Diversification and Non-Oil Export Opportunities for Nigeria States Post-COVID19 - 003 TRD XX

Final report

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List of acronyms

AATCC	American Association of Textile Chemists and Colorists
AfCTA	African Continental Free Trade Area
ASTM	American Society for Testing and Materials
'B	Billion
BMI	Business Monitor Index
c.	Circa
CAC	Corporate Affairs Commission
CAGR	Compound Annual Growth Rate
CAS	Conformity Assessment Standards
CFR	Code of Federal Regulations
COMESA	Common Market for Eastern and Southern Africa
ECOWAS	Economic Community Of West African States
EMIS	Emerging Markets Information Service
ERGP	Economic Recovery and Growth Plan
ETLS	ECOWAS Trade Liberalization Scheme
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FEFAC	The European Feed manufacturers' Federation
FIC	Food Information to Consumers
FLP	Finished Leather Products
FSS	Food Safety and Standards
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GMP	Good Manufacturing Practice
GTP	Global Trade Programme
Ha	Hectare
HACCP	Hazard Analysis and Critical Control Points
Hg	Hectograms
ICEC	Institute of Quality Certification for the Leather Sector

ICUMSA	International Commission for Uniform Methods of Sugar Analysis
IULTCS	International Union of Leather Technologists
JAS	Japanese Agricultural Standards
JIS	Japanese Industrial Standards
ILO	International Labour Organization
ISO	International Organization for Standardization
MAN	Manufacturers Association of Nigeria
MDA	Ministries, Departments and Agencies
MSME	Micro, Medium and Small Enterprises
MT	Metric Tonnes
NABG	Nigeria Agri-Business Group
NACCIMA	Nigerian Association of Chambers of Commerce Industry Mines and Agriculture
NAFDAC	National Agency for Food & Drug Administration & Control
NAQS	Nigerian Agricultural Quarantine Service
NEPC	Nigerian Export Promotion Council
NiNAS	Nigeria National Accreditation System
NIFEX	Nigerian Foreign Exchange Rate Fixing
NSMP	National Sugar Master Plan
OWIT	Organisation of Women in Trade
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
RMRDC	Raw Material Development and Research Council
RSS	Rib Smoked Standards
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SON	Standards Organisation of Nigeria
TSR	Technically Specified Rubber
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

WHO	World Health Organization
y-o-y	Year on year
$	US Dollar

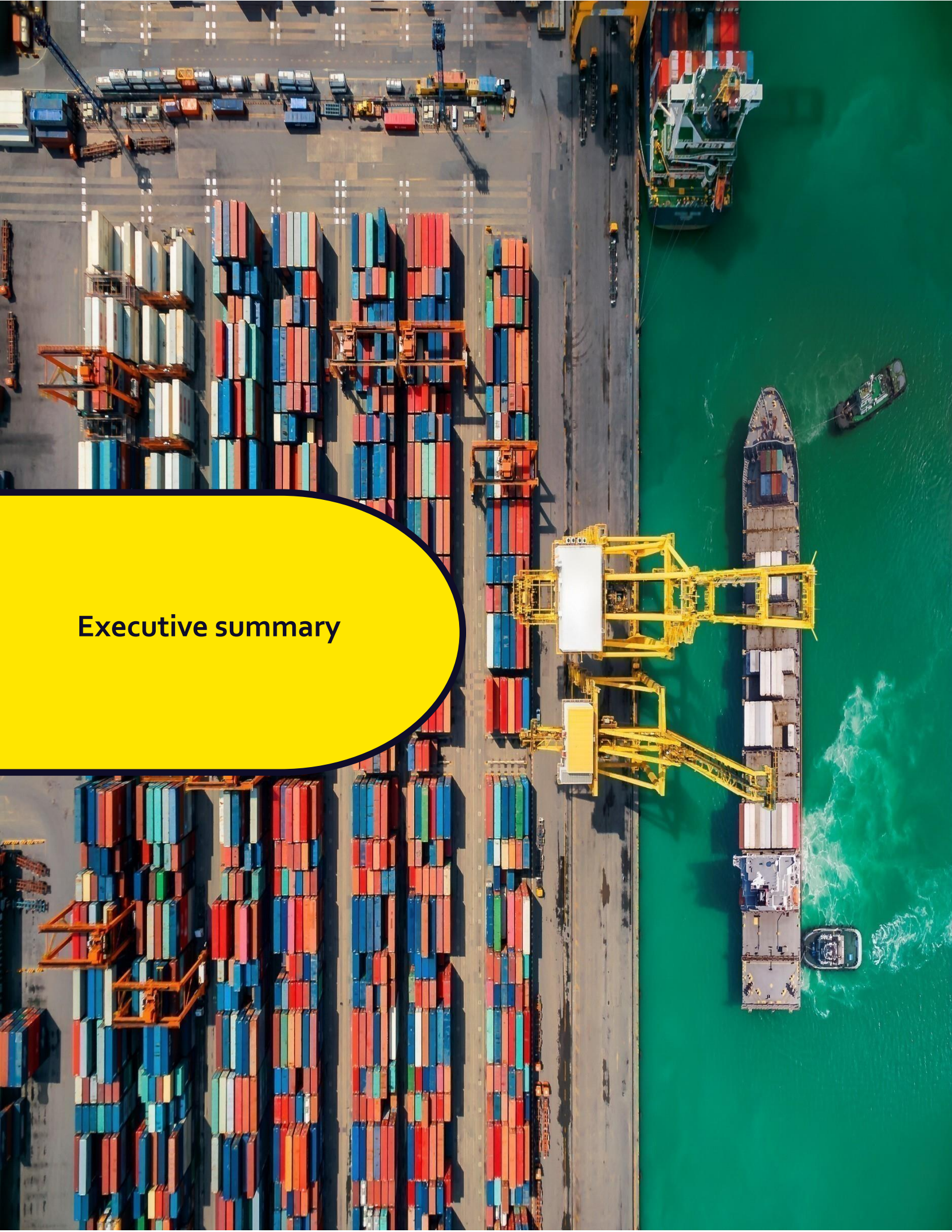
About the report

This report documents the results and findings of a study carried out to identify non-oil export opportunities within Nigeria's value chain and curate recommendations on how Nigeria could generate much-needed foreign exchange earnings from these products as part of its trade diversification plans.

This study was commissioned by the PDF Bridge Programme for use by the Beneficiaries, in particular, the Nigeria Export Promotion Council as a key Policy maker on Non-Oil Exports. It is expected that this report will provide current and actionable recommendations that will support the NEPC, Federal MDAs, States and Non-Oil Exporters in the drive towards diversification of the Nigerian economy. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this document is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

This report was compiled by a team of experts and managed by Ernst and Young (EY). EY acknowledges the following individuals who provided inputs in the writing of this report: Mr Sani Dangote and the entire NABG team, Mr. Opeyemi Alaran (NACCIMA), Philip Obosi (GTP), Mr Afolabi Bello (NEPC), Dr. Abimbola Adegboye (NAFDAC) as well as other stakeholders whose contributions were crucial for this report.

In addition, EY acknowledges the contributions of the Nigerian Export Promotion Council especially Office of the Executive Director/CEO, NEPC, Mr. Olusegun Awolowo, represented by Director, Policy & Strategy Mrs. Ifeyinwa Evelyn Obidike, and the guidance and support provided by the PDF Bridge Abuja Programme Management Team and FCDO colleagues in the design of the study, compilation and drafting of this report



Executive summary

1. Executive summary

Economic diversification is no longer an ideal aspirational state for the Nigeria economy, but rather an imperative for sustainable economic growth. The recent COVID-19 pandemic led global oil shock, which in itself comes in a long history of oil price shocks, has brought into sharp relief the precariousness of Nigeria's over dependence on crude oil for its export market.

With over 89 million people (45% of the population) living below the poverty line, coupled with the economic vulnerabilities of the oil-dependent state further exposed by the COVID-19 pandemic, it is of particular importance that the government, as well as the private sector participants builds its short and medium-term strategy around the development of viable non-oil products in Nigeria in a bid to diversify the country's export market.

Previous attempts at export diversification and in building diversified streams of foreign income, while yielding incremental gains have not produced the level of productivity and growth required to sustain the Nigerian state.

To drive export diversification, the transition from mono to diversified export market would have to be informed by concerted efforts in identifying and catalyzing the key value drivers of the economy with the potential to propel market actors (both public and private) to pivot away from oil and into non-oil sectors.

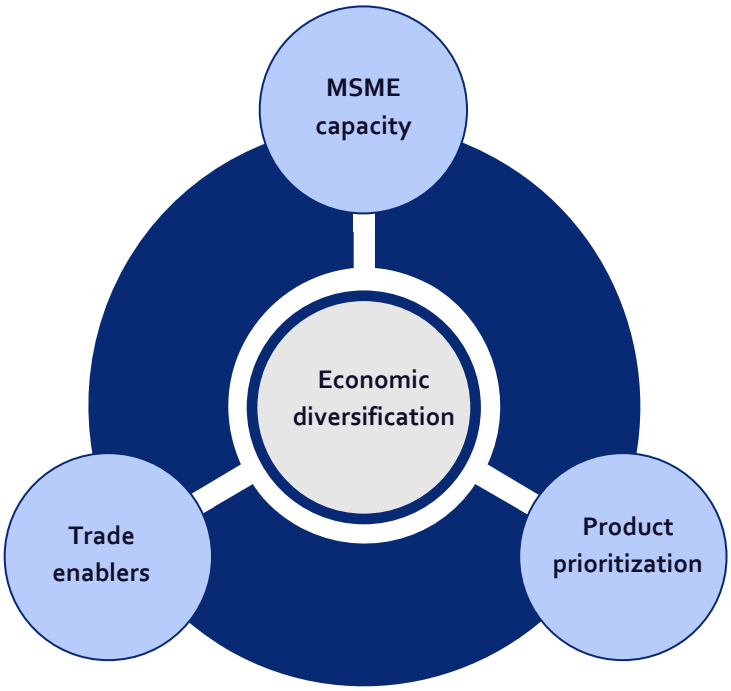
One of such concerted effort, is the Zero-Oil Initiative of the NEPC – which aims to deliver an export diversification pathway through trade by prioritizing viable non-oil products with the ability to deliver transformative impacts on the economy. However, despite the adoption of the Zero-oil Initiative in the Economic Recovery and Growth Plan (ERGP) 2017-2020 of the Federal Government, the performance of non-oil sector remains limited, and does not reflect the significant investment committed to the diversification agenda.

To this end, the NEPC through the Policy Development Facility Bridge (PDFBridge) Programme commissioned Ernst & Young (EY) to conduct a market analysis of the 22 identified products of the Zero-oil initiative in a bid to provide a comprehensive analysis on the export potentials, key markets, existing value chain and quality requirements of six (6) key products.

The outcome of the market analysis will inform the following:

1. Identify the key non-oil products with significant export potential across the six geo-political zones of Nigeria.
2. Provide insights on the current state of production/export of each product in Nigeria
3. Identify challenges limiting the potentials and growth of participants along the value chain of each product
4. Identify key export locations and requirements for exporting to these locations
5. Inform strategies for the overall development of these identified products as a sustainable foreign income source for Nigeria.

The success of Product Prioritization as a tool for driving export diversification through trade is predicated on enhancing key aspects of the Nigeria economy that would serve as a building block for increasing export capacity and ushering economic development, mostly through the "multiplier' effect. These include building a strong MSME sector and an efficient and enabling structures of trade.



The Micro, Medium & Small enterprises ("MSME") sector plays a pivotal role in driving socio-economic growth, particularly in emerging economies. In the Nigerian context, the sector's status as the largest employer of labour makes it an effective supporting sector for fostering entrepreneurial innovation and local capital formation. However, the Nigeria MSME sector is characterized by high levels of informality and preponderance of small-sized low scale enterprises - a dynamic that has been a constraint on scale mobility and a key driver of the high mortality rate experienced in the sector.

To address these issues, the government has taken actions aimed at building the resilience and potential for growth of the sector by attempting to create an enabling environment for increasing the involvement and capacity of MSMEs to compete in the formal economy and international market. The Federal Government, through support MDAs like the Ministry of Industries, Trade and Investment (FMITI), the Nigerian Export Promotion Council (NEPC) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) has sought to build capacity, support formality and drive sector growth over the last few years.

Our Approach

This study adopts a two-pronged approach, which involves:

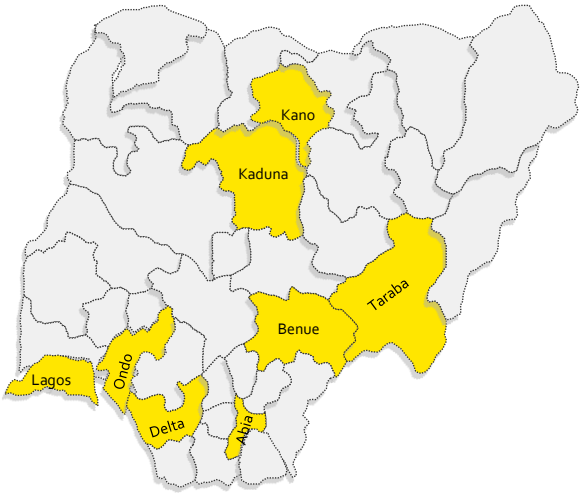
1. The identification of six key export products, through an independent assessment and review of the 22 products listed by the NEPC.
2. Engaging key stakeholders involved in production, aggregation and trade of these six key products, including secondary stakeholders such as MSME associations, donor agencies, government agencies involved in providing advisory & financial support as well as designing and implementing policies and schemes that affect the overall trade environment and performance of participants in the identified sectors.

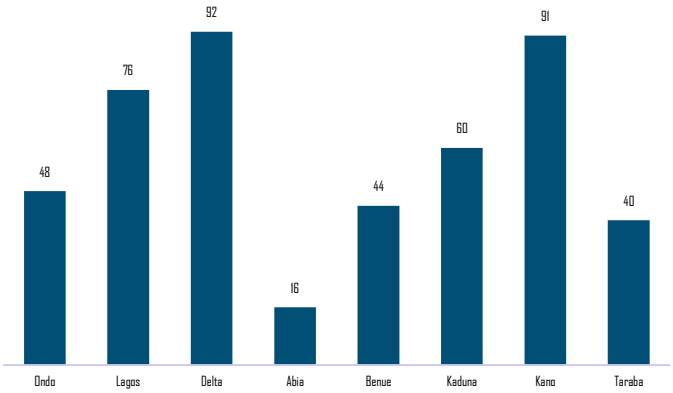
The aim was to get a balanced view on what has been documented by the Council for product prioritization, the experiential insights of sector participants on MSME capacity and the respective view of the key trade enablers in Nigeria. The approach also revealed the array of challenges facing the various stakeholders in the MSME-dominated space in Nigeria and provided a basis for proffering recommendations to support the growth and development of the identified products across the six geo-political zones.

Our methodology

For this study, we have conducted both primary and secondary research of the identified products. The identified stakeholders include micro, small and medium enterprises, government agencies, donor agencies, and MSME institutions involved in capacity development, as well as trade associations.

Our primary survey covered the six geo-political zones of Nigeria with a sample size of 470 respondents across 8 states in Nigeria as detailed in the table below





Survey participants included:

Participants	Respondent size
Farmers	162
Manufacturer and processors	168
Aggregators	33
Distributors	14
Exporter	94
Total	**470**

The study also gathered information through interview sessions with other stakeholders as listed below:

- Nigeria Customs Service

- Nigerian Ports Authority
- Standards Organisation of Nigeria (SON)
- National Agency for Food & Drug Administration & Control (NAFDAC)
- Nigerian Agricultural Quarantine Service (NAQS)
- Nigerian Export Promotion Council (NEPC)
- Nigeria National Accreditation System (NiNAS)
- Nigeria Agri-Business Group (NABG)
- Nigerian Association of Chambers of Commerce Industry Mines and Agriculture (NACCIMA)
- Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
- Manufacturers Association of Nigeria (MAN)
- Organisation of Women in Trade (OWIT)
- Africa International Women Trade Network (AITWN)
- Global Trade Programme (GTP)

Data processing and analysis

Data collation, processing and analysis was completed in Lagos, following the successful completion of the nationwide interviews and data gathering exercises. The process involved data collection, data cleaning, data processing/analysis, data interpretation (report writing and review).

Data processing was conducted using Microsoft Excel and PowerBI to develop charts and other visualizing tool for analysis. The results of the processed data are communicated using Microsoft Word in this report.

The report

This report consists of the following sections:

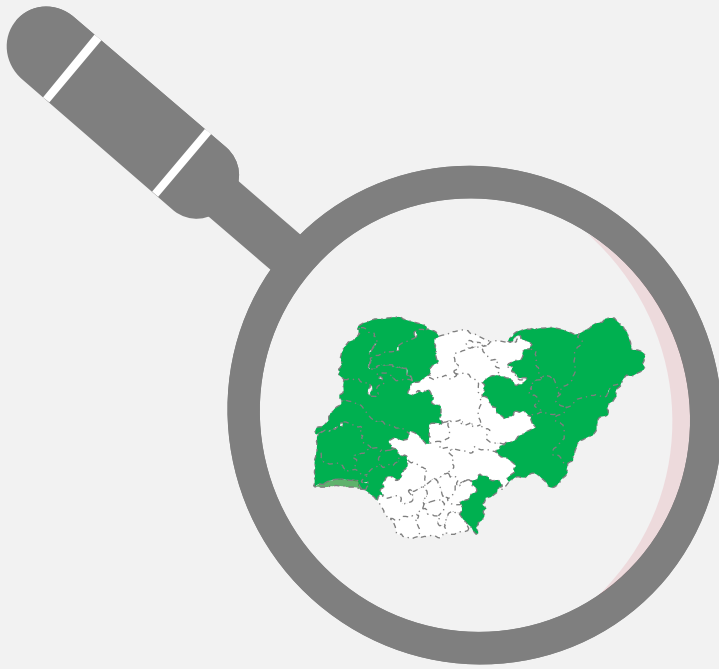
- **Section 1** provides an **overview of Nigeria's macroeconomic environment**, as well as discussions of the implications of the current market dynamics on Nigeria's need for diversification through trade Implications on key indicators such as GDP, inflation, interest and exchange rates.

- **Section 2** includes **an overview of the Zero-oil initiative of the NEPC** including the independent assessment of the identified products. The section also identifies the six focus products namely – soybean, leather, rubber, sugar, cocoa bean and ginger. A detailed analysis of the findings and basis of selection are presented in this report.

- **Section 3** presents **a detailed description of each of the focus products**, including their value chain, top markets, quality requirements, current state of Nigeria's export and detailed characteristics of producers and value chain participants of each product analyzed in the context of the findings from the market analysis. This section also highlights feedback from other stakeholders on the general market challenges and limitations of the development of these products.

- **Section 4** presents **our strategic recommendations** for the development of these products including supporting policies required for the achievement of desired results. We also recommend possible initiatives expected to drive the inclusion of the socially-excluded groups – women and youths in a bid to ensure inclusive growth for the entire Country.

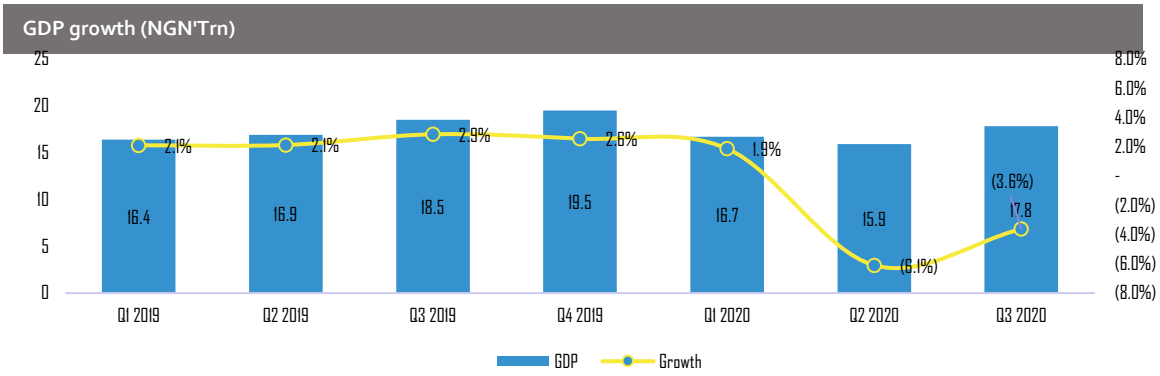
Nigeria's macro-economic environment



2. Review of Nigeria's macroeconomic environment

The COVID-19 pandemic has led to reduced social and economic activities globally, however it is the effect of the pandemic on global oil trade that has been most-telling on Nigeria's need to amplify its economic diversification plans as the country enters another recessionary phase…

- Nigeria's economy entered into a recession as its Gross Domestic Product (GDP) declined by 6.10% and 3.6% (y-o-y) in real terms in the second and third quarters of 2020 respectively[1], ending the three-year trend of low but positive real growth rates recorded following the 2016/17 recession. In addition, the Q2 performance represents the steepest YoY quarterly GDP contraction in over 10 years, highlighting the magnitude of economic losses created as a result of the binary effect of COVID-19 pandemic and low global oil prices.



Key Macroeconomic variables

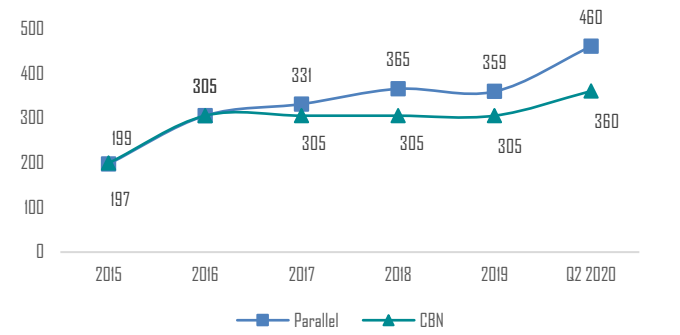
Effects of oil price volatility on economy has resulted in continuous monetary policy struggles to control inflation while raising investment levels

- Although the oil sector contributes only 8.33% to Nigeria's GDP, the Country is largely dependent on its oil revenue as this contributes 80% of government revenue and 87% of the Country's foreign income[1].
- This dependence has been exacerbated by the Country's historical failure to convert its substantial earning from oil to tangible capital infrastructure and enabling environment for its non-oil sectors.
- Consequently, Nigeria has been in a vicious cycle revolving around the decline in oil prices leading to erosion of the purchasing power of the Country's Naira and consequently increased cost for its manufacturing sector (imports of raw material and machines). The manufacturing sector in turn tries to pass on some (or all) of these costs to the consuming public – most of whom are unable to afford these costs due to an already impoverished state.
- The resultant effect of this economic flow is a reduced consumer demand and a reduced manufacturing output – ultimately leading to a contraction in the overall economy.

[1] NBS

- This has once again been evident in 2020, with the oil sector negatively affected by a weaker oil price environment (oil prices averaged US$33.16p/b in Q2 2020) and lower global demand due to the pandemic, the non-oil sector declined by 6.05% (first decline since Q3 2017) as the Country's Naira faced further devaluations.
- The Naira has witnessed an effective devaluation at the official rate, as the Central Bank of Nigeria had devalued its official exchange rate from ₦305/$1 to ₦360/$1 in March 2020[2] and the currency currently trades at ₦385/$1 and ₦465/$1 at the NIFEX and parallel markets respectively.

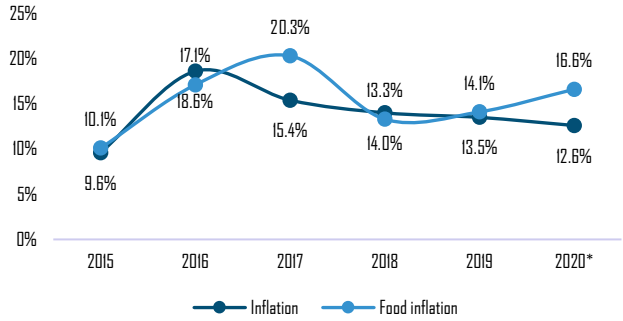
Exchange rate (NGN-USD)



Source: Oxford economics, CBN

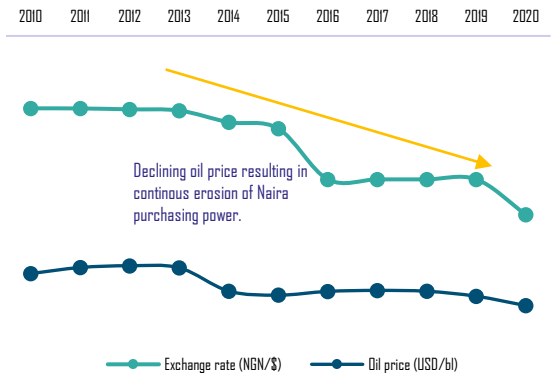
- The pandemic has also compounded rising inflation rate (particularly food inflation), arising from Nigeria's fiscal decision to close its land borders to neighbouring countries amidst reported dumping of goods and high volumes of illegal trade.
- With the economy officially entering its second recession in the last five years since 2016, the need to diversify the economy is imminent, as the days of high oil prices seem a long and distant reality and Nigeria needs to vary its foreign income basket in order to protect the Country's currency and resident manufacturing companies.

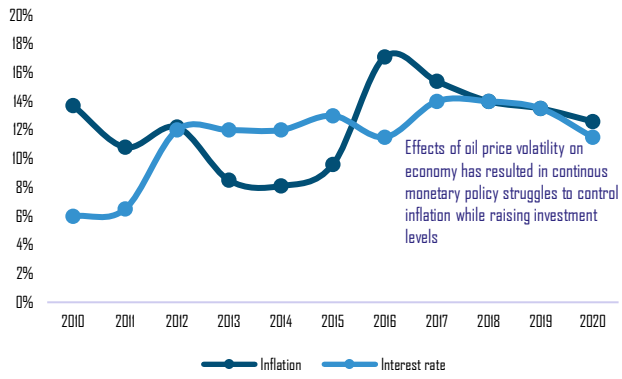
Inflation rate



Source: NBS

Oil price volatility and effects on exchange rate, interest rate and inflation





Nigeria's trade pattern and the Africa Continental Free Trade Agreement

[2] CBN

Having ratified the AfCFTA, Nigeria can potentially access a largely underutilized intra-Africa market thereby driving the competitiveness and growth of local companies, consequently aiding the Country's pivot away from crude oil.

- Nigeria's trading ecosystem is characterized by exports of primary products and importation of finished or intermediate goods. A trading disposition that has resulted historically in negative terms of trade effect with the attendant impact on limiting growth. Much of the trade deficit position is caused by low level of industrialization, poor state of infrastructure as Nigeria who has the largest road network in Africa of 195,000km[3] ranks below neighbouring West-African nations in terms of quality of road infrastructure scoring 2.5 compared to the regional average of 3.3[4], weak and inchoate trade policy environment which adds additional costs to local goods. This is reflected in Nigeria's overall trading across border index score of 29 points compared to Sub-Saharan African average of 53.6 in 2019[4].

- Aggravating the trade deficit is the limited regional integration and low level of formal trading between Nigeria and its neighbors, who also share the same economic pathologies as Nigeria. Consequently, Nigeria and its regional market space becomes a dumping ground and outlet for external finished goods, with Nigeria being the largest recipient, given its size as the biggest economy in the region.
- The ECOWAS Trade Liberalization Scheme (ETLS) was created by the Regional Economic Community in its bid to improve regional trade. It is administered by the ECOWAS Commission through the member's states such that duty-free trade between ECOWAS countries is encouraged. The scheme offered unhindered market access to the fifteen member countries and promotes economic relations within the sub-region.
- The implementation of ETLS in Nigeria and across member states was not effective due to the complexity of the rules of origin and the cumbersome accreditation procedure. Also, the ETLS lacked legal backing at the national level, lacked adequate awareness and other member states refused to submit their sovereignty to any regional authority.
- Following consultations with national stakeholders prior to signing the agreement, Nigeria assented to the African Continental Free Trade Agreement (AfCFTA) – a continental free trade agreement intended to increase intra-African trade by eliminating cross-border tariffs and non-tariff barriers to trade in goods and a liberalization of trade in services.
- Subsequent to signing in July 2019, Nigeria promptly closed its borders citing abuse of trading rules by its neighbours, as well as an effort to stem illicit trade flows as the reason for the closure. The inconsistency of this move via-a-vis a recent signing of the AfCFTA indicates a lack of coordination by the policy makers and overall institutional environment in the Country.
- The recent ratification of the AfCFTA[5] is however expected to lead to liberalization of trade within Africa and Nigeria is also expected to re-open its land borders (the Federal Government recently announced the re-opening of the Seme, Illela, Maigatari and Mfun land borders while the other borders are to be opened before December 31, 2020) in the short term as part of its efforts to ensure MSMEs benefit from AfCFTA.
- AfCFTA is expected to stimulate economic growth and create jobs in substantial numbers that would prepare Africa for about 11 million youths that enter its job market every year[6]. An economic and trade governance structure would be established that modernizes Africa's economy and puts it on a surer footing within the

3 Logistics Capacity Assessment

4 World Economic Forum Global Competitiveness Report, 2019

5 https://nairametrics.com/2020/11/12/afcfta-nigeria-agrees-to-rati1fy-agreement/

6 Nigeria Office of Trade Negotiation

global landscape. By eliminating tariffs, the AfCFTA can boost intra-African trade by 52% and expand the size of Africa's economy to $29 trillion by 2050[7].

- The enlarged continental market fostered by the AfCFTA is expected to attract higher FDI flows into the continent to support African infrastructure development and increase productivity, support diversification, value addition, and structural transformation. This is expected to trickle down to Nigeria given the large market and government's drive to grow the economy via the Economic Recovery and Growth Plan (EGRP) and its succeeding economic plan.

[7] United Nations Economic Commission for Africa

Overview of the zero-oil initiative

3. The Zero-oil Initiative

3.1. Overview of the Zero-Oil Initiative

- The Zero Oil Initiative was developed in 2016 by the Nigerian Export Promotion Council in collaboration with the Ministry of Budget and National Planning and was targeted at boosting exports, diversifying the economy from oil reliance and increasing the foreign reserves position of the country. The plan was embedded into the Economic Recovery and Growth Plan and it was developed as a response to the economic recession experienced in 2016 and to mitigate the Country's over-reliance on crude oil exports for economic and export growth.

Objectives of the plan

Foreign reserves
The NEPC believes that a strategic focus on non-oil products has the potential to generate additional $150b (at the minimum) to Nigeria's foreign reserves cumulatively from non-oil exports over the next 10 years.

State inclusion and empowerment
The Plan is also expected to aid in empowering each State and its people, by integrating them into the exports value chain.

Job creation
The plan is also expected to help create at least 500,000 additional export linked jobs annually, due to increase in productive export activities.

Poverty alleviation
Through increased earnings and job creation the NEPC believes that the zero-oil plan can help lift at least 10 million Nigerians out of poverty.

