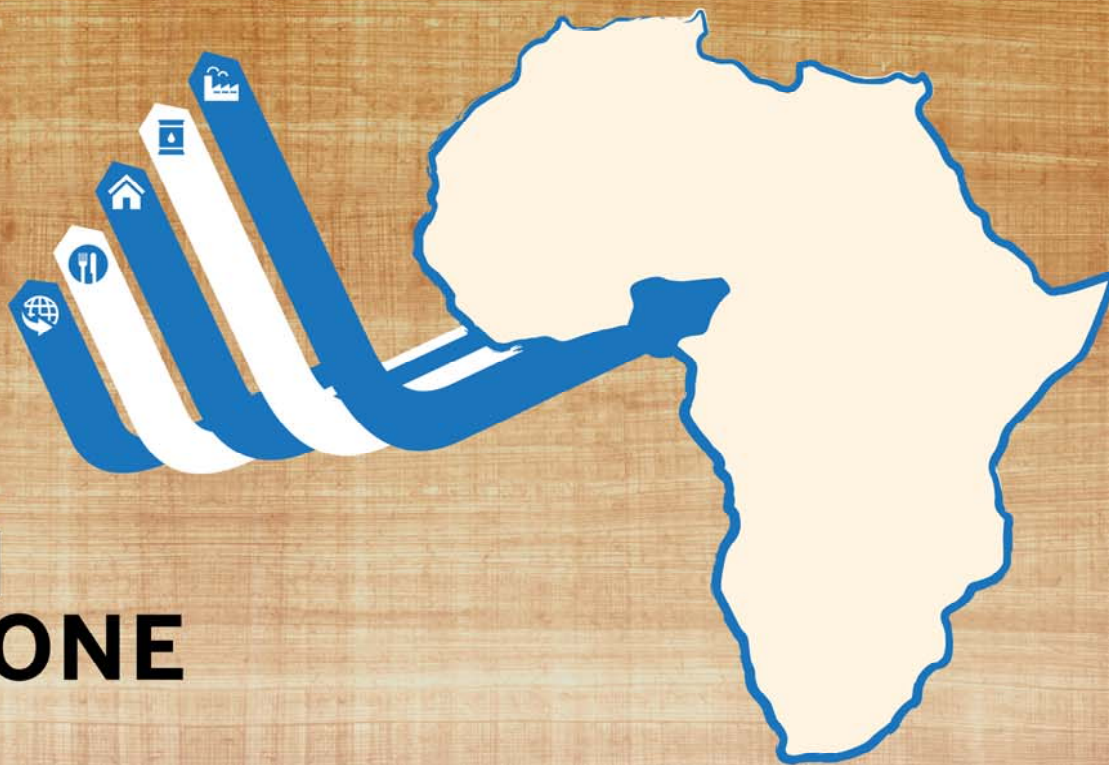


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INVESTING IN LEKKI FREE ZONE



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Moving up the value chain

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MOVING UP THE VALUE CHAIN

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INVESTING IN LEKKI FREE ZONE

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Introduction

My Lord, Members of Parliaments, Ambassadors & Head of Diplomatic Missions, Captains of Industries, distinguished Ladies and Gentlemen, Good afternoon.

I would like to thank the Financial Times (FT) for the honour of being invited to address this prestigious audience consisting of business leaders, entrepreneurs, financial institutions, private equity, media, potential investors, political representatives and wider stakeholders.

My thanks also goes to the other event partners; Corporate Leisure and off course, Lekki Free Zone Development Company (FZDC) team who travelled along with me in support of this event.

Having being proactively involved with Lagos State development over the last 40 years of my career, I have witnessed the positive impact of the transformation in Lagos State, and the wider impact across Nigeria.

These benefits have positioned Lagos State to be a leading state in Nigeria. They have also made significant contributions to the Nigerian GDP, making Nigeria an attractive destination for global investors seeking high growth returns.

It gives me immense pleasure to be asked to share my views on the economic potential of the Lekki Free Zone, as a great

opportunity for Nigeria to move up the value chain, and in the process, create a credible investable environment for investors.

