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Content

Looking Inwards:

Will Nigeria tread the path of Economic Recovery and Growth in 2017?

NESG Research

Abstract

In 2016, the Nigerian economy slipped into a recession. The business environment faced series of shocks arising majorly from the foreign exchange crisis, which had severe impact on operating cost, inflation and overall output. Following the lower crude oil prices, foreign exchange shortage became a major headline in the year, as Nigeria could not finance its rising import bills, while non-oil export plummeted. In this article, we present to you a review of Nigeria's economic activities in 2016 as well as the NESG's expectations for 2017. We have anchored this macroeconomic outlook on the theme "Made-in-Nigeria" and therefore stressed the need for Nigeria to look inwards by harnessing the potential that exist within the local economy.

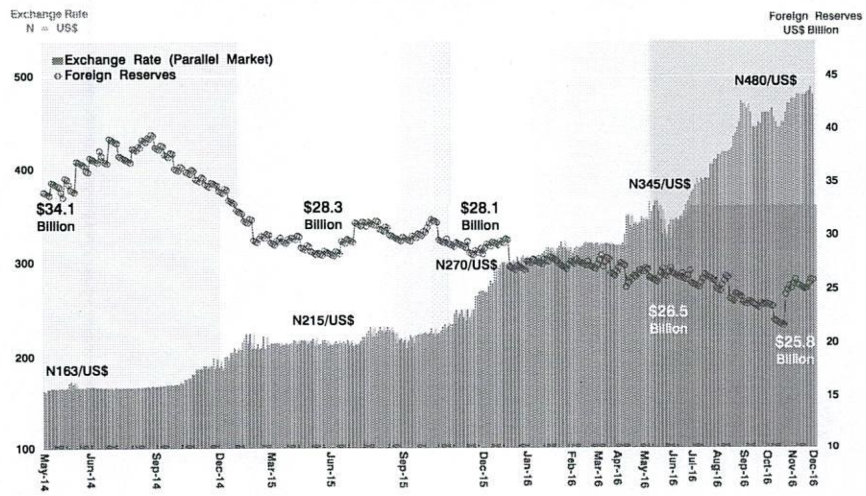
Keywords: economy, recession, GDP, manufacturing, agro-processing, looking inwards, Made in Nigeria

Introduction

Nigeria's economy suffered severe setback in 2016

The economic roller coaster, which started in mid-2014, became severe in 2016. Nearly all expectations and the much-awaited impact of policy measures did not come out in the wash. Nigeria's real Gross Domestic Product (GDP) contracted by 1.6% in 2016, a far cry from 3% growth rate recorded in 2015. A wide range of economic sectors faced severe capacity shock on the backdrop of higher input cost and foreign exchange shortage. For instance, in the third quarter of 2016, agricultural sector was held up to a growth of 4.54% from the usual 6%, industrial sector fell sharply into the negative territory of 12.21% and services sector (which makes up more than half of economic activities) progressively became weaker with a growth of -1.17%. It was not a surprise that the economy, which experienced decelerating growth in 2015, eventually climaxed into recession in 2016.