- The NEPC identified 22 products across multiple sectors where Nigeria should focus to grow total exports. These products were selected based on the ease of production and Nigeria's comparative advantage. The products were further segmented into Categories A and B based on the estimated target export value.

Category A		Category B	
Product	**Target Export Value ($b)**	**Product**	**Target Export Value ($b)**
Petrochemicals	7.5	Cement & Clinkers	0.5
Soya	5	Cashew	0.5
Sugar	3	Sesame	0.5
Cotton	2	Tomato	0.25
Fertilizer	2	Banana & Plantain	0.25
Cocoa	2	Oranges	0.25
Gold	2	Cassava	0.25
Palm Oil	1.8	Spices	0.25
Rice	1.3	Ginger	0.1
Rubber	1.3	Shea Butter	0.1
Leather	1	Cowpea	0.1
Total	**28.8**	**Total**	**3.05**

Source: NEPC, 2016

3.2. Independent assessment of the identified products of the Zero-Oil Initiative

- In order to identify the focus product of this study, we have carried out an independent assessment of the identified products of the Zero-oil initiative as detailed below.

Metric	Description	Scoring system		Weight
Product Development	This metric assesses the current phase of Nigeria's production capacity –whether the Country is a net-importer or exporter of the product, and the existence of large-scale manufacturers as against multiple groups of small-scale manufacturers operating in the sector. A sector with large scale manufacturers and value-adders require less investments to drive production capacity and ultimately exports.	Net-Exporter	30	0.2
		Net-Importer with identifiable presence of large-scale manufacturers	20	
		Net-Importer without identifiable presence of large-scale manufacturers	10	
		Net-Importer with no presence of manufacturers (Zero export bill)	-	
Export Market Gap	This metric assesses the global market size available for the products given areas of existing trade gaps, and these market gaps are further classified by continents to identify the top importing regions for the product. A large market gap presents a business case to develop the product further for exports.	>$20b	30	0.3
		Between $10b - $19b	20	
		Between $1b - $9b	10	
		<$1b	-	
Competitive Advantage	This metric assesses the level of regional competition of the identified products, specifically in the West-African region. The aim of this metric is to ensure Nigeria focuses on products which the Country has existing export base and has competitive ability to trade relative to its nearest neighbours (who share similar economic and trade characteristics)	Zero competitor in West-Africa	30	0.3
		Less than 3 competitors in West-Africa	20	
		3 - 5 competitors in West-Africa	10	
		>5 competitors in West-Africa	-	
Compliance Requirements	This metric assesses the applicable globally recognized standards and quality specifications required to export. This is important to consider as most countries tend to have their own specific quality and certificate requirements.	1 globally accepted standard framework	30	0.2
		2 - 3 required standards framework	20	
		4 – 5 required standards framework	10	
		>5 required standards framework	-	

3.3. Product score sheet

Category A products

S/N	Product	Product Development			Export Market Gap			Competitive Advantage			Compliance Requirements			Total (a+b+c+d)
		Score	Weight	WS (a)	Score	Weight	WS (b)	Score	Weight	WS (c)	Score	Weight	WS (d)	
1	Soya	30	0.2	6	30	0.3	9	20	0.3	6	20	0.2	4	**25**
2	Propane	30	0.2	6	20	0.3	6	30	0.3	9	20	0.2	4	**25**
3	Fertilizer	30	0.2	6	20	0.3	6	30	0.3	9	10	0.2	2	**23**
4	Gold	30	0.2	6	30	0.3	9	10	0.3	3	20	0.2	4	**22**
5	Sugar	20	0.2	4	10	0.3	3	30	0.3	9	30	0.2	6	**22**
6	Butane	30	0.2	6	10	0.3	3	30	0.3	9	20	0.2	4	**22**
7	Rubber	10	0.2	2	30	0.3	9	20	0.3	6	20	0.2	4	**21**
8	Leather	30	0.2	6	20	0.3	6	30	0.3	9	-	0.2	-	**21**
9	Cocoa Beans	30	0.2	6	10	0.3	3	20	0.3	6	30	0.2	6	**21**
10	Cocoa Butter	30	0.2	6	10	0.3	3	20	0.3	6	30	0.2	6	**21**
11	Palm-oil	20	0.2	4	20	0.3	6	20	0.3	6	20	0.2	4	**20**
12	Rice	20	0.2	4	10	0.3	3	20	0.3	6	20	0.2	4	**17**
13	Cotton	10	0.2	2	10	0.3	3	10	0.3	3	20	0.2	4	**12**

Category B products

S/N	Product	Product Development			Export Market Gap			Competitive Advantage			Compliance Requirements			Total (a+b+c+d)
		Score	Weight	WS (a)	Score	Weight	WS (b)	Score	Weight	WS (c)	Score	Weight	WS (d)	
1	Ginger	30	0.2	6	-	0.3	-	30	0.3	9	30	0.2	6	**21**
2	Cassava	-	0.2	-	20	0.3	6	20	0.3	6	20	0.2	4	**16**
3	Tomatoes	-	0.2	-	10	0.3	3	30	0.3	9	20	0.2	4	**16**
4	Sesame	30	0.2	6	10	0.3	3	10	0.3	3	20	0.2	4	**16**
5	Cement & Clinkers	30	0.2	6	10	0.3	3	20	0.3	6	-	0.2	-	**15**
6	Cashew	30	0.2	6	10	0.3	3	-	0.3	-	20	0.2	4	**13**
7	Banana & Plantain	-	0.2	-	10	0.3	3	20	0.3	6	20	0.2	4	**13**
8	Spices	30	0.2	6	-	0.3	-	20	0.3	6	-	0.2	-	**12**
9	Orange	-	0.2	-	10	0.3	3	-	0.3	-	20	0.2	4	**7**

Other considerations

We note that the NEPC includes Propane & Butane as part of its targeted products, while these hydrocarbons have scored highly given the set criteria, we believe that given these products are significantly dependent on the exploration and production of oil, including them would skew focus on oil products, as against the objectives of the Plan - a diversification from oil.

Despite the large export market opportunities, we have also excluded Gold and Fertilizer from the focus products because of the nascent state of the mining sector and the lack of MSME involvement in the production of Fertilizer due to the stringent compliance requirements.

3.4. Recommended products

Soya

Basis for selection

- Large export market gap (c.US$50bn)
- High competitive advantage
- Existing export base as the country is currently a net exporter

Rubber

Basis for selection

- Large export market gap (c.US$80bn)
- High competitive advantage

Sugar

Basis for selection

- Significant export market gap (US$8.2bn)
- High competitive advantage
- Low compliance requirements

Leather

Basis for selection

- Large export marke
- (c.US$15.5bn)
- High competitive advantage
- Existing export base as the country is currently a net exporter

Cocoa Beans

Basis for selection

- Promotes social inclusion
- Existing export base as the country is currently a net exporter

Ginger

Basis for selection

- Promotes social inclusion
- Existing export base as the country is currently a net exporter

Market assessment of recommended products

4. Market analysis of recommended products

Nigeria's economy is dominated by micro, small and medium enterprises - with a very large skew of micro enterprises. According to the NBS, 41.5 million MSMEs account for about 50% of labour employment and c.90% of activities in the agriculture and manufacturing sector, however the disproportionate prevalence of the micro segment of this sector and their inability to progressively upscale (largely due to the informality of their operations) has resulted in less than optimal productivity from this sector.

For this study, we have focused on MSMEs operating the agriculture and manufacturing sector across the value chain of Soya bean, leather, rubber, cocoa bean, sugar and ginger. Based on a total population of 12.4 million MSMEs, a 5% margin of error and 95% confidence, a representative sample size of at least 385 respondents (actual respondent size of 470) was selected.

We have summarized the results and analysis of the primary research conducted on players in the respective value chains using the following parameters:

Business registration: Business registration here, refers to the formal registration of the business with the government's approved agency – Corporate Affairs Commission (CAC). The level of formality (or informality) of MSMEs operating within each recommended value chain is key to understanding the degree to which they would be affected by government-driven initiatives and policies.

Turnover: This gives an indication of the size of players within these value chains. Given that international trade requires significant level of investment to meet compliance and quality costs, the relative size of these players would give an indication of their ability to take on these cost burden.

Employee number: The employee number is a globally accepted criteria used to classify MSMEs, this criterion also gives an indication of the level of employment along each value chain of the selected products

Standards and Quality: This seeks to understand the level of awareness of international trade process and standards of the respondents within the value chain of the selected products.

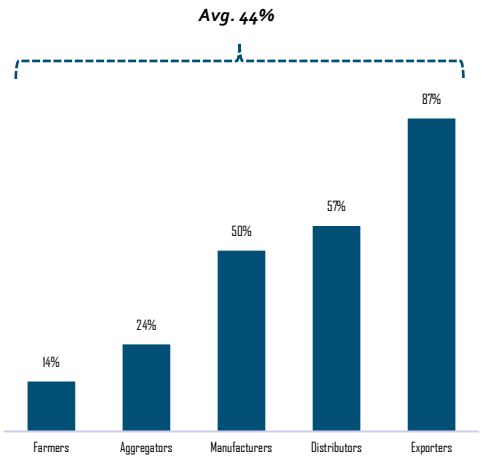
Business development: This seeks to understand the level of business development in the value chains through business linkage initiatives like offtake agreements, access to finance as well as the impact of COVID-19 pandemic on production.

Key challenges: This seeks to identify the primary challenges faced by producers and exporters of the selected products, this is crucial to help map out strategies that would boost productivity of these MSMEs.

Our findings are detailed as follows:

Overall characteristics of profiled MSMEs

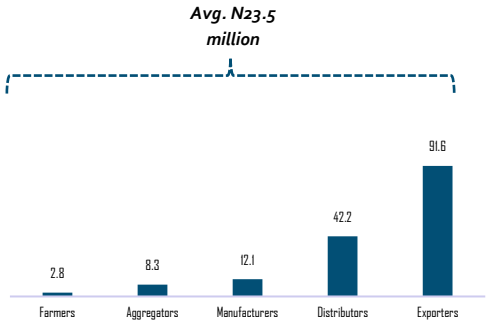
Business formalization



Source: EY Analysis, Decision Support

- 44% of respondents surveyed were registered with the CAC. There appeared to be a correlation between the type of business and the level of formalization as only 14% and 24% of farmers and aggregators surveyed had registered their business compared to 87% of exporters which typically operate more within the formal economy.
- Asides cost of registration (22%) and general belief that the process was lengthy and stressful (14%), 40% of respondents believed that they lacked the required documentations for formalizing their business, indicating the need for sensitization as no documentation is required to commence the business registration process.

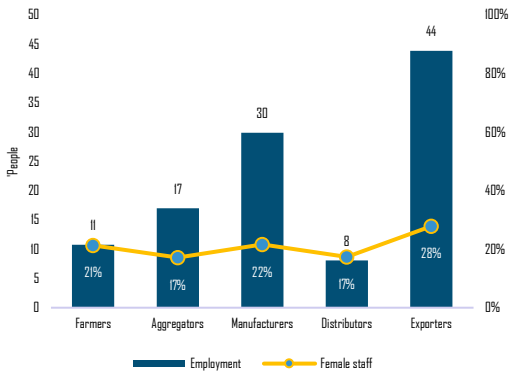
Turnover and size



Source: EY Analysis, Decision Support

- Surveyed respondents indicated an average revenue of c.N23.5 million, primarily driven by the high revenues from distributors and exporters.
- Further analysis indicates that over 64% of participants in these value chains generate less than N5 million in annual turnover individually.

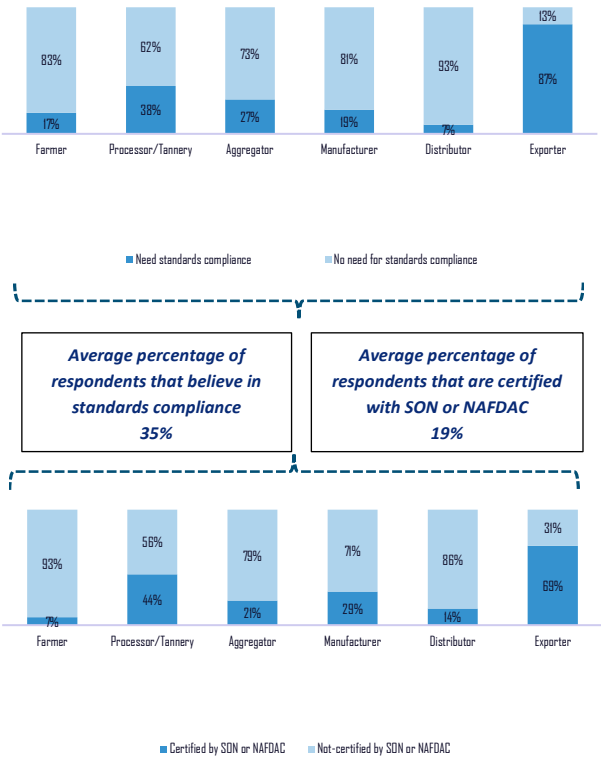
Employment



Source: EY Analysis, Decision Support

- Businesses along these value chain employ an average c.11 people (including family members). This is particularly as the agriculture and manufacturing sector remains labour intensive in Nigeria.
  Following a similar pattern as the revenue generation, the exporters were the largest labour employers (c.44 people), closely followed by manufacturers and processors (c.30 people).
- Respondents indicated an average female representation of 21% across its staff, another indication of low female participation in the sector.

Standards and quality

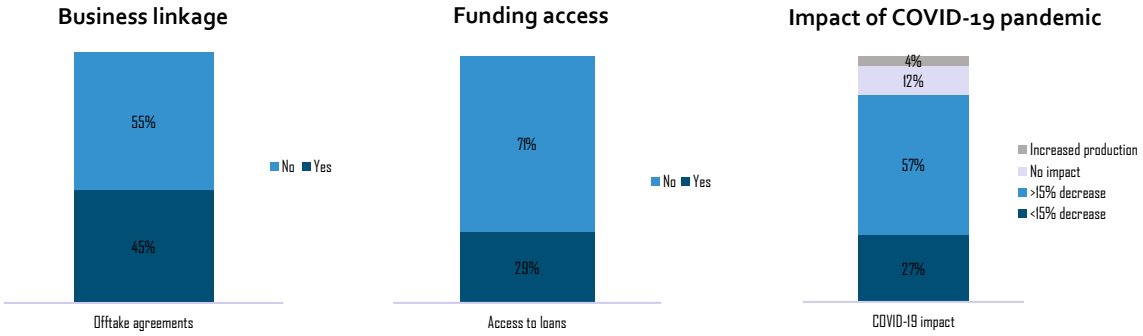


- The awareness and understanding of the need for compliance with prescribed local or international production and export standards is dominant within exporters (87%) and significantly lower across the other segments of the value-chain.
- Further analysis of knowledgeable base across all segments indicated that although 85% had knowledge about international standards (West Africa, African or global standards) only of 19% total surveyed respondents were certified by either SON, NAFDAC or NAQS
- This indicates that the poor state of quality and standards compliance of Nigerian product begins with the farmers – only 7% certified, and this has subsequently led to multiple cases of returned goods at the global market.

Source: EY Analysis, Decision Support

Business development

- 45% of respondents surveyed indicated that they had offtake agreements (either in form of legal contracts or unofficial agreements) with other small and large businesses. They also cited this business linkage opportunities as one of the major reasons they were members of trade associations.
- However, 71% of respondents had not received financial loans over the last 3 years citing reasons such as unprocessed applications, high interest rates and a general lack of access to available funding options. As such, most MSMEs profiled rely on profit generated as well as soft loans from family & friends for any expansion plans and production increase.
- Given the impact of the ongoing pandemic, initiatives to ensure funding support is accessible to the non-oil sector is crucial with over 57% respondents indicating the pandemic had negatively affected production by over 15% of annual production (a further 27% respondents had been negatively impacted by less than 15%).



Source: EY Analysis, Decision Support

Key challenges

Highs levels of informality, limited capacity of MSMEs & supporting trade agencies and the absence of a concerted, adequately structured awareness & information dissemination structure continues to limit the potential of the non-oil sector

Observations and results of surveys conducted as part of the market analysis highlighted these key barriers limiting the non-oil sector in Nigeria:

Key barrier	Details
Informal nature of MSME operations	MSMEs in Nigeria generally report low level of formality and this serves as the genesis of their inability to upscale and achieve the potentials of the sector. Due to their informality, a wide group of MSMEs in these sectors are disenfranchised from most policies of the organised private sector and initiatives of the government aimed at their development. Efforts of the federal government aimed at integrating the group into formal economy such as the subsidized cost window seems to have slightly improved the sector over the last two years, however this has also been scuppered by the general lack of awareness of the process by MSMEs (39% of unregistered respondents indicated limited knowledge of the process as the major reason they have remained informal) consultants for this process – which in turn raises their cost burden and negates the subsidy given by the Federal government.
Size and capacity	Across the non-oil sectors that MSMEs generally operate, there are significant skill gaps and inadequacies due to their lack of economies of scale. Across the six products examined, Nigeria has a relatively low yield compared to amount of resources invested, this is in part caused by the quality of input used by local producers and farmers (82% of respondents indicated that raw materials were sourced locally – mostly a recycle of harvest used as seeds for next production cycle). The low yield is also caused by the inability of local producers to fund advanced production techniques as they do not have the requisite financial capacity.
Access to Finance	Despite the existence of Federal Government intervention funds targeted at the non-oil sector and development of MSMEs in Nigeria to improve access to finance to the sector, these funds have been relatively unutilized as MSMEs cannot access these funds due to levels of informality, size of business and reported bureaucratic process involved in funds disbursement.
Quality and standards	A major limitation to the market competitiveness of Nigerian products is the quality and conformity assessment with prescribed production standards. This particular problem is multi-faceted as it is the combination of: ▪ A general lack of knowledge on the need for these standards as part of the production process – 65% of respondents surveyed believed there was no need to follow any local or internationally prescribed standard during production.

	▪ Limited capacity of knowledgeable MSMEs to follow these standards. The cost implication of adhering to an international standard and getting the required testing and certification exercise conducted is relatively beyond the capacity of the MSMEs and these gaps are left to the manufacturer/exporter to fill thereby resulting in lesser financial returns in the global market. ▪ Lastly, limited quality infrastructure in Nigeria. Asides the lack of knowledge and cost implications, MSMEs capable of bearing such cost have to face the challenge of having only a limited number of accredited testing labs capable of certifying products in Nigeria.
Infrastructure deficit	There is need for increased capital investments in trade carrying infrastructure (ports, road, rail). Nigeria's trade is conducted via a limited number of transit points due to paucity of seaports and formal land borders, as well as under-utilization of existing transport infrastructure, as such significant volume of goods (particularly exports) are lost annually due to various bottlenecks at ports (including the sub-optimal truck call-up system currently in place) in Nigeria -majorly the Apapa and Tincan ports in Lagos, with BMI estimating c.86% of Nigeria's trade is conducted through both seaports. This location imbalance coupled with other infrastructure deficits such as bad access routes to and within the ports (roads and rails), consequently lead to increased cost for local producers and limits the competitiveness of Nigerian products. Beyond these "trade-carrying" infrastructure, the overall dearth of supporting infrastructure such as power, industrial parks and storage & processing zones in Nigeria add to the operating costs for producers and traders and ultimately limit the competitiveness of Nigerian products.
Inefficient customs and border processes	Import and export process in Nigeria tend to be conducted in an inefficient manner, due to several problems such as • lack of required technical equipment by trade agencies; • presence of multiple officials from various agencies at the exit points (due to a lack of a single window system); and • the incoherence between these agencies on regulatory interpretation. . With 52% of respondents alluding to the prevalence of illegal practices at ports and borders, the inefficient export process not only adds to the cost of doing business, it also dissuades participants from international trade. This effect of these additional costs limits Nigeria's competitiveness as the producers face higher costs compared to peer countries as shown below[8]:

8 Comparative Assessment of Tariffs /Costs at Ports along the West African Coast - PDF II/ Nigerian Ports Authority

<table>
<tr><td></td><td>
<table>
<tr><th rowspan="2">Country</th><th colspan="2">Cost to Export / Compliance $ (2018)</th></tr>
<tr><th>Documentation</th><th>Border</th></tr>
<tr><td>Nigeria</td><td>250</td><td>785</td></tr>
<tr><td>Benin</td><td>80</td><td>354</td></tr>
<tr><td>Ghana</td><td>155</td><td>490</td></tr>
<tr><td>Togo</td><td>25</td><td>163</td></tr>
<tr><td>South Africa</td><td>55</td><td>1,257</td></tr>
</table>
</td></tr>
<tr><td>Information dissemination</td><td>The market analysis also revealed that the information dissemination system in Nigeria is quite limited in its outreach and better communication strategies need to be developed. MSMEs largely rely on trade associations, aggregators and peer-to-peer interaction for their information gathering.</td></tr>
<tr><td>Regulatory environment</td><td>Strong regulatory framework and institutional discipline is required to drive the development of linkages between the various MSME strata, as well as the synchronisation and harmonisation of various government and organised private sector actions.

There exist multiple players in the MSME and non-oil sector development space, however these different players often operate in silos, with limited information sharing. As such there is a lack of congruency and synergy in this effort, consequently limiting the overall impact on MSMEs.</td></tr>
</table>

4.1. Overview of products

4.1.1. Soya Beans

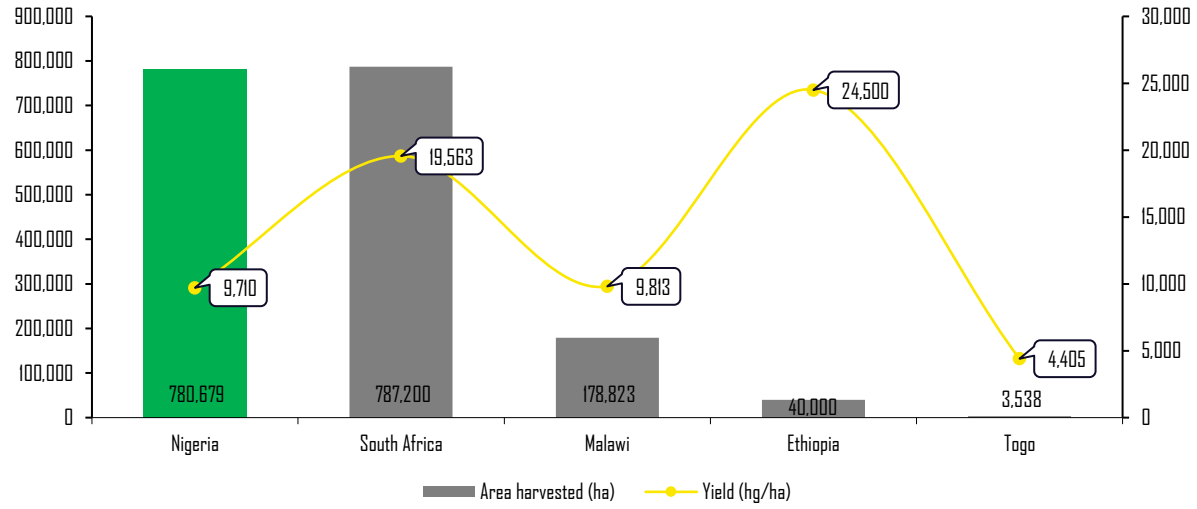
Description

Nigeria is the second-largest Soya Bean producer in Africa, with a production of c.700,000MT accounting for c.21% of total African production of 3.2 million MT. However, this volume represents less than 1% of the total global production of 316 million MT. The Country's production is centred in the Northern region, particularly North-Central and North-West states like Benue, Kaduna, Taraba and Nasarawa which make up c.96[9]% of total production[6].

Soya is a major cash crop to farmers in Nigeria as it has various uses, however studies indicate that 60% of Soya processed in Nigeria is targeted at processed animal feed i.e. inputs for poultry, aquaculture, swine and cattle feed while 10% of produced Soya is channeled towards industrial use for the production of petrochemicals such as lubricants, adhesives, paints, hair care products, and polyesters[7].

The total estimated Soya Bean harvested area in 2018 was 780,679 Ha which represents a 5.4% CAGR from a size of 633,016 as at 2014. However, the obtainable yields from the product remains low when compared to other top producers and exporters in the continent.

Dedicated land area and yield



So

According to FAO, a key factor contributing to low yields in Nigeria are poor agricultural practices as local farmers do not have sufficient knowledge about the best practices that should be adopted to improve

[9] DFID - Mapping of soybean production areas in Nigeria

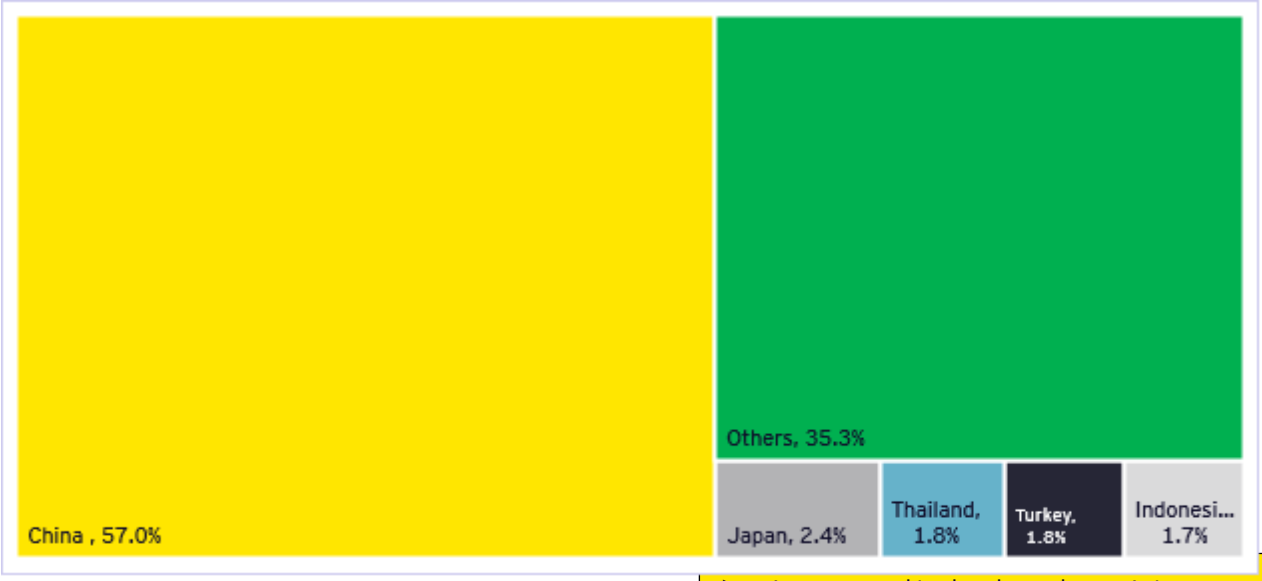
[7] Soybean Value Chain in Nigeria, Isaac Boateng

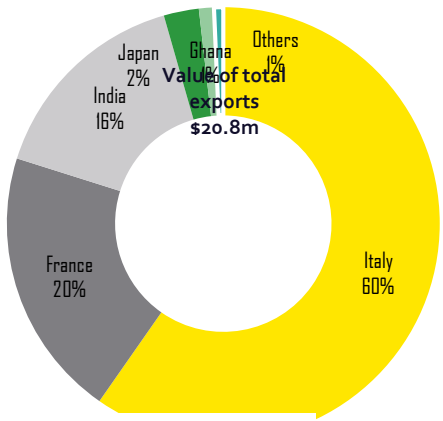
production yields. In addition, lingering issues such as access to inputs i.e. Fertilizer and quality seeds, and the lack of mechanized agricultural systems are hurdles faced by most players operating in the agricultural sector.

Global trade value - $59.2b

Trade ecosystem

Top Importers of Soya Beans (Global)



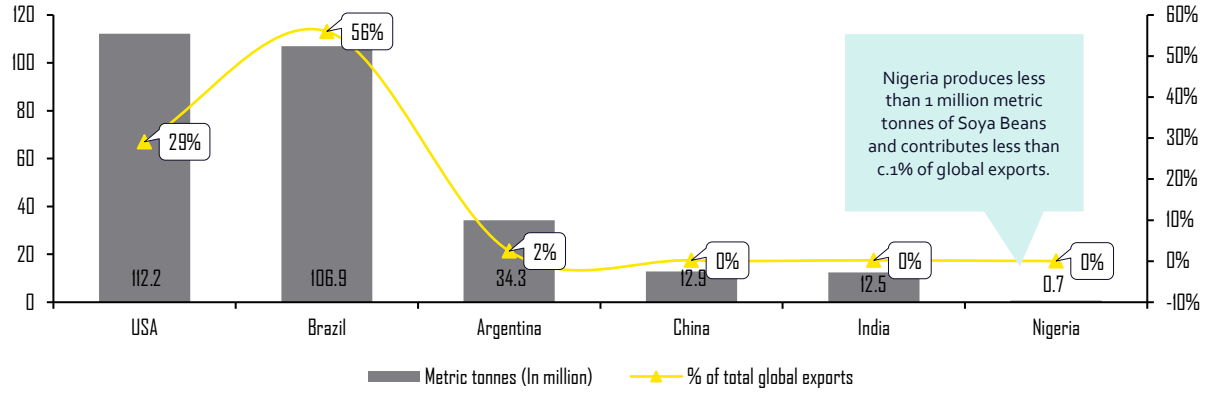


Source: OEC Trade Data, 2018

- As presented in the chart above, Asian countries (particularly China which imports 57% of global Soya trade) presents the biggest market for Soya Bean exports across the globe.
- Nigeria, a net-exporter of the product, trades primarily with European countries (i.e. Italy and France) and India. The country also trades with Japan who is amongst the top 3 importers of the product (2% of global imports).
- Given existing trade relationship with China (Nigeria's top import partner), Nigeria would benefit from negotiating a trade agreement for the supply of Soya bean to the World's largest importer of the product.

