NANYANG TECHNOLOGICAL UNIVERSITY SINGAPORE

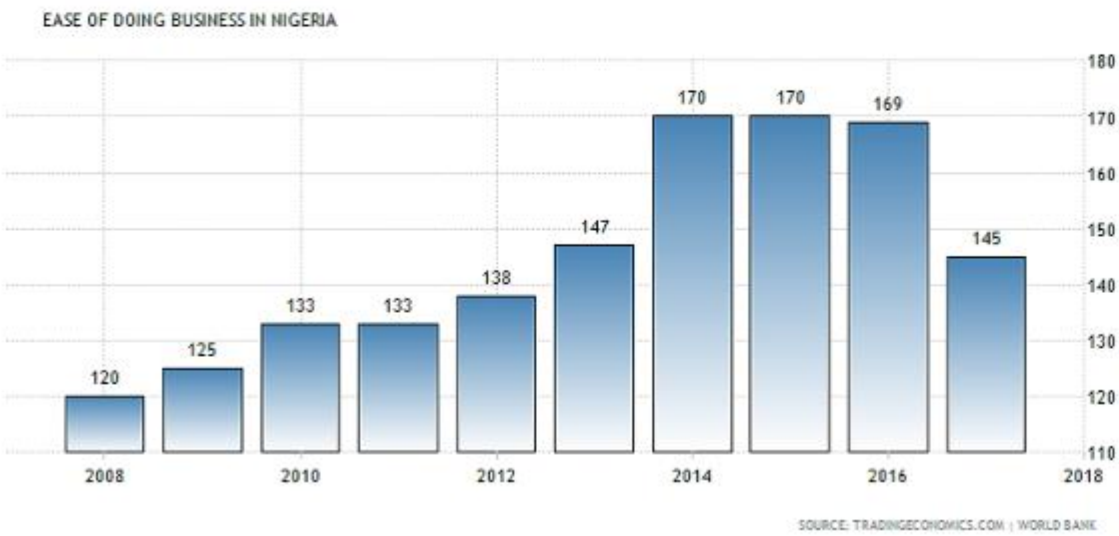
NTU-SBF CENTRE FOR AFRICAN STUDIES

Manufacturing in Nigeria: Status, Challenges and Opportunities

By Rafiq Raji, September 2018

According to the National Bureau of Statistics (NBS), the Nigerian manufacturing sector is dominated by the production of food, beverages and tobacco, with sugar and bread products generating the greatest value of output. To encourage more output in these and other sectors, the government has been making it cheaper for consumers to purchase locally manufactured goods by making the smuggled foreign alternatives prohibitively expensive or totally unavailable through prohibitions.

Most recently, the Central Bank of Nigeria (CBN) announced plans to facilitate the issuance of single-digit interest rate loans to firms operating in the agriculture and manufacturing sectors. Port reforms and other ease of doing business initiatives by the government are also helping to make the manufacture of goods easier in the country; relatively, at least. Owing to reforms, Nigeria's ease of doing business ranking moved to 145th place in 2017 from 169th in 2016, for instance.



The Nigerian manufacturing sector has been performing well in recent years. While year-on-year growth for each of the quarters in 2015-16 was negative, there was only one such instance in 2017; in the third quarter. Incentives by the government are also beginning to encourage greater interest. According to official data, at 9.3% of GDP, the Nigerian manufacturing sector grew by 3.4% year-on-year in the first quarter of 2018, an improvement from 0.1% y/y in Q4 2017 and -2.9% y/y in Q3 2017. The last time there was something close to such growth in the period since Q1 2016, was in Q1 2017 when the sector grew by 1.4% y/y. For the whole of 2016 till then, the sector recorded negative growth. Other growth figures for the Nigerian manufacturing sector and its sub-sectors are in the following table.