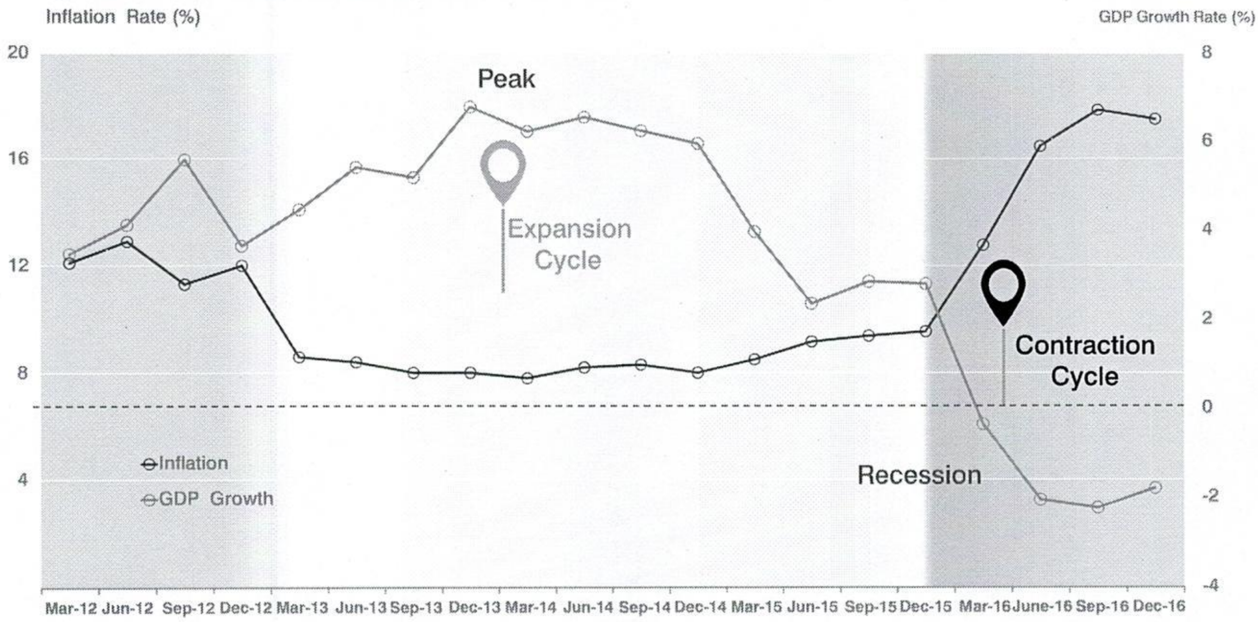
Figure 1: Nigeria's Foreign Reserves and Parallel Market Exchange Rate



Source: Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS)

With Central Bank of Nigeria (CBN) spending billions of US dollars trying to shore up the Naira, the over-burdened foreign exchange reserves could not salvage the struggling naira from the cross-currents. The various raft of measures and ad-hoc interventions in the exchange rate market were almost not effective in halting the widening exchange rate premium and resolving the liquidity challenges. For a country with heavy imports component in its consumption profile, inflation could not hold back. For the first time in 11 years, inflation closed at 18.55% in December 2016.

Figure 2: GDP Growth and Headline Inflation



The year 2017 requires the Nigerian government to be proactive and implement structural reforms

What is the main culprit of Nigeria's economic woes? Is it the low oil prices and its knock-on effects on government revenue or the shift in the global monetary policy cycles and the downside risks it has created for Nigeria's financial markets? Both are parts of recent global evolution that have contributed to Nigeria's economic deceleration and have reaffirmed how vulnerable the economy has been to external shocks. Perhaps, more importantly is the inability of the Nigerian government to respond swiftly and foreclose the expected economic shocks or at the least reduce their negative effects on broad economic indicators. But in 2017 and beyond, quick fixes should not solely be relied upon to upturn the economy towards the path of recovery and sustainable economic growth for the following reasons:

- The recent reversal in oil prices is subject to, unpredictable shocks due to the unstable global economic environment.
- Global economic policies have become fierce, playing around the risk appetite of investors and competing for investment flows.
- CBN's monetary policy has reached its crest and the various measures introduced in the FX market are approaching the limit point.

NESG research believes that the country's economic woes present an opportunity to implement some tough fiscal and structural reforms to improve the business environment, ensure self-sufficiency and export-led growth.

Yet 2017 could be an opportunity for non-oil sector and export-oriented production

2017 may not be the year for "business as usual" if any substantial gains are to come by. However, we believe there are windows of opportunities for the government to revive and transform the economy into a more productive and diversified entity with strong resilience to global shocks. In the short to medium term, the Nigerian economy needs comprehensive policy measures that will not only boost growth but also reduce its vulnerability and pave way for higher levels of broad-based production and diversified exports. Facing the downside risks from the global economy, the year 2017 will likely see macroeconomic policy shifting inwards to leverage on competitive advantage domicile in key economic sectors. Priorities will inevitably be shifted towards promoting local production through growth-enhancing measures and incentivizing local and international investors to drive "Made-in-Nigeria" goods and services.

Ideally, the recent foreign exchange crisis, which worsened in 2016, presents three major opportunities for the Nigerian economy:

- Produce goods and services that are currently imported
- Produce goods for the export market
- Source raw materials locally.