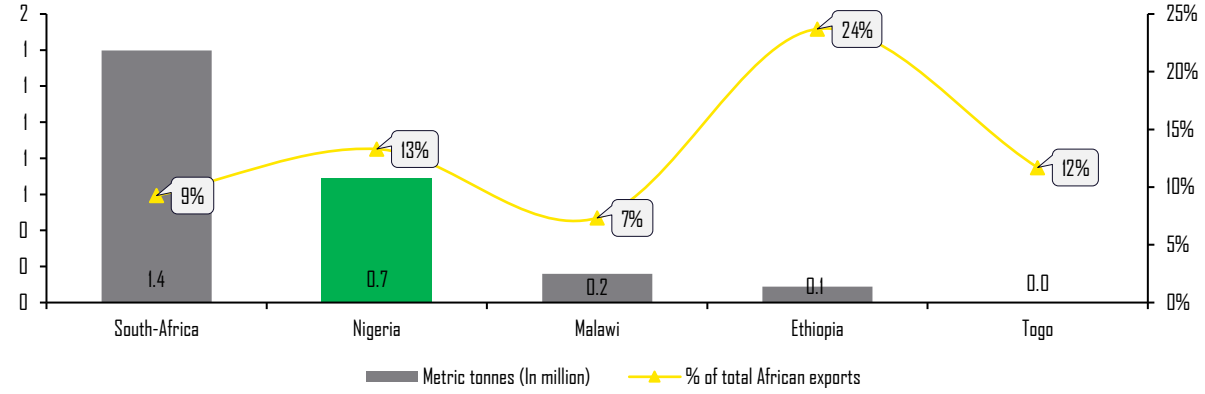
Production concentration analysis

Top producers of Soya Beans (Global)



Source: OEC Trade Data, FAO Production Data 2018

Top producers of Soya Beans (Africa)



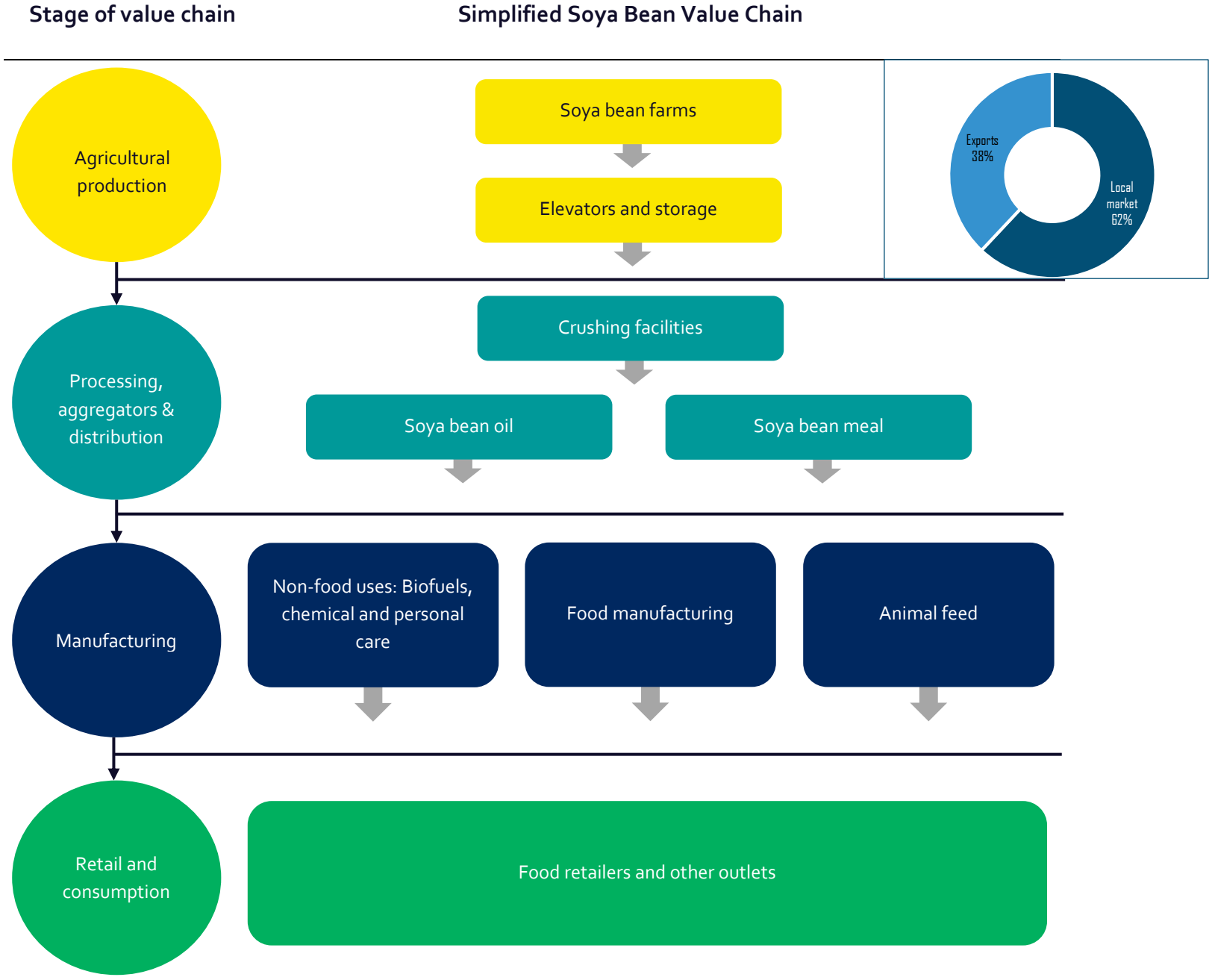
Source: OEC Trade Data, FAO Production Data 2018

- Nigeria is the second highest producer (21% of total production) of Soya-Beans in Africa. However, the country tends to retain most of the produced Soya-Beans and relatively receives less value for its exports ($300/MT) thereby contributing only 13% of total African exports. This is compared to Ethiopia ($560/MT) and Togo ($480/MT) who produce less quantity but have higher export yields than Nigeria[7]. Stakeholders consulted indicated this may be attributed to the low level of compliance with global quality and standard requirements in the production of the commodity.
- On a global scale, the North and South American continents produce c.87% of total soya beans across the world, while Asia and Europe make up c.97% of total global market gap. These regions should be targeted by Nigeria to foster the growth of Soya exports.
- Additionally, some of the policies adopted by these high producing countries can be replicated by Nigeria to scale up the current production levels. For example, Brazil introduced initiatives such as tax incentives for producers, and the establishment of a significant industrial soybean processing infrastructure to become one of the leaders of Soya production[8].

[7] Tridge market intelligence, EY analysis

[8] A Comprehensive Survey of International Soybean Research - Genetics, Physiology, Agronomy and Nitrogen Relationships

Soya Bean value chain



Source: Ceres

Standards and compliance requirements

For quality, ISO 22000 (Food Safety Management) is the expected minimum globally accepted standard for all food products including soya bean, compliance certificate for this standard is issued by the Standards Organisation of Nigeria (SON). The NAQS is also expected to issue phytosanitary certificates for export of unprocessed soya bean to ensure safety and quality as regards use of pesticides and other chemicals.

Other import-destination specific standards include:

Top global markets

Country	Quality requirements for production and imports
China	▪ ISO 5506:2018 ▪ ProTerra Standards
Japan	▪ Act for Stabilization of Supply-Demand and Prices of Staple Food ▪ Plant Protection Act ▪ Food Sanitation Act ▪ JAS Law (Law Concerning Standardization and Proper Labeling of Agricultural and Forestry Products) ▪ Food Labelling Law
Thailand	▪ Food Act of B.E. 2522 (1979) ▪ GMP by Thai Law ▪ GMP by Codex ▪ HACCP ▪ Thailand's Plant Quarantine Act (No. 3) B.E. 2551
Turkey	▪ Law no. 5996 ▪ Regulation on plant quarantine
Indonesia	▪ Indonesia's Food Law 18/2012 ▪ Act Number 12 of 1992 concerning Cultivation of Plants ▪ Act Number 16 of 1992 concerning Animal, Fish, & Plant Quarantine ▪ Act Number 8 of 1999 concerning Consumer Protection ▪ Act Number 20 of 2014 concerning Standardization and Evaluation of Conformity ▪ Act Number 20 of 2016 concerning Brand and Geographical Indication ▪ Government Regulation (PP) Number 69 of 1999 concerning Food label and Advertisement ▪ Government Regulation (PP) Number 14 of 2002 concerning Plant Quarantine ▪ Government Regulation (PP) Number 28 of 2004 concerning Food Safety, Quality, and Nutrition ▪ Entry permit (SKI) ▪ National Agency of Drug and Food Control Regulation No.1564/2012

Source: United States Department of Agriculture – Food, Agriculture and Importers Reports for Japan, Indonesia, Thailand and Turkey

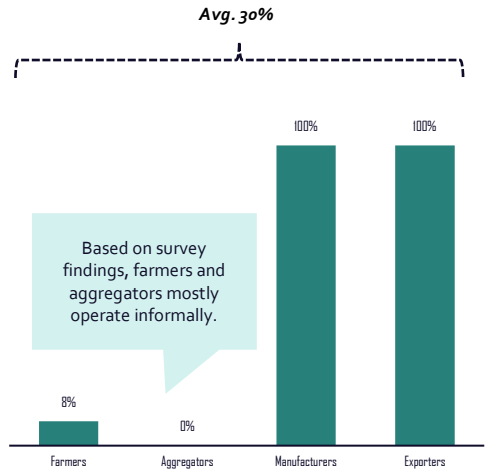
For Nigeria's top export destinations

Country	Quality requirements for production and imports
Italy	▪ Food Information to Consumers (FIC)" regulation 1169/2011 ▪ FEFAC Soy Sourcing Guidelines ▪ ProTerra and Donau Soja/ Europe Soya certification
France	▪ FEFAC Soy Sourcing Guidelines ▪ ProTerra Standards
India	▪ The Food Safety and Standards Act, 2006 ▪ The Legal Metrology Act, 2009, and the Legal Metrology (Packaged Commodities) Rules, 2011 ▪ Plant Quarantine (Regulation of Import into India) Order, 2003 ▪ The FSS Packaging and Labelling Regulation, 2011 ▪ FSS (Contaminants, Toxins and Residues) Regulation, 2011
Japan	▪ Act for Stabilization of Supply-Demand and Prices of Staple Food ▪ Plant Protection Act ▪ Food Sanitation Act ▪ JAS Law (Law Concerning Standardization and Proper Labeling of Agricultural and Forestry Products) ▪ Food Labelling Law
Ghana	▪ ISO 5506:2018
UK	▪ *BS EN ISO 14902:2001* ▪ *BS EN ISO 17059:2019* ▪ *BS ISO 5506:2018* ▪ *PD CEN/TS 15634-5:2016*

Source: United States Department of Agriculture – Food, Agriculture and Importers Reports for Italy, France, India and Japan, British Standards Institute

Characteristics of the typical Soya bean value chain exporter

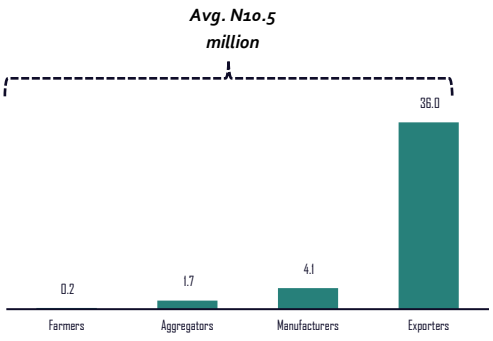
Business formalization



Source: EY Analysis, Decision Support

- With significant portion of this product class operating at the farm level, only 30% of Soya Bean respondents were registered with the CAC, primarily driven by the high formality of the manufacturers and exporters.
- Due to generally low level of awareness and education in Northern Nigeria, 38% of respondents believed they lacked the required documentations to commence the registration process while additional 18% indicated they lacked knowledge of the entire registration process.
- With Nigeria requiring significant investment in boosting local production of Soya bean in order to maximize its export potential, the integration of these informal group of producers and aggregators into formal economy must be of primary importance.

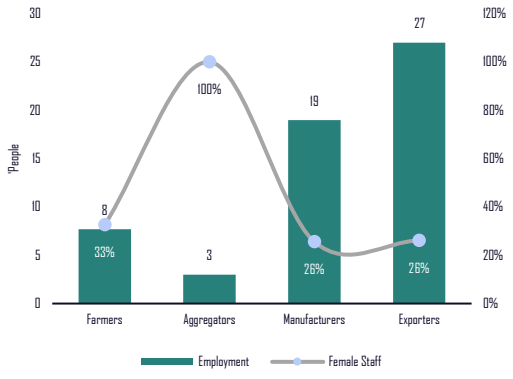
Turnover and size



Source: EY Analysis, Decision Support

- Surveyed respondents earn an average revenue of c.N10.5 million, with most of the value derived by exporters of the product.
- Further analysis indicates that over 84% of operators in the Soya Bean value chain earn less than N5 million in annual turnover with farmers accounting for c.83% of this category of earners.

Employment



Source: EY Analysis, Decision Support

- Operators in the Soya value chain employ an average of c.14 people with exporters and manufacturers creating the most jobs for an average of 27 and 19 people respectively. This shows the capability of the product to generate additional employment significant efforts are targeted at value-addition.
- Respondents indicated that 28% of their staff (including family members) were female, with the gender dominating the aggregator segment of the product's value chain.

Standards and quality

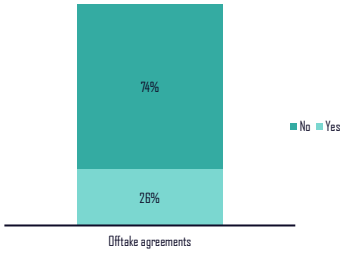
- About 17% of respondents believe there is the need to follow prescribed local or international standards in their production process.
- Further analysis of this subset indicated 67% were knowledgeable about global standards as they traded with larger business in the value chain, with 33% focused on adhering to standards for the local market. There appeared to be little focus on African market by participants in this value chain (particularly as only 1% of Nigerian exports is traded within Africa)
- Despite their awareness c.8% of these respondents are certified by either SON, NAFDAC while c.92% of total respondents operated without certification.
- This could lead to potential issues of non-conformity during production and exports to foreign markets.

Source: EY Analysis, Decision Support

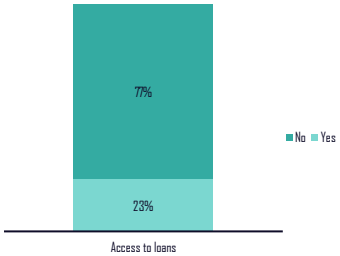
Business development

- Offtake agreements within this product class seemed unpopular with only 26% of respondents surveyed indicating they had supply agreements (either in form of legal contracts or unofficial agreements). The survey also indicated that these were small groups of farmers who dealt directly with large businesses.
- Consequently, due to their size and lack of ready demand, 77% of respondents have not received loans over the last 3 years with key reasons cited including high interest rates (36%), lack of access due to informality (19%), and short unfavourable tenors (14%). As such, the MSMEs within this category source for primarily from family & friends and their respective trade associations. This somewhat indicates the key role trade associations would play in fostering the growth of the non-oil sector as they are the primary organisers of these producers/farmers.
- The ongoing pandemic negatively affected c.90% of Soya Bean producers as these respondents suffered production declines over the months of 2020. The recovery of lost output would be hinged on the type of immediate targeted interventions from government to incentivise production and demand in this sector.

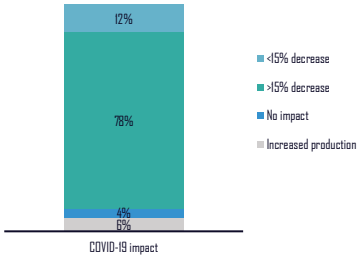
Business linkage



Access to loans



Impact of COVID-19 pandemic



Source: EY Analysis, Decision Support

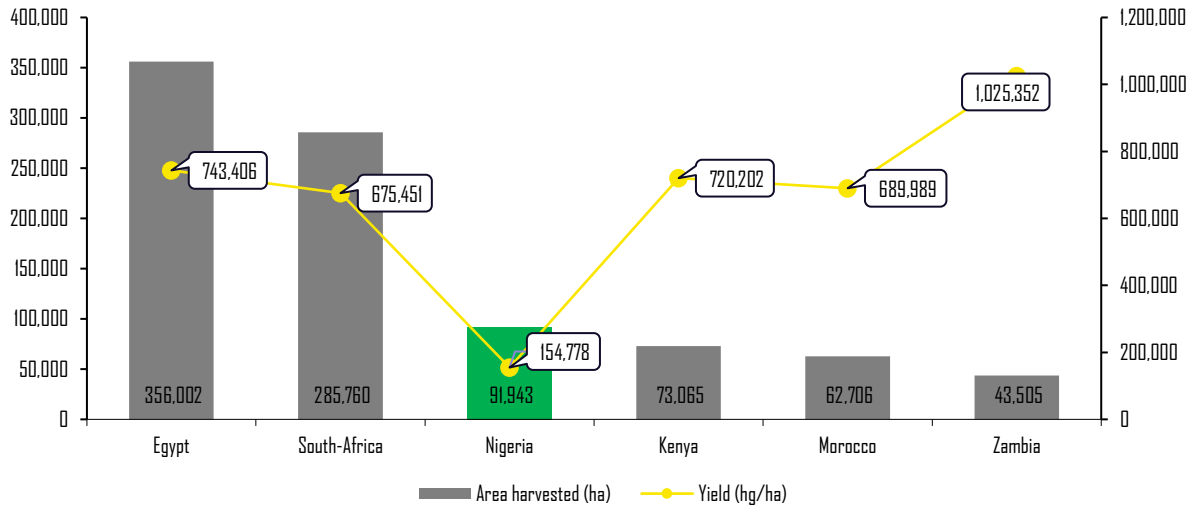
4.1.2. Sugar

Description

Nigeria produces 1.3 million MT of sugar which represents c.1% of total sugar produced in Africa (c.99.7 million MT)[11]. The Country depends significantly on foreign sources for both raw and refined sugar for local consumption and this is evident in the country's net-import bill of $384 million with Brazil accounting for c.99% of total imports[12]. Due to increasing population, Nigeria's sugar consumption is projected to grow by 2.4% annually up to 2024 with local production growth estimated at an average of 2.1% within the same period[13].

This indicates that Nigeria's reliance on imports is expected to continue in the short – medium term if current investments levels are sustained. Sugar's harvested land area in Nigeria is estimated at 91,943Ha which is relatively low in comparison to top African producers like Egypt and South-Africa who have harvested areas of 356,002Ha and 285,760Ha respectively. The obtainable yields from Sugar tend to be high, however, Nigeria trails behind the top African Sugar producers in this metric as shown in the chart below.

Dedicated land area and yield



Sources: FAO Production Data 2018, EY Analysis

Sugar production requires substantial start-up costs for the development of refineries, however significant opportunities exist along the value-chain, particularly the cultivation of raw sugar, sugar cane and sugar beet. Furthermore, the presence of existing large-scale sugar refiners such as Dangote, BUA and Golden Sugar

11 FAO, 2018
12 OEC, 2018
13 EMIS, 2019

Company presents an opportunity for Nigeria to harness the potentials of the product and scale production volumes to exportable levels.

Accordingly, the implementation of the National Sugar Master Plan (NSMP) which aims to attain self-sufficiency in Sugar via the upscaling of backward integration programmes and via the introduction of a quota system for sugar imports would support the industry's growth. According to the National Sugar Development Council NSDC, the key challenge hindering the product's growth are the volatilities of the macroeconomic environment. The council identified the weakness of the naira as a major barrier for Sugar producers desiring to import the required machinery and plant components for processing. Other challenges cited include the low skill level of local farmers and the unavailability of training resources to bridge this gap.

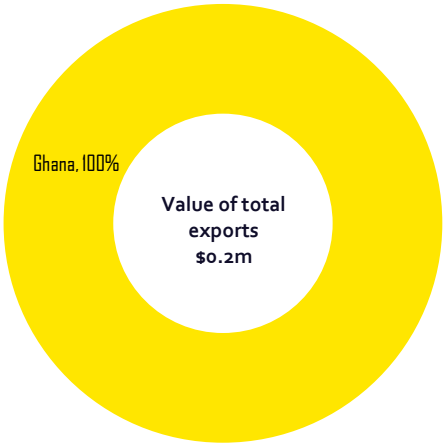
Global trade value - $23.5b

Trade ecosystem

Top Importers of Sugar (Global)

Source: OEC Trade Data, 2018

Top destination of Nigeria Sugar exports

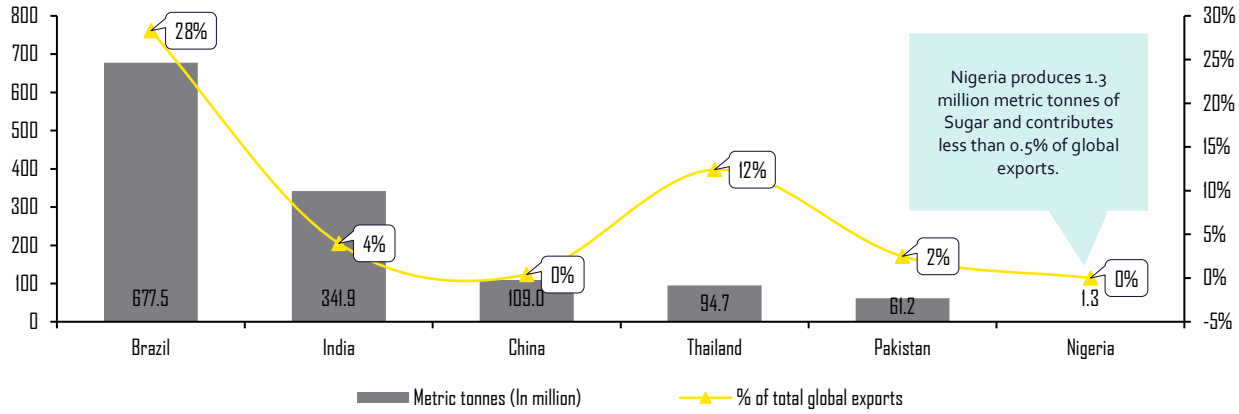


Source: OEC Trade Data, 2018

- The international market for Sugar is fairly diverse and not concentrated in a particular region. However, the top importers of Sugar are China ($1.6b), USA ($1.5b) and Indonesia ($1.3b).
- Given the impending ratification of the AfCFTA, the Algerian Sugar market (largest importer in Africa and 4th largest globally) could serve as an available market for Nigeria and also a justification for increased investment in the sector
- However, for Nigeria to derive value from this product, Investment friendly policies would be required to significantly increase local production.
- Initiatives of the Federal government such as the recent signing of a memorandum of understanding with National Sugar Institute, India to train local manufacturers and improve the overall technical competence of the local producers is also expected to help boost production in the short to medium term.

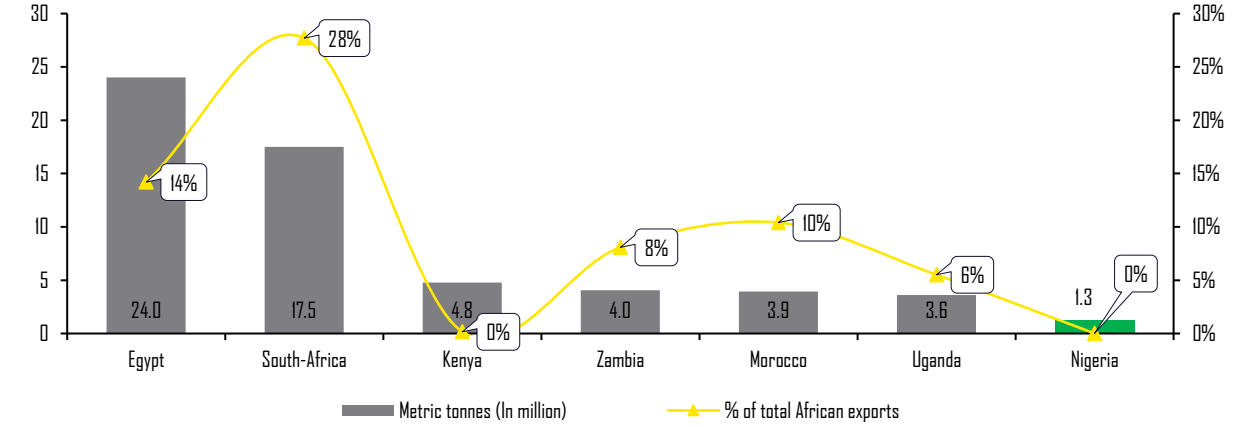
Production concentration analysis

Top producers of Sugar (Global)



Source: OEC Trade Data, FAO Production Data 2018

Top producers of Sugar (Africa)

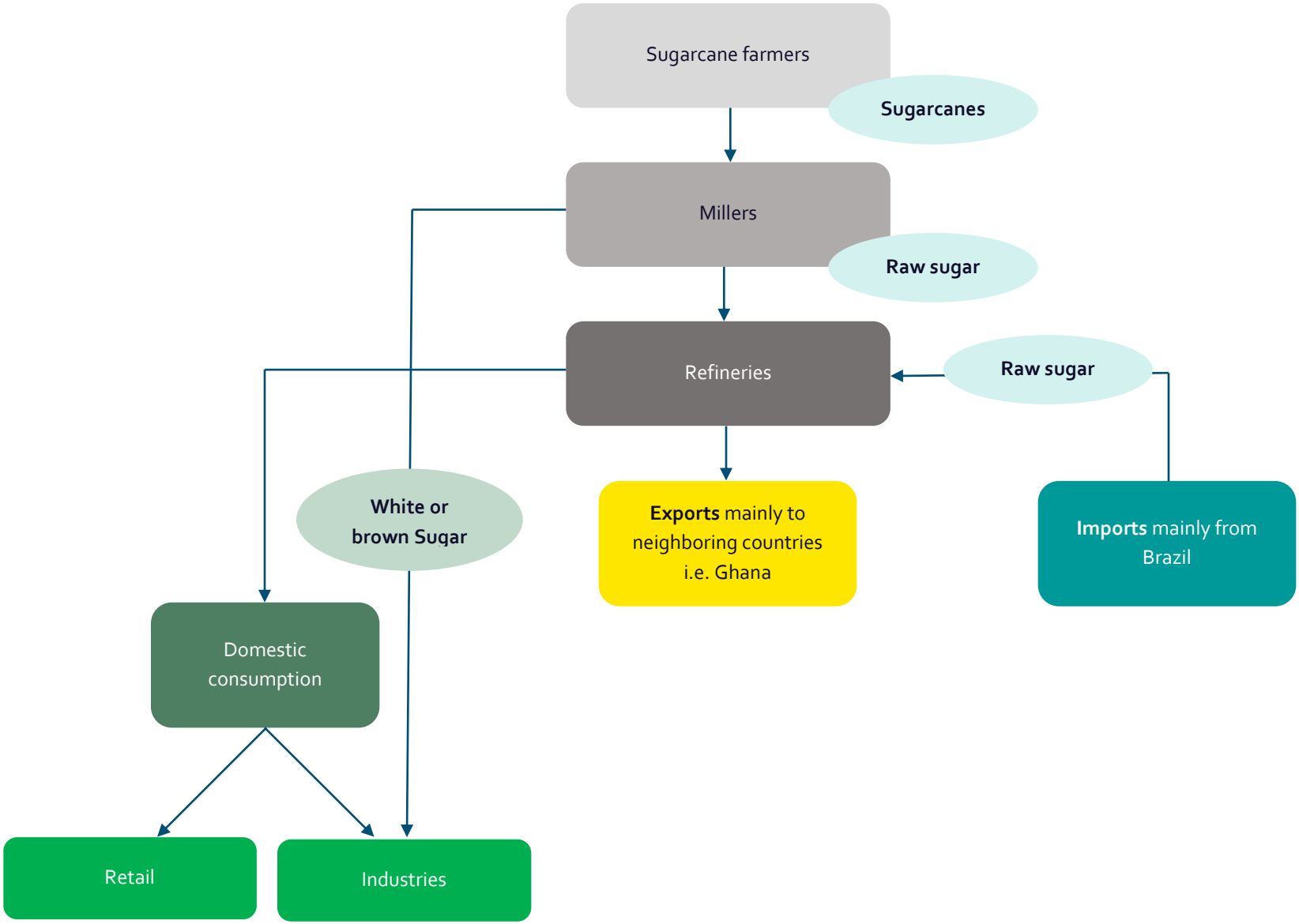


Source: OEC Trade Data, FAO Production Data 2018
Sudan and Eswatini are significant producers of Sugar, with estimated volumes of 5.4 million MT and 5.1 million MT respectively however, export data from these countries are unavailable

- Nigeria performs poorly in terms of production and export contribution when compared to other top Sugar producing African countries. This buttresses the need for government to intensify the actualization of backward integration programs as there are existing large-scale manufacturers in the country that can be leveraged to support increased output.
- South America and Asia are leading the world in terms of Sugar production, contributing c.81% of total sugar volumes, while Asia and Africa account for c.100% of total global market gap. Notwithstanding the high production volumes in Asia, the continent (particularly China and Indonesia) rely on imported sugar for local consumption.
- Brazil, who is the leading producer of Sugar rose to this position via support from multiple government interventions, and the adoption of policies to drive the production and usage of ethanol. As a result, while Brazil produced 677.5 million MT of Sugar in 2018, the country also derived 28.42 billion gallons of Ethanol from the product[9]. Similar initiatives can be applied by Nigeria to drive Sugar production.

[9] Renewable Fuels Association, 2018

Sugar value-chain



Source: FAO

Standards and compliance requirements

For quality, ISO 22000 (Food Safety Management) is the expected minimum globally accepted standard for all food products including sugar, compliance certificate for this standard is issued by the Standards Organisation of Nigeria (SON).

Other import-destination specific standards include:

Top global markets

Country	Quality requirements for production and imports
China	▪ Agricultural Products Import Tariff Quotas Certificate ▪ Label rules for pre-packaged food (GB7718-2011) ▪ Label rules for pre-packaged food's nutritional labelling (GB28050-2011) ▪ ICUMSA 45 Standards
USA*	▪ CODEX STAN 212-1999 ▪ Current Good Manufacturing Practices (21 Code of Federal Regulations (CFR) Part 110) ▪ National Organic Program (7 CFR Part 205) ▪ ICUMSA Standards
Indonesia	▪ ICUMSA Standards ▪ Indonesian National Standard SNI 01-3140.2.2000
Algeria	▪ CODEX STAN 212-1999 ▪ Law 09-03 of 25 February 2009 ▪ The Executive Decree no 05-484 of December 22, 2005 ▪ The ordinance of March 13, 2000, ▪ The Decree no 06-217 June 18, 2006 ▪ Executive Decree No 90-39 of January 30, 1990
Italy	▪ International Plant Protection Convention Standard for Sugar ▪ ICUMSA 45 Standards

Sources: United States Department of Agriculture – Food, Agriculture and Importers Reports for China, USA, Indonesia and Algeria, ICUMSA, ISO, CODEX
*USA has local protectionist policies that regulates the volume of exports annually, with an approved list of potential importers. Imports beyond this level are charged higher tariffs

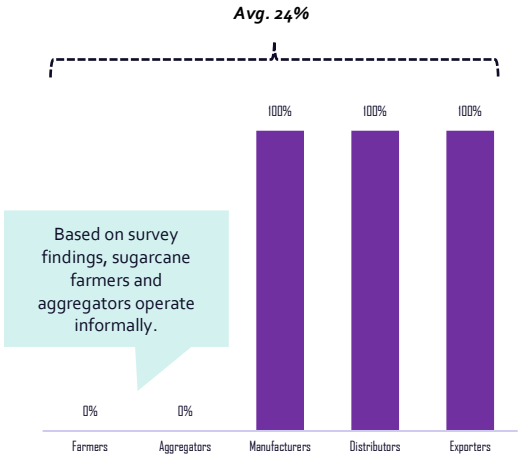
For Nigeria's export destinations

Country	Quality requirements for production and imports
Ghana	▪ ICUMSA 45 Standards
UK	▪ *BS EN 1276:2019* ▪ *BS EN 13140:2000+A1:2009* ▪ *DD CEN/TS 15754:2008*

Sources: ICUMSA, British Standards Institute

Characteristics of the typical value chain participants

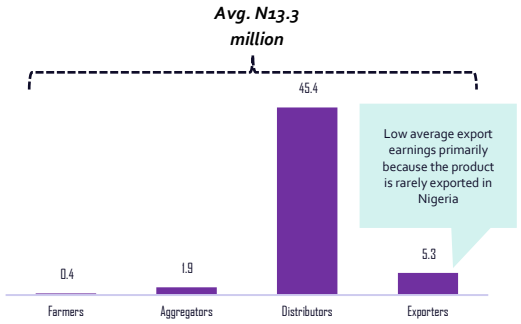
Business formalization



Source: EY Analysis, Decision Support

- Informality remains a recurring theme for all six products however, 24% formalisation rate of the Sugar value chain operators represents the second lowest amongst the six recommended products.
- Formalization in this value chain commences at the manufacturing level, with distributors and exporters also highly formalized.
- Perceived lack of required documentation and attendant registration costs cumulatively account for 76% of the reasons for lack of formalization. Both of which are areas the government have simplified in recent times.
- This suggests that government would need to intensify their efforts towards the promotion of the existing interventions targeted at business registration.