Moving up the value chain

I was tasked to address the subject “How can Nigeria address the challenge of “Moving Up the Value Chain” as an emerging market?

A number of thoughts and ideas came to mind. I asked myself if the focus of my presentation should be on the provision of statistical information to demonstrate how investment potential in Lagos (e.g. investment in property resulting in 6,000% over 30 years), or if I should focus on the soft aspects of the facts adopting answers to specific questions which will concern potential investors).

I can assure you that I have chosen not to complicate the subject, and adopt a simple Q&A approach, which should help to address specific issues which will be of interest to all.

.....Overview of the Nigerian market

With the current Nigerian GDP growth rate in the top end of a single figure, close to 8% compared with the rest of the developed economy e.g. UK – recently announced 0.8% as good news, this conference is very timely, and should generate wide interest for investors and international business leaders.

One can take different approaches in delivering the subject, and given the time, one can spend the entire conference on addressing these topics.

Definition and explanation of moving up the value chain

However, before I delve into the subject, I took the liberty to see what “Google” says about the subject – “moving up the Value chain”. And here are some of the examples given:

Financial Times:

- “moving up the value chain means using business processes and resources to produce highly profitable products also known as higher-margin products”.

FT Lexicon Corporate Example:

According to a report by KPMG, chemical companies based in Europe will have to look at ways to avoid losing out to rivals from emerging markets.

As well as reducing the number of sites they operate, chemical companies based in Europe will have to look at moving higher up the value chain. This would mean focusing on the manufacture of specialist chemicals.

Another one:

A shift into specialist products, which are often tailored to meet the demands of individual customers, would move companies

away from manufacturing large volumes of base chemicals, where the high price of feedstock, such as gas, constricts profit margins.

Another definition for this term refers to:

“all the activities, from receipt of raw materials to post-sales support that together create and increase the value of a product. Value chain analysis is an important tool for evaluating a company's or country's competitive advantage

Since we now have an indication of what is meant to be moving up the value chain, perhaps by adopting an appropriate series of Questions & Answers, this should provide an insight to key issues associated with the subject.

What is to be achieved by moving up the value chain?

Depending on where you are in the nation economic development circle, you will have different views on what is to be achieved by moving up the value chain. In the case of Nigeria, this will mean;

- Trapping value creation through every stage of production
- Leveraging on available diverse natural raw materials and agricultural produce in the country;
- Having a strong domestic manufacturing base to create products which add value to the national wealth;

- Improve national public and private sector capacity;
- Having industrial strategy to create sustainable skill base;
- Less reliance on import and increase domestic capacity;
- Opportunity for export and increasing wealth creation;
- Improving national GDP and revenue generation capacity

Taking on board the different definitions offered by Google, and the outlined benefits of moving up the value chain, I decided to focus my presentation on three key areas of interest which should give us an insight into the subject. These are:

1. Economic diversification in Nigeria
2. Skills Development as Nigeria moves up the Value Chain; and
3. The Role of LFZ in Nigeria Growth Plans.

A quick view on each of the three areas should assist in moving the conversation forward.

Economic Diversification in Nigeria

--- what are the characteristics of the Nigerian economy

The main characteristics of Nigeria's economy are widely published in the FT, economic and other financial newspapers. As I recall, the FT recently published major coverage on Nigeria's market economy, and also featured coverage on Allhaji Aliko Dangote; the Chairman of Dangote Group, and the Forbes list richest Man in Africa.

However, as a quick reminder, the following are the key summaries of the characteristics:

- Main national income generated from Oil & Gas
- A population of 165 million with high youth population
- Highly qualified youth with limited work prospects
- Average 5 years GDP growth of 8%
- The largest country in Africa and strategically positioned

--- the need for diversification of the Nigerian economy

Obviously, the need for diversification is necessary. A country as big as Nigeria cannot depend on oil & gas sector for its future sustainability.

