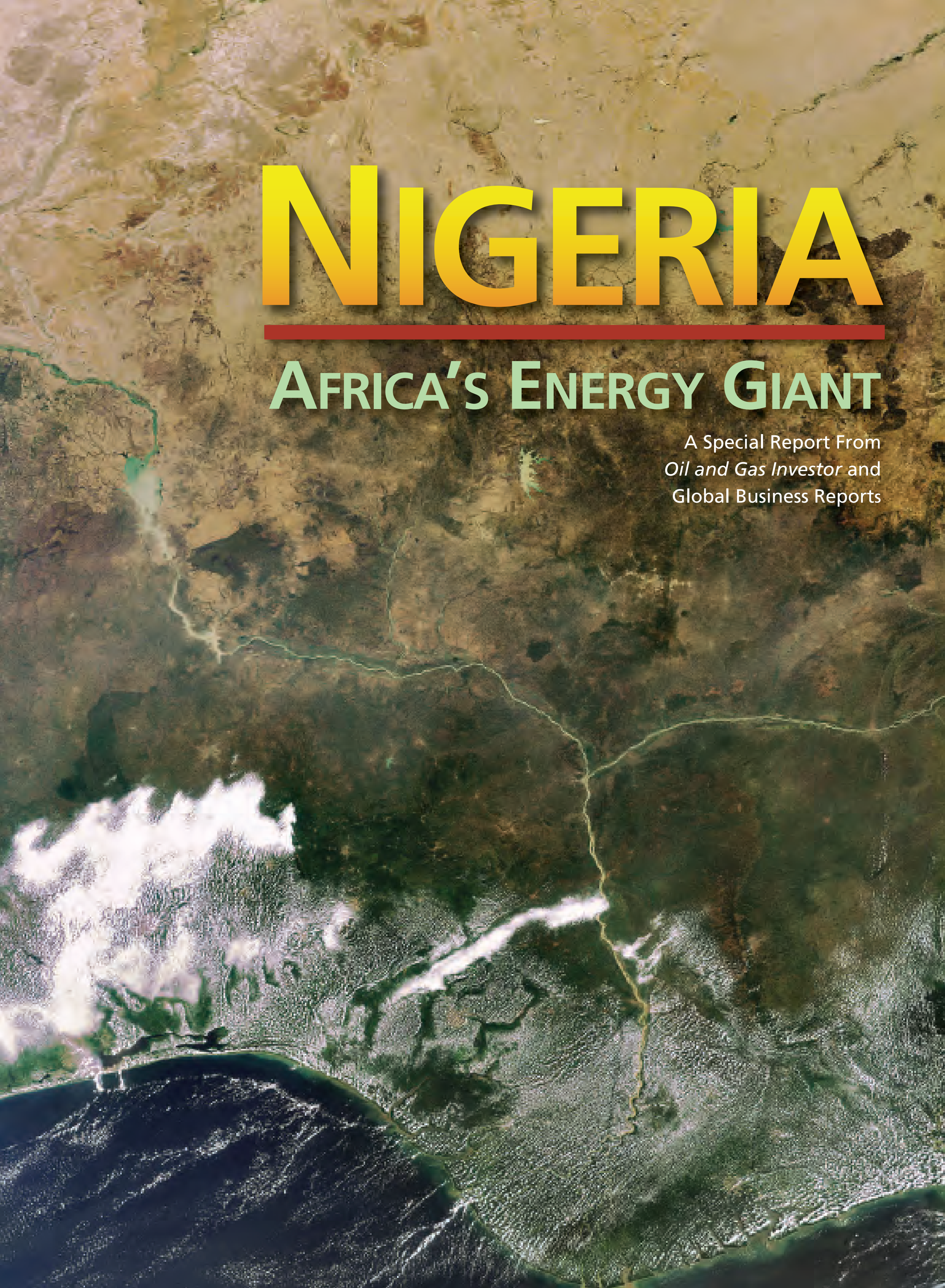
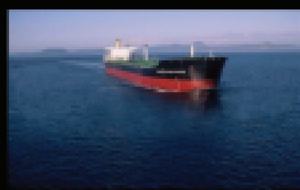
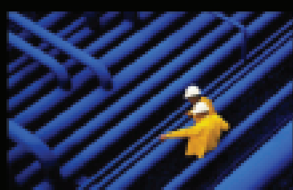


NIGERIA

AFRICA'S ENERGY GIANT

A Special Report From
Oil and Gas Investor and
Global Business Reports





The African Giant

There is huge opportunity for both Nigeria and its operators as its energy sector undergoes a slow, but steady, transformation.

Few countries have suffered "the curse of the black gold" as much as Nigeria. Corruption and poverty across the nation and violence in the country's main producing area, the Niger Delta, have cast a shadow over this, Africa's most populous nation. Yet, many in the country's oil and gas industry maintain that there is huge opportunity for both the nation and its operators in a sector undergoing slow, but steady, transformation. This special report looks at the state of Nigeria's oil and gas industry and the promise it holds.

Even in its days as a British protectorate, Nigeria's delta region was synonymous with oil production, and was then often referred to as the "oil rivers" area. That epithet was, however, based on the area's notoriety as a palm-oil producer. Little was known of the vast reserves of the darker, thicker variety that lay beneath the ground.

Crude oil was discovered in the region in 1956 at Olobiri, in present-day Bayelsa state. For better or worse, this event was to radically change the fortunes of the delta region and Nigeria. The area was found to sit above what would prove to be the largest and most prolific hydrocarbon basin in Africa—the Niger Delta Basin—covering an area greater than 75,000 square kilometers and viewed as one of the world's greatest delta systems of tertiary age.

Over half a century later, crude oil runs thick through the veins of the Nigerian economy. The country's oil industry, largely built upon joint ventures between the major international oil companies and the state-owned Nigerian National Petroleum Corp. (NNPC), dominates Nigeria's economy to the extent that last year it accounted for some 95% of export revenues, 80% of government revenues and about a third of its gross domestic product. Nigeria ranks 10th largest in the world in proven reserves, with more than 33 billion barrels of proven oil reserves. It is the 12th-largest producer and eighth-largest exporter worldwide. The country has been an OPEC member since 1971, and the development of its hydrocarbon resources is what defines Nigeria's position on the world stage. In 2008, Nigeria ranked as the United States' fifth-largest oil supplier. According to the U.S. Department of Energy, the U.S. currently depends on Africa for 18% of its petroleum imports and, despite plans for increased energy sufficiency, the continent's importance to U.S. supply is expected to grow significantly in the years ahead. In its latest World Energy Outlook, the International Energy Agency predicts exports from sub-Saharan Africa will hit 6.4 million barrels of oil per day (bopd) by 2030, from a projected production of 7.4 million bopd. Of that amount, output from Nigeria and Angola combined represents 84%, compared with about 75% today.

The Nigerian government has set a target of increasing the country's proven oil reserves from the current 33 billion to 40 billion barrels by 2010 and is encouraging the continued development and exploration of the country's oil resources to do so. Indigenous companies are forging their role and are eager for partners to tackle the problems of exploiting new areas, including a vast untapped natural-gas resource having 187 trillion cubic feet (Tcf) of proved reserves.

"If you're not here then you'd better already be in China or India," says Oluremi Okunlola, the principal advisor of Nigerian

The Nigerian government has set a goal of increasing the country's proven oil reserves from 33 billion to 40 billion by 2010. Shown here is oilfield equipment.