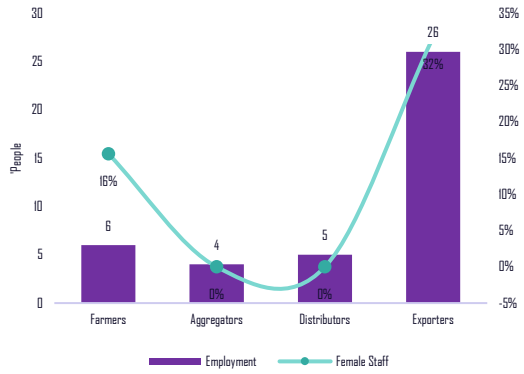
Turnover and size



Source: EY Analysis, Decision Support
Interviewed sugar manufacturers indicated earning above N200 million, however declined to give specific estimates

- The average revenue of respondents in the Sugar value chain is c.N13.3 million, primarily driven by distributors generating the most value from the product.
- 84% of respondents in the value chain earn less than N5 million especially farmers and aggregators who earn the least.

Employment



Source: EY Analysis, Decision Support
Some interviewed sugar manufacturers indicated employing 50 people with 30% female representation, however they declined to give specific estimates

- Players across the value chain employ an average of c.10 people with exporters creating the largest job opportunities for an average of c.26 people.
- The low volume of employment at the primary levels indicates the relatively small size of producers (as against the use of mechanized processes for production)
- Average female representation along the value chain was a low 15%, with aggregators and distributors excluding the gender entirely.

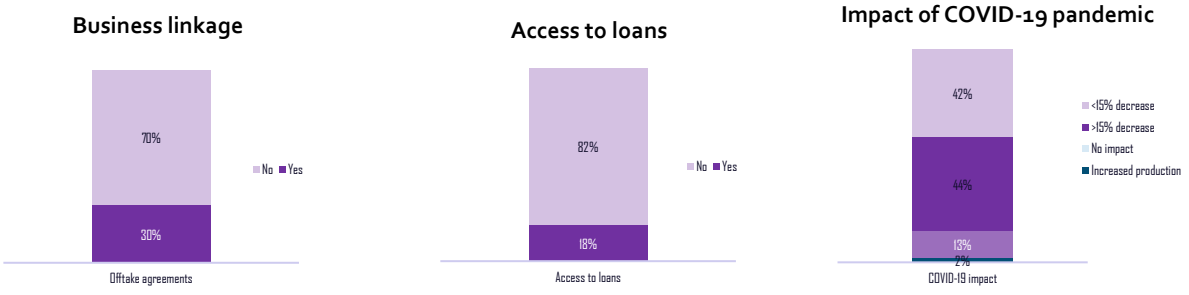
Standards and quality

- Only 20% of respondents indicated knowledge of the need to follow prescribed local and international quality standards for production and exports.
- Subsequent analysis of this small subset indicates that c.90% of players in the value chain are aware of global and continental standards requirements guiding the product's quality.
- Despite the high awareness of this subset, only c.18% of the respondents were certified by either SON or NAFDAC while c.82% of total respondents operate without certifications.
- Although most of the country's production is consumed local, the general lack of standards conformity could limit the export potentials of the product if local production is increased.

Source: EY Analysis, Decision Support

Business development

- 30% of surveyed respondents indicated that they had offtake agreements with their major buyers who are primarily large businesses.
- The findings also show that 82% of respondents have not received loans over the last 3 years with high interest rates the primary reason (61% of responses). On the other hand, sector players that have had access to loans tend to use c.62-66% of the loan proceeds to purchase farm inputs and fixed assets respectively. This indicates that equipment leasing finance may be a viable initiative in the sector.
- The COVID-19 pandemic negatively affected c.85% of Sugar producers as the respondents experienced supply chain disruptions caused by government-imposed lockdowns particularly in the country's major source of imports – Brazil.



Source: EY Analysis, Decision Support

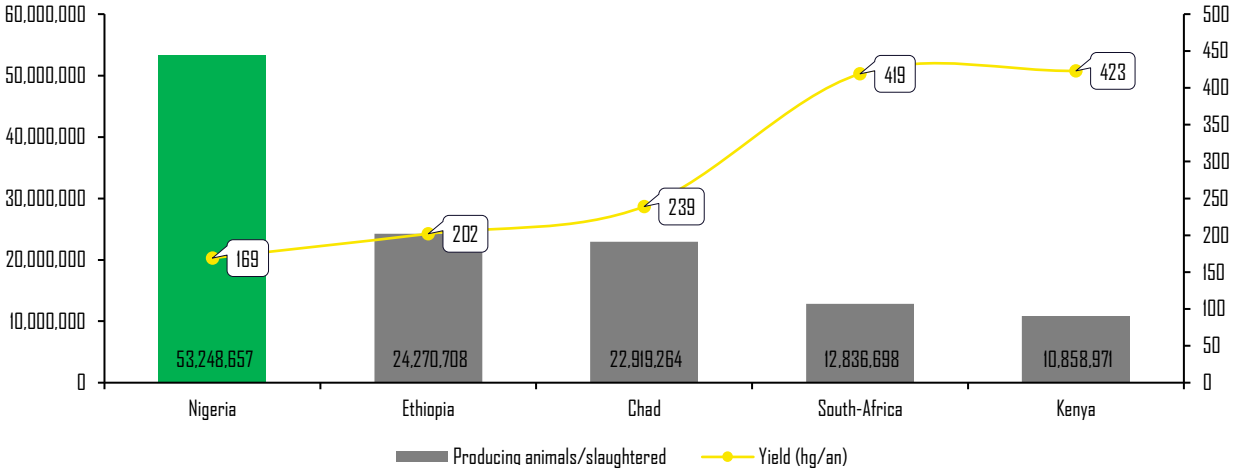
4.1.3. Leather

Description

Driven by an increasing population, growth in urbanization and a relatively changing consumption pattern of the Nigerian market, the demand for Finished Leather Products (FLP) has grown significantly over the years. According to (Nigeria Economic Summit Group, 2019), Nigeria's leather industry could generate above $1 billion in export earnings by 2025 representing a 25% CAGR from current levels of c.$212m. Nigeria currently accounts for c.60% of total production volumes in West-Africa and the sector currently employs over 1,250,000 people in Nigeria with an estimated goatskin and kidskin production of 61 million units.

Nigeria's annual leather production level is derived from about 53.2 million slaughtered animals (the highest in Africa), however, the Country has a lower leather yield per animal compared to its closest peer countries such as Kenya, South Africa, Chad and as shown in the chart below. This is particularly caused by the alternative uses of raw hides by Nigerians including food consumption, particularly as it is quite affordable for the lower income class of the populace. Also, while the Country Nigeria is a net exporter of raw hides and skins - $78.9m, the country relies heavily on imports for FLPs (total import bill of about $500 million annually[15], signifying the need to improve the industrial capacity of the sector.

Slaughtered animals and yield



Sources: FAO Production Data 2018

Key issues affecting the industry include inadequate power supply for leather processing, logistics hurdles experienced during the transportation of semi-processed leather from tanneries in Kano to the other segments of

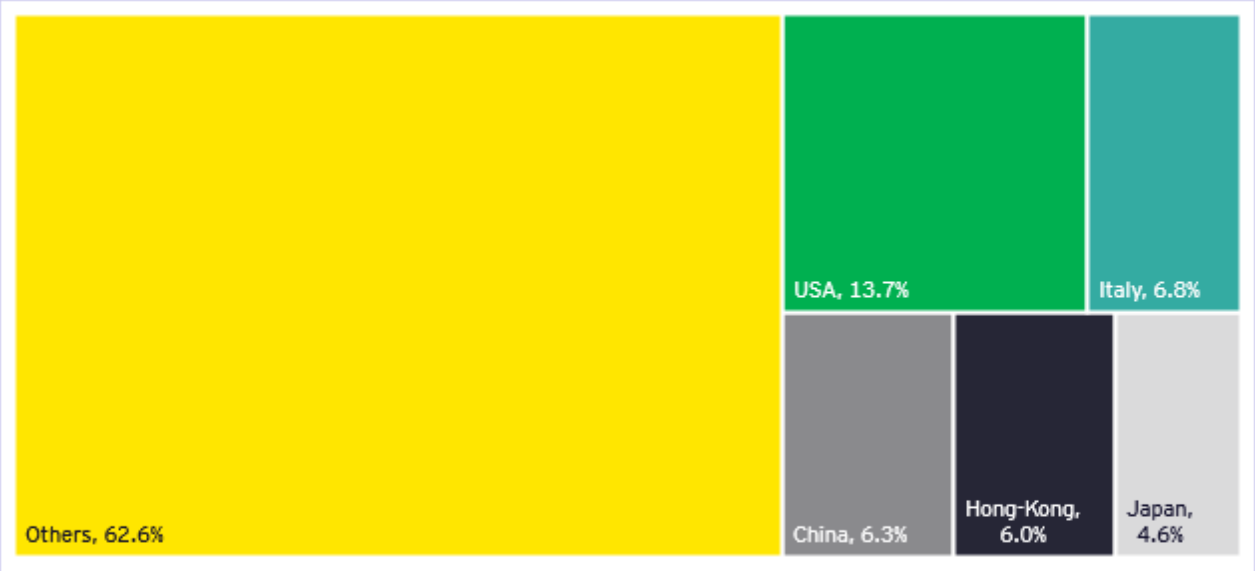
[15] NESG Leather Report 2019

the value chain, poor visibility of the sector's prospects and a negative perception shared by some Nigerian consumers pertaining to the quality of Made in Nigeria leather products[16].

Global trade value - $102b

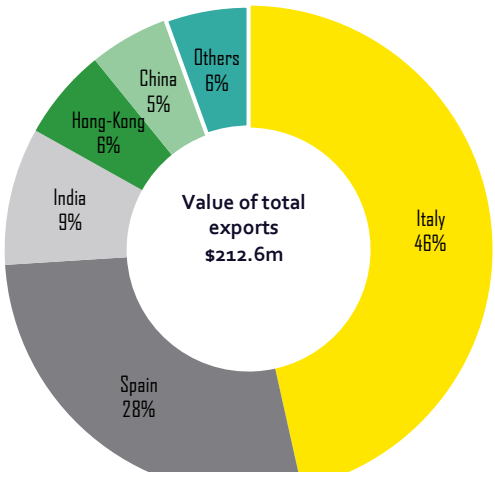
Trade ecosystem

Top Importers of Leather (Global)



Source: OEC Trade Data, 2018

Top destinations of Nigerian Leather exports



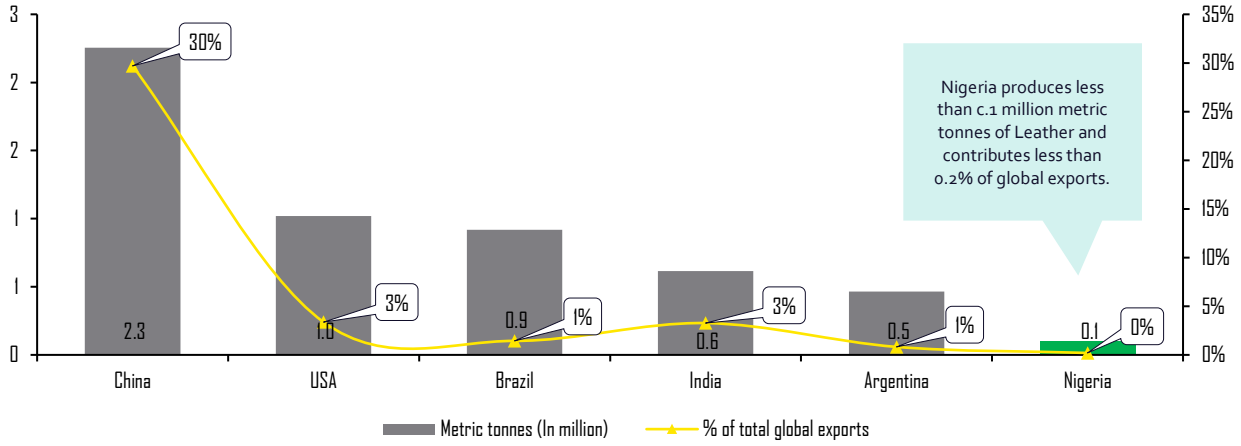
Source: OEC Trade Data, 2018

- Although Leather demand is fairly spread across the globe, three of the top five leather importers are located in Asia.
- Nigeria currently supplies three of these top destinations (Italy, China and Hong Kong) indicating a relatively easy route-to-market for increased production levels given the existing trade relationship.
- Also given its existing competitive advantage, the AfCFTA provides Nigeria with new market access worth $559m for Leather.

[16] GEM Report on Assessment of finished leather goods

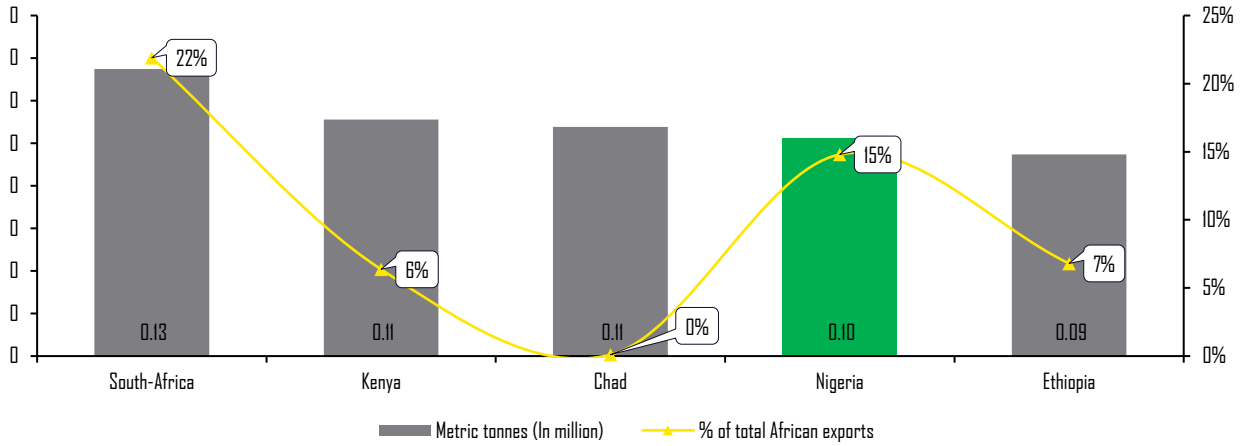
Production concentration analysis

Top producers of Leather (Global)



Source: OEC Trade Data, FAO Production Data 2018

Top producers of Leather (Africa)

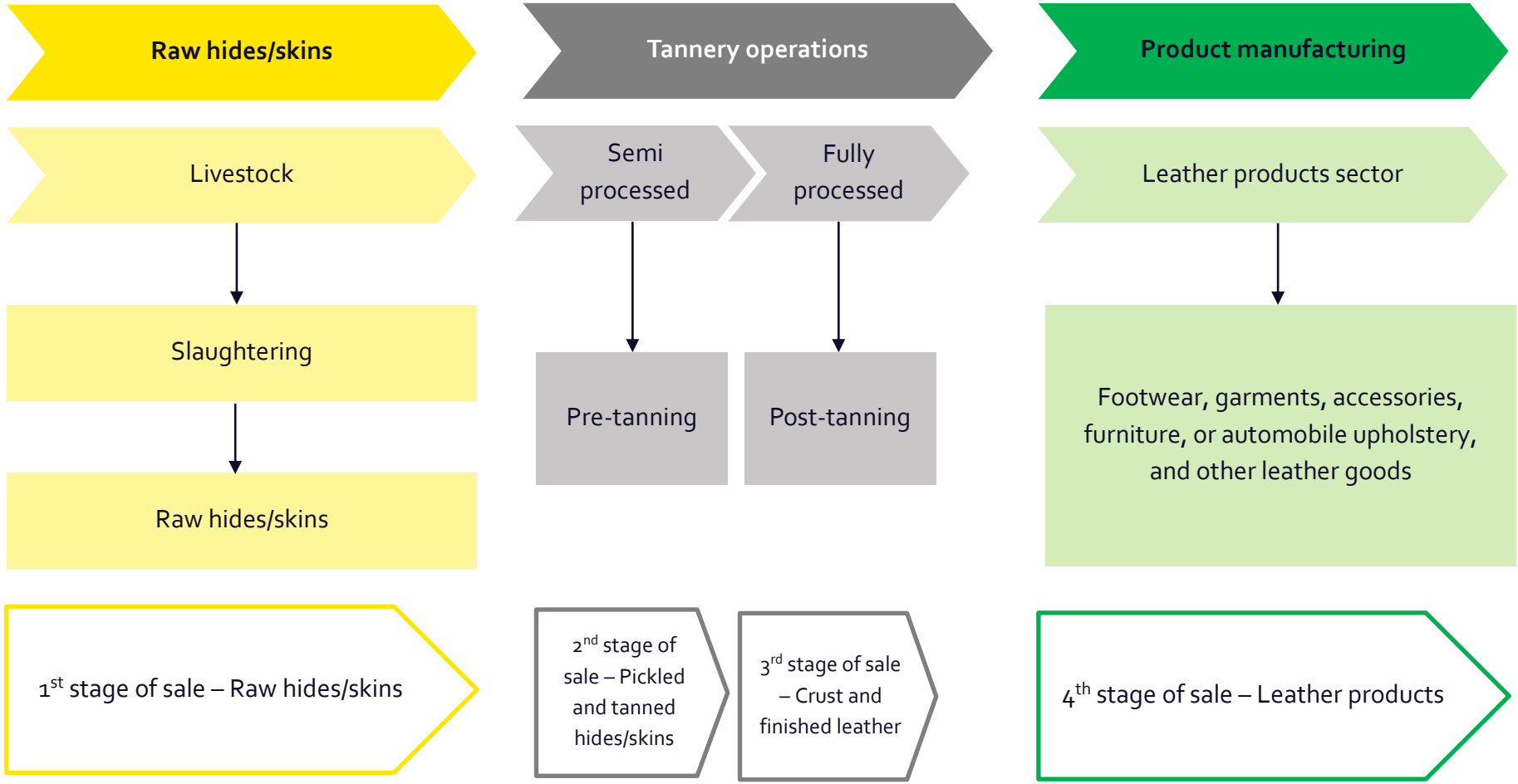


Source: OEC Trade Data, FAO Production Data 2018
Sudan is also a major producer of Leather with an estimated volume of 0.13 million MT. However, they do not feature in the chart due to unavailable information pertaining to their export volumes.

- Nigeria is among the top Leather producers in Africa, and accounts for a significant portion of total African exports with additional investment in scaling production volumes, the country can become the market leader in Africa and be recognized on a global scale.
- Over the years China has grown to be the market leader for Leather production, driven by the development of various leather industrial zones across the country, tax rebates for manufacturers and the implementation of high duties on imported animal hides that are not re-exported[10].
- Given existing trade relationships between China and Nigeria, bilateral supply agreements could be explored to ensure Nigerian MSMEs have a ready market for export of leather hides and skins thereby justifying additional investments for boosting local productions.

[17] USDA China, Where U.S. Hides Get Their Shine

Leather value-chain



Source: S. Dubey, cited in International Trade Centre

Standards and compliance requirements

Import destination specific standards include:

Top global markets

Country	Quality requirements for production and imports
USA	▪ ATSM Standards ▪ ISO Standards ▪ AATCC Standards ▪ IULTCS Standards ▪ SLTC Standards
Italy	▪ TS SC 410 ▪ TS PC 412 ▪ UNI EN 16484 ▪ UNI EN ISO 9001
China	▪ GB Standards for Leather ▪ QB/T Standards ▪ ISO Standards for Leather
Hong-Kong	▪ ICEC TS ▪ EN 16484:2015
Japan	▪ JIS K 6556:2016 (1 – 3) ▪ JIS K 6557:2016 (1 – 7) ▪ JIS K 6558:2016 (1 – 9)

Sources: CTC, ISO, ATSM, UL

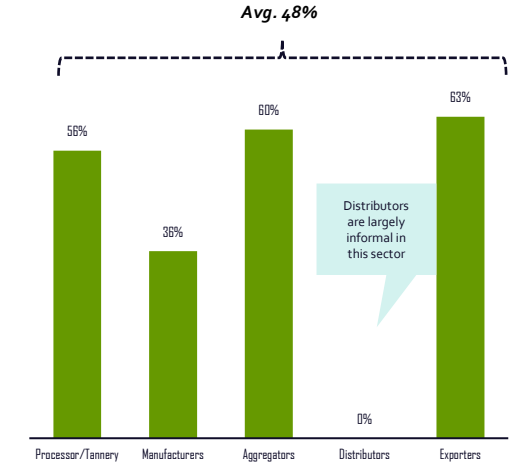
For Nigeria's export destinations

Country	Quality requirements for production and imports
Italy	▪ Same as above
Spain	▪ ISO Standards for Leather apply
India	▪ Multiple IS Standards under the Leather, Tanning Materials and Allied Products (CHD 17)
Hong-Kong	▪ Same as above
China	▪ Same as above
UK	▪ *PD ISO/TR 2822-3:2017* ▪ *BS ISO 22244:2020* ▪ *BS EN 13336:2012* ▪ *BS EN 16055:2012* ▪ *BS EN 16484:2015*

Sources: CTC, ISO, ASTM, Law resource, British Standard Institute

Characteristics of a typical Leather value-chain operator

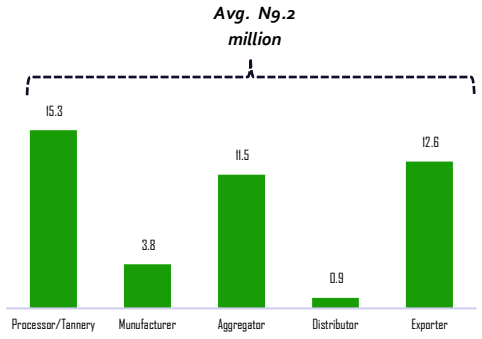
Business formalization



Source: EY Analysis, Decision Support

- An estimated 48% of the surveyed Leather operators are registered with the CAC.
- Unlike other products, findings suggest that the manufacturers of finished leather products (FLP) were the least formal in the sector. A possible reason for the country's continued dependence on imports for its FLPs
- Additionally, the level of records keeping is also high within the value-chain as c.76% of respondents keep financial records owing to the relatively higher level of formalization.
- The attendant cost of registration and the perceived lack of business documentation combined for 73% of reasons these entities remained informal.

Turnover and size



Source: EY Analysis, Decision Support

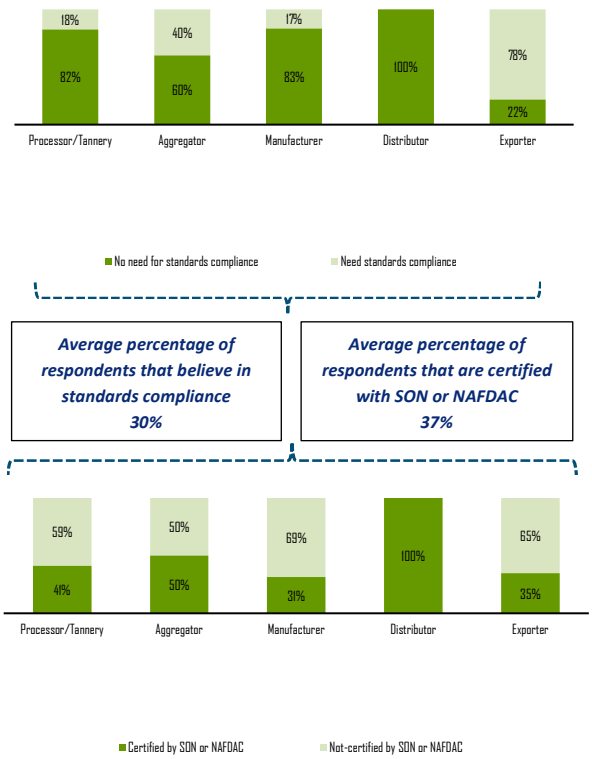
- The average revenue of respondents within the leather value chain is N9.2 million, with concentrated value at the processing, aggregating and exporting segment.
- The low revenue levels in the manufacturers and distributors segments alludes to the poor state of FLP manufacturing segment in Nigeria
- A combined 61% of respondents earned above N5 million but below N50 million in their last financial year.

Employment

Source: EY Analysis, Decision Support

- Respondents across the value chain employ an average of c.28 people with processors/tanneries, aggregators and exporters creating the most employment opportunities for c.76, 27 and 23 people respectively.
- The findings from the respondents also depict a low level of gender inclusion with an average female involvement of 12% across the value chain.

Standards and quality

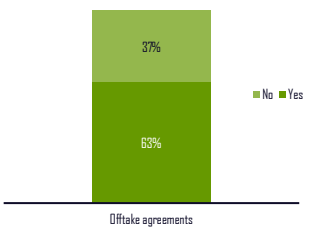


- Only c.30% of respondents are aware of quality standards for the production and exports of Leather products.
- Further analysis of this category reveals that c.54% of these operators are more aware of African and West-African standards while 30% and 16% of players are conversant with the global and Nigerian quality requirements for Leather.
- c.37% of respondents are certified by either SON or NAFDAC while c.63% of respondents operate without quality certification.

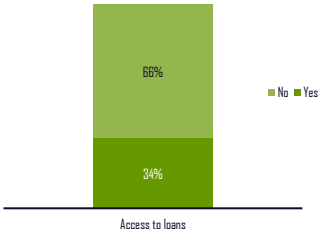
Business development

- 63% of surveyed respondents indicated that they had supply agreement (either legal or informal) with participants within their value chain - small (49%) and large businesses (43%).
- 66% of respondents have not received finance aid/loan over the last three years with external funding mainly from family & friends and trade associations. Major reasons cited for this trend include high interest rates and the short-tenor nature of loans from financial institutions.
- Similar to other products, the COVID-19 pandemic had a negative impact on c.88% of Leather value chain operators who experienced production declines. This was driven by lower demand for leather products as consumers were spending on more essential goods and services amidst a weak disposable income environment.

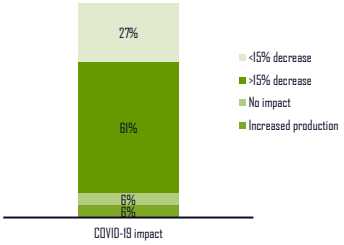
Business linkage



Access to loan



Impact of COVID-19 pandemic



Source: EY Analysis, Decision Support

4.1.4. Rubber

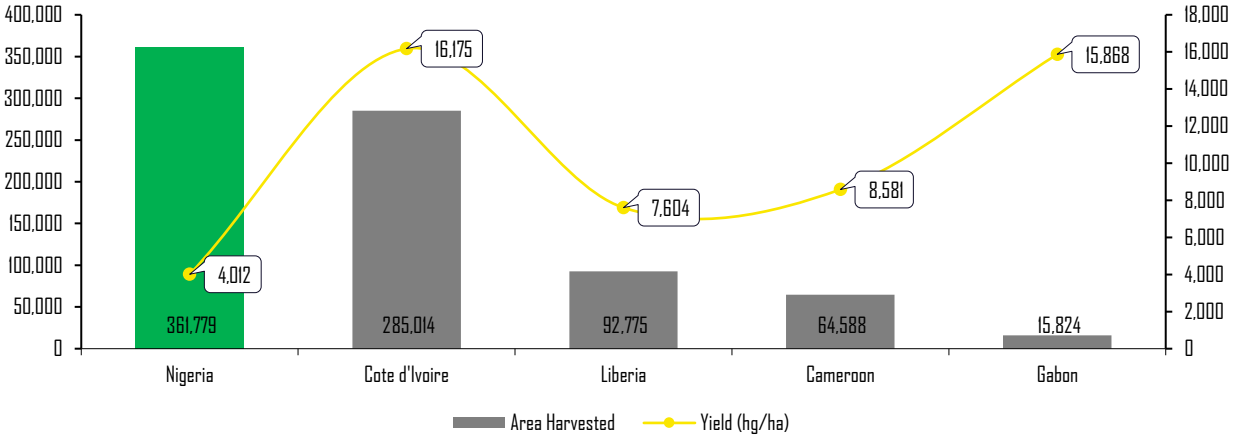
Description

Natural rubber is primarily an industrial product which serves as an input for the manufacturing of almost 50 by-products such as tyres, footwear, gloves, balloons etc. with production concentrated in the Southern regions (SW, SE and SS) of the country. As urbanization continues to increase in Nigeria, supported with population growth, available land resources and Government's desire for economic diversification the outlook for the rubber industry is positive. Recognizing the opportunities in rubber the Federal Government in 2006 launched the Presidential Initiative on Rubber Production to promote the increase of local rubber.

The programme aimed to increase production through resuscitation of plantations, establishment of new plantations, expanding the number of hectares under cultivation, promotion of yield improvement amongst other goals. The government set a target production of 1.4 million tonnes per annum and intended to generate revenue of $2.7 billion per annum from the product. However, due to the absence of budgetary provisions since 2007 the implementation of the programme was stunted[18].

Nigeria has harvested c.360,000 ha of land for rubber production, but only derives 4 kg/Ha yield for the product compared to other top producers in Africa who derive relatively higher yields as shown in the chart below. As a result of low production levels, Nigeria remains a net-importer of the product evident in the net-import bill of $2.3 billion in 2018.