Only if the right policies are implemented

To achieve a smooth running, the need to stabilise the macroeconomic environment and ensure that Nigeria retains the trust and enthusiasm of national and international investors should be the front and centre of economic policies. This entails the mutually supportive use of the four policy prongs - monetary, fiscal, trade and structural - being tailored to sector-specific circumstances. Such comprehensive policy actions will exploit synergies of SMEs, local and foreign investors in sectors such as Agriculture, Solid Minerals, Manufacturing and ICT to drive the economy out of the recession. The federal government has covered some miles in this direction and will be rolling out its Economic Recovery and Growth Plan in 2017. Many expectations are emerging as to how the plan will sail through 2017. What are the crucial infrastructure development needed to accelerate delivery of an ideal "Made-in-Nigeria"? What budget envelope is needed from federal and state governments to finance growth-enhancing measures? What are the sector-specific elements of business environment that would deliver globally competitive economy with strong non-oil export base? These are some of the themes that will make the economy advance in 2017.

Looking inward for recovery and growth

Nigeria's quest towards economic recovery in 2017 and beyond will depend largely on how it supports the production of strategic goods and services on a large-scale to meet local and exports market needs. One justification for Nigeria to promote "Made-in-Nigeria" by improving the business environment lies in the fact that any economic recovery achieved outside the scope of supporting the productive base of the economy will not be sustainable. It would only depict a typical case of postponing the "evil day." Nigeria therefore must realize that looking inward remains the sustainable way to create jobs, enhance foreign exchange earnings through the increase in net-exports and ultimately get Nigeria out of the economic recession. It is, undoubtedly, true that a strong productive sector protects the economy from unforeseen external shocks and, therefore, engenders sustainable economic growth through job creation and value-addition.

In our view, two activity areas- **agriculture/agro-processing and manufacturing** are crucial in enhancing local capacities, job creation and improving Nigeria's external position through an increase in net exports. These strategic sectoral activities are primary drivers of Made-in-Nigeria initiative.

Agriculture and Agro processing

Globally, the challenge of food sufficiency and security remains at the front burner of policy concern. Whereas Nigeria's inability to meet its domestic food requirements is a major challenge; the situation also presents enormous opportunities to get the economy back on the recovery path.

At 4.5%, agriculture was the fastest growing economic sector in 2016 Q3, accounting for 24% of GDP, 30.5% of the labour force and 75% of non-oil export earnings. Despite the significant contribution of Agriculture to the Nigerian economy, it is, rather, worrisome that the sector is dominated by crop production, which accounted for 92% of agricultural output. This implies a huge supply gap in the fishery, livestock and forestry subsectors and, thus, confirms the huge importation of live animals, wood and wood-related products into Nigeria.

Although Nigeria has a huge agricultural potential, processing and storage of agricultural products remains largely untapped. Several products such as cotton, oil palm and wheat are vital inputs required in the manufacturing industry while others can be easily exported to diversify foreign exchange earnings in the country. To actualize this, there must be conscious effort by the Ministries of Agriculture, Trade, Industry and Investment to showcase existing untapped opportunities within these industries/products and implement key reforms to attract investments into the subsectors and stimulate output.

Issues and Challenges of Agro Processing Industry

- No clear and articulated national policy on the development of agribusiness in Nigeria detailing commodity standardization, processing, storage, packaging, transportation, marketing and exportation.
- Inadequate funding given to agribusiness investment leading to inefficient funding mechanisms
- Inconsistent, inapt and often blurred macroeconomic policy environment which ultimately jeopardizes any meaningful development in the agribusiness and value chain initiatives
- Dispersed farmland and subsistence production units inherently promote inefficiency and agro-product waste

Some policy recommendations for the sector are as follows:

- Improve efficiency of government interventions plans
- Provide incentives to stimulate greater private sector participation in the sector
- Simplify business processes and strategies
- Initiate a clear actionable agro-processing industrial policy

Manufacturing

The bane of Nigeria's economy is rooted in its manufacturing sector which is expected to drive the value addition economy. Unfortunately, this sector remains neglected without clear policy direction from the government. Myriads of studies and stakeholders interactions have univocally traced the abysmal performance in this sector to the age-long growth and development challenges the country has been facing. Why do a good number of Nigerians fail to patronize locally made finished goods or raw materials and what should manufacturing sector be doing to address the situation? How should quality and safety standards of the locally produced goods be encouraged to foster productivity? And what roles should improved infrastructure and business friendly policies play in facilitating the rapid growth of the manufacturing sector?