--- the Nigerian government's plans for diversification of the economy

Diversification of the Nigerian economy is a major priority of the Government. However, 40 years dependency on one main sector cannot be achieved overnight. Therefore, the following are the strategic areas I have prioritised:

- Energy sufficient in year 2030?
- Expand both hydro-carbon and renewable energy;
- Increase local production capacity and revenue generation
- Expand manufacturing base for both domestic and exports

- Expand services, Tourism and hospitality economy

--- what has been achieved in Nigeria so far?

With a more stable political and economic stability in Nigeria over the last 12 years, the following has been achieved:

- Stable foreign exchange market mitigating currency risk
- Energy deregulations and privatisation programme
- Regulatory Policy to promote local production & export
- Major investment in infrastructure, namely power supply and transportation
- Adoption of 3Ps (Public Private Participation)
- Creation of 26 Free Trade Zones across Nigeria
- Average 8% GDP in the last five years

--- example of bottle-necks

Some of the current bottle necks currently impacting the ability of Nigeria moving up the value chain are:

- Lack of effective dedicated Trade Zone to attract new FDI
- Longer registration start-up period for new entrants
- Transparency is still a major concern within the public sector
- Cost of Energy results in high cost of production
- Others

--- example of solutions to over-come current bottle-necks

There are many alternative solutions available to Nigeria. However, the most appropriate and relevant options, which could also generate quick wins for the market are:

- Move towards private enterprise to flourish
- Security of power supply and other infrastructure
- Appropriate regulatory framework to attract investment
- Creation of specific portfolio of Free Trade Zone with appropriate tax and simple operating structure to attract inward investors

-----Skills Development required as Nigeria Moves up the Value Chain

- Strategic investment planning
- Planning, development and construction skills
- Craft, Apprentice, Technical and operational skills
- Packaging, logistics and distributions skills
- Production and management skills
- Services and marketing skills
- Marketing and Customers services skill

--- How can the skills be acquired or created

This can be achieved through:

- Having good educational facilities and talent pools;

- Government leadership in having regulatory business environment to attract investment in manufacturing;
- Employment and training provided by manufacturing and assembly plants owners;
- Harness sustainable technical and management talents;
- Increasing local production of core good and services; and
- Joint venture with international technical partners to gain best in skill base

--- Specifics to the free trade zone

For the Lekki Free Zone, with the diverse business opportunity provided within the master plan, all of the above named skills will be relevant and valuable to the development, executions and management of the LFZ activities now and in the near future.

The Role of LFTZ in Nigeria Growth Plans

The strategic role of LFTZ in Nigeria's growth plans is best presented by reviewing the economic position of Lagos State and LFTZ aspirational goals and objectives:

Lagos State Economic Position:

- Lagos is the economic, financial and trade hub of Nigeria and West Africa.

- Located in the southwest of Nigeria and along the Atlantic Ocean, covering an area of 3,345 square km and has a coastal line of about 200 km.
- Population of over 15million people:
Classified as one of the “Mega-polis” of the world, and certainly one of the metropolitans which will equal the size of Sao Paulo in Brazil, and Bangkok in Thailand.
- Accommodates over 95% of financial institutions in Nigeria, and most multinationals operating in Nigeria
- About 60% of Nigeria’s industrial and commercial establishments are based in Lagos
 - o Accounts for 90% of Nigeria’s foreign trade,
 - o Accounts for 80% of total imports, and 70% of industrial investments in Nigeria.
- Commerce remains the hallmark of Lagos, with the potential to transform the development of the whole West African sub-region, thus this gives the impetus to establish the Lekki Free Trade Zone, a regional economic necessity in the most boisterous and economically active city in West Africa.

Strategic Location of LFTZ

- Lekki Free Trade Zone is strategically situated on a land area of 16,500 hectares in the Lekki Peninsula, southwest of Lagos,

Nigeria. It is bordered on the South by the Atlantic Ocean and, on the North by Lekki lagoon.

- The Ibeju-Lekki area is a new city under development in Lagos State, with an annual economic growth rate at 16.8%.

.....what are the LFTZ Goals & Objectives?

