Manufacturing and Trade Sector

The Problem

Nigeria's manufacturing sector has been plagued by a myriad of challenges, most of which far predate the Jonathan administration. These challenges include poor power supply, high cost of inputs and of doing business, multiple taxation, infrastructural deficit, low access to finance, institutional problems with intellectual and property rights, insecurity, low quality of 'Made in Nigeria' goods, poor information flow, and lack of synergy between the educational system and the labour market. In view of these problems, the sector contributed only 4.2% to the gross domestic product in 2010. Similarly, the growth rate of the sector was 7.6% during the same year.

While trade balances have appeared to always be doing well given that it is usually in surplus, a closer look at the breakdown reveals a lot of worrisome signs. The composition of trade balances indicates that Nigeria mostly exports raw materials whose prices are usually influenced by the international market, or even by a dominant buyer. Moreover, trade is lop-sided in favour of only one commodity- crude oil. In the absence of a strategic drive for foreign direct investment, Nigeria recorded only US$6.1billion of direct investment at the end of 2010. Given this situation, the Jonathan administration initiated reform measures to address the challenges facing the manufacturing and trade sector reforms.

Reform Actions

The National Industrial Revolution Plan (NIRP): The government started the unrolling of NIRP aimed at developing Nigeria's areas of industrial comparative and competitive advantage. The plan's approach is premised on removing the age-old constraints of previous industrial policies, and addressing the underlying factors that have held back manufacturing in Nigeria for decades such as, industrial infrastructure, affordable finance, industrial skills, investment climate, standards, innovation, and local patronage. The plan is also centred on developing four major industrial groups in Nigeria, namely – agro-allied and agro-processing; metals and solid mineral processing; oil and gas related industrial sectors; and light manufacturing, construction and services. The NIRP set its target to increase manufacturing contribution to GDP from 4% to more than 10% over a five-year period.

The Sugar Master Plan: This plan was developed to provide a roadmap for 100% production of sugar locally in Nigeria.

National Automotive Policy: Of the ten most populous countries in the world, only Nigeria and Bangladesh do not have a home-grown automobile industry. Yet, automobile imports gulp US$3.5 billion every year from Nigerians. In fact, payment for automobile imports is the second highest user of Nigeria's foreign exchange. The national automotive policy is designed to establish a local automobile industry and domesticate both production and consumption of cars in Nigeria.

Foreign Investments: Devise and pursue a plan to aggressively promote foreign investments in priority sectors of the economy, especially those that can create jobs and enhance inclusive growth.

Cottons, Garments, and Textiles: Develop a new policy for Nigeria, with the medium-term objective of doubling output in the sector and creating up to 75,000 jobs in the process.

The potential for the cotton-to-textile value-chain is immense as cotton is grown in almost every state in Nigeria.

Leather: Commenced development of a new leather industry development strategy in Nigeria. A leather summit has been held with all key stakeholders in the country, which led to setting up of a Leather Transformation Committee. The objective of this reform is to double the size of exports from Nigeria's leather sector, currently estimated at ₦108 billion.

Innovation: Launched triple helix framework with Ministry of Science and Technology, as the basis to drive technology development, and adoption in Nigerian industry. TripleHelix will integrate government, academia, and industry.

Standards: Commenced the development of Nigeria's first-ever national quality policy to lay out the framework to use Nigerian product and process standards to penetrate new markets. The government also invested in upgrading testing laboratories and an engineering laboratory to provide quality management infrastructure.

National Competitiveness Council of Nigeria (NCCN): In line with global best practices in several countries, the government partnered with the private sector to establish the NCCN. The major aim of the Council is to enhance Nigeria's competitiveness by proposing policies that will create an economic environment and attract and retain domestic and foreign investments without benefitting any specific interest group or sector. In addition to creating policies that are based on quantitative, evidence-based analysis, the Council will publish a competitiveness report, which will track developments and constraints of the specific factors that affect Nigeria's competitiveness.

One of the concrete goals of the NCCN is to improve the nation's competitiveness by a minimum of 75 positions over the next four years. To achieve this, an investment climate reform programme was set up with support from the World Bank and UK Department for International Development (DFID). This programme aims to improve the business environment, reduce the perception of corruption, and increase security reforms. The widely acclaimed World Bank's Doing Business Report suggests that the creation of competitiveness councils is one of the most important reforms economies can embark on to increase competitiveness rankings.

Main Achievements

The above-mentioned reforms have yielded a number of positive results, including:

Success in the Cement Industry: The reform helped to sustain the growth of Nigeria's cement sector with the production of 28.5mtpa in 2013 and enabled the country to attain the position of an exporter of cement instead of a net importer. With no import permit issued in the whole of 2012 for cement importation, a savings of over ₦200 billion was made. An extra US$1.75 billion of private sector investments were initiated in the sector during 2013.

Increase in Number of Sugar Project Sites: The government successfully secured aggregate pipeline investment commitment of US$3.1 billion into the Nigerian sugar sector and increased sugar project sites in the country from six to 17. All three existing refiners have signed commitments with government to produce an aggregate 700,000mts/annum by 2018. The government has identified 17 sites across nine states for developments by seven investors. The states include Kogi, Kwara, Adamawa, Kebbi, Jigawa, Ogun, Sokoto, and Taraba. However, Nasarawa and Niger are still being explored. The low transition concessionary tariff secured for refiners resulted in (a) reduction in sugar prices by 22%; (b) higher demand and increased capacity utilisation from 60% to 75%; and (c) drastic reduction in smuggling activities. The sugar master plan is aimed to create about 40,000 jobs when fully implemented, and save Nigeria between US$350m and US$500m in foreign exchange. Some of these targets are already being realised and quantified.