We have identified challenges faced by the manufacturing sector, and presented the strategies for overcoming these challenges and necessary ingredients needed to develop the sector.

Recommendations

1. **Research and Relevant Statistics**
- Nigerian manufacturing output should be focused on areas of competitive and comparative advantage
- Appropriate policy to enhance the capacity of industries with comparative advantage should be implemented.
- Engage research institutions in an effort to identify new and improved operational procedures to drive prices lower and also increase the quality and quantity of outputs.
- Carry out a survey of the Nigerian manufacturing sector in an effort to determine goods that are produced locally and their level of patronage. This will influence policy formulation and direction by government.

2. **Technical training and skills development**
- Invest in capacity building and skills upgrade of employees for enhanced productivity by dedicating a percentage of annual budget to training and exposure.

3. **Quality and Standards**
- Enforce effective regulatory interventions by relevant agencies to enhance public confidence.
- Collaborate with the private sector to ensure improved quality of inputs (local raw materials).
- Ensure regulatory authorities improve their level of compliance verification and mete out sanctions for non-compliance.
- Nigerian Customs Service should intensify efforts on surveillance at the borders to prevent smuggling and importation of sub-standard goods.

4. **Legislation on procurement**
- Enact legislations to encourage Ministries, Departments and Agencies (MDAs) purchase "Made-in-Nigeria" goods.
- Implement existing legislations to promote "Made-in-Nigeria" goods such as redefining the Procurement Act that makes government patronage of local manufactures mandatory.
- Collaborate with donor agencies to ensure that they also procure "Made-in-Nigeria" goods in the course of their interventions in the country.

Getting the fundamentals right

Whether the Nigerian economy will recover or not in 2017 depends largely on the actions and inactions of policymakers. Global events such as the movement in crude oil price and the flow of foreign capital will also be a driving force, however, policymakers have the option to respond to the changes of the economy or be proactive in dealing with such changes.

The Macroeconomic Environment

On the macro scale, sound macroeconomic policy environment would be the main anchor of the "Made-in-Nigeria" initiative. While we note that the growth-enhancing stimulus would require that interest rate is adjusted downwards to a business-friendly level in order to spur credit growth and economic activity, the situation becomes more complex, considering the need to ensure stable inflation and exchange rates. This will remain a conundrum for the CBN in 2017.

As a way forward, we propose the strengthening of development finance institutions to support businesses on a wide-scale. In the 2017 Budget, the government has expressed commitment to recapitalize the Bank of Agriculture and Bank of Industry with a sum of N15 billion and hasten the process to start the Development Bank of

Nigeria. While we note that this is a welcomed development, we propose that its implementation be prioritized in the year. We also believe that monetary policy choices in 2017 are limited and may not significantly drive foreign investment inflows or prevent outflows to stabilise the naira exchange rate. Hence, monetary policy must complement growth-enhancing fiscal policy along with other trade and structural reforms.

By proposing a budget size of N7.3 trillion, the federal government has shown it has plenty of firepower for fiscal stimulus in 2017. We believe that the impact of the budget to stimulate economic activities would depend largely on three main factors:

- the attainment of key assumptions of the budget
- the implementation of the capital component of the budget
- the success of social intervention programs.

To improve the implementation of the capital budget in 2017, the government must ensure quick passage of the budget and prioritize disbursement of funds for capital projects. Also, certain reforms must be enacted to simplify and make efficient the procurement process. This is key in ensuring swift implementation of capital budget in 2017.

To hasten the recovery process and achieve sustainable growth, the government must remove regulatory and operational bottlenecks facing the business environment. Some major recommendations include:

- Streamline regulatory agencies to eliminate bottlenecks and excessive costs attached to over-regulation of businesses
- Review cumbersome licensing procedures and multiple costs, which acts as a disincentive to MSMEs
- Fast-track the kick-off of one-stop shop in major parts of the country
- Implement the National Tax Policy to ensure a harmonized taxation regime
- Hasten passage of the competition bill.