This report *was prepared by Global Business Reports for* Oil and Gas Investor. *The authors are Christopher Hindle (christopher@gbreports.com) and Daniella Woldemichael (daniella@gbreports.com). More information on the firm is available at www.GBReports.com.*

The sheer opportunity the country offers prevents any profit-oriented businessman from leaving, says Vincent Ebuh, chairman and managing director, Petrolog.

energy advisory company Energynvest. "There are only three relatively uncharted markets worth investing in right now, and while China and India, with their large resource and population base, may top the list, in terms of the breadth of opportunity and potential, Nigeria must come third."

Despite a slide in oil prices over the past four months, and the ramifications of a global economic slowdown, the widespread prediction is that West Africa's largest economy will continue to see buoyant growth through 2009. The federal government's own 2009 budget reckons on growth of more than 9%, while the Economist's Intelligence Unit sees non-oil performance as crucial in supporting a 6% rise in gross domestic product growth for 2009. The weighted importance of non-oil is, however, indicative of the fact that whatever long-term potential the oil sector holds, its current performance is being hampered by a number of formidable challenges.

Nigeria once stood alone as the African continent's largest oil producer but, over the past few years, Angola has caught up. In 2008, the two countries jostled for top slot. While Angola's oil industry has enjoyed a recent boom, Nigerian production has been in a decline, caused by disruption from militants in the Niger Delta demanding a greater share of the country's oil wealth for their region. Shut-ins from militant attacks on pipelines and other installations have reduced overall production levels from 2.5 million bopd to just over 1.7 million bopd in 2007.

Security issues, a tough business environment and rampant corruption all stand in the way of attracting much-needed foreign investment into the sector. Annual foreign direct investment in Nigeria stood at $12.5 billion in 2007, down slightly from a record $14 billion the previous year, and there is much at stake. Some analysts maintain that, in the worst scenario, without the required levels of investment, production could continue to fall by as much as one-third by 2015.

The 2007 election of President Yar'Adua marked the first hand-over of civilian rule in the nation's history. He was welcomed by many and perceived to be a "steady hand on the tiller." However, 20 months into his term in office, concerns have emerged about the rate of progress on a number of issues affecting the energy sector, including the security situation in the delta region, the reform of the bureaucratic NNPC and the state of the country's power sector, to name just a few. This has earned the president, rumored to be in failing health, the nickname "Baba go-slow." Nevertheless, it takes time to put a new administration in place, and with a newly constructed cabinet, the President may yet push reforms ahead with renewed vigor as he nears the second half of his term.

Either way, the message from many prominent figures in the

"If I were to start all over again, once again, I would come to Nigeria." Jacques J. Roomans, president, Sea Trucks Group

Nigerian oil industry is that investors and companies considering entering the market should not be deterred: opportunity abounds. "Times of difficulty always present the best opportunity to enter; before all the barriers to entry emerge," comments Vincent Ebuh, chairman and managing director of Petrolog, a leading Nigerian oilfield service company. Ebuh says that doing business in Nigeria can be "difficult and tough" but, at the same time, the sheer opportunity the country offers prevents any profit-oriented businessman from leaving. "My advice to foreign investors is to come into the Nigerian markets now, and the rewards will be all the greater when the situation improves. Take for instance the acquisition of wells, which are going to cost a lot more in the near future."

Beyond Headlines

Ebuh goes on to add that investors should look beyond headlines that portray the country in a negative light. "There are many misconceptions about Nigeria," he says. "Undoubtedly, there is some corruption here, but one cannot punish others for the crimes of a few. And, besides, Nigeria is not the most corrupt, nor indeed the only country in the world to suffer from corruption. The truth is that Nigeria is a land flowing with milk and honey, and potential investors just need to study the environment, investigate who they want to associate with and strategically position themselves."

One who can certainly bear testament to the rewards offered to those willing to commit themselves to the country is Jacques J. Roomans, who arrived to Nigeria 40 years ago. Soon after his first visit, he had sold his house and car and made the move permanent. Today, Roomans is president of Sea Trucks Group, a Nigerian company and one of the leading providers of marine services to the offshore oil and gas industry worldwide. "I have travelled all over Africa and can assure you that if you are really serious about doing business there is only one place to be in Africa and that is Nigeria," he says.

"The people are very smart—indeed, you find Nigerians all over the world running businesses in oil and gas—and this is a place where you can really do good business. I arrived in Nigeria in December 1968 and am still here. If I were to start all over again then, once again, I would come to Nigeria."

This report is the result of several months of investigation on the ground in Nigeria, including interviews with some of the senior players. □

Key Nigeria Facts

Population: 148 million (2007 U.N. estimate)
Size: About twice the size of California (351,649 sq. mi.)
Year of Independence: October 1, 1960 (from U.K.)
Capital: Abuja
Largest City: Lagos
Government: Federal Republic
Number of States: 36 and 1 territory
Ethnic Groups: 250
Religion: 50% Muslim, 40% Christian, 10% Indigenous Beliefs
Literacy: 68% (2003 estimate)
Life Expectancy at Birth: 46.74 years
Languages: English (official), Hausa, Yoruba, Igbo (Ibo), Fulani

Tackling the Niger Delta Crisis

Ending the socio-economic crisis in the Niger Delta region is widely considered to be one of the country's most pressing challenges.

The Niger Delta region, the heartland of the Nigerian oil industry, is the source of most of the government's income yet remains in relative poverty.

Home to some 31 million Nigerians from more than 40 different ethnic groups, the Niger Delta has seen little economic development since it began to export oil from Olobiri, in present-day Bayesla state, in 1956. "The past neglect of the region and the non-participation of its people in the oil and gas sector have placed at risk the future growth and prosperity of our nation," said Minister of State for Energy (Petroleum) Odein Ajumogobia at a recent Niger Delta oil and gas conference in Port Harcourt. Few would disagree. Ending the crisis there is widely considered to be one of the country's most pressing challenges.

Over the decades since production began, the region's inhabitants have tired of living with the effects of often irresponsible production while reaping none of the financial benefits. Serious unrest in the region first claimed international attention in the 1990s, through the actions of Movement for the Survival of the Ogoni People (Mosop). Under the leadership of the renowned author and journalist Ken Saro-Wiwa, Mosop organized mass, largely nonviolent protests in objection to Shell's continued flaring. By 1993, the group's protests were sufficient for Shell to cease operations in Ogoniland, a small area of the Niger Delta. The company has yet to return to the area. The effect of this action on the industry, and also on government revenue, was considered too great by the Nigerian authorities, and a harsh military crackdown ensued. Saro-Wiwa and his colleagues were hanged on trumped-up charges in 1995.

During the last few years anger has resurfaced, often directed at the oil companies and manifested more violently than ever before. Since 1996, kidnappings of both foreign and local oil executives have been frequent in the delta region. Many of these

Niger Dock's dry dock at the Snake Island integrated free zone, in Lagos, represents indigenous development.

The primary agents for development, various local and state governments, have not been doing enough."
Basil Omiyi, Shell Oil country chair for Nigeria

hostage-takings have been claimed by the Movement for the Emancipation of the Niger Delta (Mend), the largest militant group in the area. The group is also thought to be responsible for the string of attacks on pipelines and oil installations witnessed over the past few years.

Most affected have been the operations of Shell's Nigerian subsidiary, Shell Petroleum Development Co., which has had to close 550,000 barrels of oil equivalent per day since February 2006, while other operators have been forced to declare *force majeure*—a suspension of contractual production obligations due to circumstances beyond control—due to attacks on their installations. The cumulative effect of such sabotage has been a one-third reduction in Nigeria's daily exports since 2004, and a loss to government revenue of more than $80 million each day. Indeed, the impact on production has been such that, until the global economic slowdown started to take its toll, the increased restiveness in the Niger Delta was often given as one of the factors behind the spiraling increase in the price of crude oil as it soared to $140 a barrel in 2008.