Nigerian manufacturing sector (growth, % y/y)

SECTOR/SUB-SECTOR	Q1 2018	Q4 2017	Q3 2017
Manufacturing	3.4	0.1	-2.9
Oil refining	7.1	-46.2	-45.4
Cement	5.3	-1.9	-4.6
Food, beverages & tobacco	5.5	2.2	0.6
Textile, apparel & footwear	1.9	1.7	0.2
Wood & wood products	1.5	0.4	1.2
Pulp, paper & paper products	3.4	2.7	-1.8
Chemical & pharmaceutical products	1.4	4.8	0.2
Non-metallic products	-4.9	3.3	1.8
Plastic & rubber products	0.4	3.4	0.7
Electrical & electronics	10.1	0.7	0.8
Basic metal and iron & steel	0.9	1.5	-0.4
Motor vehicle and assembly	2.3	0.2	-21.3
Other manufacturing	-0.6	2.8	-9.7
Source: National Bureau of Statistics (NBS)			

Opportunities

The government's industrialisation focus is on small and medium scale enterprises and is one of the five key execution priorities of its four-year Economic Recovery and Growth Plan (ERGP). Other stated priorities are the stabilisation of the macroeconomic environment, energy sufficiency, improvement of transportation infrastructure, and the achievement of food security. To ensure optimal execution of the ERGP, the Nigerian government resolved in August 2017 to conduct sector or focus labs "designed to tackle complex challenges by bringing together all stakeholders to identify the root causes of the challenges [within a sector] and [generate] ideas and resources to solve them".

For manufacturing and processing, phase one of the ERGP focus labs sought to unlock investment commitments in the food manufacturing, textile, garments and leather industry, mining and downstream activities, petrochemical industry, general manufacturing, and industrial parks. These should also be the focus of potential investors interested in the Nigerian industrial sectors. A participation in future phases of the focus labs is also recommended.

In phase one, for instance, the focus labs "expedited the access of a mining company to the Solid Minerals Development Fund (SMDF)", and brought to the attention of the mining minister the troubles of a bitumen mining company seeking to renew its exploration licences. Additionally, the focus lab aided a metal manufacturing and aluminium company, which "required additional funding" and had held several funding syndications with multilaterals and commercial banks, in getting an agency of the World Bank to conduct a review of their projects within the lab. Consequently, the two companies have been long-listed for screening. In other words, the focus lab facilitated access to funding for the firms.

Other opportunities emanate from the imported manufactured products currently prohibited by the Nigeria Customs Service. Foreign investors would easily get a listening ear from the government if they chose to invest in manufacturing the goods listed in the table below domestically. As a few examples will show, this is a well-tested approach.

Nigeria: Manufactures in import prohibition list

Refined vegetable oils and fats
Cocoa butter, powder and cakes
Spaghetti/Noodles
Fruit juice in retail packs
Waters, mineral waters, aerated waters
Bagged cement
Medicaments (e.g. Paracetamol, Multivitamins, etc)
Waste pharmaceuticals
Soaps and detergents
Mosquito repellant coils
Rethreaded and used pneumatic tyres
Corrugated paper and paper boards
Telephone recharge cards and vouchers
Carpets and other textile floor coverings
All types of footwears, bags and suitcases
Hollow glass bottles of a capacity exceeding 150mls
Ball point pens and parts including refills
Tomato paste or concentrate
Source: Nigeria Customs Service

According to Nairametrics, a business intelligence firm, five local vegetable oil brands currently dominate the Nigerian market due to the government's import ban. They are Sunola Oil, Grand Oil, Power Oil, Mamador and Devon King's. To increase patronage and accessibility to their products, local vegetable oil producers have been implementing bulk-breaking strategies, adding sachet packs to their array of packaging.

There is not a similar success with the cocoa processing sector, however, which is currently burdened by debt and utilises less than 20% of its installed capacity. As Nigeria is the fourth-largest exporter of cocoa, this is probably an opportunity for financially buoyant foreign investors. There is certainly at least 80% of the industry's 150,000MT capacity that could be filled momentarily. This could be done by either taking over existing firms or setting up greenfield operations. Incidentally, even at full capacity utilisation, there is much more cocoa processing that could be done for export and thus rival neighbouring Ghana and Ivory Coast, which have been coordinating their efforts lately. Besides, the authorities' import ban of cocoa butter, powder and cakes ensures almost guaranteed domestic custom for the output of the existing processing capacity.

