in 2022, which was exacerbated by poor infrastructure and high demand for imported goods and has led to higher interest rates in response.²⁰

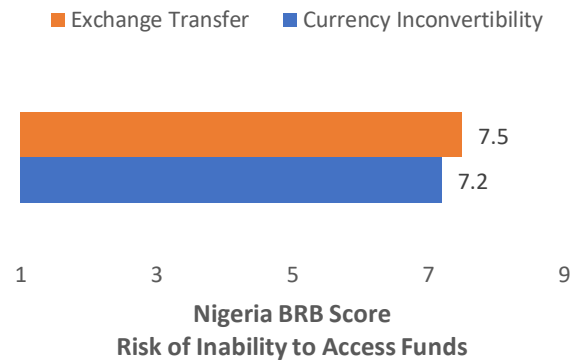


Figure 4: BRB Scores suggest elevated Exchange Transfer Risks (7.5) followed by Currency Inconvertibility (7.2)

⁹<https://www.reuters.com/world/africa/equinor-joins-western-oil-firms-retreat-nigeria-sources-2023-01-25/>

¹⁰<https://apnews.com/article/africa-vandalism-theft-nigeria-f68f427b437ee6225add86d46da7e5fd>

¹¹<https://www.washingtonpost.com/climate-environment/2022/10/15/nigeria-flooding-displacement-deaths/>

¹²<https://reliefweb.int/report/nigeria/acaps-briefing-note-nigeria-country-wide-flooding-21-october-2022>

¹³<https://www.reuters.com/article/us-nigeria-currency/explainer-why-nigerias-central-bank-wont-ease-its-grip-on-the-naira-idUSKBN2BL1MH>

¹⁴ <https://www.cia.gov/the-world-factbook/field/reserves-of-foreign-exchange-and-gold/country-comparison>

¹⁵<https://www.worldbank.org/en/country/nigeria/overview>

¹⁶<https://tradingeconomics.com/nigeria/crude-oil-production>

¹⁷ <https://allafrica.com/stories/202101130214.html>

¹⁸ <https://www.cbn.gov.ng/intops/Reserve.asp>

¹⁹<https://www.reuters.com/world/africa/moodys-nigeria-fx-shortage-may-threaten-bank-liquidity-2023-02-16/>

²⁰<https://www.reuters.com/world/africa/nigeria-inflation-quickens-again-february-stats-office-2023-03-15/>

To mitigate these pressures, several initiatives could boost exports and reduce the price of imports over the next 12 months including the effective implementation of the Petroleum Industry Act, the African Continental Free Trade Agreement, which was signed in 2019, and support from USAID for trade and regulatory reform and better management of the energy sector.²¹

Risk of Permanent Loss of Equity (8.1/10.0)

While the risk of nationalization has been virtually eliminated since the passage of the Nigerian Investment Promotion Commission (NIPC) Act²² and Nigeria’s accession to the WTO in 1995²³, application and enforcement of legal, accounting, and regulatory systems remains uneven.²⁴ Though the NIPC established a federal agency to promote investment in Nigeria, and accession to the WTO requires obligations of member countries regarding trade, Nigeria still has weak property rights, a perception of corruption, and a judiciary that is subject to intimidation, which can lead to discrimination in licensing and approvals. This dynamic is reflected through the FSI, where Human Rights and State Legitimacy indicators maintain high baseline scores and undermine the enabling environment for a positive business and investment climate.

The 2021 *Petroleum Industry Act* is intended to achieve a variety of decades-long policy aims like strengthening regulation, commercializing the Nigerian National Petroleum Company (NNPC), levying new taxes, and improving relations with oil production host communities.²⁵ The wide-ranging policies address many challenges facing the country’s business environment like transparency and accountability in the oil and gas sector. However, any

reduction in risk from the act will require continuous commitment to its implementation.