Production costs have been driven upwards. "With the antecedent problems of the crisis in Niger Delta, the cost of security, etc., makes it two to three times more expensive to operate in the Nigerian Delta environment than in the (U.S.) Gulf Coast or North Sea," says Chief Tunde J. Afolabi, CEO of Amni International, one of Nigeria's leading indigenous producing companies. "Just look at the rig rates: a rig that might cost $50,000 a day in the Gulf Coast will cost about $150,000 a day in Nigeria."

Besides the cost of additional security considerations, a reduction in the availability of key services has affected progress for many operators. Several international service companies have simply pulled out of the delta region altogether, while many others have at least moved their headquarters and business operations away from Port Harcourt. Disruption to operators' schedules and production plans is also problematic for companies further down the value chain. Port Harcourt-based Aftrac is a Nigerian technology solutions provider. Patricia Simon-Hart, managing director, comments that "disturbances caused by militants and community issues are affecting the operations of the oil and gas companies; consequently this is affecting our operations, and those of other service companies, too."

Striving for a Solution

Furthermore, continued unrest in the area only fuels a negative perception of Nigeria as a destination for foreign investment, an impact that could blight the industry's development well beyond the more immediate impact. But while the current situation is widely recognized as unsustainable and damaging to development of the country as a whole, a solution is not immediately obvious. At present the Nigerian government has a military presence in the region—its Joint Task Force, which was set up specifically to check the unrest. Some advocate a stronger use of force to quell the disturbances, although fear of an all-out "oil war," bringing further disruption, will likely limit the use of force in a multipronged approach.

The problems that underlie the present crisis have been allowed to fester for so long that there is intense mistrust among a complex web of stakeholders, and blame is being assigned in dif-

Weafri Well Services equipment on site in Nigeria.

"We try to interact with the community first and identify areas where problems may arise," says Dr. Layi Fatona, managing director of Niger Delta Exploration and Production.

ferent directions. In defense of the oil industry, Basil Omiyi, Shell's country chair in Nigeria, says: "It's convenient to scapegoat oil companies for what is truly a very complex situation. Some of our critics seem to believe that because the oil companies are the avenues through which the central government gets its oil revenue, we are therefore party to the dispute—which we're not."

Omiyi speaks for many in the industry with his insistence that it is not the role of the oil companies to replace government's responsibilities, but he acknowledges that more must be done for the people of the Niger Delta. "I do understand where the frustration comes from," he says. "The need on the ground is so great and people feel more should be done. And that is true. That is because the primary agents for development, the various local and state governments, have not been doing enough."

In 2000, the government set up the Niger Delta Development Commission (NDDC) to relieve poverty in the region, hoping that this would ease unrest. However, incessant struggles to increase its funding, coupled with a reputation for poor management and corruption, have crippled this initiative. The NDDC has been criticized for ineffective distribution and delivery of its funds. Last year, one of the commission's senior officials was charged with stealing $800 million naira (US$6.3 million). In an attempt to rectify the situation, Nigeria's President Umaru Yar'Adua recently announced that a new ministry would be created to deal with the region's problems, with the NDDC under its control. The new ministry would receive two ministers, as yet unnamed, who would be responsible for infrastructure development and youth and environment issues. Upon his inauguration, Yar'Adua highlighted the Niger Delta as a key issue in the government's manifesto. The Seven-Point Agenda called for a Niger Delta summit, which has failed to materialize. Skeptics argue that the creation of a new ministry will only add a further layer of unwelcome bureaucracy and is just the latest in a series of failed attempts of the 20-month-old administration to show it is serious in tackling the Niger Delta issue. Most in the industry, however, believe that the political will to improve the situation is now strongly evident.

"The government is taking the challenge seriously, and I believe that a nightmare scenario will not materialize. Over the next three years we should expect to see a gradual improvement in the operating environment," says Dr. Ayodeji Oluokun, managing director of Peak Petroleum Industries Ltd., an indigenous operator in the area. Additionally, he expects to see "increased dynamism in the relationships between operators and their host communities."

Building Relationships

Dr. Layi Fatona, managing director of indigenous production company Niger Delta Exploration and Production, agrees. He believes that building better relationships at the grass-roots level is key and better than simply relying on distribution from government. "I think that whether you are large or small, whether you are an IOC or an indigenous producer, there are issues with the community that need to be dealt with face to face," he says. Furthermore, he suggests that in developing relations with the host communities, indigenous companies might have an advantage.

"The communities already know what they want and it is easier for us, as Nigerians, to understand how they think, to understand their needs and engage with them well," says Fatona. "In the delta region, most operators will start with an MOU, but we try to do it differently. We try to interact with the community first and identify areas where problems may arise. Overall, I think that the local companies are doing great with the communities."

Similarly, the hope of better engaging the communities rests upon the success of the government's Local Content Policy Initiative, which encourages Nigerian participation in the oil and gas industry. It is also expected that employing more local Nigerians will further build trust between the industry and the host communities, and reduce the youth unemployment that has been a critical factor in the build-up of militancy in the area. Most importantly, however, linking the fate of the people of the Niger Delta with that of the industry points up the benefit of ending the current crisis: a win-win situation for all. □

Focus: Restructuring The NNPC

Nigeria's president visualizes the national oil company reborn as a private-sector entity, able to compete with the internationals, and use its assets and credit from the market to grow.

Established in 1997, the Nigerian National Petroleum Corp. (NNPC) is the vehicle through which the federal government regulates and participates directly in the country's oil industry. After just over a decade of administering these responsibilities, political interference, corruption, bureaucracy and mismanagement have badly tarnished its reputation.

Operated as a cash cow by a succession of undesirable Nigerian regimes, the NNPC is considered a poor guardian of the country's oil resources and a major inhibitor of its effective development. Dr. Bello Gusau, secretary of the government's Oil and Gas Sector Reforms Implementation Committee (OGIC) has stated that: "Ineffective and inefficient state control of all the major processes of the industry has stunted its growth and development. While all of its peers are gradually transforming into international national oil companies with extensive operations abroad, our national oil company is still grappling with funding the few resources and facilities available to it at home."

It is unsurprising, therefore, that within his first few months in office, President Yar'Adua announced his intention to overhaul the government apparatus concerned with the industry's development. The OGIC was reconvened by Yar'Adua, under the chairmanship of former OPEC Secretary-General Dr. Rilwanu Lukman, and charged with unbundling the NNPC's vast bureaucratic operations. Besides managing government interests in its joint ventures with multinationals such as Shell, Chevron, Exxon Mobil and Total, the NNPC, as it stands, has a further 12 strategic business units, covering the entire spectrum of oil industry operations, and is closely tied to the Ministry of Petroleum Resources and its regulatory arm, the Department for Petroleum Resources (DPR). The essence of the National Oil and Gas Policy that emerged from OGIC's efforts is a focus on separating the commercial institutions in Nigeria's oil and gas sector from the regulatory and policy-making institutions. The NNPC must also unburden itself of all auxiliary units.

Yar'Adua visualizes the NNPC reborn as a private-sector company that will "grow and compete with other international oil companies, with the capacity to use its assets and credit from the market to become an international operator in the sector." Importantly, independence from the government could provide to the national budget relief from the industry's funding problems and the ongoing dispute over cash calls for its joint ventures with multinationals. It is expected that the new NNPC would initially be wholly owned by the government, which would later divest its interest in the company and open it to public investment.