Sector-Specific Intervention

For both agriculture/agro-processing and manufacturing sectors, it is essential for the government to define priorities, choices, paths, linkages and strategies, all of which must be encapsulated in a plan, which ultimately will provide direction for the sectors. Currently, the Nigerian Industrial Revolution Plan (NIRP) represents a great reference tool, which must be urgently reviewed and updated to reflect current realities and aspiration for the sector. Meanwhile, communication of the plan to both domestic and foreign stakeholders is crucial in mobilizing investments into strategic sectors of the economy. Investors need assurances and the NIRP coupled with the demonstration of commitment to implement the plan would be useful to guarantee investors' confidence.

In addition, support structures must be built across these sectors to unleash productivity by removing the bottlenecks across board. Several action-oriented reforms targeting key areas such as infrastructure, financing, skills development, technology & innovation and quality assurance are also crucial to revive economic activities in the medium term.

Policy Directions and Choices that would influence 2017

As the government is refocusing its efforts to jumpstart growth, the policy measures and implementation will play a key role in how the dynamics of will emerge in 2017. Government will be reeling out various interventions and initiatives and businesses are perking up with high expectation for the direction the policies may tilt in the year. We identified four interlinked themes that may pervade the policy cycle in 2017. These are:

- Implementation of Nigeria Economic Recovery and Growth Plan (NERGP)
- Budget Processes and Implementation
- Insurgency and Insecurity
- Global Events

Each of these focus areas will run as a major unit of policy watch in 2017 being propelled and paced by various policy measures, interventions, events and market sentiments that will turn up in the year. However, each theme is not isolated. Global events pose threat to Nigeria's fiscal and macroeconomic stability. On the other hand, the extent to which revenue target is achieved determines the pace of NERGP implementation in 2017.

- Implementation of Nigeria Economic Recovery and Growth Plan (NERGP)

Some of the policy choices that may come to play in the implementation of government recovery plan include:

- Sector-specific interventions
- States Bailout Strategy
- Improving business regulation and governance processes
- Development of Export Processing and Special Economic Zones, etc

- Budget Processes and Implementation

The level of the advance made by the government in bringing the economy to growth path will be propelled by the processes in the implementation of 2017 budget. Some of the pointers to keep on watch include:

- Early or late passage of the budget
- Government Spending: Expansionary Measures
- Government Revenue Streams
- New funding mechanism for Joint Venture
- Whistle Blowing Policy
- Mounting Debt Profile, etc

- Insurgency and Insecurity
  - Militancy in the Niger-Delta
  - Insurgency in the North-East

- Global Events

Uncertainties around the global events in 2017 could derail the implementation of budget and recovery plan. Three events that may influence policy choices in Nigeria in 2017 include:

- Global oil Market
- OPEC vs Non-OPEC Output Freezing
- Growth and Market Drivers in Emerging Market

Our Scenarios for 2017

Our outlook for 2017 is based on two scenarios. While scenario 1 acknowledges the current state of crude oil price in the international market at US$55 per barrel in 2017 and crude oil production hovering around 1.8 million barrels per day, scenario 2 assumes US$42.5 per barrel in 2017 and average crude oil production of 2.2 million barrels per day. Both scenarios are based on implementation rate of 65% and 70% for capital budget in the year 2017 respectively.

Table 2: NESG Scenarios for 2017

	Assumptions	Outcome
Scenario 1: Optimistic Case	• Crude oil price averages US$55 per barrel in 2017 • Crude oil production averages 1.8 million barrels per day • FGN Capital Expenditure totals N1.5 trillion in 2017.	• Real GDP grew by 0.6% in 2017 • Inflation rate overs around 15.7% • Government oil revenue increases by 20% to N2.4 trillion in 2017 from the proposed figure of N2 trillion in the 2017 budget • Exchange rate stabilizes due to increase in FOREX inflows to N305/$.
Scenario 2: Pessimistic Case	• Crude oil price averages US$42.5 per barrel in 2017 • Crude oil production averages 2.2 million barrels per day • FGN Capital Expenditure totals N1.7 trillion in 2017.	• Real GDP grew by 0.6% in 2017 • Inflation rate averages 16.3% in 2017 • Government oil revenue decreases by 7% to N1.85 trillion in 2017 from proposed figure in the 2017 budget • Exchange rate depreciates further to N310/$.