Dedicated land area and yield



Sources: FAO Production Data 2018

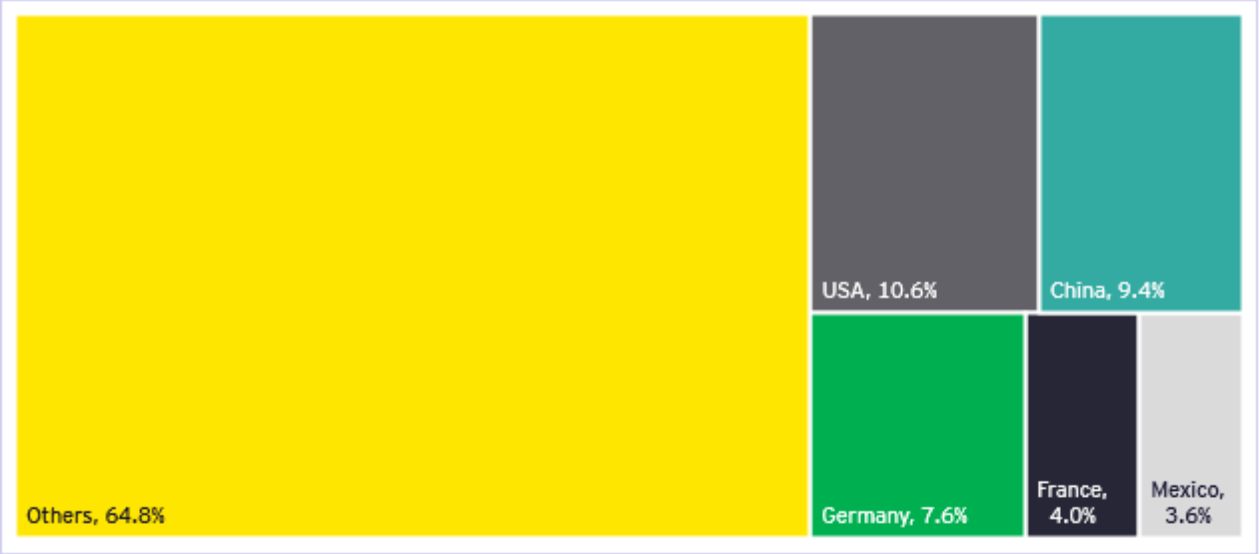
[18] Raw Material Development and Research Council (RMRDC)

The stagnant state of the rubber sector is caused by multiple issues such as epileptic power supply, ageing rubber trees arising from the lack of replanting by local farmers, and lack of capital to scale up current production levels[19]. For this trend to be reversed, multiple interventions are required by the government in terms of capacity building for farmers and processors, planting of more rubber trees, and provision of grants and affordable financing.

Global trade value - $845b

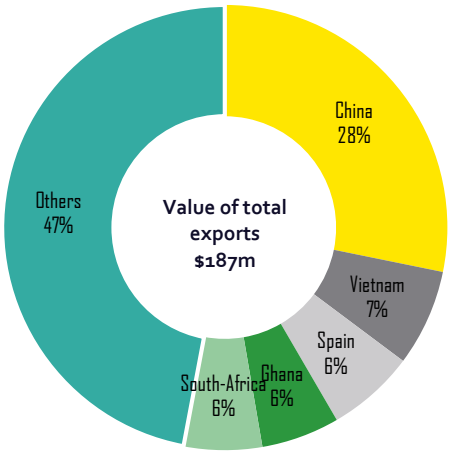
Trade ecosystem

Top Importers of Rubber (Global)



Source: OEC Trade Data, 2018

Top destinations of Nigerian Rubber exports



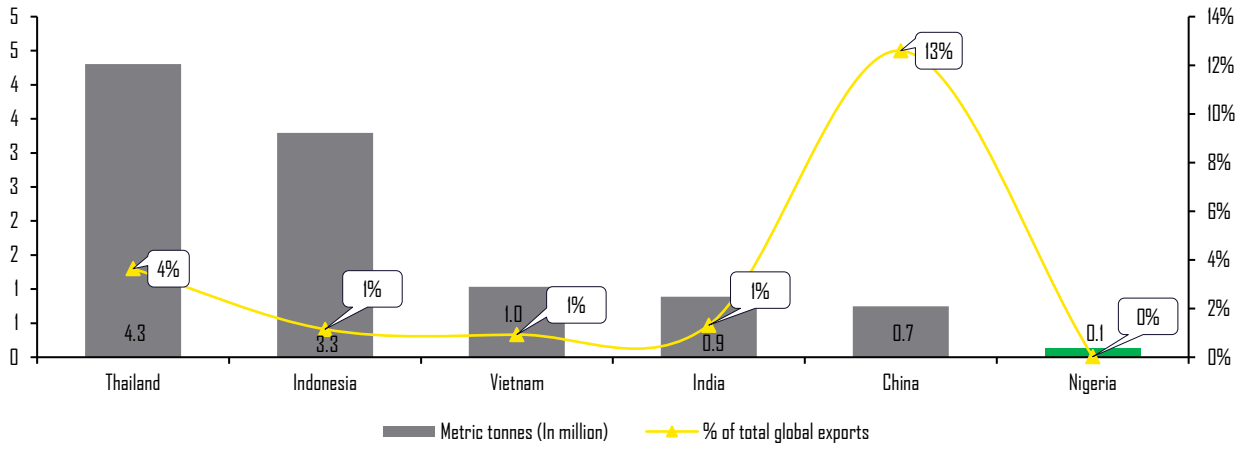
Source: OEC Trade Data, 2018

- North-America, South-America and Africa account for c.86% of net-imports on a global scale as Nigeria is currently a trade partner with China who is amongst the top five importers of the product.
- Africa being the second largest net-import market presents a large opportunity for Nigeria especially the North-African countries who cumulatively accounted for c.40% of total African imports in 2018.
- With the emergence of AfCFTA Nigeria stands to gain immensely from Rubber exports, being one of the major producers of the product in the continent.

[19]National Rubber Producers, Processors and Marketers Association of Nigeria (NARPPMAN) 2020

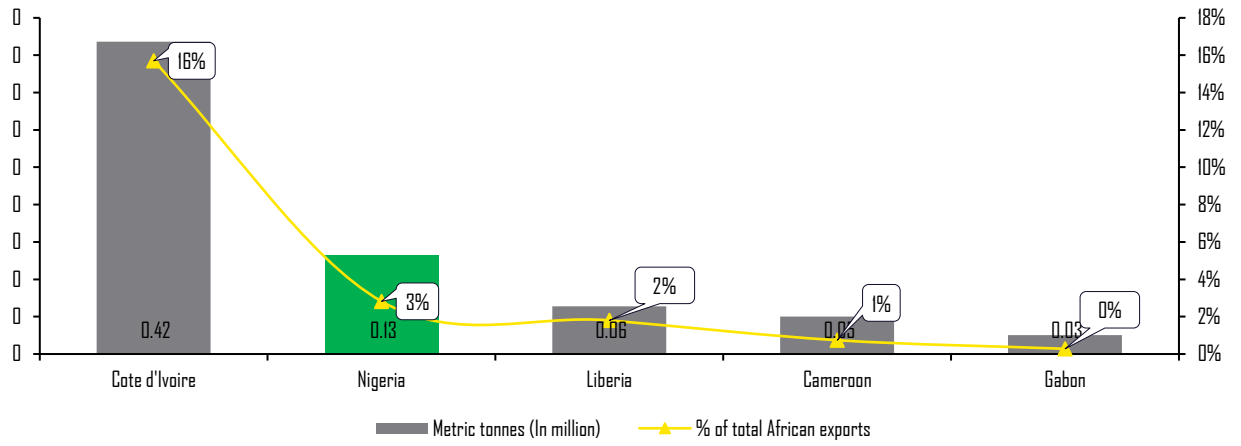
Production concentration analysis

Top producers of Rubber (Global)



Source: OEC Trade Data, FAO Production Data 2018
Data on production volumes for Europe and the North-America continents are not available for reporting.

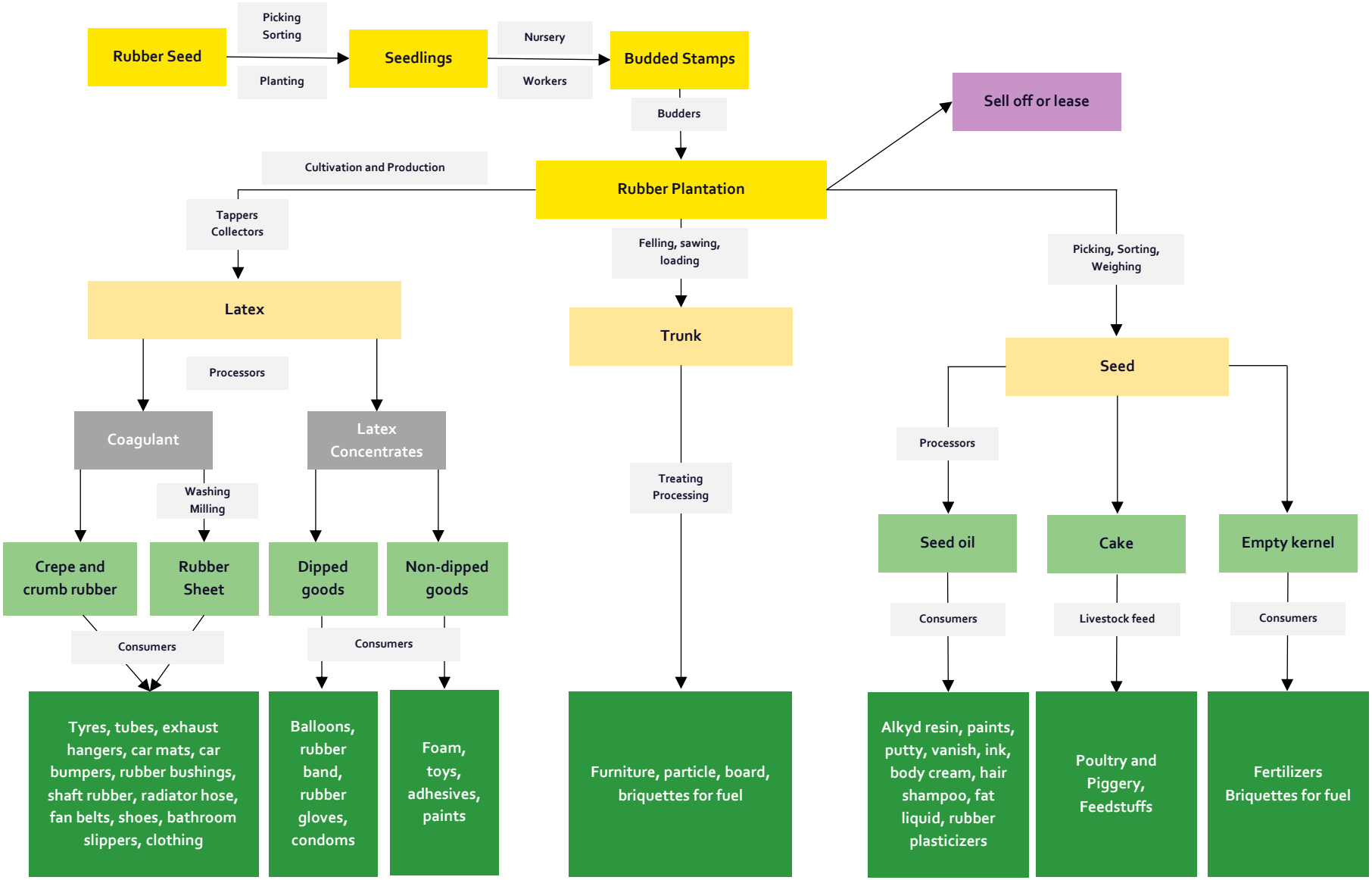
Top producers of Rubber (Africa)



Source: OEC Trade Data, FAO Production Data 2018

- Nigeria is the second largest producer of Rubber in Africa, and also accounts for c.3% of total African exports. Owing to the large market gap in Africa, Nigeria stands to gain immensely by improving the current performance of the sector.
- Majority of the natural rubber consumed across the globe is produced by Asian countries who cumulatively accounted for c.90% of global rubber production in 2018.
- Thailand being the market leader grew its Rubber industry by leveraging on its abundance of natural resources, improving the production segment of the value chain and capitalizing on its regional market which makes up almost 70% of the country's rubber exports. Nigeria with similar features with Thailand can record similar growth if the manufacturing segment of the value chain can be developed.

Rubber value-chain



Source: Natural Rubber value chains: A game changer for smallholders, RUBBER RESEARCH INSTITUTE OF NIGERIA

Standards and compliance requirements

Import-destination specific standards for rubber include

Top global markets

Country	Quality requirements for production and imports
USA	▪ ASTM Standards for rubber ▪ ISO 4074
China	▪ HG/T 5056-2016 ▪ 18 different GB Standards for rubber ▪ Rib Smoked Standards for rubber
Germany	▪ ISO 1382:2020
France	▪ ISO/TC 45 Standards for rubber applies
Mexico	▪ ISO/TC 45 Standards for rubber applies

Sources: ASTM, GB Standards for China, Standard

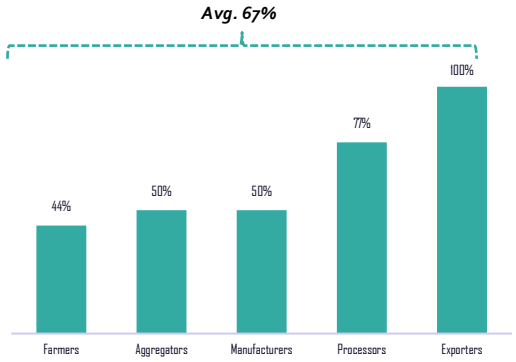
For Nigeria's export destinations

Country	Quality requirements for production and imports
China	▪ Same as above
Vietnam	▪ TCVN 3769-2004 ▪ ISO/TC 45 Standards for rubber applies
Spain	▪ ISO/TC 45 Standards for rubber applies
Ghana	▪ Technically Specified Rubber (TSR) ▪ Rib Smoked Standards (RSS) for rubber
South-Africa	▪ Rib Smoked Standards (RSS) for rubber ▪ Technically Specified Rubber (TSR)
UK	▪ *AMD 1334* ▪ *BS EN 12877* ▪ *BS EN 14469* ▪ *BS EN ISO 1043* ▪ *DD CEN/TS 14577* ▪ *PD ISO/TR 16098*

Sources: Rubber Vietnam, ISO, INPOL, British Standards Institution

Characteristics of a typical rubber value chain player

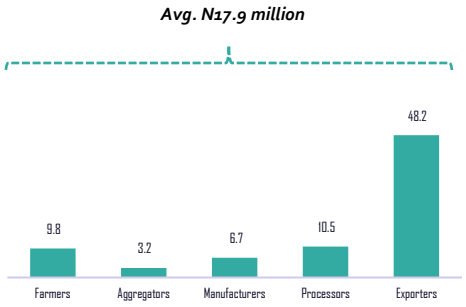
Business formalization



Source: EY Analysis, Decision Support

- Rubber sector participants showed the highest level of formality amongst the six products with 67% of respondents surveyed within the sector were registered with the CAC.
- The relatively high level of formalization across the value chain of the product is due to the level of capital required and the dependence on large businesses for purchase of the products in Nigeria.
- However, majority of unregistered participants cited lengthy registration process, tax concerns and size of business as the reason they operate informally

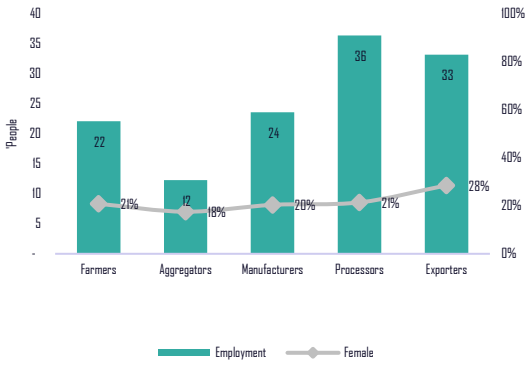
Turnover and size



Source: EY Analysis, Decision Support

- The average revenue of interviewed respondents in the Rubber value chain is c.N17.9 million, with exporters as the highest value generators in the product.
- Survey results also indicates that c.51% of respondents in the value chain earn over N5 million in annual turnover individually.

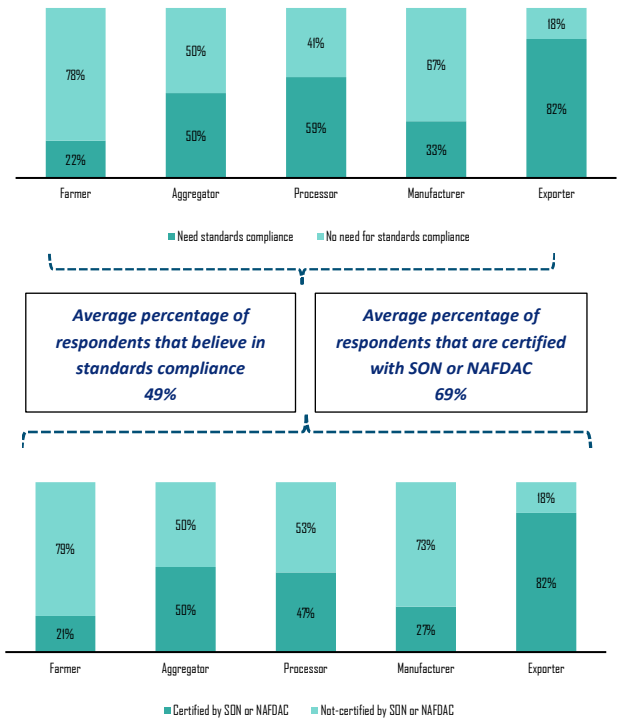
Employment



Source: EY Analysis, Decision Support

- The sector is relatively labour intensive with players across the value chain employ an average of c.28 people with an average male-female gender split of 78% and 22% respectively.
- With the largest financial capacity, the processors and exporters were the largest labour employers (c.36 and 33 people respectively).

Standards and quality



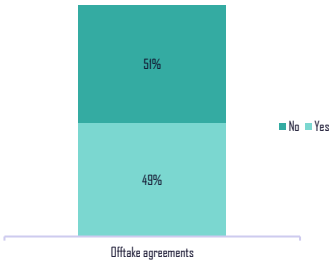
Source: EY Analysis, Decision Support

- Participants of the Rubber showed a relatively fair awareness for the need for quality conformity and standards with 49% of respondents indicating that they followed some form of prescribed production standards- local or international, for their goods.
- There was also a relatively decent level of compliance, with 69% of these respondents certified by SON or NAFDAC. As such there is a reduced risk of rejection due to quality for rubber export from Nigeria.
- Respondents also indicated good knowledge of the global market with c.84% of players in the value chain aware of global and continental standards requirements guiding the product's quality.

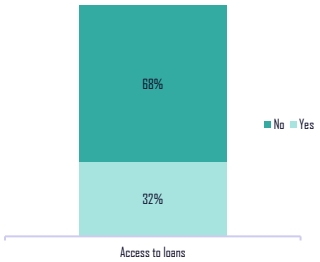
Business development

- 49% of respondents surveyed indicated that they had offtake agreements (either in form of legal contracts or unofficial agreements) with other small and large businesses. They also cited these business linkage opportunities as one of the major reasons they were members of trade associations.
- C.32% of respondents within the value received financial loans over the last 3 years. With major reasons such as unprocessed applications, high interest rates and a general lack of access to available funding options. Family and friends as well as trade associations were the most common sources of finance for these MSMEs profiled. As such their growth and expansion potentials remain severely limited.
- The COVID-19 pandemic negatively affected c.90% of Rubber producers as the respondents experienced shutdown of production, supply chain disruptions caused by restrictions or lockdowns imposed by the government.

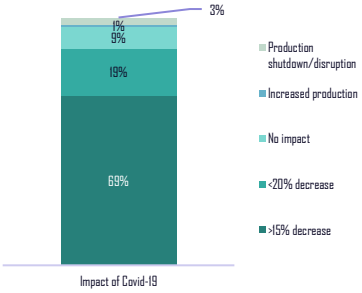
Business linkage



Access to loans



Impact of COVID-19 pandemic



Source: EY Analysis, Decision Support

4.1.5. Ginger

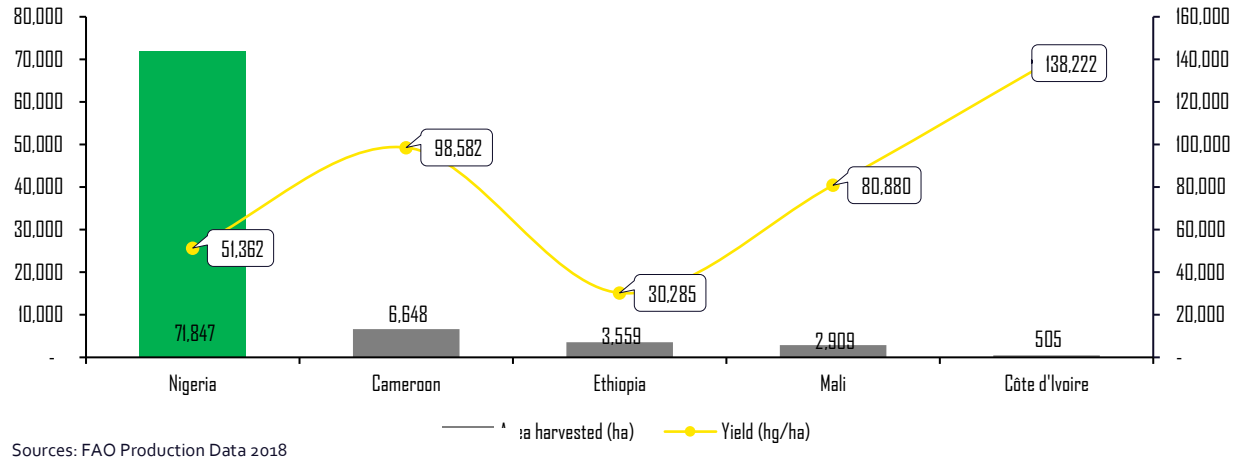
Description

Nigeria is the largest Ginger producer in Africa, with an estimated annual production of c.369,000MT accounting for c.77% of total African production, and c.13% of the total global production of c.447,000MT and c.3,000,000 MT respectively. Ginger is produced in six northern states of the federation including Kaduna, Nasarawa, Benue, Niger and Gombe.

Ginger is used for a wide range of things in Nigeria including medicinal consumption as its active ingredient, gingerol is believed to help fight infections, lower blood sugar and reduce heart risks. It is also used in the brewery/beverage industry, cosmetic industry and for culinary uses.

In Nigeria, Ginger is produced by small-scale farmers over a dedicated 71,847Ha, relatively high in comparison to top African producers like Cameroon and Ethiopia who have harvested areas of 6,648Ha and 3,559Ha respectively.

Dedicated land area and yield



Sources: FAO Production Data 2018

According to FAO, despite the potential in the production of the crop, the country is yet to fully harness the economic benefits from growing ginger, on account of low-quality seeds and low use of technology. It is challenging for Nigeria to access some of the international markets because of the inability to meet Conformity Assessment Standards (CAS), which include Organic and Global Good Agriculture Practice (Global GAP) Certification[20]. According to the Centre for the Promotion of Imports from Developing Countries (CBI) Trends study on spices and herbs, demand for spices is increasing globally, especially in Asia. China and India - areas which were historically

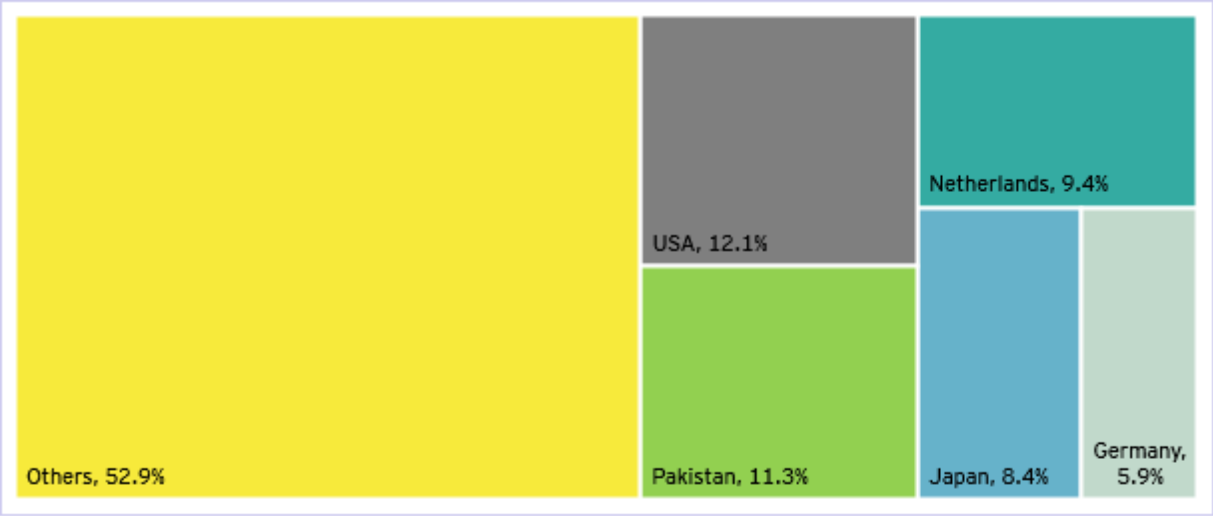
[20] EMIS 2020

European suppliers, are becoming the main spice importers because their domestic crop cannot meet domestic demand.

Global trade value - $942m

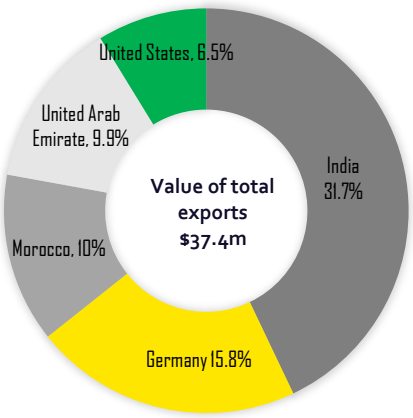
Trade ecosystem

Top importers of Ginger (global)



Source: OEC Trade Data, 2018

Top destinations of Nigerian Ginger exports

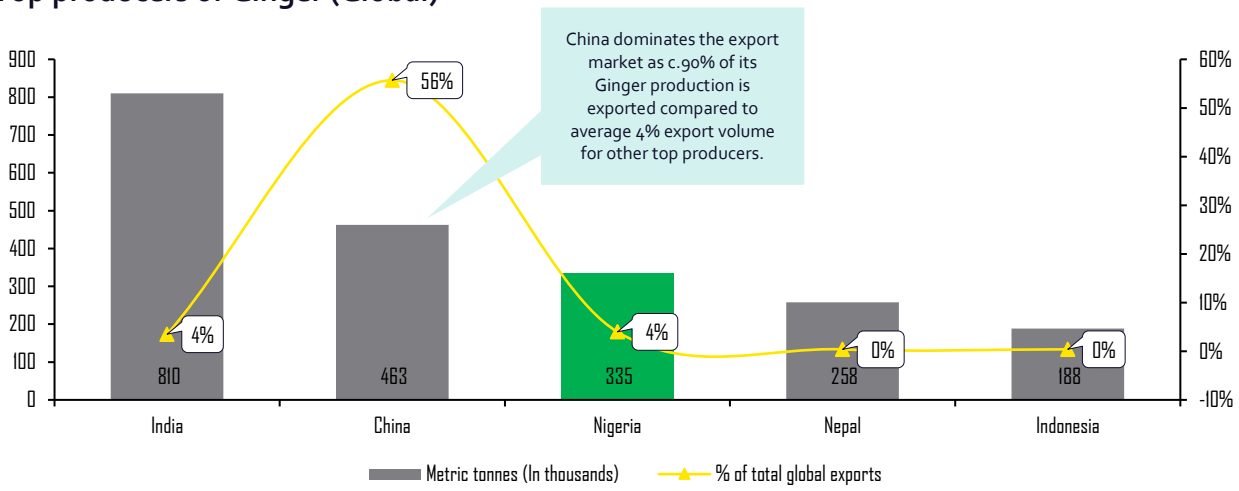


Source: OEC Trade Data, 2018

- As presented in the chart above, the international market for Ginger is fairly diverse across the globe and not concentrated in a particular region. However, the top importers of Ginger are United States ($114m), Pakistan ($107m) and Netherlands ($88.7m).
- According to the Centre for the Promotion of Imports from Developing Countries (CBI) Trends study on spices and herbs, European demand for spices and herbs is increasing.
- European importers are looking for higher-quality products. This provides export opportunities for Nigerian Ginger if good quality, sustainable ginger can be produced.