Other proposals put forward by the OGIC include the creation of a National Petroleum Directorate to replace the Federal Ministry of Petroleum Resources, the replacement of the DPR with the Nigerian Petroleum Directorate, and the replacement of the PPPRA, which regulates the downstream industry, with the Petroleum Products Regulatory Agency. With this increased autonomy, many observers are hopeful that the new regulatory agencies will have the greater capacity required of them and act in a more transparent manner. Such transparency, says Alhaji Aliyu Sabonbirini, DPR acting director, will give equal access to opportunities and "a level playing field to all players in the industry, as well as boost local capacity and encourage indigenous companies."

"Overall, these are good measures to implement," comments Franklin Erebor, head of energy at United Bank for Africa. "While some people say that it's just about the nomenclature—that the name changes, but the substance remains the same—it represents new thinking and we see it as a new beginning." When the proposals will begin to be implemented, however, remains unclear. "This was all supposed to have happened within six months of the commencement of the new regime," notes Erebor. "There is still a question mark as to how and when it will work out, so we'll have to wait and see." The OGIC finally submitted its report in August 2008 and is likely to be the subject of a lengthy legislative process before implementation can begin. □

The Dorman Long fabrication yard in Lagos is a significant service provider.

A Push for Local Content

Despite Nigeria's long history of oil exploitation, indigenous companies have been slow to seize opportunities. Recent efforts to stimulate local content are bearing fruit.

During more than half a century of commercial operation, the Nigerian oil and gas industry has spawned four refineries, three petrochemical plants, over 5,000 kilometers of pipelines, six LNG trains, four FPSOs, hundreds of oil platforms, thousands of wells and flow-stations, and the acquisition of millions of square kilometers of seismic data. In the last 20 years alone, the industry has generated an estimated $300 billion in total revenues, while industry spending has increased to some $12 billion annually over the last five years. Despite this activity level, however, until recently Nigeria had very little to show for its investment in terms of local capacity and opportunities for indigenous participation.

In 2003, the value of work domiciled in Nigeria was as low as 5%. International oil companies (IOCs) have tended to favor their international counterparts in the service sector, which were known and proven entities. Hamstrung by poor access to both technology and funding, as well as the closeted way in which business was being done in the sector, local companies were left struggling to make a significant impact.

"The long-term domiciliation and domestication of all phases of oil and gas technology and resources is critical to the country's development," says Henry Okolo, CEO of Dorman Long, a Nigerian engineering, procurement and construction (EPC) company. "Value capture within the industry requires continued attention, and until the fundamental issue of Nigerian content development is fully addressed, the strategic contribution that our industry can make to national economic, technological and security development will not be realized."

The government's main thrust in its effort to open up opportunity was manifested in its Nigerian Content Development Policy (NCDP). Given as a directive, in 2005, the NCDP seeks to build indigenous capacity to participate in the industry as well as to improve the sector's links with the domestic economy. The directive defines "Nigerian content" as: "The quantum of composite value added or created in the Nigerian economy through the utilization of Nigerian human and material resources for the provision of goods and services to the petroleum industry within acceptable quality, health, safety and environment standards in order to stimulate the development of indigenous capabilities." Targets were set to increase the amount of annual spending domiciled in-country to 45% by 2006 and to 70% by 2010. Accompanying the targets were domiciliation guidelines that set forth the scope of services that must be performed in Nigeria to achieve the targets. These services include engineering design, fabrication, wells and drilling, operations and maintenance, manufacturing, shipping and insurance. Nigerian content is fast becoming the industry's buzzword, and commitments to its improvement are regularly proclaimed, from the IOCs to the financial sector. But, the question remains: What progress has been made, and is there sufficient capacity

A ship pulls up to Snake Island, Lagos. Indigenous participation in the industry is a challenge, and a government goal.

"The long-term domiciliation and domestication of all phases of oil and gas technology and resources is critical…," says Henry Okolo, CEO, Dorman Long.

within the Nigerian service sector to meet NCPD targets without compromising project delivery?

The directive does appear to have had an impact on the industry landscape. More Nigerian companies are engaged in the industry than before, and many credit their existence to the call for greater Nigerian participation and the directive's framework.

Recently established Flowline is one such business. "The company's conception was based on the clamor to have indigenous service companies for the oil and gas sector and the domiciliation effort on the part of the government," says Bola Adeosun, CEO. In just over a year, Flowline has established itself in the market as a provider of engineering design, project management, procurement and the supply of technical man-power.

"The Government is really trying to help the indigenous companies," says Dapo Oshinusi, managing director of Mansfield, a Nigerian service company specializing in well completions and sand control. "Although there are those that have failed, many are doing well and some are really exemplary companies. It will take some time for the indigenous companies to reach the same level as the major multinational companies, though there remain plenty of opportunities for the indigenous companies to grow."

Mansfield now controls 70% to 80% of the sand control market in Nigeria. Its strategy has been to partner indigenous technologies with more sophisticated technologies adopted from leading international companies.

Clearly, access to world-class technology is crucial if indigenous companies are going to grow their market share. But government policy still falls short in this area, says Cletus Onyekwere, managing director of Weafri Well Services. "The government needs to do more to introduce the kind of technologies used by the multinationals into the local content domain," he says. "If these technologies can be provided to the indigenous companies at affordable or subsidized rates, we will be able to improve and develop on these technologies for the benefit of the oil and gas sector."

Other companies boast that they already offer best-in-class technology, yet complain that they are overlooked when it comes to receiving orders for the big jobs. The larger Nigerian EPC companies, in particular, have made huge investments in recent years, but their fabrication yards are operating at nowhere near full capacity. Manssour Jarmakani, managing di-

The government needs to do more to aid technology efforts, says Cletus Onyekwere, managing director, Weafri Well Service.

Manssour Jarmakani, managing director of Niger Dock, says Nigerian content must be more than just rhetoric.

WAV

West African Ventures

The Sea Trucks Group can offer key strategic marine assets as a 100% Nigerian owned and operated business. This will bring many new technical and commercial benefits to the Nigerian market and to other regional markets in West Africa.

Jascon 28
TOTAL - Akpo field, Nigeria

Since entering the Nigerian market in 2000, the company's results have been remarkable, says Femi Omotayo, managing director, Orwell International Oil & Gas.

rector of Niger Dock, which has one of the country's largest fabrication yards, says that Nigerian content has to be more than just rhetoric: "We have done all that is asked of us, and more besides. We are passionate about developing Nigerian content, but at present we are only just getting enough work to survive." Hope rests on the NCDP becoming law (and sooner rather than later), delivering reforms that will secure much-needed work and justify the investments that Nigerian companies have made.

According to NNPC Group Managing Director Alhaji Abubakar Yar'Adua, the level of Nigerian content now stands at around 33%. This is certainly an improvement on the estimated 5% to 14% level of 2006, but it is still far below the policy target of 50%-55% by 2008. Odein Ajumogobia, Nigeria's minister of energy (petroleum) acknowledges that although the Nigerian content initiative has recorded some achievements, "huge gaps of opportunity remain yet to be bridged," and the country would be "hard-pressed" to reach the target of 70% local content by 2010.

The NNPC's Nigerian content vision is ultimately to position the country as the hub for service delivery within the West African sub-region and beyond. While this vision has not yet been fully realized, numerous Nigerian service companies are already proving themselves beyond the Nigerian border, and more are expected to follow.