Challenges to the implementation of strong regulatory and legal oversight in Nigeria include a weak judicial system, corruption, partisanship, and violent conflict.²⁶ On a bureaucratic level, the judiciary has historically struggled to access funds, failing to manage caseloads.²⁷ Delays in justice in addition to perception of corruption in the judiciary can create the appearance of impunity. A recent study from the Independent Corrupt Practices and Other Related Offences Commission (ICPC) found that over N9

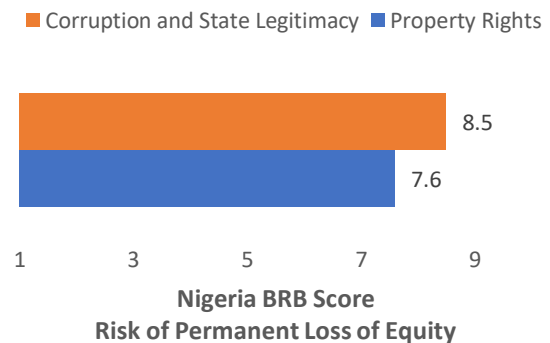


Figure 3: BRB scores suggest elevated risk of corruption (8.5) and weak property rights (7.6) which could create a risk of loss of equity.

billion was improperly offered to judges within a space of three years.²⁸ The state judiciary is also vulnerable to insecurity in many parts of Nigeria,²⁹ presenting a risk of intimidation. Despite recent efforts to improve the transparency of the justice system, corruption is pervasive, complex, and persistent.³⁰

Nigeria is a signatory country to the New York Convention, which provides for the recognition and

²¹ [Economic Growth and Trade | Nigeria | U.S. Agency for International Development \(usaid.gov\)](#)
²² [Microsoft Word - 3338 D 03.doc \(wto.org\)](#)
²³ https://www.wto.org/english/thewto_e/countries_e/nigeria_e.htm
²⁴ [Nigeria - United States Department of State](#)
²⁵ <https://www.brookings.edu/blog/africa-in-focus/2021/11/24/nigerias-petroleum-industry-act-addressing-old-problems-creating-new-ones/>
²⁶ <https://freedomhouse.org/country/nigeria/freedom-world/2023>

²⁷ <https://saharareporters.com/2022/03/01/nigerian-senate-approves-financial-autonomy-state-legislatures-judiciary-local>
²⁸ <https://saharareporters.com/2023/04/10/group-writes-nigerias-chief-justice-laments-corruption-judiciary-warns-against>
²⁹ <https://blogs.lse.ac.uk/africaatlse/2023/02/21/nigeria-has-failed-to-tackle-corruption/>
³⁰ <https://theconversation.com/nigerias-top-judge-leaves-the-justice-system-in-a-mess-heres-how-his-successor-can-fix-it-186079>



enforcement of foreign arbitral awards.³¹ Nigeria has also ratified the Cape Town Treaty, which establishes an international legal framework to reduce the risk of international sales and leases of airline equipment.³² However, for remedies under such treaties or conventions to be available, they must be incorporated into domestic law or afforded priority when conflicts with domestic law occur.³³ Interestingly, Nigeria's Bilateral Investment Treaties (BITs) allow disputes arising from BITs to be arbitrated

in foreign jurisdictions. In 2019, an Irish company riding on the BIT's provision for overseas arbitration secured an arbitral award against the Nigerian government over a purported breach of contract in a London High Court.³⁴ While participation in international efforts to reduce risk at a legal level is a promising step forward, actual risk reduction occurs at the level of implementation, and assessment requires a review of legal precedent.

³¹ <https://www.newyorkconvention.org/in+brief>

³² <https://www.exim.gov/news/eighth-country-ratifies-cape-town-treaty-cross-border-financing-large-commercial-aircraft-and>

³³ https://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=2549&context=faculty_scholarship

³⁴ <https://www.afronomiclaw.org/2020/10/12/lessons-from-nigeria-and-process-industrial-developments-limited-pid>