For spaghetti manufacturing, the government's import ban has not been as effective as would be desired. Foreign spaghetti brands occupy as much shelve space as local ones. Local noodle manufacturing has been a huge success, however. At about 1.8 billion servings annually, Nigeria is now the 12th-largest instant noodle market globally. Owing largely to the government's import ban on instant noodles, almost all of the noodles consumed in the country are locally produced. In fact, the success of the policy in the instant noodles manufacturing sector is believed to be one of the reasons why the Nigerian government has been hesitant to sign the African Continental Free Trade Area agreement (AfCFTA).

Fruit juice production is another venture of interest that could be worth the while of interested investors. According to the Raw Materials and Research Development Council (RMRDC), local firms currently meet less than 25% of the 550 million litre local fruit juice demand. With imported concentrates accounting for most of the current meagre local production, a noted preference by consumers for naturally produced fruit juice should be a boon for manufacturers with local resources and capacities across the entire value chain.

Local cement production is perhaps the best example of how the authorities' import ban policies have benefited local industry and entrepreneurship. Africa's richest man, Aliko Dangote, owes his stupendous wealth to cement manufacturing in Nigeria. Dangote Cement accounts for more than 60% of the estimated 33 million metric tonnes (MMT) of local cement demand in Nigeria, with margins as high as 70% when the cement import ban was first instituted; albeit they are now below 50%. With local producers now churning more cement than is needed, Dangote Cement, in addition to exporting its excess cement to neighbouring countries, has since broadened its horizons further afield, with operations in numerous African countries.

Government efforts to encourage local tomato paste production has not met with similar success. As Nigeria imports at least 400,000 tonnes of tomato paste annually, there is a huge opportunity for the manufacturer that can get it right. Incidentally, Dangote Industries is making an attempt at local tomato paste production. It set up a plant in northern Nigeria in March 2016 and entered into suppliers' agreements with 5,000 farmers to guarantee supply of tomatoes. Shockingly, even as it agreed to pay above the market price, the local farmers could not deliver the goods. In one season, for example, the produce was destroyed by a pest. And that is beside the fact that half of the output tends to get spoilt en route to factories from farms due to bad roads. The Dangote experience in this regard is not an isolated one. Its example is, however, significant because if there is one local conglomerate that can make a success of tomato processing, or any other local manufacturing venture for that matter, it is the Dangote Group.

Challenges

Manufacturing in Nigeria is beset with quite a few challenges; chief among them is power supply. Most firms rely on "emergency" power generators to run seamless operations, adding to costs. There are also regulatory issues, a multiplicity of taxes, and trade facilitation issues, among others. The country's infrastructural deficiencies are also a major constraint. Export processing zones and special economic zones are the government's workaround towards removing or mitigating this constraint. The challenges faced by manufacturers are probably best put by Frank Jacobs, president of the Manufacturers' Association of Nigeria, in remarks to the media in April 2018: "A situation where you generate your own power for production does not make you competitive, because whatever is produced in this country is produced at a higher cost when compared to other parts of the world. The same goes for the transportation system as we still move our goods via roads, even the heavy duty goods. Such goods which should go by rail, lack enough rail lines to carry them. There is a need to develop the transportation sector to the point where it can support the manufacturing sector and also support the economy."

For more light on these challenges, a report on the Nigerian manufacturing sector by the National Bureau of Statistics (NBS) in 2014 put them as follows: inadequate and epileptic power supply, high taxes, poor infrastructure, and supply variability of rain-dependent agricultural inputs. There are some strengths, the NBS observes; labour is cheap, domestic demand is buoyant, and some inputs are available and cheaper domestically.

Government Initiatives

In the ERGP, the government highlights the following policies to boost manufacturing. It aims to “provide incentives to support industrial hubs, review local fiscal and regulatory incentives to support the development of industrial cities, parks and clusters, especially around existing ports and transport corridors”. Furthermore, the government plans to “revitalise export processing zones by reviewing local fiscal and regulatory incentives, rationalise tariffs and waivers on the equipment and machinery imports required for agro-industry, establish special economic zones (SEZs) to provide dedicated infrastructure to support hub productivity and acquire suitable premises for SEZs”. Other highlights of the ERGP specifically targeted at the manufacturing sector around SEZs are as follows: The authorities would ensure connection to power and water infrastructure, facilitate technology acquisition and transfer in the SEZs by making available research output from local research institutes, ensure connection and access to critical ICT facilities.