"Definitely, service companies will continue to grow out of Nigeria," says Femi Omotayo, managing director of Orwell International Oil & Gas, one of the leading indigenous companies in well construction. Since entering the Nigerian market in 2000, Omotayo says that the company's results have been "remarkable" and that the plan is now to go international in 2009. "Our long-term vision is to provide a one-stop-shop for the provision of drilling tools and well services throughout West Africa and beyond." Such ambition is a sign of health and signals that the sector holds significant opportunity for investors. "The opportunities might be grossly proportional to the challenges we face," says Omotayo, "but I see a bright future for the Nigerian oil and gas service sector, and now is the time to come and partake in it." □

Valentine Obidi, a deputy and managing director of Emval in Nigeria.

Growing E&P From Within

Nigeria's indigenous E&Ps merit a second look from investors and from foreign E&Ps looking for partnerships in the region.

The majors' dominance and Nigeria's imperative to see the NNPC brought into line with other independently functioning national oil companies mean that when it comes to exploration and production, the country's indigenous sector is often overlooked. Nigeria is, in fact, home to several of the leading indigenous E&P companies on the African continent. Many more, besides, might merit a second look from investors and from any foreign E&Ps looking for partnerships in the region.

"In terms of its resources, Nigeria offers unique opportunities," says Dr Ayodeji Oluokun, managing director of Peak Petroleum Industries Ltd., a small Nigerian E&P. "The landscape has similarities to that of the U.S. industry in the early 1920s, with wildcatters going out and finding success. Independents are going to play a much more important role, and we are already starting to witness the multiplier effect that successful indigenous companies are bringing to the country's economy." Peak is initially looking at producing from three oil wells due to come onstream in 2009.

Policies aimed at building an indigenous E&P sector in Nigeria date back as far as 1969, with some of the more established indigenous companies now more than 15 years old. "In lots of ways, Nigeria has done more than many other African countries in encouraging domestic E&P capacity," notes Austin Avuru, managing director of Platform Petroleum, which is seen as one of the industry's rising stars. Avuru, however, also believes that more support is needed in order to further nurture the sector and provide the framework required for companies to achieve sustained growth.

With funding challenges and limited access to credit, the easiest way for indigenous companies to develop their acreage is through finding a suitable financial/technical partner.

While this particular model is helpful in lessening a company's exposure to risk, it does relatively little in terms of building capacity and technological capabilities. To avoid Nigerian companies simply becoming "commissioning agents" for foreign outfits, Avuru believes that they need "help in building capacity to plan and execute their own growth programs." He points to companies like Niger Delta Exploration & Production and Conoil, both of which have achieved notable success in developing their own acreage, as strong evidence that effort over the long haul can be well rewarded.

Conoil currently tops the production chart for indigenous African companies. Although last year vandalism reduced output from a peak of 48,000 barrels of oil equivalent per day (BOE/d) to 29,000 BOE/d, Dr. Ebi Omatsola, the company's managing director, says the growth trend that Conoil has enjoyed over recent years is on course to continue. "Our goal is to increase our capacity to 100,000 barrels per day (bopd) by next

Workers at Weafri Well Services' Port Harcourt fabrication yard.

year and to a further 150,000 bopd over the course of 2010," he states—adding that a public offering further down the line is likely.

Niger Delta Exploration & Production, meanwhile, has seen its market value rise over the last eight years from $10 million to $500 million, though it was not all smooth sailing, as Dr. Layi Fatona, the company's managing director, recalls. "We acquired the land in 2000 and it took until 2005 to secure the final $6.5 million required to develop the lease, and that was at an interest rate of 27%. Then, the price for crude oil was $17.50 per barrel, and so we might only have broken even. However, by the time we started production on our first field in October 2005, the price of crude oil had gone up to $40 per barrel, and it became clear that we could offset the loan—one year on, and we were producing 15,000 barrels a day!" Vindication indeed.

Fatona says that, in 2009, the company aims to again double production and also hopes to achieve zero flaring. "We intend to build a gas plant, which will definitely increase the volume of our revenue and put us on an elevated position in the industry." Niger Delta's breakthrough was becoming operator of the Ogbele and Omerelu fields, which the company obtained by farming-in on the NNPC/Chevron joint venture's oil mining lease (OML) 54 and 53. By taking under-used acreage out of the hands of a major, the company also paved the way for one of the government's key initiatives in recent years to build capacity in the sector: its marginal fields program.

A barge at work at Niger Dock's Snake Island facility.

"Essentially, marginal fields are those where production was not economical to the majors who held the acreage and were subsequently left underdeveloped," explains Collins Kalabare, managing director of Bayelsa Oil Co. "They do, however, present a good opportunity for indigenous companies like ourselves to get an important foothold in the industry."

Hoping to create a platform for other indigenous companies' growth, the government compelled the majors to farm out to Nigerian companies other fields they considered marginal. In 2003, 24 such fields were made available and, from a pre-qualification stage attracting about 300 companies, leases were awarded to some 30 local companies. According to Dada Thomas, managing director of Frontier Oil, one of the program's successful participants, the bidding run for the marginal fields was "the most transparent, rigorous and professionally conducted bidding round seen in Nigeria over the last 10 years."

Almost six years later, however, most companies are still finding it hard to emulate Niger Delta's successes. Only three fields have been brought onto production and, while several marginal field operators seem confident of success in the coming months, it appears it will be 2010 at least before the majority come onstream, if at all. Several companies have struggled technically to come to grips with the geology of their newly acquired leases, while others have been experiencing difficulties handling business aspects. One CEO comments that his lease proved to be "more infeasible than marginal. The data quality was poor

The bidding round for the marginal fields was "the most transparent, rigorous and professionally conducted bidding round in Nigeria over the last 10 years," says Dada Thomas, managing director of Frontier Oil.

from the beginning. If I'd known that the data was going to be that poor, I would not have chosen that field."

Platform Petroleum is widely regarded as the most successful company to emerge from the marginal fields program, with an output already in excess of 3,000 BOE/d. Of course, Managing Director Avuru acknowledges that securing finance can prove to be tough at times, but "really understanding the geology and building the team to exploit it effectively is the key."

"The vision we had in mind was to use Emerald as a vehicle to attract Nigerian talents back home," says Dr. Jude Amaefule, chairman and CEO, Emerald Energy Resources.

Developing the right sort of personnel for smaller E&P operations is undoubtedly one of the sector's challenges, but one that appears to be well within Nigeria's grasp.

"There are many quality Nigerian engineers and geologists all over the world: in Saudi Arabia, Ecuador, Gulf of Guinea, North America, etc.," comments Omatsola. "Now is the time for Nigerians abroad to come home with their money and invest—not to represent some foreign investor, but to manage their investments themselves and develop the industry."

Dr. Jude Amaefule, chairman and CEO of Emerald Energy Resources, could not agree more. As only the fourth African ever to be made a Distinguished Member of the Society of Petroleum Engineers, Dr. Amaefule has enjoyed an illustrious career in the oil industry, mostly spent overseas. But it was the potential he saw for greater indigenous participation in E&P that finally brought him home. Emerald was one of the earliest indigenous companies to win a concession based on professional merit alone and is now well established as a leading indigenous player, with one of the most respected management teams in Nigeria.

But what motivates Dr Amaefule has remained constant: "The vision we had in mind was to use Emerald as a vehicle to attract Nigerian talents back home," he says. "I still regularly travel to the States, urging the Nigerian VPs and managers, who you find everywhere, to come back and impart their knowledge to the younger generation. It is vital to start building this knowledge in Nigeria now. Success has been demonstrated, and the opportunities for indigenous companies are only going to increase."

Fatona concurs: "It is not impossible that, in five years, indigenous companies could be producing up to 25% of the country's annual production." ☐

A Vision Takes Shape for the Gas Province

Motivated by rising international demand for natural gas, and realizing the potential of greater domestic natural gas utilization, the country's focus on managing its natural gas resources has sharpened significantly.