The outcome of this scenario 1 is largely positive. As oil prices averages US$55 pb, we believe real GDP will increase by 0.6% in 2017. Improved revenue associated with the high oil price will result in higher government spending, which is instrumental in the economic recovery process. Specifically, oil revenues for 2017 will increase by 20% to N2.4 trillion when compared with budgeted figure of N1.99 trillion. Consequently, we believe, the exchange rate will remain stable even as external reserve improves. We expect inflation to average 15.7% in the year, largely due to a stable exchange rate. This scenario is likely to play out in 2017.

With scenario 2, real GDP will grow by 0.6% in 2017, same as scenario one. Oil revenue is expected to decrease by 7% to N1.85 trillion from budgeted figure in 2017. This is largely based on uncertainties that prevail in the industry, particularly relating to signature bonuses, funding of Joint Ventures among other factors. Inflation is also expected to average 16.3% in 2017.

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Tax Incentives and Made In Nigeria Goods[1]

Dr Teju Somorin
President and Chairman in Council, CITN.

Abstract
This work examines the relationship if any that exists between tax incentives, "Made in Nigeria" concept and Companies that engage in made in Nigeria goods. It will explore how tax incentives can accelerate the growth of companies engaged in manufacturing of such made in Nigeria goods. From this paper, written primarily to evaluate the relationship between the two within the context of made in Nigeria goods, it has been explained that tax incentives would enhance economic growth and development in Nigeria, if such incentives are well focused and available to only deserving companies and sectors. Indeed, it is generally perceived that incentives complicate the tax system due to the additional cost and time required to monitor the beneficiaries of such incentives in order to avoid possible abuse; and may not be beneficial to the economy especially where the tax forgone exceeds the anticipated benefits from granting the incentives.

Keywords: Taxation, Tax Incentives (TI), Manufacturing Companies, Micro, Small and Medium Enterprises, Multiple Taxation.

Introduction

The theme of the 2016 Annual Tax Conference of the Chartered Institute of Taxation of Nigeria was ***"Fiscal Challenges and Opportunities of the Nigerian economy"***. A carefully chosen theme noting the current economic imbroglio the nation finds herself today. It is acclaimed globally that taxation is an instrument of economic growth for funding the government budget universally. But then, the huge gap between tax collections and the quantum left uncollected year after year needs to be addressed if the nation is to make a sustainable progress.

The International Monetary Fund reported on May 2nd, 2016 that "the growth forecast for this year, represents the lowest for the region in the past 15 years". It attributed the development to severe shocks, tight external financing, and called for a stronger policy response to counter the effect and secure the region's growth potential.[3] One of the ways to counter the shocks is to promote "made in Nigeria" goods.

MADE IN NIGERIA GOODS

Made in Nigeria can refer to assemble, manufacture, finished or packaged in Nigeria. Such activity can be carried out by Nigerians and Non-Nigerians. Made in Nigeria Goods are generally dominated by our local manufacturers which constitute the manufacturing companies, and the Micro, Small and Medium enterprises (MSMEs). Nigeria is blessed with numerous goods made in Nigeria from shea butter to palm oil, textiles, iron and steel etc. Indeed, the latest

[3]http://economicconfidential.com/2016/05/imf-forecasts-low-growth-nigeria/

public opinion poll released by NOIPolls revealed that 97 percent of Nigerians have expressed their willingness to buy locally made products in order to strengthen the country's economy which is dwindling. Similarly, the poll indicated that about 98 percent of Nigerians are willing to support a "BuyNaija" campaign to encourage patronage of locally made products.[4]

Types of Made in Nigeria Goods

The classification includes:

a. Manufacturing Sector
b. Oil and Gas Sector
c. Agricultural and Agro Allied Businesses
d. Electrical and Electronics; (fans, deep freezers)
e. Iron and Steel
f. Plastics
g. Textiles etc

Companies involved in Made in Nigeria Goods

a. Large Companies/ Manufacturing Companies
b. Micro, Small and Medium enterprises (MSMEs)

   The Federal Inland Revenue Services (FIRS) recognizes MSMEs by segregating the taxpayers with turnovers between N200million and N1billion to the Medium Tax Department from the former Small and Medium Department (SMD) while others below that threshold are in the Micro and Small Tax Department (MSTD).