***Success of the National Automotive Policy*:** Major international automobile companies have confirmed interest to move into Nigeria, including Nissan, Hyundai, and Toyota. The outcome of a bilateral meeting with President Jonathan at the 2014 World Economic Forum in Davos, Switzerland with the head of Nissan announced that the first set of 'Made in Nigeria' 4x4 cars will roll out of production lines by April 2014. In fact, 22 companies have signed commitments with technical partners to set up assembly operations in Nigeria. These include Tata of India, and GAC Gonow Auto Company and Xiamen Golden Dragon Bus Co. Ltd, both of China. In addition, Michelin and Dunlop Tyres are evaluating re-opening their Nigerian operations.

***Free Trade Zones*:** Transformation of the Onne Oil and Gas Free Zone with US$6 billion invested leading to the attraction of 150 companies into the zone with 30,000 jobs created to date. In addition, US$4.4 billion was invested in the Free Trade Zone under NEPZA, which resulted in about 5,000 jobs created within the Free Trade Zone.

Foreign Direct Investment: The government has recorded some success in promoting foreign investments in manufacturing. These include Indorama's US$1.2 billion fertiliser plant at Onne; Procter & Gamble's US$250 million consumer goods plant in Ogun State; and SAB Miller's US$100 million brewery at Onitsha. In fact, most investors now rate Nigeria as the prime investment destination in Africa. Over the past two full years (2011 and 2012) for which complete data is available, the government has attracted nearly US$8 billion annually in foreign direct investment.

Trade Infrastructure: The government has identified locations for eight industrial cities in Nigeria and commenced the process of mobilising them into fully functional manufacturing hubs. The government is also working assiduously to set up Nigeria's first gas city at Ogidigbe in Delta State.

***Skills Development*:** There was a successful training of 37,000 youths across all states of the federation on key industrial skills. Commenced the process of working with the United Nations Industrial Development Organisation (UNIDO) to develop a detailed skills gap assessment in Nigeria to match the national skills development programmes (skills supply) with what the industry really needs (skills demand). The industrial training fund (ITF) is being re-organised to operate like Brazil's Senai for vertical skills development, and German standards for the internship programmes.

Regional Trade: To further support the manufacturing sector, the government successfully negotiated a strong common external tariff (CET) agreement with Nigeria's Economic Commission of West African States (ECOWAS) partners, which would enable the government to protect Nigeria's strategic industries where necessary. The Nigerian Enterprise Development Programme (NEDEP) was initiated in 2013 to address the needs of small businesses. Some key interventions by NEDEP include supporting small companies with access to affordable finance, access to markets, capacity support, business development services, youth training, and support in formalising their operations. In addition, in 2013, the government reduced business registration costs for small businesses by 50% to help them conserve capital. A total of 13,773 companies were registered within the 3rd quarter of 2013.

Nigerian Enterprise Development Programme (NEDEP): To further address the needs of small businesses, the federal government set in motion the implementation of the Nigeria Enterprise Development Programme.

Key Challenges

Some of the inherited challenges are still much around as highlighted below:

1. Poor power supply
2. Infrastructural deficit
3. High cost of doing business and multiple regulations that obstruct business
4. Local production has not led to reduced costs
5. Low access to finance

Assessment of Reform Initiative

Assessed against the 10 criteria for judging the success of government reform initiatives, manufacturing and trade investment reform is on the right track that needs to be maintained.

S/No.	Assessment Criteria	Result of Assessment
1.	Have the reforms in the manufacturing, trade and investment sector improved the quality and quantity of public services?	The reforms have improved the quality and quantity of public services in some areas. The reforms have led to increased export that implies increased domestic production, job creation, and wealth generation. Throughout 2012, for instance, the Ministry of Industry, Trade and Investment did not issue a single licence for the importation of cement, which has traditionally been a huge drain on Nigeria's foreign exchange. There are therefore improvements in trade and investment components; however, the manufacturing component is yet to pick up fully as key industries such as textiles are still not back in full operation.
2.	Do more people now have access to services, including disadvantaged groups such as women, young persons, and people with disabilities?	Manufacturing is creating more jobs for citizens, but it is not clear if people with disabilities are benefitting.
3.	Have the reforms reduced the cost of governance?	Report of National Bureau of Statistics reveal that the value of export increased from ₦19,440.4 billion in 2011 to ₦22,446.3 billion in 2012, which helped to contribute to the visible trade balance of ₦ 16,821.4 billion recorded in 2012.
4.	Have the reforms made the services more	Not yet, as the price of locally produced

S/No.	Assessment Criteria	Result of Assessment
	affordable for citizens?	goods, like cement, is still very high.
5.	Have the reforms reduced corruption?	Not Applicable
6.	Have the reforms reduced unnecessary bureaucracy and red tape?	Not Applicable
7.	Is the policy likely to lead to improved development outcomes?	Certainly yes as reduction in huge trade deficit enables the government to use resources to provides in the educational and health sectors of the economy.
8.	Are things improving, staying the same, or getting worse?	There are visible improvements in the cement and sugar sectors of domestic production.
9.	Where things are improving, will those improvements endure?	Certainly yes as a result of increased private sector participation (e.g. cement and sugar) in the manufacturing.
10.	Where things are not improving, what should be done?	Not Applicable

Proposed Next Steps

1. Take urgent steps to improve ease of doing business.
2. Increase competition to force down prices.
3. Continue to address the problem of infrastructural deficit.
4. Intensify implementation of power sector reform.
5. Provide more attractive incentives to local manufacturers.