For much of Nigeria's history as a major oil-producing country, natural gas has been treated as little more than an unwanted side product. Weak domestic gas demand and resulting poor monetarization opportunities from its production have meant that gas associated with oil production was simply flared off, at the highest rates in the world.

"Nigeria earned itself the unenviable title as being the highest gas-flaring nation in the world," laments Dr. Chris Ogiemwonyi, president of the Nigerian Gas Association (NGA) and also the Nigerian National Petroleum Corp.'s (NNPC) group executive director of E&P. It is a scenario that greatly tarnished the country's environmental record, did considerable damage to the industry's relationships with local communities and further agitated militancy in the delta region. It was also seen as the negligent waste of a resource with great potential for the country's economic development. "The amount of gas flared annually would be capable of generating over 12,000 megawatts of electricity. This is badly needed to catalyze the growth of Nigeria's economy and end the economic, social and environmental woes of the generality of Nigerians," Ogiemwonyi continues. He points to industry data revealing that, from 1970 to 2006, the flared-off gas totaled about $72 billion, or an average of about $2.5 billion per annum.

"When the wider effects of the environmental, economic and social consequences are factored into this estimation, we could be discussing numbers in the region of $150 billion."

Flaring of associated gas has been declining in recent years, from almost 70% of associated gas five years ago, to below 40% today. This equates to roughly 0.7 trillion cubic feet (Tcf), though progress has fallen someway short of the government's target deadline to end all gas flaring, by year-end 2008. According to Charles Adeniji, executive secretary of the Oil Producers Trade Section of the Lagos Chamber of Commerce, which represents the majors to government on collective issues, "Flaring is projected to decline to the minimum practical level, which is about 4% of total associated gas production, by 2012."

That Nigeria's gas resource was neglected for so long is all the more shocking when one considers the fact that Nigeria, with over 187 Tcf of proven reserves, contains the world's seventh-largest gas resource and the biggest on the African continent. What's more, the current gas reserves have been determined attributing little, if any, to dedicated exploration for gas. As Kingsley Ojoh, out-going president of the Nigerian Association of Petroleum Explorationists explains, "What are regularly quoted as Nigeria's gas reserves are merely the incidental finds in the course of exploring for oil. In the past, the industry has systematically avoided drilling for gas."

A U.S. Geological Survey study estimates that Nigeria's gas reserves could be as high as 600 Tcf, which would rank Nigeria as the fourth-largest holder of natural gas reserves in the world, surpassed only by Russia, Iran and Qatar. Accordingly, the saying that "Nigeria is best viewed as a gas province, with a drop of oil" becomes increasingly relevant. Motivated by rising international demand for natural gas—estimated to increase by one-third by 2015—and realizing the potential of greater domestic natural gas utilization, the country's focus on managing its natural gas resources has sharpened significantly. The present administration is now eager to develop Nigeria into a major player in the gas-processing market, a market with the potential to underpin both export and non-oil industrial growth.

Pressure vessels at Dorman Long's Lagos fabrication yard.

With its gas having "0% sulphur" and rich in natural gas liquids, Nigeria is already well placed in terms of competing for the export market. The Bonny Island plant belonging to Nigeria Liquefied Natural Gas (NLNG, in which NNPC holds 49% interest, Shell Gas holds 25.6%, Total 15%, and Eni International 10.4%) is one of the world's fastest-growing LNG facilities. It currently uses six operational trains, with a seventh, scheduled to come online in 2013, having a planned capacity of 8.5 million tones/year of LNG and 2.1 million tonnes/year of natural gas liquids (NGL). In addition to NLNG, Brass LNG Train 1 and OKLNG trains 1-4 are also scheduled to start up in 2013. All are expected to reach peak production of 11 billion cubic feet per day in 2014, according to NNPC.

Such activity is putting Nigeria on track to become the world's second-fastest-growing LNG supplier in the world, after Qatar. Furthermore, the West Africa Gas Pipeline, with an initial capacity of 200 million cubic feet per day (MMcf/d) and expected to increase to about 460 MMcf/d by 2026, is due on-line in early 2009. The

Sikiru Rufai is a group facilitator for Honeywell Oil & Gas in Nigeria.

NNPC is also in talks with Algeria's Sonatrach to provide gas for the jointly proposed 1,300-kilometer Trans Saharan Gas Pipeline (TSGP), which would link Nigeria to Europe's gas grid.

The government maintains a strong desire to balance export growth with enough supply for the domestic market, though it appears that rising demand in both arenas is likely to outpace supply in the near future. According to Dr. Emmanuel Egbogah, the special assistant to the president on energy matters, the domestic gas market is also undergoing a significant transformation. "From a low level of utilization of about 500 MMcf/d in 2000, the domestic market is expected to see an unprecedented growth in utilization. Unrisked demand is as high as 10 billion cubic feet daily by 2015." Include uptake from Nigeria's developing power sector, and Egbogah thinks that if the utilization potential is realized, the gross domestic product impact of the gas sector will "be unprecedented and could catalyze a major economic growth trend for Nigeria."

Egbogah identifies "three key challenges" facing the Nigerian gas sector, namely: management of reserves growth so as to equitably balance export and domestic consumption (IOCs are believed to tend towards production for export); development of a viable commercial framework to incentivize production; and transformation of the country's currently inadequate gas infrastructure and transmission networks. "These all have a strong impact on the ability of the sector to supply gas as rapidly as market opportunities dictate," he says. Tokunbo Amosu, COO of Honeywell Oil & Gas, notes that, "though a percentage of LPG has already been designated for local use, unfortunately, this has not been taken up fully by the domestic market because the capacity, and the backbone to develop those capacities, is not there."

This, however, presents an opportunity for companies such as Honeywell, which is in the midstream sector, to exploit. "There is a lot of pressure on the IOCs to make gas available for domestic consumption, and we are starting to look to develop partnerships with operators to see how we can take their excess gas and get it to consumers. Six to seven years from now, that will be the way to go. A lot of effort has been made with plans for the development of the gas sector and it appears that for the first time there is the political will to make work," Amosu adds.

The domestic gas market is undergoing a significant transformation, according to Dr. Emmanuel Egbogah, special assistant to the president on energy matters.

The government has laid out its strategy to confront these issues in its Gas Master Plan, which, after two years of planning, was initiated in 2008. According to Egbogah, "The Gas Master Plan provides a structured and holistic framework for enhancing gas availability and the sustainability of supply in Nigeria." Many in the sector are hopeful that, after so many years of neglect, Nigeria's gas resource has the vision it deserves. ☐

The Deepwater Frontier

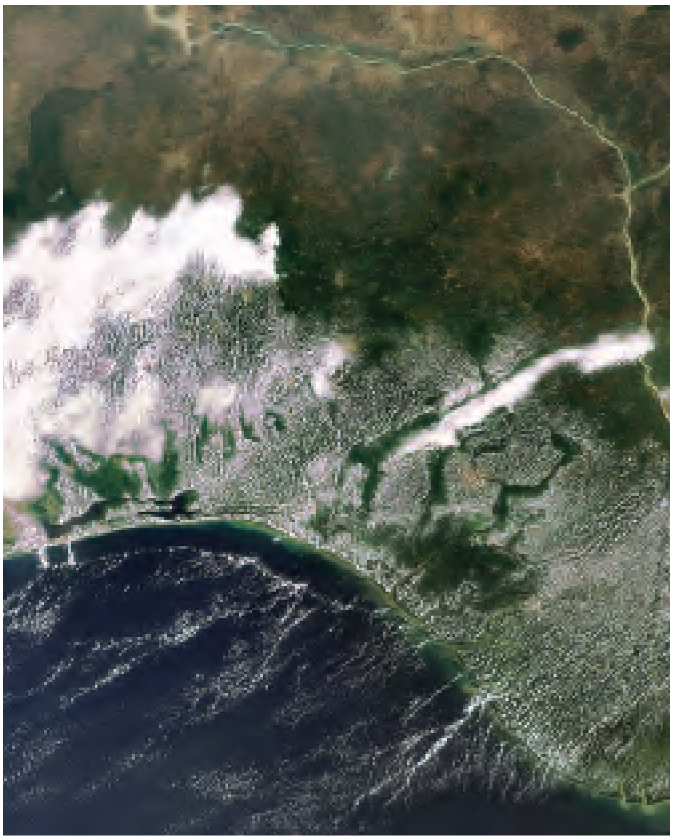
As Nigeria and Angola battle it out for the spot as Africa's top producer, focus is shifting away from the Niger Delta's swamps and creeks and out to sea, to the sedimentary basins lying in deep water.