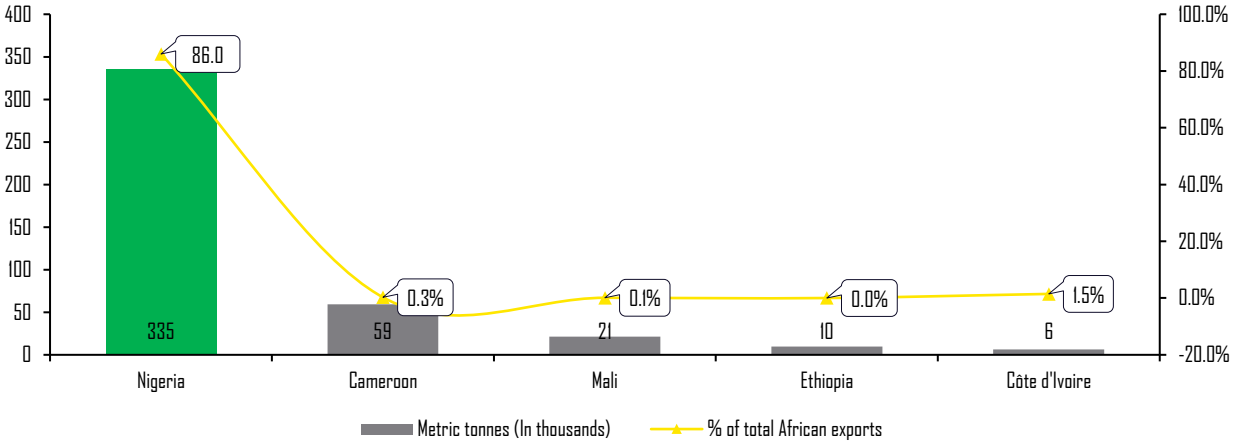
Production concentration analysis

Top producers of Ginger (Global)



Source: OEC Trade Data, FAO Production Data 2018

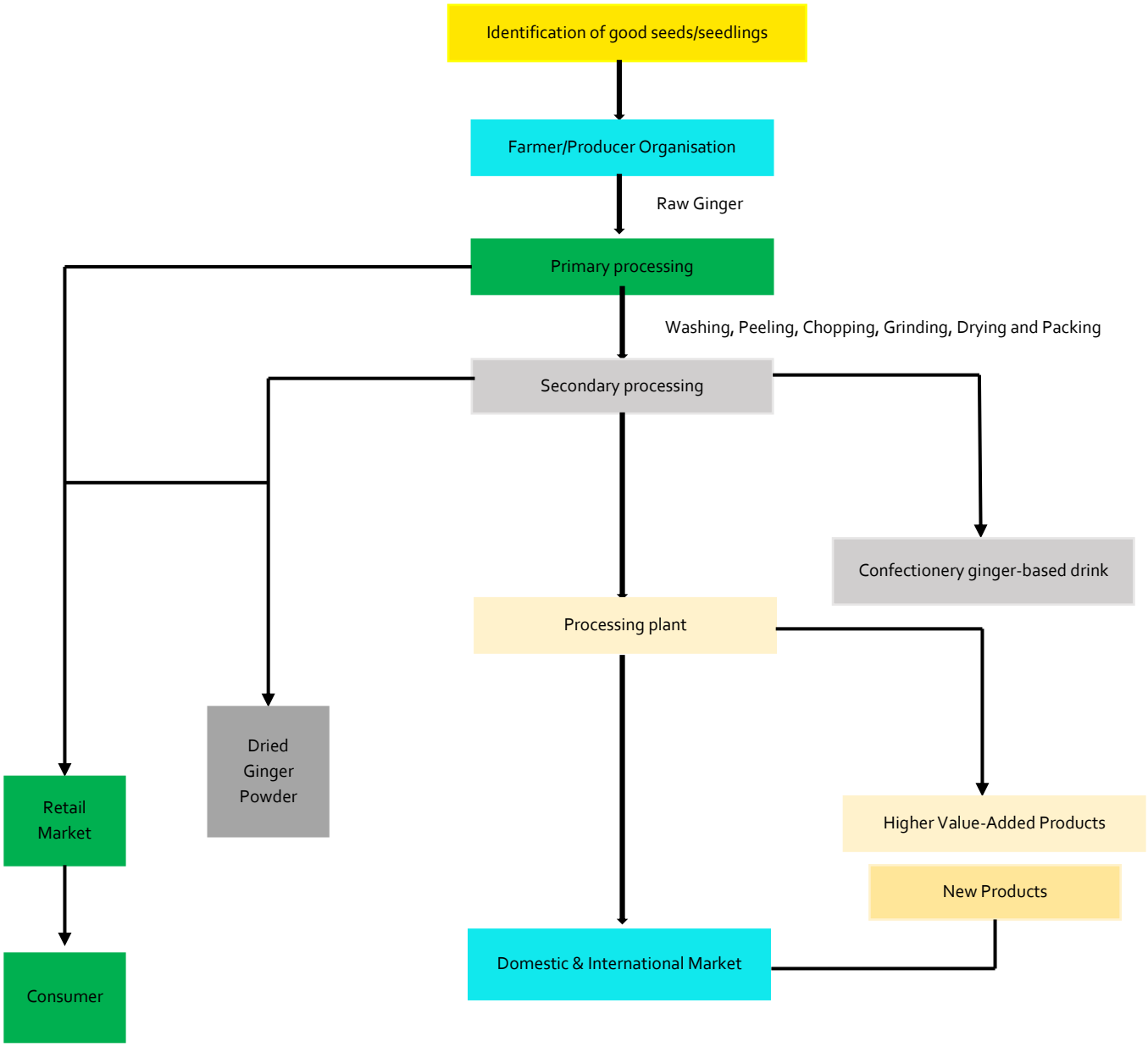
Top producers of Ginger (Africa)



Source: OEC Trade Data, FAO Production Data 2018

- Nigeria is the highest producer (77% of total production) of Ginger in Africa, and accounts for a significant portion of total African exports with additional investment in scaling production volumes, the country can become well recognized on a global scale.
- The Asian continent produces c.50% of total Ginger across the world and dominates the export market (particularly China). However, with the impending implementation of AfCFTA, Nigeria is poised to replace China as the major supplier of the African continent. This is however dependent on Nigeria's ability to effectively implement the trade facilitation terms of the agreement and embrace a liberalized trade environment.
- Bilateral trade agreements with some of its existing trade partners like India, Netherlands, UK and USA can also help Nigeria deepen its market share of the ginger value chain. By improving its production capacity and its export-production level (currently 6%), Nigeria can further penetrate the global market for ginger.

Ginger value chain



Source: NEPC

Standards and compliance requirements

For quality, ISO 22000 (Food Safety Management) is the expected minimum globally accepted standard for all food products including ginger, compliance certificate for this standard is issued by the Standards Organisation of Nigeria (SON). The NAQS is also expected to issue phytosanitary certificates for export of raw, unprocessed ginger to ensure safety and quality as regards use of pesticides and other chemicals.

Other import-destination specific standards include:

For top importers (global)

Country	Quality requirements for production and imports
USA	▪ Hawaiian grade standards
Pakistan	▪ ISO 1003:2018 applies
Netherlands	▪ EU Product Safety Standards
Japan	▪ ISO 1003:2018 applies
Germany	▪ The General Food Law ▪ Quality Minima Document – (ESA) for Ginger

Sources: USDA, ISO

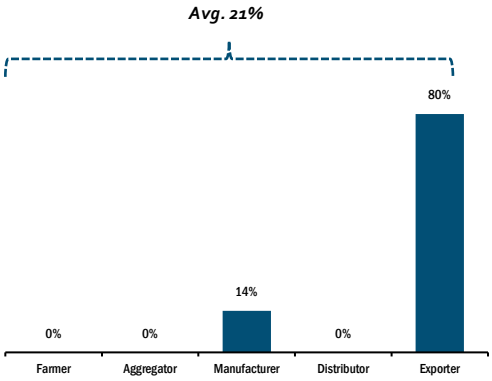
For Nigeria's top export destinations

Country	Quality requirements for production and imports
India	▪ The Food Safety and Standards Act, 2006 ▪ The Legal Metrology Act, 2009, and the Legal Metrology (Packaged Commodities) Rules, 2011 ▪ Plant Quarantine (Regulation of Import into India) Order, 2003 ▪ The FSS Packaging and Labelling Regulation, 2011 ▪ FSS (Contaminants, Toxins and Residues) Regulation, 2011
Germany	▪ ISO 1003:2018 applies
Morocco	▪ ISO 1003:2018 applies
United Arab Emirate	▪ Emirate Conformity Assessment ▪ Emirates Quality Mark Regulation ▪ Halal Regulation ▪ Organic Product Regulation
USA	▪ Same as above
UK	▪ *BS EN 17424: 2020* ▪ *BS ISO 16928: 2014* ▪ *BS ISO 1003: 2008*

Sources: USDA, ISO, British Standards Institute

Characteristics of a typical ginger value chain player

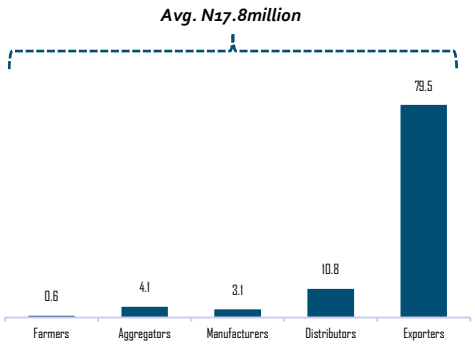
Business formalization



- 79% of respondents in the ginger value chain were unregistered with the CAC. The level of formalization was particularly low across production, aggregation and distribution.
- 32% of respondents believed that they lacked the required documentations for formalizing their business, while 18% believed they were relatively too small to require formalization. A further 16% citing cost as the major barrier while 10% preferred to remain informal to avoid taxation.

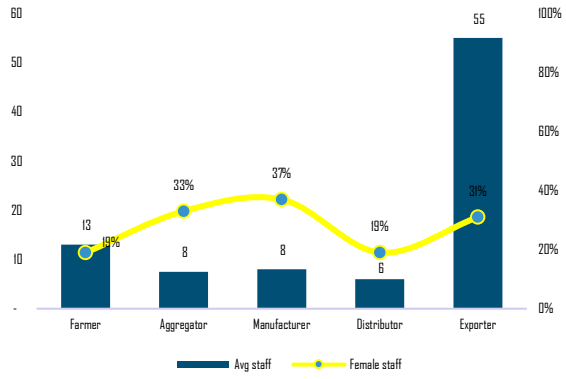
Source: EY Analysis, Decision Support

Turnover and size



- Surveyed respondents highlighted an average revenue c.N17.8 million, primarily driven by the high revenues from exporters of ginger.
- Based on revenue disparity, value chain participants derive lower value from local consumption of ginger with the product seemingly more rewarding when exported.
- This is further highlight by survey result which indicates that 71% of value chain participants earned below N5 million annually

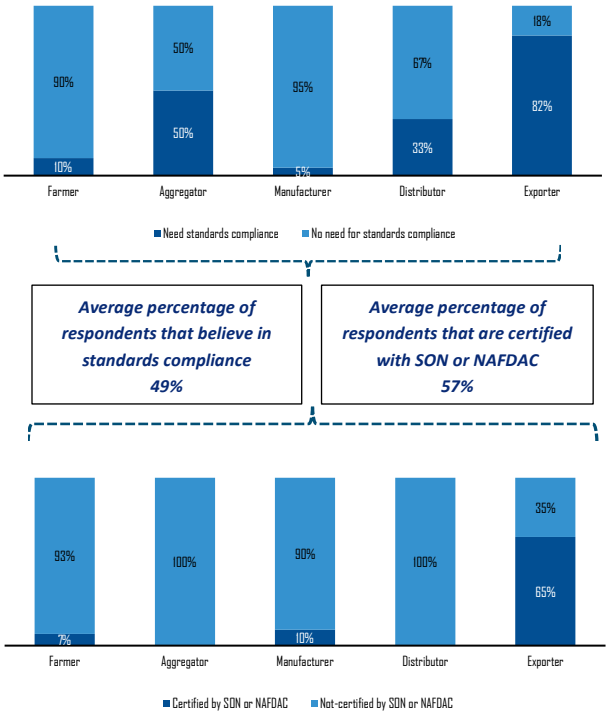
Employment



Source: EY Analysis, Decision Support

- Businesses along the ginger value chain employ an average c.11 people (including family members). This result depicts the labour-intensive nature of the agriculture sector in Nigeria.
- Following a similar pattern as the revenue generation, the exporters were the largest labour employers (c.55 people).
- Like other products, female representation within the workforce of this value chain was low at 19%. With relatively high participation in manufacturing (37%), exporting (31%) and aggregation (33%)

Standards and quality



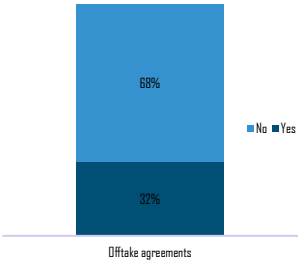
Source: EY Analysis, Decision Support

- Participants of the ginger value chain showed very low awareness for the need for quality conformity with only 49% of respondents indicating that they followed some form of prescribed production standards- local or international, for their goods.
- Within this subset, 57% had proceeded to get certified by SON or NAFDAC, however 43% continued operating without certifications.
- With Nigeria a leading exporter of ginger, respondents who were aware of standards indicated good knowledge of the global market with c.86% of global and continental standards requirements guiding the product's quality.

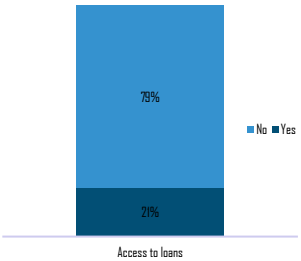
Business development

- The ginger market is relatively disjointed, with producers having to source for their market post-production as indicated by 68% of respondents without some form of supply arrangement for their products.
- Similarly, the sector has very limited access to loan with only 21% having access to financial loans over the last 3 years. With major reasons such as unprocessed applications, and a general lack of access due to relatively small size. This significantly limits the potential for growth and upscaling within the sector.
- The COVID-19 pandemic negatively affected c.74% of ginger producers as the respondents supply chain disruptions and reduced demands caused by restrictions or lockdowns imposed by the government.

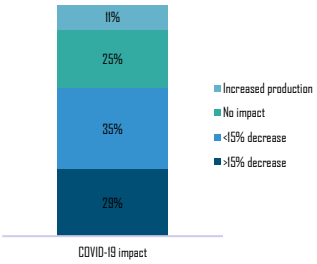
Business linkage



Access to loans



Impact of COVID-19 pandemic



Source: EY Analysis, Decision Support

4.1.6. Cocoa Beans

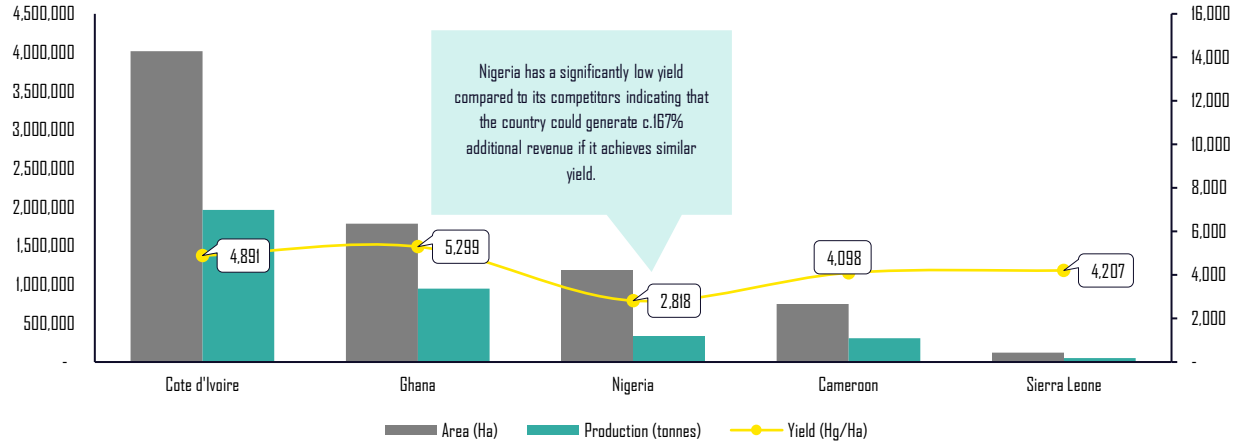
Description

Historically, Nigeria has been one of the leading players in the global cocoa market, with a production capacity estimated at 6.5% of global production[21]. With an export bill of $621 million, Nigeria is the fourth largest exporter of Cocoa bean globally and the third largest in Africa behind Cote d'Ivoire ($3.53 billion) and Ghana ($1.78 billion).

In Nigeria, the sector is dominated by small-scale farmers in the South-West region (Osun, Ogun and Ondo states) and South-South region (Cross-River) – c.300,000 - 350,000 nationwide with few large-scale operators[22].

Compared to Nigeria, Cote d'Ivoire the global leader for Cocoa means dedicates about 3.5x more land size and has a higher yield (1.7x). Stakeholders (78% of survey respondents) indicated that due to their relatively small size, local producers tend to re-use harvested seeds for their next cycle (as against purchasing inputs), consequently resulting in lower (and declining yield - 2940hg/Ha in 2014) yield per hectare.

Dedicated land area and yield



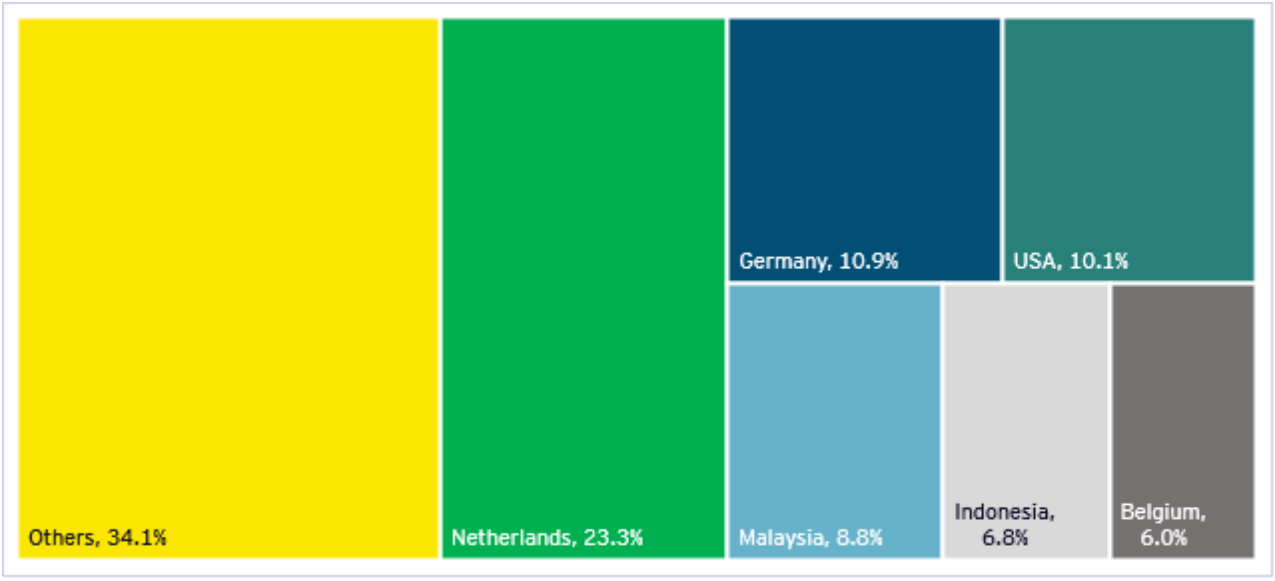
Source: FAO Production Data 2018

Global trade value - $9.2 billion

Trade ecosystem

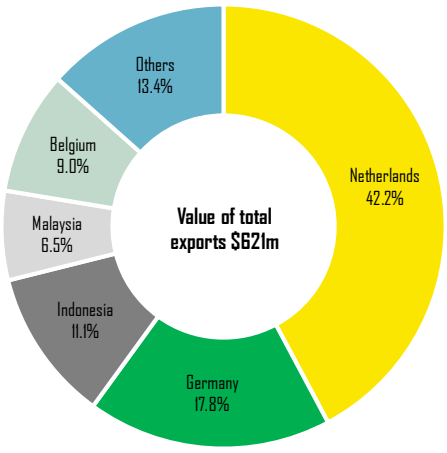
[21] NEPC
[22] NEPC

Top importers of Cocoa beans (global)



Source: OEC Trade Data, 2018

Top destinations of Nigeria's export



Source: OEC Trade Data, 2018

- Analysis of the global market for cocoa bean indicates that Nigeria has existing trade relations with the top import destinations of the product
- Europe is the top importing market for Cocoa bean – contributing c.59% of global imports with Netherlands (23%), Germany (11%) and Belgium (6%) some of the top importers of the product globally.
- Asia and America combine for 38% of global imports with the USA (10%), Malaysia (9%) and Indonesia (9%) being key destinations for exporting countries.
- Netherlands is Nigeria's leading trade partner accounting for 42% of the Country's cocoa bean export. Other key partners include Germany (18%), Indonesia (11%), Belgium (9%) and Malaysia (6.5%)
- With a combined market of $5.1 billion from these trade partners, Nigeria is poised to gain more foreign income if the Country can increase its production through improved yields.

Cocoa beans value chain

Standards and compliance requirements

For quality, ISO 22000 (Food Safety Management) is the expected minimum globally accepted standard for all food products including cocoa bean, compliance certificate for this standard is issued by the Standards Organisation of Nigeria (SON). The NAQS is also expected to issue phytosanitary certificates for export of cocoa bean to ensure safety and quality as regards use of pesticides and other chemicals.

Other import-destination specific standards include:

For top importers (global)

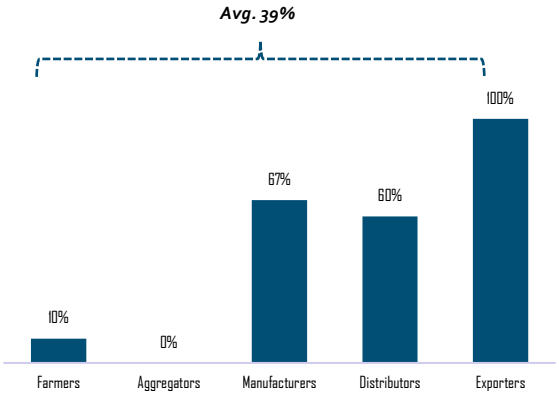
Country	Quality requirements for production and imports
Netherlands	▪ ISO/TC 34/SC 18 applies ▪ Equal Exchange/TCHO's quality assessment and tasting ▪ Food safety regulations for EU
Germany	▪ ISO/TC 34/SC 18 applies ▪ Equal Exchange/TCHO's quality assessment and tasting ▪ Food safety regulations for EU
USA	▪ International Standards for the Assessment of Cocoa Quality and Flavours
Malaysia	▪ ISO/TC 34/SC 18 applies ▪ ICS:67.140.30: The Malaysian Grading Assessment
Indonesia	▪ ISO/TC 34/SC 18 applies
Belgium	▪ ISO/TC 34/SC 18 applies ▪ Equal Exchange/TCHO's quality assessment and tasting

	▪ Food safety regulations for EU
France	▪ ISO/TC 34/SC 18 applies ▪ Equal Exchange/TCHO's quality assessment and tasting ▪ Food safety regulations for EU
UK	▪ *BS EN 17250:2020* ▪ *BS EN 17270:2019* ▪ *BS EN ISO 23275* ▪ *BS ISO 11053* ▪ *BS ISO 2292* ▪ *BS ISO 2451*

Sources: The Centre for the Promotion of Imports from developing countries (CBI), ISO, CAOBISCO, ECA, FCC, British Standards Institute

Characteristics of the typical MSME in the Cocoa bean sector

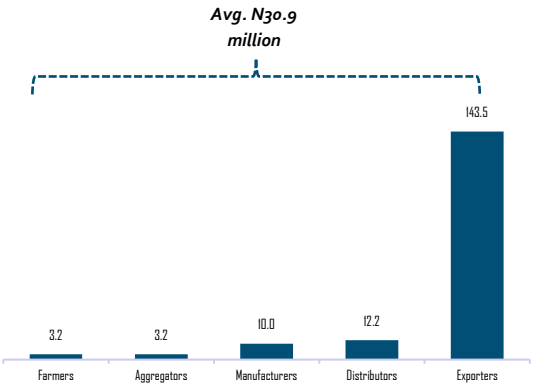
Business formalization



Source: EY Analysis, Decision Support

- Only 39% of respondents surveyed within the Cocoa bean subsector were registered with the CAC. The level of formalization exhibited by exporters, manufacturers and distributors were not replicated by the primary producers and aggregators of the product.
- 19% of the unregistered participants cited their relatively small size as the primary reason for remaining informal. 24% of respondents believed that they lacked the required documentations and knowledge for formalizing their business, indicating the need for sensitization as no documentation is required to commence the business registration process.

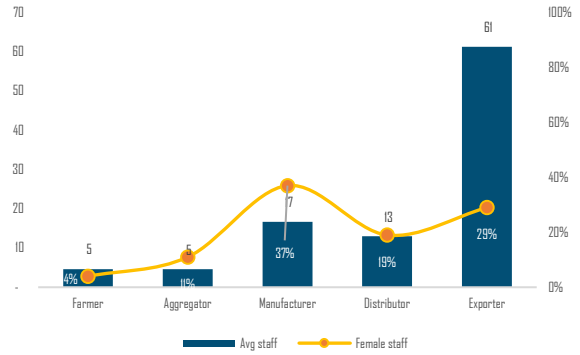
Turnover and size



Source: EY Analysis, Decision Support

- Surveyed respondents indicated an average revenue of c.N30.9 million, primarily driven by the high revenues of the product's exporters.
- The product's value chain seems to favour the exporter of the product who buys the raw farm produce in large quantities and sells beyond the borders of the country.
- This is particularly as 58% of value chain participants within the country earn below N5 million ($13,000) annually, with a further 19% earning below N50 million ($130,000) annually.

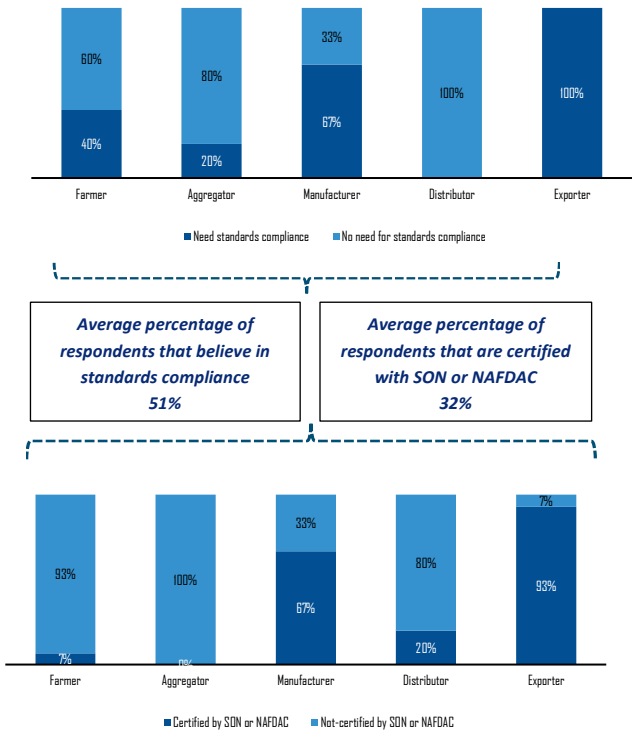
Employment



Source: EY Analysis, Decision Support

- Businesses along these value chain employ an average c.18 people (including family members). This is particularly as the agriculture sector remains labour intensive in Nigeria.
- With the largest financial capacity, the exporters were the largest labour employers (c.61 people), closely followed by manufacturers and distributors (c.17 & 13 people respectively).
- Respondents indicated an average female representation of 14% across its staff, another indication of low female participation in the sector.

Standards and quality



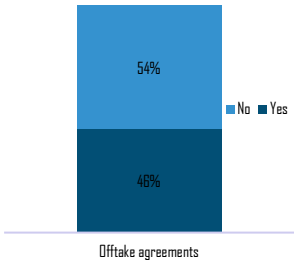
Source: EY Analysis, Decision Support

- Compared to other products, cocoa beans value chain participants showed a relatively high awareness for the need for quality conformity and standards with 51% of respondents indicated that they followed some form of prescribed production standards- local or international, for their goods.
- Further analysis of this subset indicated that 93% had knowledge about international standards with focus on following West Africa, African or global standards targeting Europe, America and Asia particularly as they dealt with larger firms in the value chain such as Olam and Wacot.
- However, despite their knowledge c.68% of these respondents remained uncertified by SON and NAFDAC. Only 32% of total respondents in the sector had been certified by SON and NAFDAC further highlighting existing issues of quality and conformity assessments by Nigerian products in the global market.

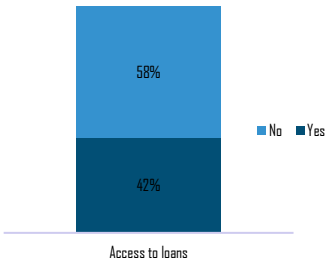
Business development

- 46% of respondents surveyed indicated that they had offtake agreements (either in form of legal contracts or unofficial agreements) with other small and large businesses. They also cited these business linkage opportunities as one of the major reasons they were members of trade associations.
- In relatively similar trend only 42% of respondents within the value received financial loans over the last 3 years citing reasons such as unprocessed applications, high interest rates and a general lack of access to available funding options. Family and friends as well as trade associations were the most common sources of finance for these MSMEs profiled as such their growth and expansion potentials remain severely limited.
- With over 77% respondents indicating the pandemic had negatively affected annual production level, funding support would be required by participants of this sector if Nigeria is to boost local production and achieve its export potential.

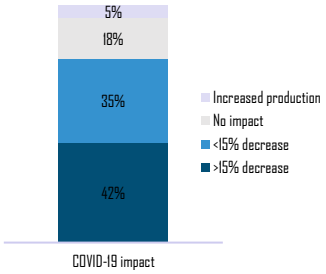
Business linkage



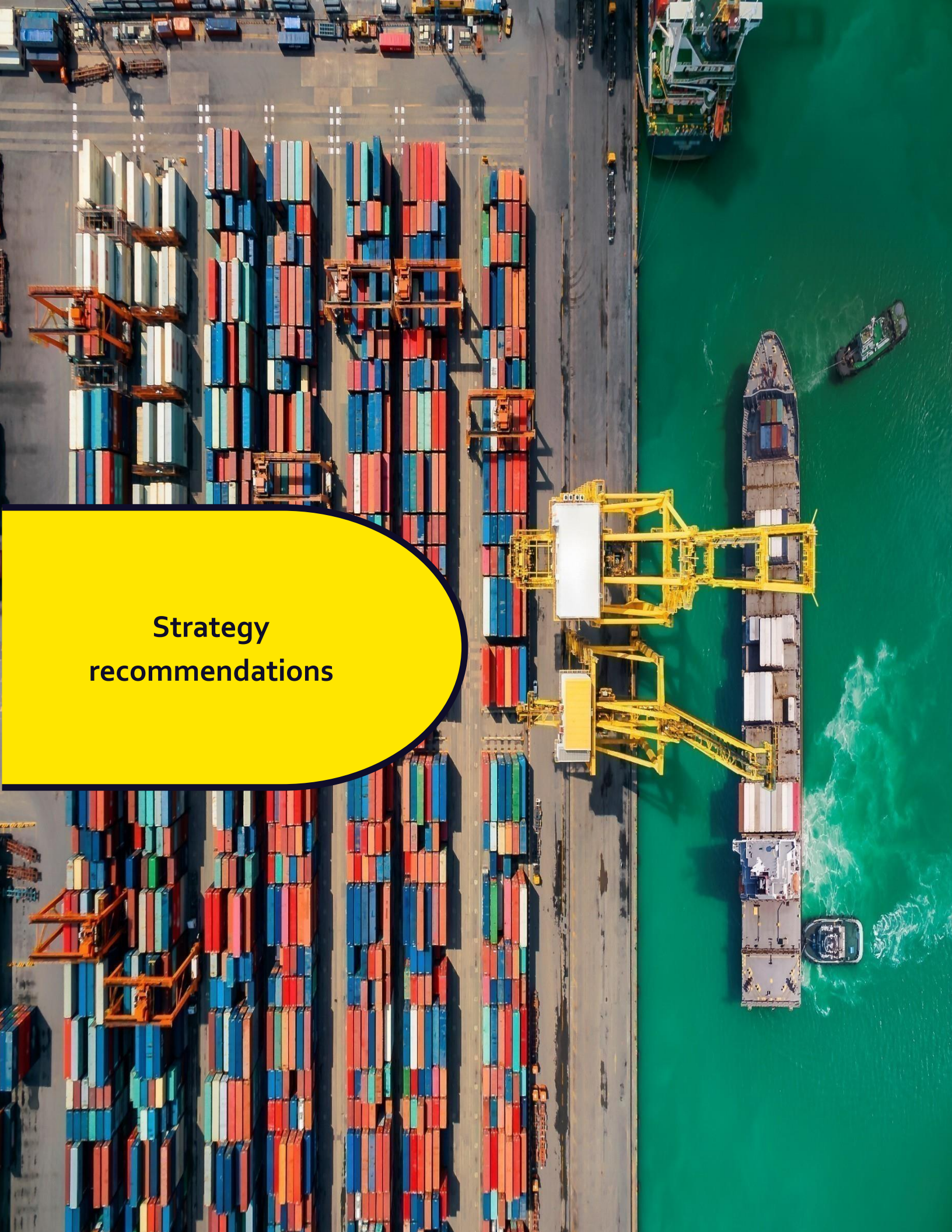
Funding access



Impact of COVID-19 pandemic



Source: EY Analysis, Decision Support



Strategy recommendations

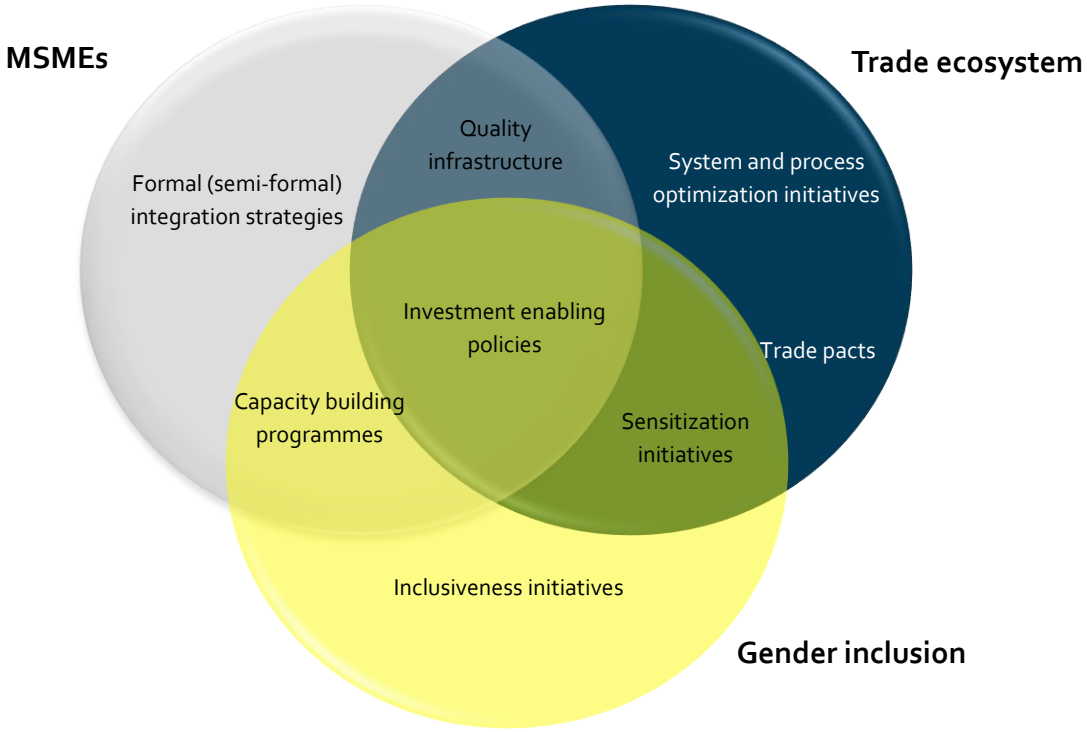
5. Strategy recommendations

The non-oil sector is plagued with multi-faceted and somewhat systemic challenges, and although the government has commenced several initiatives to tackle some of these problems, the lack of an adequate monitoring and implementation plan has resulted in these initiatives yielding lower than expected results.
For this study, we have adopted a three-pronged approach towards formulating our strategy recommendations with a focus on:

1. The development of the Micro, Small and Medium Enterprises
2. The improvement and optimisation of regulatory and trade environment
3. The inclusion of socially excluded groups - particularly women who have been under-represented in the sector (as in other productive sectors in Nigeria)

We have also highlighted some cross-cutting initiatives across the three categories as they benefit more than one of the focal groups.

