Corporate Finance/M&A - Nigeria

Private equity in Nigeria: an overview

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Introduction

Nigeria's increased economic growth, thanks to an improving business environment and political and economic stability, has boosted demand for goods and services and seen investors recoup higher rates of return on various capital investments, thus increasing the appetite for investment. Private equity (PE) and venture capital (VC) have gained in popularity in Nigeria as ways to finance business and projects in the country.

Any viable business seeking to commence or expand operations in Nigeria should consider PE and VC as potential finance sources. The emergence of various PE and VC firms in the country has ensured that there is a bridge between those seeking funds and potential investors. Businesses which successfully attract PE and VC investments are those that present a viable business and financial plan, a solid market opportunity, strong potential returns, a good management team and a reasonable investment exit strategy.

Africa Private Equity and Venture Capital Association conference

At the recent Africa Private Equity and Venture Capital Association conference held in Lagos, the general consensus was that PE is a desirable financing tool for Nigeria's large informal sector – especially as traditional means of financing are not usually available or easily accessible to companies in the early growth phase.

Nigeria has numerous sectors in which the PE and VC industry can thrive (eg, insurance, e-commerce, information technology, power, oil and gas, telecommunications, agriculture). Stakeholders at the conference were specifically interested in seeing Nigerian pension fund administrators (PFAs) invest more in PE, since recent results show their assets growing at the phenomenal rate of $250 million per month. The recently revised guidelines for PFAs provide that, to be eligible to invest in a PE fund, such a fund must be registered in Nigeria and have 75% of its assets invested in the country.

Regulation

The success of PE and VC funds in any industry in Nigeria relies to an extent on the regulatory framework within that industry. The Investments and Securities Act and the Rules and Regulations of the Security and Exchange Commission (SEC) also regulate domestic PE activity in Nigeria. No person (including fund managers) may operate in the Nigerian capital market as an expert or professional unless they are SEC registered.

The Companies and Allied Matters Act, which is implemented by the Corporate Affairs Commission, regulates the domestic entities that are created as vehicles to drive PE funds. According to the the World Bank's *Doing Business in Nigeria 2014* report, Nigeria recorded 34 improvements in its 'Ease of Doing Business' index, of which 13 focused on starting a business, eight on dealing with construction permits, 10 on registering property, and three on enforcing contracts. The World Bank also reported that it is now faster to register a new business with the Corporate Affairs Commission.

The Money Laundering (Prohibition) Act also aids in the regulation of PE activity. This act applies to all financial institutions, including fund managers, and requires them to report any suspicious transactions to the Economic and Financial Crimes Commission and the National Drug Law Enforcement Agency. Specifically, they must report:

- any single transaction or transfer of funds in excess of N1 million or its equivalent in foreign currency in the case of individuals; and
- any single transaction or transfer of funds in excess of N5 million or its equivalent in foreign

currency in the case of a corporate entity.

Corporate governance is industry dependent, but is largely provided for and monitored by agreement and constitutional documents between shareholders, subject to the Companies and Allied Matters Act. As an exception, financial institutions are monitored by the Central Bank and public companies are monitored by the SEC.

Arbitration also plays an important role in the quick settlement of disputes; as it makes businesses more comfortable with entering into agreements, it has greatly increased PE activity in Nigeria.

Market access

As well as helping entrepreneurs and business owners to access finance and support for their businesses, PE and VC have also opened a way for foreign investors to acquire a stake in industries to which they would not ordinarily have access. For example, securing a new operating licence for an insurance business in Nigeria is a non-option, as the National Insurance Commission (NAICOM) will no longer issue them. Therefore, new players in the insurance market – particularly foreign firms – have largely entered through mergers, acquisitions and partnerships, the most recent example being Old Mutual's arrival on the Nigerian market through the acquisition of Oceanic Insurance.

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