Since the turn of the millennium, when Total's Girassol in Angola became the world's first deepwater project to begin production, deep offshore developments have become more commonplace. Nigeria's offshore activities now join Angola's as one of the foremost frontiers of offshore development worldwide. "The Nigerian offshore represents a world-class resource and a tremendous opportunity for the future of the Nigerian E&P sector," says Dr. Andre Uzoigwe, former group executive director (E&D) of the NNPC and now chair of Millennium Oil & Gas, an indigenous producer.

Exploration activities in the Nigerian deep offshore date as far back as 1993, although first production didn't begin for another decade. In 2003, Agip Exploration, operating in Abo Field, began producing 23,000 barrels of oil equivalent per day (BOE/d). Oil is now flowing from a number of offshore fields, which together account for close to 500,000 of Nigeria's 1.7 million BOE/d of production. Significant landmarks in development include Shell's Bonga Field, operated by its deepwater subsidiary SNEPCO, which came onstream with an additional 218,000 barrels, and ExxonMobil's Erha Field, where, by early 2008, production had reached close to 250,000 BOE/d. With first oil achieved from Chevron-operated Agbami Field in July 2008, and an extra 225,000 BOE/d due to come online from Total's Akpo Field in early 2009, it is expected that total production will exceed 1.2 million BOE/d by 2010. The industry, and indeed oil prices, received a shock last June when militants demonstrated a previously unknown ability to disrupt production offshore by attacking Shell's Bonga Field facility, temporarily locking in more than 200,000 BOE/d. However, the sheer scale of the resource means that for most international oil companies, the Nigerian offshore is simply somewhere they must be.

The technical challenges and capital intensity of initiating offshore projects mean that offshore development is, of course, well suited to the majors' skill sets—but not exclusively. Calgary-based Addax Petroleum, one of the best-known independents operating in the Gulf of Guinea, last year achieved 60,000 BOE/d from OML123, while indigenous representation offshore is also increasing. Last year Nigeria's Oriental Energy Resources Ltd. formed a partnership with Afren International to develop Ebok Field. And leading indigenous producer Conoil has, since 2005, been the operator of deep offshore license OPL 257.

"Conoil was the first Nigerian company to be granted an offshore license and is currently the leading indigenous producer of oil in the whole African continent," notes Dr. Ebi Omatsola, managing director of Conoil Producing. "Our philosophy is to acquire and disseminate knowledge, and by using our collective wealth of experience and expertise, I'm confident that we'll experience success offshore too and can pave the way for other indigenous companies to have greater involvement." ☐



An aerial view of Nigeria.

Solving Funding Challenges

Nigeria's inability to fund its share of joint-venture oil projects must be addressed in order for it to maintain output at current levels. Efforts are under way to help.

There is no doubt that militancy in the Niger Delta has been a major factor in keeping the country well below its production capacity of 3 million barrels of oil equivalent per day (BOE/d). But, without urgent redress of shortfalls, many fear that it will be funding issues, in particular Nigeria's inability to fund its share of joint-venture oil projects, that will present the greatest challenge in coming years to maintaining output at current levels in coming years.

The state-run Nigerian National Petroleum Corp.'s (NNPC) persistent inability to guarantee timely funding for JVs with the majors has become as damaging to the industry as any other factor. In November 2008, the NNPC remained in discussions that had begun in May with several of its foreign oil partners to finalize billions of dollars in financing meant to cover its costs for the 2008 JV budget. "The funding issue creates uncertainties. There is proposed coverage for 2008, but beyond that, we need to work with the government," comments John Chaplin, managing director of Exxon's subsidiary, Mobil Producing Nigeria. "It is important that the government comes up with a longer-term solution."

In May 2008, the NNPC had announced a package of deals under "carry agreements" worth around $6 billion, meant to plug immediate funding shortfalls in its JVs with Shell, Exxon Mobil and Total. Through carry agreements, the international oil companies (IOCs) would loan money to the NNPC to fund its portion of the projects. However, such deals can only be a short-term solution and, furthermore, negotiations over details dragged on, leaving NNPC funds tight and barely sufficient to finance even some basic operating costs. A lower oil price and deteriorating global economy appear likely to exacerbate the NNPC's funding woes further into 2009.

Since his inauguration in May 2007, President Umaru Yar'Adua has been eager to bridge the funding gap in the oil industry through private-sector financing. "Government, feeling the pressure in meeting its millennium development goals and with other budgetary commitments, has taken the attitude that 'this (oil and gas) is a very profitable business; we do not have to fund this business—let this business attract the type of finance best suited for it and on its own merit,'" explains Franklin Erebor, head of energy at United Bank for Africa. Yar'Adua proposed legislation in August 2008 to restructure the NNPC so that JVs could raise money through capital markets, instead of relying solely on the government. NNPC spokesman Levi Ajuonoma argues "this will enable NNPC to pay on time and reliably, without cash calls."

Trickle-Down Effect

Others fear, however, that the time lag involved in passing any legislation and implementing it is likely to have an effect on output further down the line. Indeed, the *Financial Times* last year noted an internal Nigerian government progress report warning that if the government failed to boost investment in JVs with foreign energy companies, production could decline further, perhaps by up to a third. That would be devastating for sub-Saharan Africa's second-largest economy, because the oil sector provides about 80% of federal revenue. The trickle-down effect may already be felt, as smaller oil service companies complain that with capital expenditure all but dried up at the major JVs, they are losing business too. Some observers argue that it is simply a case of the IOCs being greedy and trying to pressure the government into providing funds instead of parting with any of their own record profits. Nevertheless, the IOCs are displaying a strong show of unity in their dissatisfaction with the current situation.

The oil-producing trade section (OPTS) of the Lagos Chamber of Commerce and Industry, which represents the joint concerns of the IOCs to the government, has highlighted the funding problems being experienced in the industry. Basil Omiyi, OPTS chairman as well as the country chair of the Shell companies in Nigeria, declares that "for the smooth running of the oil sector in the country, there is a need for fiscal conditions that are stable, balance risks and reward for the investor, and also yield an economic rent to the host country." He said this scenario is also the best way for Nigeria to meet its oil-and-gas objectives of growing reserves to 40 billion barrels by 2010 and growing production to 4.5 million barrels per day.

According to OPTS, the JVs need a total of between $15 billion and $20 billion per year to ensure that production continues to increase at their oil fields. Since NNPC is a 55% or 60% shareholder in each operation, its share of 2008 JV funding is estimated at $8.8 billion. The company has provided $4.9 billion from the government budget, with the remaining $3.8 billion to be raised from the private sector. □

A New Dawn for Banking

The Central Bank of Nigeria's reform measures have prompted a "flight to quality."