Strategy recommendations



5.1 Formalizing & Integration

The dominance of informal operators within the MSME ecosystem is not a problem unique to Nigeria, or even the African continent. Globally, due to several reasons including business size, lack of awareness and tax evasion, many MSMEs opt to remain unregistered. According to the FAO, informal MSMEs account for 70% of employment and about 30-40% of international cross border trade in Sub-Saharan Africa.

As expected, the government typically disapprove of informal activity as it results in revenue losses, and the difficulty of regulating such activities can often lead to negative effects on overall economic growth as a huge portion of economic participants are segregated from government policies and initiatives. Nevertheless, the integration of the informal business operators either through formal or semi-formal schemes is crucial for Nigeria to maximize economic benefits from its non-oil sector.

Over the past few years, Nigeria has employed semblances of Colombia's "Formalization Law" (Law 1429 of 2010) by seeking to enhance the transition of the informal to formal sector through cost reduction and simplification of the documentation process for registration. These PEBEC-led initiatives have seen Nigeria rise 39 places on World Bank's Ease of doing business ranking between 2016 and 2020.

However, the general lack of awareness of these initiatives such as the subsidized registration costs, and the simplified registration process have resulted in MSME's using consultants for business registration which ultimately increases the cost burden and negates the overall purpose of these initiatives.

Awareness on the need for formalization is the major strategy employed by the South African Development Community (SADC), as it consistently deploys sensitization tools for its member states and their constituents on the advantages of formalizing their business and the process of formalization

In other formalization schemes across Africa, the COMESA (including comprising members EAC and SADC) has implemented a Simplified Trade Regime (STR) which acknowledges the presence and importance of informal traders in the region. The STR accommodates continuance of such trade within a threshold of $1,000 on a duty-free basis across the region without key registration documentation, thereby facilitating the income of these traders by eliminating the lengthy customs procedure and compliance requirements. This initiative provides:

1. Incentive for a small trader to register, in a bid to expand over and above its current $1,000 threshold
2. Adequate data capturing of the contribution of informal traders to the region's total trade {in particular, Uganda seeks to use this data to formulate policy framework to guide informal trade activities where quality control and value addition issues take precedence to enable the traders earn more revenue}

Lastly another initiative deployed in East-Africa was a semi-formalization scheme which creates a link between large enterprises and small-scale farmers in form of an aggregation network. Through the aggregation network, large enterprises provide small-scale farmers with market information, off-take agreements and value-chain finance/inputs in exchange for the small-scale farmers' production volume. Through this network, the farmer is directly integrated into a formal economy despite being an informal entity on its own.

This relationship on one hand, helps the larger firms secure their supply chain, monitor required standards of production and quality of seeds, while the small informal farmer receives access to market information including standards and quality conformity support, potential access to finance and secured production offtake.

Similar relationships currently exist in the Nigerian economy with Tiger Foods, Dangote and Olam large enterprises currently in some form of partnership with small scale producers across several value chains such as sugar, ginger, tomato etc.

Recommendation	Institution/policy secretariat	Supporting agencies	Objective of local policy/institution	Expected outcomes
Awareness and sensitization	SMEDAN	• CAC • FMITI • NEPC • Private sector groups – NACCIMA, NABG, NASME	• Deployment of regular sensitization programmes targeted at improving MSME understanding of registration process and benefits • Direct support to MSMEs in registration process through use of registration agents	1. Increase level of MSME integration in formal economy 2. Real-time tracking of effects of cost-reduction strategy for MSME integration
Demand-pull incentive to formalization	FMITI	• CBN • NEPC • Private sector groups – NACCIMA, NABG, NASME	• Using existing trade missions and procurement opportunities to create links between large enterprises and MSMEs. • These aggregation (and demand) links are then used as incentives for small-scale farmers to participate in formal economy	1. Improved level of MSME integration in formal economy. 2. Improved business linkage and development networks. 3. *Helps facilitate value chain financing*
Liberalization scheme	NCS	• NEPC • NOTN • FMITI • FMOT	• Adoption of a maximum threshold ($2,000-$5,000) for informal traders to operate across borders without requiring statutory cross-border documentations • The focus shifts from immediate revenue generation to allowing informal business upscale and subsequently yield higher government and foreign exchange as MSME grow above the maximum threshold	1. Reduction in illegal trade across borders 2. Real-time data gathering on informal cross-border trade in Nigeria 3. Improved MSME upscaling and capacity.

Formalizing & Integration strategies

Initiative	Cost reduction - "Colombia's formalization law"	Awareness – "SADC Advocacy strategy"	Demand pull – "e-Granary initiative between FAO and Eastern Africa Farmers Federation (EAFF)"	Liberalization – "Uganda's ICBT initiatives & COMESA Simplified Trade Regime"
Objective	*Enhances transitions between the informal and formal sectors by reducing costs and simplifying required paperwork at early stages of business creation.*	*Targets sensitization of informal business operators on the potential benefits of registration and ease of registration & export process*	*Use of a semi-formalization tool where large enterprises through an aggregation platform pass on vital information & policies to small scale farmers and vice versa.*	*Data collection to aid development of a policy framework guide informal trade activities where quality control and value addition issues take precedence to enable the traders earn more revenue*
Elements of initiative	• *Reduced registration cost* • *Simplified documentation process* • *Tax holiday for first two years* • *Additional tax incentives for firms which hires women over 40 years* • *Grants to companies with historical employment growth history*	• *Eliminates lack of awareness on registration process* • *Seeks to garner other fundamentally issues preventing formalization*	• *Allows large business and government better assess the needs of these informal players and tailor inclusive growth strategies* • *Helps facilitate value chain financing* • *Facilitates agricultural inputs access.*	• *Allows informal trade mainly on duty-free basis within a relatively high threshold of goods worth US$1,000 or less without the need for a Certificate of Origin* • *Eliminates lengthy customs procedures and documentation requirements for small traders.*
Nigerian adoption	• *Reduced registration cost window (elapsed)* • *Simplified registration process* • *Zero income tax on business earning below N25 million*	• *Sensitization map for key stakeholders including FMITI, CAC and SMEDAN* • *Direct partnership with key associations to ensure materials are targeted to needs of MSME groups*	• *Using key organized private-sector players (e.g. NACCIMA, NABG), the country can create semi-formal business linkage networks with small-scale farmers* • *This would help facilitate financing, and inclusive growth strategy design*	• *Elimination of formal requirement for goods export (particularly to neighbouring ECOWAS states) within a specified threshold ($2,000-$5,000)* • *Simplification of the CET, AfCFTA and other prevailing trade agreements to accommodate these informal traders*
Ease of implementation	Existing	Short term	Short term	Medium-long term

5.2 Trade system and process optimization

Streamlining goods clearance processes and procedures is required to improve the business environment in Nigeria. There is a general need to create a balance between revenue maximization and trade facilitation for trade regulators (particularly customs official), as well as strengthen inter-agency coordination to foster a better trade environment in Nigeria.

There is a consensus, among the main private and public sector stakeholders involved in international trade, on the importance of digital systems to facilitate trade. MSMEs and MDAs are keen on having automated systems – which they believe will improve efficiency and expedite the trade process by reducing physical interactions, as well the duplications involved in trade transactions

Adopting digital solutions for existing manual processes would assist to reduce goods clearance time, as well as the attendant costs. Digital solutions such as the Single Window System and automated truck call-up systems will bring the much-needed transparency to the customs operations in Nigeria.

The $300 million e-customs project which was recently approved by the President is expected to herald the transition from manual processes for trade in Nigeria leading to digitally connected cargo clearance processes at all key land, sea and air border crossing points, – through use of a central single window system and electronic scanners for container. This will significantly reduce the time and cost of trading in Nigeria.

We have highlighted the Single Window System as the centerpiece of a digitally enabled trade facilitation system which would improve the overall efficiency of customs and trade processes in Nigeria.

Single Window System

The development and implementation of the Single Window System is one of the key commitments of the WTO Trade Facilitation Agreement and the AfCFTA. As stated above, although there is a general agreement on the need for SWS, the dynamics of the implementation however remain a constraint. This is due to:

- **Lack of interagency coherence**: Due to the lack of a coordinating agency with adequate institutional authority to synchronise trade agencies, there have been silo efforts at implementing a single window system in Nigeria. Examples include:
  - NCS maintaining the NICIS II works as the SWS despite multiple agencies excluded from the platform;
  - FMITI operating a trade portal (trade.gov.ng) with features similar to NCS's trade hub portal (nigeriatradehub.gov.ng),
  - Reported refusal of some agencies in adopting the NICIS II as they were not consulted in its development.
- **Infrastructure deficit**: Feedback from survey of stakeholders, have indicated that due to different investment levels by the Federal government in the different trade agencies, some agencies do not have the required IT infrastructure to effectively adopt a central SWS.

Setting up the SWS…

The SWS can be coordinated by several agencies within the trade ecosystem and should be developed through an extensive public-private dialogue to ensure adoption is seamless and efficient. Given their respective mandates along the trade value chain, the five best-placed agencies for the coordinating the SWS in Nigeria are

- FMITI: primary ministry responsible for trade and industrial development in Nigeria
- NEPC: Agency charged with development of Nigeria's export capacity
- NCS: Treasury and enforcement agency for trade related tax
- CBN: Foreign exchange management and economic development
- NPA: Trade facilitating agency through effective port management.

Analysis of key responsibilities of trade agencies

	FMITI	NEPC	NCS	CBN	NPA
Existing interface with key exporters and manufacturers	√	√	√	√	√
Imports regulation	√	x	√	√	√
Revenue generation and proceeds management	X	x	√	√	√
Foreign exchange management	X	x	x	√	x
Economic development mandate	√	√	x	√	x
Experience coordinating multiple agencies	√	x	x	√	x
Political autonomy	X	x	x	√	x

Based on the above, the CBN seems best placed to act as the coordinating agency of the SWS, because the apex bank already acts as a key intermediary in current Nigeria's trade activities –

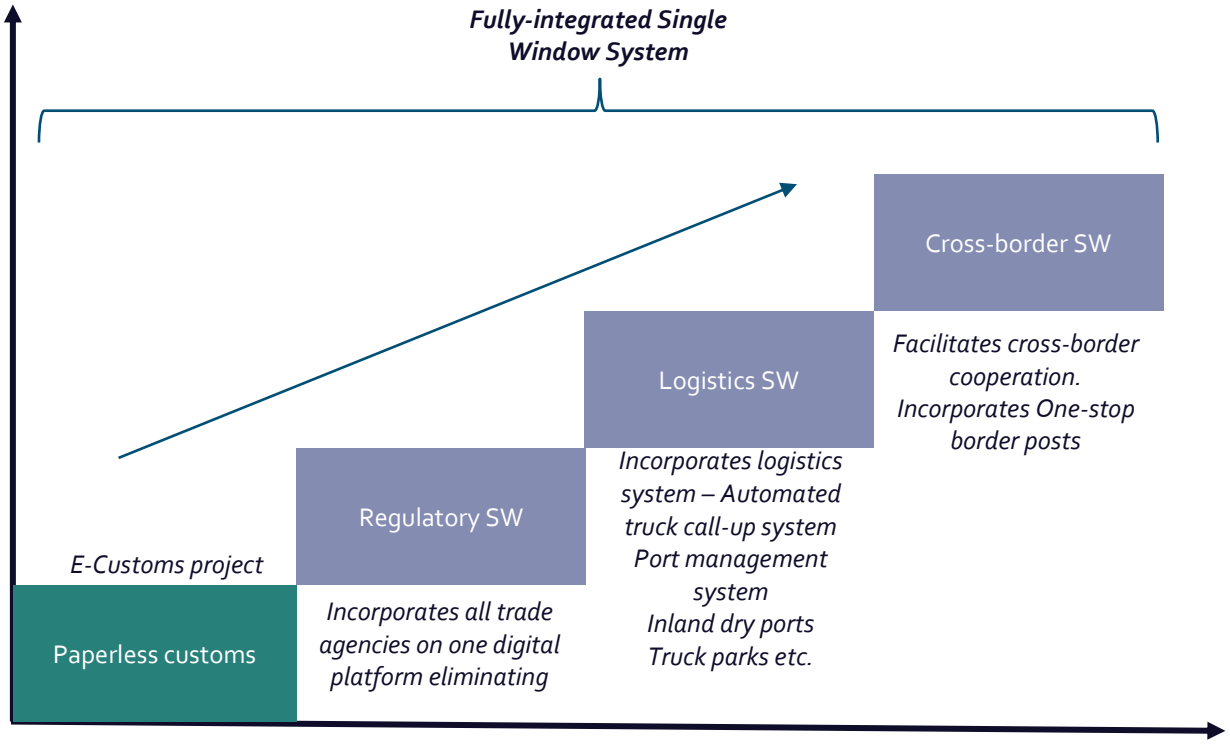
- existing interface with key exporters and manufacturers;
- regulation of trade proceeds and restrictions;
- their role in fostering the nation's economic development; and:
- the strong level of institutional backing they enjoy from the Federal Government, despite being an independent agency, which allows them to drive the implementation of key economic development policies.

However, given the monetary policy mandate of the apex bank and the fact that several responsibilities beyond its original purview have been assigned to the CBN, we believe that the development of the SWS should be undertaken as follows:

1. A Presidential Order mandating the development of the SWS and assigning a Presidential committee (including key stakeholders such as CBN governor, FMOF, FMITI, NCS and representatives of organised private sector groups) to oversee the delivery of this order. The Presidential Order ensures:
    a. Trade facilitation commitments made the Government is treated as strategic priority to economic growth and sustenance, similar to the previous priority projects such as the TSA and BVN.

b. Eliminates the silo operating system existing with several agencies with regards to coordination of the SWS.
c. Serves as an important step towards the facilitation of interagency co-operation.

2. The presidential committee then seeks to appoint a private sector operator of the SWS in a viable Build-Own-Transfer (BOT) model. This builds on existing PPP arrangements being deployed in the implementation of the e-customs project – which is the first stage of a fully optimized SWS as shown in diagram below.



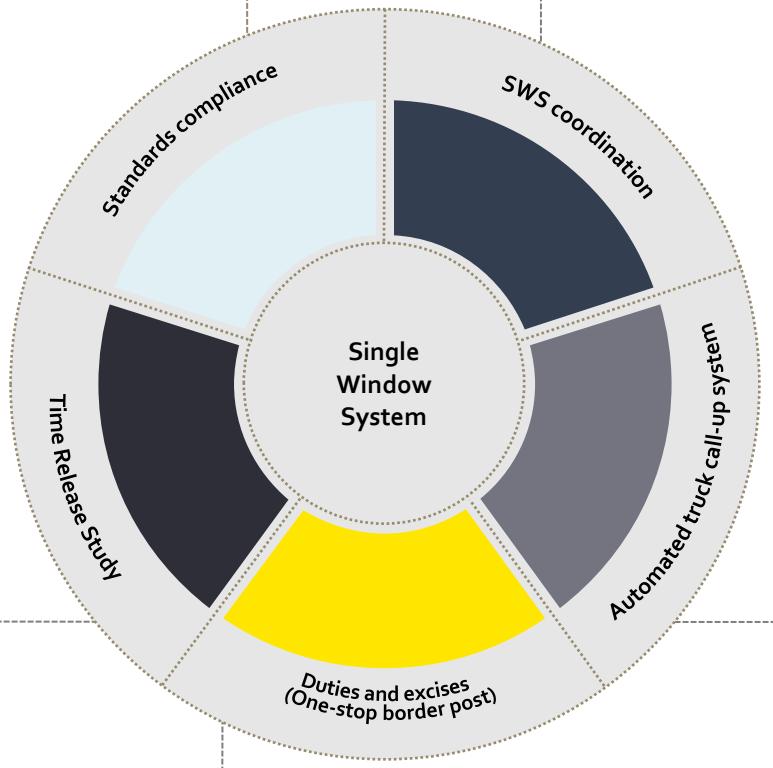
Facilitating other customs optimization plans…

The SWS also helps facilitate the implementation of other recommendations described in subsequent pages:

- The automated truck call-up system: The SWS integrates a truck call-up system, which allocates the port access time to exporters upon completion of all requirements for cross-border trade
- The OSBP: The SWS facilitates the required information sharing required to develop and operate a one-stop border post
- Time Release Study: The digital nature of the SWS ensures there is an auditable trail that can provide real-time feedback on compliance time, and time spent at the port for trading

Primary agency: SON, NAFDAC, NAQS
Supporting agency: NiNAS, FMOH
Key KPIs:

- Average compliance time
- Average cost of compliance
- Average number of document processing days
- Reduced rate of Nigerian product rejection



Primary agency: PPP model
Supporting agencies: CBN, NCS, NPA, FMITI, NEPC
Key KPIs:

- Adoption of SWS by trade agencies
- MSME training on SWS adoption

Primary agencies: NCS & NPA
Supporting agencies: SON, NAFDAC, NAQS, NEPC
Key KPIs:

- Average number or days to export/import
- Average number of document processing days
- Average compliance time
- Average cost of compliance

Primary agency: NPA
Supporting agencies: FMOT, Respective private terminal operators,
Key KPIs:

- Improved port access and goods clearance
- Decreased level of port congestion
- Identification and optimisation of other infrastructure bottlenecks

Primary agency: NCS
Supporting agencies: NPA, NDLEA, SON, NAQS etc.
Key KPIs:

- Faster payment channels.
- Level of inter-country cooperation and information sharing
- Average export/import processing time
- Reduced level of illegal trade

Other recommendations to improve and optimize the trade process in Nigeria include

2

Automated Call-up system

- An Automated Truck Call-up system is an electronic platform that notifies truckers of the proximity of their cargoes to the ports. This would assist to reduce or even eliminate congestion at ports as only required trucks would be present around and inside the general port complex.
- With access to ports being one of the major reasons for increased cost of trade in Nigeria, the automation of the truck call-up system at ports would assist to reduce the delays experienced and the chronic congestion at the ports' environs.
- It would also inject much needed transparency into the ports' operation following years if reported sharp practices at the ports thereby restoring public faith in respective MDAs and boost trade in general.
- The automated call-up system would also help implement a risk-based goods clearance system - a system ensures that ports access is given to priority goods of perishable nature, which could potentially be rejected or totally lost in the event of delay.

3

One-stop Border Posts (OSBPs)

- The one-stop border post would be a facilitating upgrade from the two-stop border post model characterised by multi-layers of paperwork, lengthy clearance transactions, and duplication of exit/entry procedures that cause delays and increase the cost of doing business.
- The major reason for establishing OSBPs along transport corridors is to expedite the movement of goods and people, and to reduce transport costs across national boundaries through increased cooperation and information sharing between agencies from both jurisdictions.
- Considering the numerous benefits the Chirundu OSBP has achieved in facilitating trade within the East and Southern African regions, designing an OSBP in Nigeria would improve border crossing speed and efficiency thus reducing barriers to trade and improving business competitiveness with Nigeria's neighbouring countries.
- The efficiency of an OSBP is enhanced by redesigning and improving physical infrastructure, procedures and processes, including making the provision to assist small scale traders and gender sensitive procedures in order to facilitate expeditious movement, release and clearance.
- The OSBP also eliminates some of the incentives of illegal trade, by reducing cost of formal trading and multiple contacts with border officials.

4

Annual Time Release Study (TRS)

- The TRS is also a stipulation within the recently signed WTO Trade Facilitation Agreement (article 7.6).
- According to the WCO, a Time Release Study (TRS) is a strategic, internationally recognized tool to measure the actual time required for the release and/or clearance of goods, from the time of arrival until the physical release of cargo, with a view to finding bottlenecks in the trade flow process and taking the corresponding necessary measures to improve the effectiveness and efficiency of border procedures.
- The rapid evolution of the international trade environment, the emergence of new technologies, and the ever-increasing pressure to reduce costs and times in the cross-border flow of goods, have made it imperative to maintain a TRS which would reflect new developments and opportunities as well as provide a means for measuring the performance of the various stages and actors within the customs clearance process.
- Annual TRS would serve as a key monitoring and evaluation (M&E) tool for the NCS as the agency aims to balance it revenue maximization function with its trade facilitation function.

5.3 Capacity building

Government agencies

- Discussion with government agencies tasked with improving and regulating the trade environment in Nigeria revealed that there is a need to improve the knowledge base and capacity of its respective officials.
- It is estimated that 65% and 80% of import clearance and export processing time are caused by inefficient/deliberate delays by ministries, departments and agencies (MDAs) officials.[1]
- With c.52% of respondents alluding to the prevalence of illegal practices at ports and borders, illegal and unethical practices are also common with regards to ports officials resulting in additional costs to traders.
- Although we recommend a detailed capacity audit of the key trade agencies, some development areas noted include ethics, equipment handling and maintenance, standards & compliance, ICT among others.

Potential benefits

- Provides MDAs with the data and analytics capability to address early identification of issues and take corrective action
- Better services provided to MSMEs by MDAs.
- Reduction in fund leakages and misdirection of funds.
- The trainings will result in the MDAs ability to accelerate program implementation and ultimately improve service delivery (particularly through digital systems)
- Increases the investigative and operational capacity of the port agency anti-corruption/internal audit function to identify and deter suspected cases of malpractice/corruption

MSMEs

- Local producers and traders also require training for several reasons ranging from standardization of production process to compliance requirements, marketing and ICT adoption.
- The proposed digitization of government processes would require MSMEs to adopt more technology-savvy tools as part of its trading plans.
- MSMEs also generally require training around product certifications and standards. These problem ranges from inadequate production practices, inadequate national standards to actions of intermediaries such as clearing agents

Potential benefits

- Reliable and accurate information trade process, standards finance opportunities, etc.
- Improved compliance level of MSMEs for MDA assessments
- Increase in overall competitiveness of MSMEs due to an overall improvement in product quality, business linkages, access to intervention funds etc.

Source: [1]Maritime ports reform report

Institution/policy secretariat	Supporting agencies	Objective of local policy/institution	Expected outcomes
SMEDAN	• NCS • NEPC • SON • NAFDAC • NAQS • FMITI	Synchronization of capacity building programmes for MSMEs using an annual training calendar including trainings on: 1. Standards and compliance 2. Product development 3. Tariffs and trade agreements 4. Export markets 5. ICT	3. Increased capacity of MSMEs in Nigeria 4. Increased awareness of standards and compliance requirements 5. Increased knowledge on export markets
FMITI	• NCS • NEPC • SON • NAFDAC • SMEDAN • International development partners	• Annual training and human capital development for staff of key trade agencies • Trainings on key policies and trade agreements of the Country • Gender inclusion awareness trainings	4. Improved quality of human capital in key trade agencies 5. Improved balance between role of trade facilitation and revenue collection by trade agencies.

5.4 Investment enabling strategies

Nigeria operates a pseudo-closed economy, with several restrictions on capital flows, restrictive capital repatriation processes and inconsistent foreign exchange policies.

In 2019, Nigeria partially closed its land borders as part of its effort to curb cross border smuggling and strengthen local production. Although the land closure resulted in higher local production, was reported for some commodities such as rice, the inconsistency of this move via-a-vis a recent signing of the WTO TFA and the AfCFTA indicates a lack of coordination by the policy makers and overall institutional environment in the Country and further reduces the ability of the economy to garner required foreign direct investment.

Some stakeholders noted that in a bid to sustain production levels, foreign currency was sourced from parallel market (N475/$) due to low supply from the CBN, however proceeds from exports are then received at the I/E window rate (N390/$) thereby further limiting their constrained earning potential.

Trade protectionist policies, such as the CBN's forex exclusion list, while stimulating local production may also have a regressive effect on economic growth. Local production of a protected commodity is increased at an uncompetitive cost to consumers, resulting in overall erosion of living standards.

Overall, these strategies have resulted in somewhat negative impact on the non-oil sector, as the financing bridge for MSMEs remains unaddressed. We have highlighted three intervention areas crucial for establishing required business links with the agriculture value chain. These interventions deploy a demand-pull strategy where the market determines the level of support granted to small-scale farmers and other informal players. These market incentives also spur local producers to invest in production process and quality compliance requirements.

Given that there is a case for a more targeted, geography based, private sector led approach, to be directed at the agro-processor & market linkage segments of the agriculture value chain. The Federal Government recently launched a focused SEZ initiative, with agriculture processing zones as a key driver of growth.

Key policy recommendations to support the success of this initiative would include the following:

1. **Organised outgrower schemes**: The existing work of the NEPC can be further amplified with a coordinated partnership with organised private sector associations such as the Nigerian Agribusiness Group (NABG), Nigerian Association of Chamber of Commerce Industry Mines and Agriculture (NACCIMA) and All Farmers Association of Nigeria (AFAN) etc. This coalition through its trade missions can help secure potential export targets (in large volumes) for Nigerian producers and consequently, this demand then forms a basis for the creation of outgrower schemes.
   A key advantage of this demand-pull strategy is that on one hand, it provides the buyers (large enterprises) improved control over crop supply particularly in terms of crop quality standards and on the other hand, provides the small-scale farmer required incentives to follow prescribed quality standards given that the inherent compliance costs will be factored in the off-take agreement.
2. **Value-chain financing**: Given that the low access to finance for MSMEs is largely driven by their informal nature, the outgrower scheme provides an alternative option to reach these groups. With an established link between large enterprises (or aggregator) and these small-scale producers, a unique financing instrument can be adjoined to financing facilities provided to larger entities.