The Revised National Tax Policy paid attention to the MSMEs by prescribing that "qualification for the lower income tax rate applicable to small businesses should be reviewed in line with current economic realities. The income tax rate for small businesses should be further reduced as an incentive to encourage compliance and promote Micro, Small and Medium enterprises (MSMEs)".

Small Companies.

Small companies are those companies that earn a total gross sales (annual turnover) of below one million naira (N1,000,000.00). They are charged at a lower rate of tax of 20 per cent for four years from the commencement of the business. The rate of tax is applicable only to companies engaged in the business of agricultural production, manufacturing, mining of solid minerals and wholly export trade[5]. One of the recommendations of the 2003 Study Group on the Tax System was that "Small companies whose turnover falls below N50m in a year, and which make profit in that year, should pay company income tax at State level at the rate of 2% of turnover, or 20% of chargeable profit, whichever is lower"[6]. This recommendation is yet to be implemented.

Tax Incentives

Nigeria has always put in place policies to attract foreign direct investment (FDI) in order to promote economic growth and development. Nigeria's experience in the granting of tax incentives came on stream in 1958 and included: Pioneer companies relief, import duties relief and approved user scheme. Thus, plethora of tax incentives are available to attract local and foreign investors. Examples are tax holidays, tax cuts, reliefs and allowances, credits and exemptions. Tax incentives are granted on sector basis-agriculture, mining, oil and gas etc.

What are Tax Incentives?

The United Nations Conference on Trade and Development (UNCTAD) (2000)[7], defined tax

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[4]http://www.noi-polls.com/root/index.php?pid=374&parentid=14&ptid=1 accessed on 7th March,2017 [5](previously subsection 8; re-numbered subsection 7 by the Companies Income (Amendment) Act 2007 [6]Recommended by the Study Group (2003), at Pg 342 of the Main Report. [7]http://www.academia.edu/4695385/an appraisal of tax incentives in Nigeria. Ajaga Chikezie

incentives as any measurable advantages accorded to specific enterprises or categories of business by a Government, in order to encourage them to behave in a certain manner. Bruce (2004) defined tax incentives as fiscal measures that are used to attract local or foreign investment capital to certain economic activities in particular areas in a country[8]. The reduction in tax liability which a tax incentive constitutes can be achieved through reduction in tax rate, reduction in tax base, outright tax exemption, tax deferment and so on (Dotun Philips)[9]. The term "tax incentive" encompasses all the measures adopted by Government to motivate taxpayers to respond favourably to their tax obligations (Manuwa,1996)[10].

Objectives of Tax Incentives(TIs)

Philips (1996)[11] itemized five objectives of TI: Regional Investment, Sectorial Investment, Performance Enhancement, transfer of technology and structural development. Some of the TIs in Nigeria are sector-based; they are targeted at agriculture, petroleum industry, mining etc and businesses with new technology. Tax holidays which cover an initial period of three years, renewable for an additional two years are available for pioneer products and companies involved in industries that are not fully developed. A new company going into mining of solid materials is exempted from tax for the first three years of operation.

A company engaged in marketing and distribution of natural gas for commercial purposes, enjoy a three-year tax-free period, renewable for an additional two years; accelerated capital allowances at the rate of 90 per cent of plant and machinery after the tax-holiday period.

Companies engaged in exploration of petroleum in deep offshore areas (water depths over 200 metres) and inland basin areas are granted a concessionary profits tax at the rate of 50 per cent of chargeable profits for the duration of the production-sharing contracts (PSCs) instead of the normal rate, 85 per cent. Royalties for deep offshore PSCs are graduated from 12 per cent to 0 per cent depending on water depth, while inland-basin PSCs are charged a flat rate royalty of 10 per cent.

Another objective is the structural development (OECD, 2010)[12]. Some governments offer incentives to develop certain industries or activities considered crucial for development, such as industrial parks, export activities, the film industry or business with new technologies.

Bruce (2004)[13], identified certain costs that are key features of tax incentives: Foregone Revenues, Resource Allocation, Enforcement and Compliance Cost, Fairness and Lack of Transparency.