Despite uncertainties surrounding the government's relations with its JVs partners, the Nigerian oil and gas industry is starting to benefit from an extensive overhaul of the country's banking sector. The overhaul promises to play an important part in bridging the industry's current funding gap and in offering increased support to the gas industry at large.

It is widely acknowledged that the Central Bank of Nigeria's (CBN) 2004 reform program heralded a new dawn for Nigerian banking and, since then, the sector has improved significantly. While the Nigerian banking system was formerly characterized by poor corporate governance, low economies of scale and weak asset quality stemming from reliance on public-sector deposits, the CBN's reform measures, though initially unpopular, have prompted a "flight to quality." Consolidation, which reduced the number of Nigerian banks from 89 to 24, was a central pillar of the reforms. As a result, several Nigerian banks now rate among the top 1,000 banks globally and are cementing themselves as some of Africa's leading financial institutions. "Certainly, due to the consolidation, Nigerian banks have emerged with unprecedented strength," says Mobolaji Idowu, group executive of oil and gas at Intercontinental Bank.

Lagos, the country's most populous city and headquarters for most banks, is in ascendency once again as the financial hub of West Africa. The Nigerian banking sector now has a capital base in excess of $20 billion, with 11 banks each with more than $1 billion in Tier 1 capital, and some of which are reportedly considering listing on major international exchanges Shareholders funds, which increased from about $1.6 billion in 2003 to about $12.5 billion in 2007, signifying 670% growth, are just one indication of why Nigeria has the fastest-growing banking industry in Africa. Piggybacking on the strength of the Nigerian economy as a whole, the banking sector is one of the fastest-growing in the world.

"If you look at our story this year, from the group's perspective, we are now by far the best business we have in Africa," comments Chike Onodugo, head of energy for Standard Chartered Bank in Nigeria. "Right behind India and China, we are seen as the major emerging market for Standard Chartered Group. It's a gross domestic product play, and in sub-Saharan and southern Africa, you are looking at South Africa and Nigeria. Those are the main areas where the bank is really looking to grow now." Despite the global economic slowdown, the World Bank predicts 8% non-oil growth for Nigeria, while the economy as a whole is again expected to grow at close to 9%.

Standard Chartered, like other international banks, may be viewing Nigeria as a unique platform for growth, but conversely, several of the leading Nigerian banks are looking the other way and seeing opportunities beyond the country's borders. Known as "Africa's Global Bank," United Bank for Africa (UBA) already has a clientele of more than six million customers and is unique in being the only Nigerian bank with an overseas presence in New York and London. According to the bank's Franklin Erebor, head of energy, UBA will continue expanding its presence overseas besides developing its capabilities in the Gulf of Guinea region, where it is one of the leading players already: "Expanding our operations in this way allows us to draw

Equipment manufactured by Niger Dock, an indigenous firm.

"Consolidation has strengthened the capacity of Nigerian banks…," says Oti Ikomi, executive director of fast-growing Oceanic Bank.

from the best talent globally and better serve our customers in the conduct of their business internationally." Furthermore, Nigerian banks are establishing strategic alliances with correspondent banks internationally and positioning themselves to take a greater share of foreign investment into the country.

Yet, despite seeking further integration into the world economy, Nigerian banking remains fairly insulated from the prevailing negative global economic trends. Indeed, as counter-intuitive as it may seem to many, a global economic report by investment bank Merrill Lynch in late 2008 rated Nigeria as the safest of 60 economies, based on indicators such as current account financing gap, foreign-exchange reserves, short-term external debt ratio, exports-to-GDP ratio, private-credit-to-GDP ratio, private-credit growth, loans-to-deposits ratio and banks' capital-to-assets ratio.

There have been rumors of problems spreading through some of the country's weaker banks, but these have been firmly rebutted by the CBN's Governor, Professor Chukwuma Soludo, the man who oversaw the 2004 reforms. He believes that the recapitalization and strengthening of the banking system over the last few years has placed Nigerian banks in a position of relative safety and, indeed, preempted many of the measures being undertaken in other, supposed more-developed, markets. "From where we see our banks today and the contingency plans that we have in place, no Nigerian bank will fail," he insists. "With whatever facility or anything any bank requires, the CBN, in any case, will play its role as a lender of last resort."

Importantly for the oil industry, which is the largest contributor to national output and provides the backbone of the country's annual budget, consolidation has strengthened the ability of Nigerian banks to play active roles in the financing of oil and gas projects. Aside from the shortfall in financing JV partnerships, the

"Within United Bank for Africa we are creating an 'energy bank', which capitalizes the essence of the bank's focus on the energy sector."
Franklin Erebor, head of energy

sector's funding requirements are huge, and Nigerian banks are rapidly trying to position themselves to embrace these opportunities with open arms. Since 2003, the extension of credit to the oil and gas sector has increased more than over 450%. According to the CBN report, total credit to the entire oil and gas sector as of 2007 was more than $10 billion, and most of it was to the oil sub-sector. The forthcoming development of the gas sector in Nigeria is estimated to take about $30 billion in financing over the next three years, and, with a Nigerian Local Content Policy targeting 60% financing from domestic institutions by 2010, oil and gas funding from Nigerian banks appears ready to continue to increase exponentially in the years ahead. "Consolidation has strengthened the capacity of Nigerian banks to finance mega-projects in the upstream and downstream sub-sectors of the Nigerian oil and gas industry, and we are well prepared to play an important role in support of the industry's developments," comments Oti Ikomi, executive director of Oceanic Bank, one of Nigeria's fastest-growing and most-capitalized banks with more than $1.7 billion in shareholders' funds. In developing its capacity to serve the sector, Oceanic Banks now has a desk solely dedicated to oil-and-gas-related financing. "This desk boasts seasoned professionals and experts that have direct knowledge and expertise in the sector and with oil and gas financing," says Ikomi. Likewise, UBA's Erebor says that his bank is devoting more resources to developing specialization in the oil and gas sector. "Within UBA we are creating an 'energy bank,' which capitalizes the essence of the bank's focus on the energy sector."

For an industry where a single project may involve funding requirements of billions of dollars, which is more than the capitalization of any single Nigerian bank, the answer more often than not still lies in syndication, though Nigerian banks are quickly increasing their capacity to go it alone. "Now, with an increased business scope and more financial muscle, banks are able to finance deals from $50- to $80 million, without syndication, in the sector," notes Festus Idowu, funds manager of Intercontinental Bank. This has particularly helped indigenous producers and local content providers with easier access to funds, although many smaller companies still complain that the cost of such funding remains too high.

"We now have several major banks that are well-equipped to serve the oil and gas industry. Nevertheless, the cost of funding remains very high, and the ability to attract foreign capital will remain very important too," explains Ike Okolo, managing director of Aquitane Oil & Gas Ltd., a fast-growing diversified Nigerian energy company. Another step in the right direction is an improvement in the banks' capacity to finance deals over a longer time frame. "Importantly for the E&P sector, which often requires long-term financing, banks are no longer limited to offering just 60-day or 90-day money," says Erebor. "Refinancing then also becomes more attractive, which of course has the beauty of being de-risked, to a degree, and therefore better pricing points can be introduced."

Nigeria may still be some distance from being able to fully finance its oil and gas sector, but at a time when many foreign investors have considered the risks of investing in the country's energy sector to be too high, the growth of Nigerian banking capacity has been timely. The role it can play in oil and gas development is significant. □