The aggregator (e.g. a large chocolate-powder exporter) grants a number of micro firms (e.g. small-scale cocoa bean farmer) small ticket finance in form of prepayments and other working capital support. This facilitates B2B linkages as well as bridges the short-term finance needs of these micro firms.
The existing Export Expansion Grant can be redesigned to serve as the adjoint finance for large enterprises within these value chains which would subsequently be used to prepay

The out-grower programme has been a successful development tool in parts of Africa such as Malawi (oil palm & tobacco), Mozambique (banana & citrus) and South Africa's South African Growth Corridor of Tanzania (SAGCOT) plan for avocado, sugar and potato[23].
The programme has also been successfully adopted in other countries beyond the borders of Africa e,g. 70% of Brazil's poultry, 90% and 40% of Vietnam's cotton and rice respectively are produced using out-grower systems[24].
The advantages of these system include:

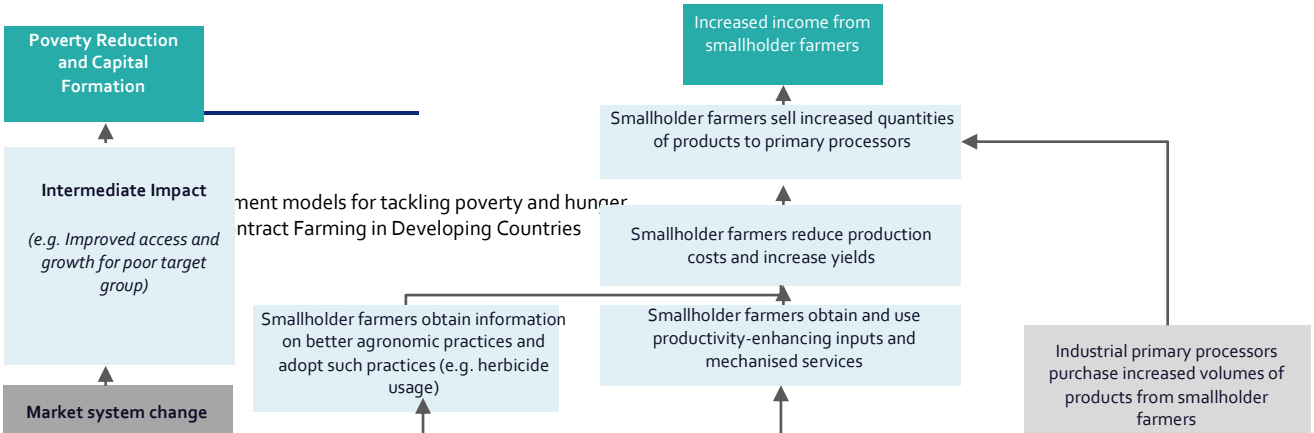
- Supply of key inputs and production services to small-scale producers by large enterprises
- Farmers' production and market risk are significantly reduced as large enterprises guarantee purchase
- Improved access to finance within the network
- Increased information sharing between local farmers and large enterprises.
- Out-grower schemes opens small farmers to new markets and opportunities

However, despite the positives of these schemes outweighing disadvantages, some of its reported disadvantages include:

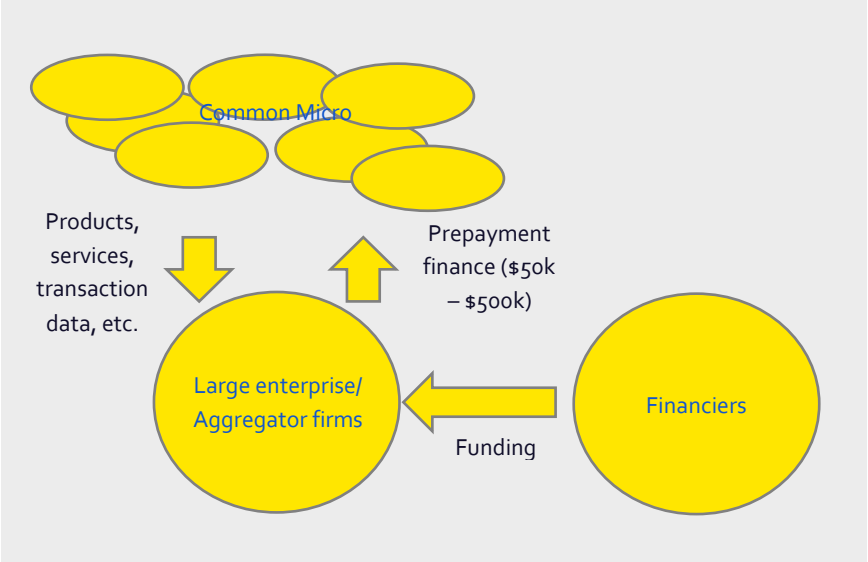
- Over dependence of small-scale farmers on large enterprises
- Unfavourable contracting terms
- Inappropriate land acquisition and expropriation.

We believe that these B2B business risks can be solved in the Nigerian context with other recommendations around business formalization, capacity development and information sharing as these would improve knowledge base of MSMEs and limit risk of exploitation.

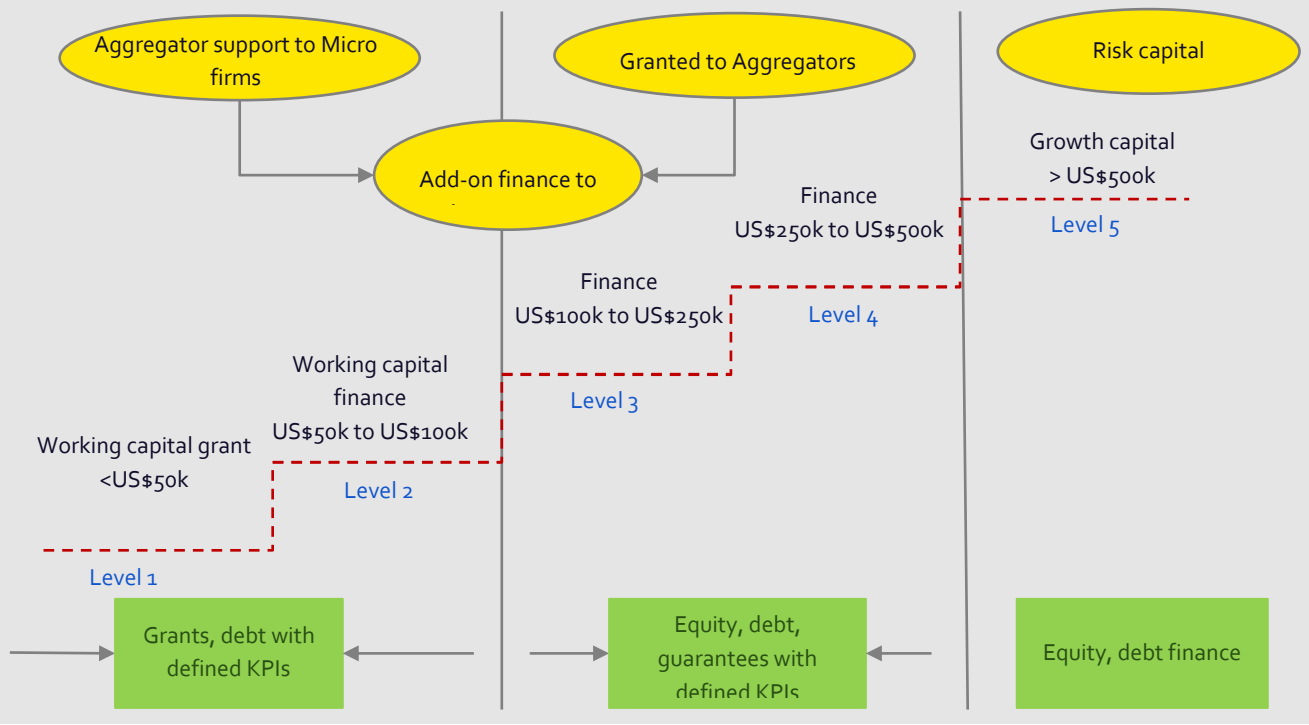
Investment enabling ecosystem



Illustrative design of the value chain finance



Upscaling through the value chain finance



5.5 Quality infrastructure and Standards Compliance

A major deterrent to trade in Nigeria is the period taken to achieve documentary compliance, largely due to the inadequate infrastructure to support testing and verification process of these products by certifying standards agencies, currently there are only 25 private and public labs across the country (12 of which are located in Lagos) accredited by NiNAS to conduct phytosanitary testing and certification for food export in Nigeria.

Other reasons for delays in this process include:

- Duplication of checks by standards agencies
- Information gap between regulating agencies and traders
- Inadequate capacity of MSMEs to comply with prescribed standards, due to attendant cost implications.

Strong institutional discipline is required to drive the development, synchronization and harmonization of various government and organised private sector actions particularly as multiple players currently operate within the MSME and non-oil sector development space, however these different players often operate in silos, with limited information sharing. As such there is a lack of congruency and synergy in this effort, consequently limiting the overall impact on MSMEs.

The National quality policy (developed by the standards agencies with the support of UNIDO) seeks to review the roles of all existing trade standards agencies in Nigeria in a bid to eliminate duplication of roles and inspections. The policy also seeks to improve the organized private sector participation in the standards and compliance requirement of trade products by assessing their capacities to create and support conformity assessment bodies (CAB).

As at the date of this report, the policy has been submitted to the Federal Executive Council (FEC) for review and subsequent assent which is the next chain of event as the Country seeks to pass the policy into law. The successful pass of the National quality policy (bill) would help alleviate a key non-tariff barrier to trade in Nigeria – the duplication of requirements from standards agencies NAFDAC and SON. With the streamlining of each agency's role we expect that SON to facilitate the alignment of Nigerian standards to global export market requirements using its existing affiliations to international standards agencies like ISO and ASTM.

The alignment of local standards is similar to strategy deployed by Kenya in the development of its KenyaGAP in 2007 as part of its overall "***Strategy for the Revitalisation of Agriculture***" in the Country. The country identified agriculture as one of its key foreign earnings industries with the EU as its key market (95% of total exports was directed to EU countries). As such the Kenyan government decided to adopt the European standard – Global GAP, which guides the retail of European goods and traders[25] for its local producers – the KenyaGAP. Due to alignment between the standards, and the subsidized cost of testing locally, small-scale farmers were easily certified to export to major European markets like the UK, Germany, Netherlands etc.

Beyond the adoption of the standard, the government's role was to mobilise the key players to participate in the development of the (KenyaGAP) standard, as they facilitated multiple stakeholder engagement meeting through the National Taskforce – a public-private sector initiative.

It should be noted that while SON can, in its current capacity, proceed with the local adoption and alignment of internationally accepted quality and conformity standards, it is most effective after the National Quality policy has been signed into law, in order to avoid overlapping mandates with its sister agency – NAFDAC.

[25] https://www.globalgap.org/uk_en/who-we-are/about-us/history/

We also recommend that NiNAS is strengthened as Nigeria's accreditation agency. This will help expedite private sector participation in the localization of international standards and drive required investments in the quality infrastructure area of Nigeria's trade ecosystem.

Lastly, we recommend the formation of a standards committee which would include key quality and standards agencies and private sector bodies (MSME associations and Large enterprises) for continuous monitoring and evaluation of the quality infrastructure in Nigeria.

Institution/policy secretariat	Supporting agencies	Objective of local policy/institution	Benchmark country policy	Key learnings
Standards Organisation of Nigeria (SON)	• NAFDAC • NAQS • NiNAS • FMARD • Other private labs	Streamlining and benchmarking Nigerian Standards to general and specific international export markets.	*Kenya* The adopting of GlobalGAP to KenyaGAP thereby making it easier and cheaper for local producers to get certified and export to international market.	• Localisation of benchmarked standards reduces overall cost burden and improve ease of certification • The development of KenyaGAP has also fostered a better public -private collaboration environment especially through the consultative and consensus building model of the National Task Force
NiNAS	• NAFDAC • SON • NAQS • Organised private sector	Increased accreditation of private labs and conformity assessment bodies	*International market* An accreditation agency is a key quality infrastructure pillar as it aids the verification of conformity assessment bodies locally and improves compliance level for local players	• Increased investment in quality infrastructure • Improved compliance levels of MSMEs.

5.6 Gender inclusion strategies

In most countries, trade has been a catalyst for gender equality, with trade liberalization associated with rising employment and business opportunities for women. However, it can also exacerbate existing gender inequalities and worsen women's economic and social status.

With women constituting c.70% of informal trade in Africa[26], inclusive growth strategies are vital as gender inequality can constrain a country's trade expansion and hinder a country's competitiveness. In Nigeria, gender has been cited as one of the reasons for business informality, as women traders prefer to utilize an intermediary (usually male) in order to avoid targeted sexual-based harassment and illegal fees at customs and border stops.

Strategies listed above (particularly the simplified and digital trading system) seeks to solve overarching problems with the MSME and trade environment in Nigeria, this sub-section aims to remove existing barriers to female participation in the formal economy of Nigeria.

These problems ranges from barriers to formal education in Northern Nigeria to denial of land and property rights in Southern Nigeria. Although, the Nigerian constitution (Ch2 and Ch4) prohibits discrimination of persons on the basis of gender, and grants "every citizen" the right to acquire and own property in Nigeria, these are own overruled by customary rules and societal indoctrinations, which largely attaches the woman's worth to her husband or equivalent male figure – and somewhat views the woman as a property to be acquired in the event of loss of the husband (or equivalent male figure).

The Ministry of Women Affairs was created to help solve some of this systemic discrimination and encourage participation of women in the formal economy. The Ministry often collaborates with several UN agencies including UNIFEM, UNICEF, UNDP, WHO, and ILO as part of its sensitization and outreach programmes.

In addition, the Ministry of Humanitarian Affairs was also recently developed by the Federal government and is charged with the formulation and implementation of fair focused social inclusion and protection programs in Nigeria. The efforts of these ministries coupled with the mainstreaming of gender balance and inclusion in the private sector is expected to initiate the eradication of discriminatory practices at the urban and local areas.

The National Policy on Women was also launched to provide specific guidelines for promoting gender equality in all sectors of the economy. The policy is currently being revised into a National Gender Policy in order to reflect the new shift towards gender and development by increasing the literacy of women in Nigeria as well as improving implementation of anti-discriminatory rules in Nigeria.

[26] FAO – Formalization of Informal trade in Africa

Recommended initiatives

Institution/policy secretariat	Supporting agencies	Objective of local policy/institution	Expected outcomes
Ministry of Women Affairs	• Ministry of Humanitarian Affairs • FMITI • NEPC • SMEDAN	Sensitization on women rights to property ownership and overall participation of women in the formal economy	Increased awareness on women rights and anti-discriminatory stance of the Nigerian economy
NEPC (NEPC-Women in export desk)	• FMITI • CAC • SMEDAN • Min. Of Justice	Subsidization of registration costs for women traders Collation of reports of discriminatory activities by customs and trade officer Annual reports on gender participation in order to facilitate and improve formulation of gender inclusion initiatives	Increased formalization of women traders and reduction of cost profile (by eliminating need for intermediaries) Ensuring adequate justice/penalty for officials who participate in targeted harassment of women traders
Nigerian Customs Agency	• NAFDAC • SON • NAQS • NPA	Implementation of Single Window System to limit human interaction thereby curbing targeted harassment faced by women traders	Digital solutions expected to reduce and eliminate targeted harassment of women traders.
Bank of Industry	• Central Bank of Nigeria	Minimum quota of intervention funds (25%-30%) reserved for women-owned businesses.	Improved access to finance for women producers and traders with dedicated available fund.

5.7 Information dissemination strategies

A significant gap in Nigeria's trade and MSME environment is the information dissemination between key trade agencies and MSMEs. The market analysis revealed that the current information dissemination system in Nigeria is quite limited in its outreach and better communication strategies need to be developed.

Some of the information gaps found include the following:

- About 65% of respondents surveyed believed there was no need to follow any local or internationally prescribed standard during production
- 54% of unregistered MSMEs either indicated they lacked awareness of the registration or believed they lacked required documentation for commencing registration.
- 25% of MSMEs who indicated they were not involved in exports cited a lack of process awareness and market information as reasons.

Strategic recommendations for improvement of information dissemination in the trade ecosystem include:

Area	Policy recommendation	Advantages	Disadvantage
Export market information	NEPC should provide detailed market information on all major export products of the country similar to the US Department of Agriculture[27] . The following are recommended: 1. Leverage the use of ICT channels (e.g. NEPC website) for dissemination of key market information – export market, required standards and process. 2. Direct dissemination of procurement opportunities to identified industrial clusters and trade associations, 3. Collaborate with SMEDAN as an initial filtering agent for trade and development opportunities to ensure that best targets are prioritized	➢ Increased MSME participation in formal economy ➢ Increased MSMEs awareness on market opportunities ➢ Increase in job creation and development of the economy ➢	Increased government operating cost

27 https://www.fas.usda.gov/data

Government Initiative and policies	• Responsible MDAs (FMITI, SON, NAFDAC etc.) should seek to disseminate such policies and initiatives through organized private sector groups like NACCIMA, NABG, NASME and other associations.	➢ Improved awareness for MSMEs ➢ Improved inter-agency cooperation ➢ Improved private-public sector collaboration	None identified

6. Annexures

Appendix 1 – Survey demographics

Respondents

162 *farmers*

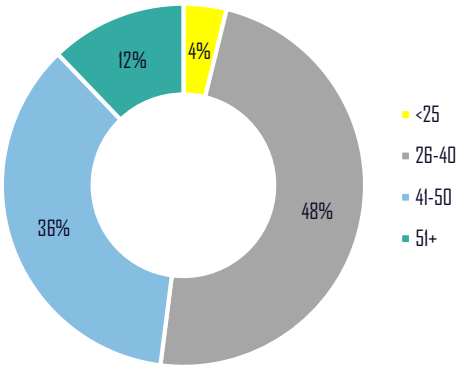
168 *manufacturers /processors*

33 *Aggregators*

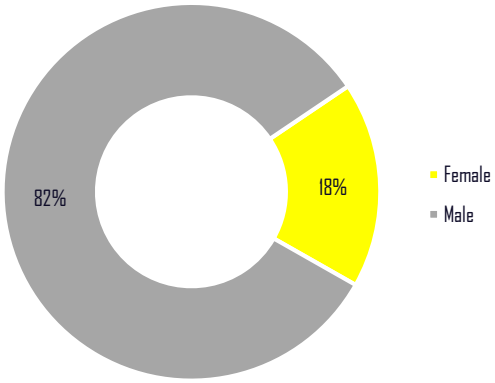
94 *exporters*

14 *distributors*

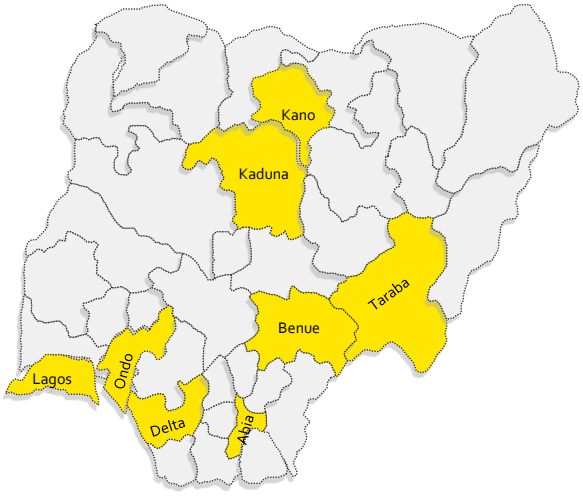
Age mix



Gender



Survey locations



Other stakeholders

NCS

SMEDAN

NPA

NAQS

NAFDAC

NACCIMA

SON

NiNAS

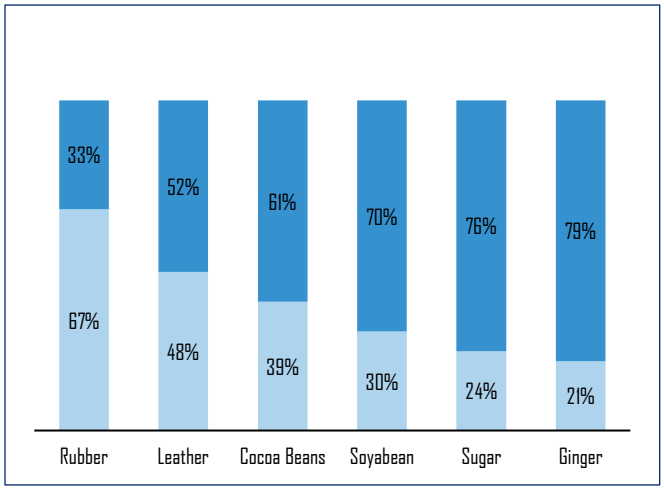
NEPC

AITWN

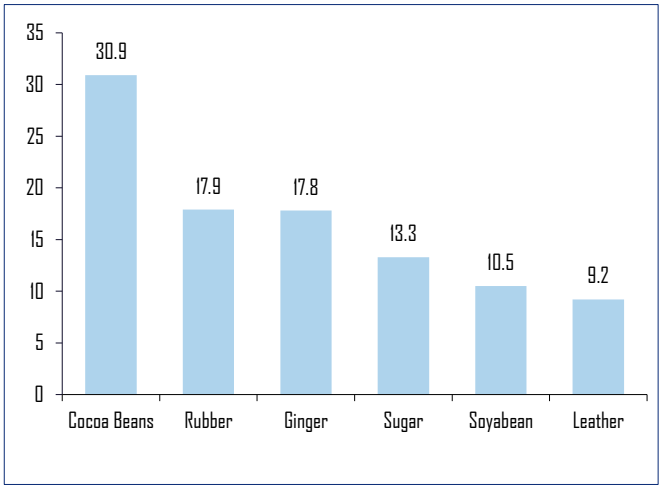
NABG

Appendix 2 – Key metrics per product

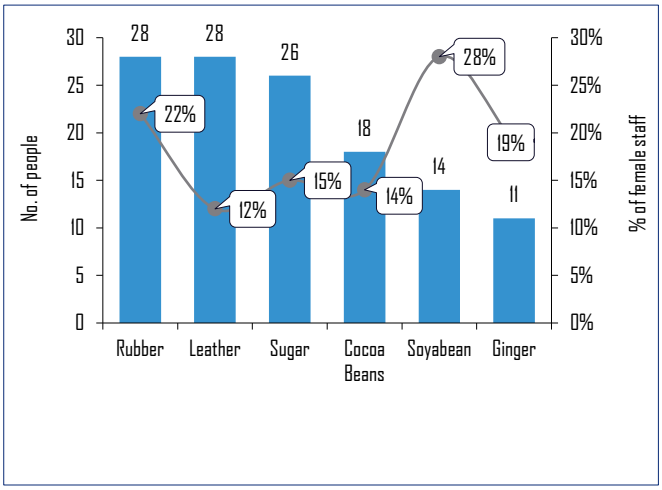
Business formalization



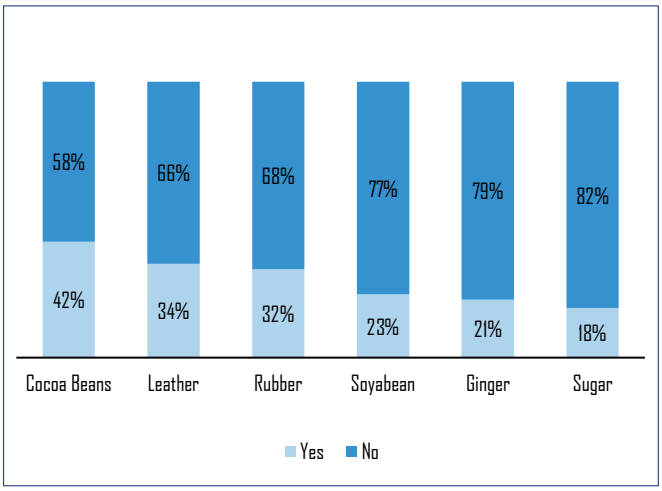
Average turnover in (₦'m)



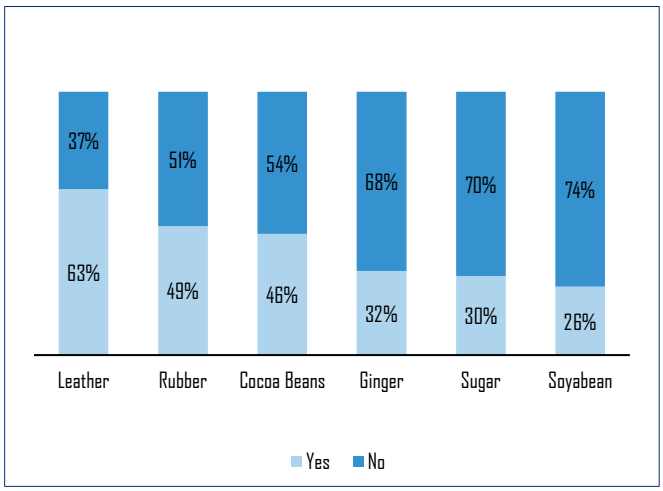
Average number of employees



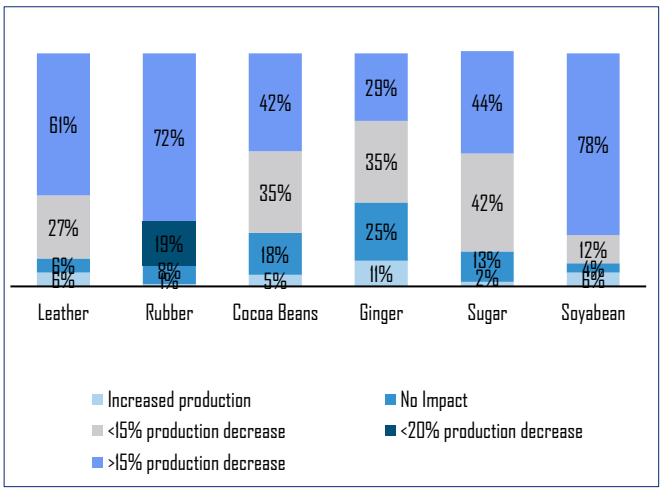
Access to finance



Availability of offtake agreements

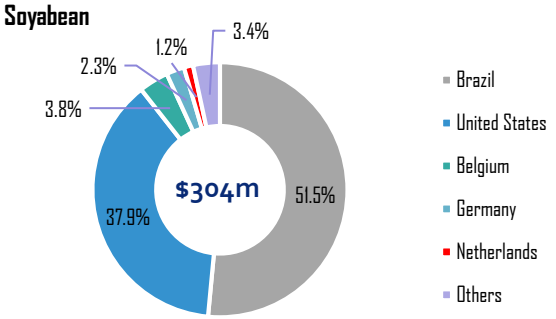


Impact of COVID-19



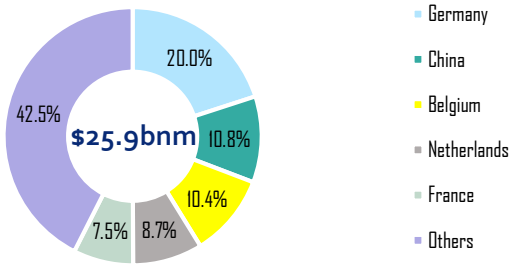
Appendix 3 – Recommended products and the UK market

Soyabean



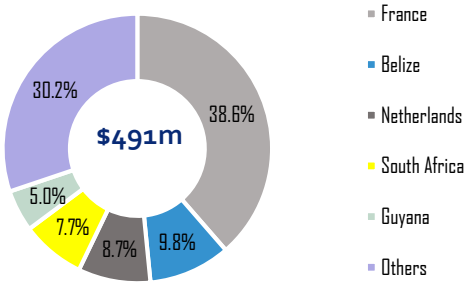
*The United Kingdom accounts for **0.51%** of the world's total import market for soya beans*
Nigeria is currently not a trade partner of this product with UK

Rubber



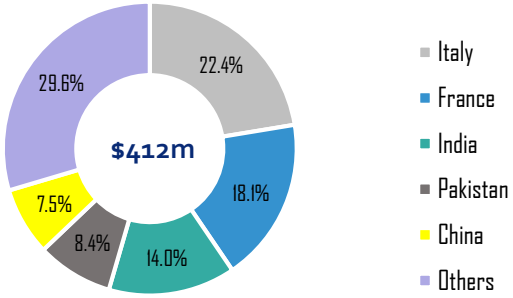
*The United Kingdom accounts for **3.07%** of the world's total import market for rubber. Nigerian exports contribute less than 1% to the UK market - $3.94m*

Sugar



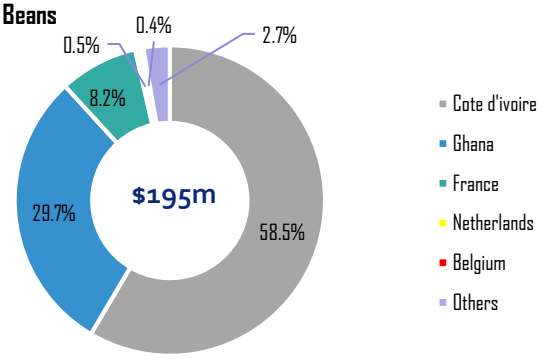
*The United Kingdom accounts for **2.08%** of the world's total import market for sugar. Nigeria is currently not a sugar trade partner with UK*

Leather



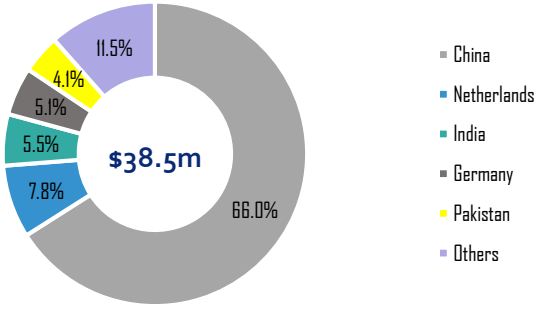
*The United Kingdom accounts for **5.42%** of the world's total import market for leather. Nigerian exports contribute less than 1% to the UK market - $400k*

Cocoa Beans



*The United Kingdom accounts for **2.12%** of the world's total import market for cocoa beans with Nigerian exports contributing c.1% to the UK market - $2.1m*

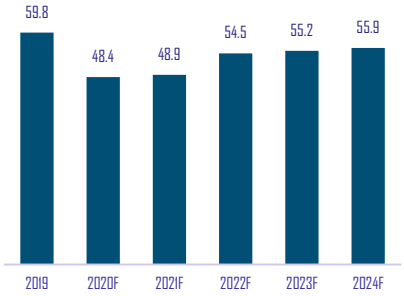
Ginger



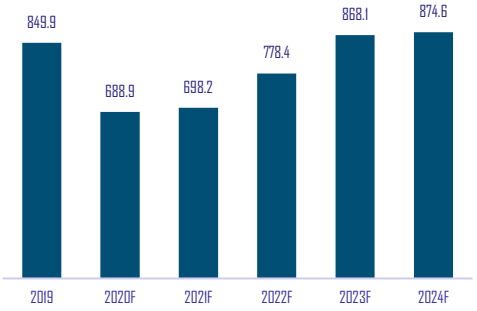
*The United Kingdom accounts for **4.08%** of the world's total import market for ginger with Nigerian exports contributing c.1% to the UK market - $0.6m*

Appendix 4 – Export market forecast

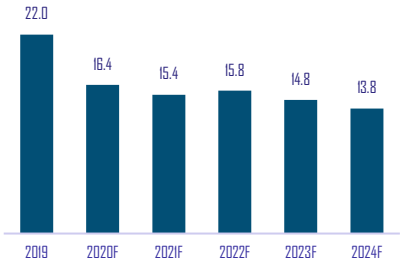
Soya beans global market (USD'bn)



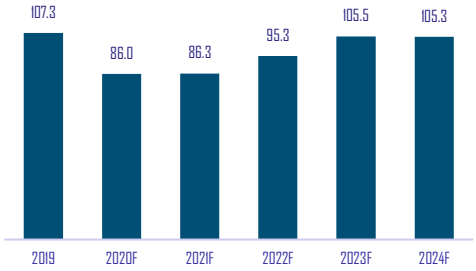
Rubber global market (USD'bn)



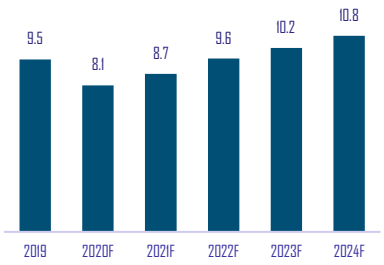
Sugar global market (USD'bn)



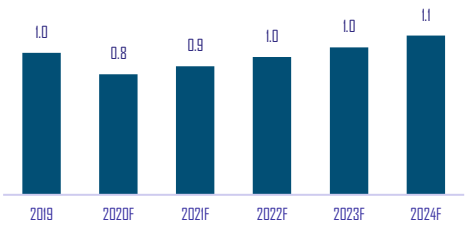
Leather global market (USD'bn)



Cocoa beans global market (USD'bn)



Ginger global market (USD'bn)



In deriving these forecasts - we have analyzed the historical 5-year growth trend for each product and factored the impact of COVID-19 on the global market for 2020. With many economies experiencing negative economic growth and production cuts due to the social and economic effects of the pandemic, we expect a slowed return to international trade volumes in 2021 and 2022, with expected growth over the next three years.