The Lekki Free Trade Zone in Lagos, Nigeria’s commercial capital, is perhaps the leading example of the efforts of the government in this regard. In its three years of existence thus far, more than US$700m worth of finished goods have been exported by the 18 manufacturing enterprises situated within it. Foreign direct investment to the tune of $500m has also been recorded by the firms operating in the FTZ. To reduce the types of bottlenecks faced by firms at the ports, a customs processing centre is situated within the zone. And although finished goods for export still have to be transported to the Apapa port downtown at the moment, that would not be necessary in a few years’ time when the Lekki Deep Sea Port in the FTZ would have been completed. In fact, the authorities reckon the port should berth its first ship by the first quarter of 2020.

More broadly, the authorities desire to “build adequate transportation networks (road, rail, ports), improve access to finance, expand the capabilities of the Bank of Industry to enable it to support manufacturing firms through low cost lending, enhance access to the ₦250bn ($692m) CBN MSME fund by reviewing its design and implementing enabling initiatives to encourage on-lending”, and the provision of micro-loans to women through the Government Enterprise and Empowerment Programme (GEEP) and Women Empowerment Fund.

Launched in 2013, the central bank’s MSME development fund provides long-term loans to micro, small and medium enterprises at a single-digit interest rate of 9%. To access it, interested MSMEs apply to participating banks. There have been reports of favouritism, secrecy and other malpractices related to the fund, however.

For GEEP, under the aegis of the Bank of Industry, its “MarketMoni” scheme has given out more than 350,000 micro credit loans thus far. And in mid-August 2018, bankers and the CBN agreed to provide seven-year fixed-rate loans of 9% (with a two-year moratorium on principal payments) to firms in the agriculture and manufacturing sectors. There are also discriminatory foreign exchange policies by the CBN in favour of manufacturing firms.

Furthermore, the authorities’ Nigerian Industrial Policy and Competitiveness Advisory Council established in March 2017, with membership including leading African industrialist Aliko Dangote, assists “the government in formulating policies and strategies that would enhance the performance of the industrial sector”. The Presidential Enabling Business Environment Council established in July 2016 also monitors and assesses key sectors of the economy to ensure doing business in the country is easier; with tangible improvement in the country's ranking in the World Bank Doing Business survey.

The Nigerian government is also promoting local content by encouraging the sourcing of raw materials and spare parts locally, leveraging public procurement of locally manufactured goods (with targets for MSME participation), and via a "Made in Nigeria" campaign. For the promotion of innovation and technology-led industries, the government's plan includes the provision of fiscal incentives for private investment in research and development (R&D), improvement of intellectual property enforcement procedures, promotion of science parks and innovation hubs, encouragement of private equity and venture capital players through an attractive fiscal and regulatory framework, and the promotion of youth entrepreneurship and innovation through the "You-Win-Connect" programme. Controversy recently trailed the YouWiN Connect programme, though, with participants complaining about not getting the funding that was promised for their businesses.

Conclusion

Clearly, manufacturing is challenging in Nigeria. But there is a clear desire by the government to encourage more of it through import bans, facilitation of cheaper funding, discriminatory foreign exchange policies, and so on. The government's ERGP focus labs are also one of the ways the authorities are using to accelerate more investment in production. Interested companies, whether local or foreign, would do well to key into these government's initiatives to ensure they get the support they are definitely going to need to succeed. A good place to start for any firm looking to invest in manufacturing is certainly the authorities' imports prohibition list. And like the case of cement manufacturing earlier highlighted, there is clearly a strong correlation between the sector's boom and protection measures by the government.

The author, Dr Rafiq Raji, is an adjunct researcher of the NTU-SBF Centre for African Studies, a trilateral platform for government, business and academia to promote knowledge and expertise on Africa, established by Nanyang Technological University and the Singapore Business Federation. This article was specifically written for the NTU-SBF Centre for African Studies. This article was published on How We Made It In Africa on 27 September 2018.