As one of the 26 Free Zones (FZ) created across Nigeria, the LFTZ was created to achieve the following goals and objectives for the Nigerian economy:

- To fully utilize the investment, business and tourism potential of Lagos State;
- To create a model city/mega-industrial city to cater for the increasing commercial and social activities in Lagos State which holds a tenth of Nigeria's population of 162million?
- To develop an overseas economic zone as a global business hub to attract international and local investments, through trade and export promotion;
- To create and encourage backward images and integration with foreign partners;
- To create an economic platform to facilitate the inflow of Foreign Direct Investment (FDI) of;

- o Effective and efficient Technology
- o Capital
- o Information Technology; and
- o Knowledge base

- The Lekki Free Trade Zone is to thrive in production, manufacturing, processing, sales, imports & exports trade.

- Heavy Industry;
 - o Automobile components manufacturing
 - o Light industries;
 - o Home appliances and electronics
 - o Textile and garment
 - o Agriculture and by-products processing;

- Oil and gas
- Shipping and logistics
- Research and development
- Commerce and trade
- Real estate

.....The structure of LFTZ

The structure of the LFTZ is much regulated, transparent, accountable, and is made up of:

- NEPZA – Nigeria Export Processing Zone Authority

- Lagos State Government (LSG) – Project Sponsor and Regulator
- Lekki Worldwide Investment Limited (LWIL) – An investment promotion Agency and Manager (SPV) for the Lekki Free Trade Zone in Nigeria
- Lekki Free Trade Zone – Assigned 16,500 Hectare of Land out of which 3,000 hectares is under development
- Lekki Free Zone Development Companies –Joint venture partners and investment companies

Contributions of LFTZ to the economy

Since formation of the LFTZ, the following progress has been achieved:

- Lekki Concession Company (LCC) has significantly completed the upgrade of the Lekki Motor Way to provide access to the Lekki Free Zone;
- Formation of Lekki Free Zone Development Company (LFZDC) between LWIL and Chinese Consortium with capital injection of over \$150m
- A number of Chinese enterprises have already commissioned manufacturing and assembly plants within the LFZ;
- A PPP Agreement has been signed with private enterprise for the development of a new Deep Sea Port at the Zone;
- A number of local Oil & Gas companies are in discussion with LFZDC with a view to develop Oil refineries plants within the LFZDC;

- A new PPP Agreement on Lagos-Epe International Airport is about to be appointed

Thus, Lekki Free Zone is strategically serviced by transportation network.

It is early days to measure the true impact of the Lekki Free Trade Zone on Nigeria's economy. However, evidence from the lists presented earlier, suggest that with continued drive for inward investment, and provision of the appropriate infrastructure within the Zone, significant contributions will be made to Lagos State, and ultimately, Nigeria's economy in the very near future.

Conclusions

Conclusions

This afternoon, we have reminded ourselves on what is meant by moving up the value chain, and the need for Nigeria, as one of the fastest growing emerging markets to achieve this objective, in order to maintain a sustainable competitive advantage, as the giant of Africa.

I have also presented the role of Lekki Free Zone (LFZ) as a catalyst, and engine of growth, to assist Nigeria to move up the value chain. This was done by reviewing the position of Lagos

State as the “STAR” Performer amongst other states in Nigeria, and in particular, how the contributions of LFZ could be the game changer for Lagos State, and Nigeria, as the attractive destination for inward investors.

Notwithstanding the media “Headline on the risk associated with Nigeria”, I would like to reassure you that Nigeria, and in particular, Lagos State and the Lekki Free Zone presents a fantastic opportunity for growth.

With added benefits of over 165 million population, coupled with the large potential skill capacity, GDP growth of close to 8%, and the opportunity presented by Lekki Free Zone as an attractive investment destination, I would like to conclude that Nigeria is, and should be able to move up the value chain by leveraging on the opportunity presented by Lekki Free Zone (LFZ) very soon.

Once again, I would like to thank the FT and the conference organisers for your kind invitation to present this paper.

And finally, I would also like to thank you ALL for listening to me.

-End-

Presented by

Otunba Olusegun Jawando

Chairman of: Lekki Free Zone Development Company