Types of Tax Incentives

Manuwa (1996)[14] referred to the following as tax incentives: tax credits, tax cuts, tax deferments and write-offs, tax Exemptions, tax holidays, tariff reductions, reliefs and allowances, reduction in the number of effective taxes and low tax rates. UNCTAD has a more elaborate list.

Others include Loss carry forwards, Investment allowances, Investment tax credits, Reduced taxes on dividends and interest paid abroad, Preferential treatment of long-term capital gains, Deductions for qualifying expenses, Zero or reduced tariffs, Employment-based deductions and Tax reductions/credits for foreign hard currency earnings.

[8]Bruce .B. (2004), Effectiveness and Economic Impact of Tax Incentives in the SADC Regions. Submitted to the SEDC Tax Subcommittee ibid [9]Corporate Tax Incentives and Economic Growth in Nigeria, pg. 9, Nigerian TaxNews , Volume11 No 1, April, 1996) [10]A Critique of Tax Incentives, Nigerian TaxNews Vol. 11 No.1,1996 [11]"Corporate tax incentives and economic growth in Nigeria". Tax News, No. 1 Vol. 2 [12]OECD, 2010. Investment Reform Index 2010, Paris: OECD. 9.Bruce .B. (2004), Effectiveness and Economic Impact of Tax Incentives in the SADC Regions. Submitted to the SEDC Tax Subcommittee ibid [13](A Critique of Tax Incentives, Nigerian Taxnews Vol. 11 No.1,1996)

Made in Nigeria Goods and Multiple Taxation

Many of the companies that engage in Made in Nigeria goods encounter some challenges, one of which is multiple taxes. For example, a typical Nigerian company like Cadbury Nigeria plc, is confronted with payment of the numerous taxes, and charges. Companies income tax, tertiary education tax (if it makes profit), capital gains tax (if applicable), stamp duties (where instruments are stamped). Apart from aforementioned, companies operating in Lagos state are also subjected to Value Added Tax (VAT) and hotel consumption tax, all based on sales revenue. Since firms employs individuals who work for pay, the employees also pay personal income tax. In addition, other taxes, fees and user charges such as road taxes, business premises registration fee, signboard and land use charge are levied on businesses.

Other Challenges include-

Tis and Revenue Losses in Nigeria

Tis in form of reliefs, waivers, concessions, tariff reductions, low rates of tax and exemptions generally lead to revenue loss. (Adegbie and Fakile, 2011)[15] observed in a study conducted on Nigeria Customs Service (NCS) that there is under-assessment of payable duties, unauthorized transfer of funds, abuse of waivers, concessions and exemptions as well as non-remittance of government revenues. For instance, their findings revealed a revenue loss to all concessions in 2004 was N56.8billion which increased to N71.2billion in 2005 and reduced to N54.9billion in 2006. With so much outflows of income in billions of naira, the policy adopted by the government in the concession are of concern and being reviewed (Adegbie, 2011).

Demerits of Tax Incentives

Apart from massive losses as explained, various studies have proved that not all target beneficiaries of TIs actually enjoy them and thus tax incentives can be a total waste. Tax Incentives may help a company increase its profitability, but they cannot create profits for any organization. (Vito Tanzi,)[16] cautioned nations that tax incentives can lead to inefficiency in resource allocation.

Exemption Of Made In Nigeria Goods From VAT

Not all the goods manufactured in Nigeria are liable to VAT. The exemptions to encourage made in Nigeria Goods include: -

i. All goods manufactured in Nigeria which are for exports.
ii. Basic food items manufactured in Nigeria.
iii. Baby products.
iv. Fertiliser, locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment.
v. Plant and machinery for use in the export processing zones.

EASE OF DOING BUSINESS IN NIGERIA

The Ease of doing business index ranks countries against each other based on how the regulatory environment is conducive to business operation and stronger protections of property rights.

Economies with a high rank (1 to 20) have simpler and more friendly regulations for businesses. Nigeria is ranked 169 among 190 economies in the ease of doing business, in 2016 World Bank report, a miniature improvement from 170 in 2015. According to the Minister of Information and Culture, Lai Mohammed, the government is working to improve Nigeria's ranking adding that the current ranking of 169 out of 190 countries is unacceptable.

[15] Fakile, Adeniran Samuel Adegbie, Festus Faboyede, Olusola, Tax Expenditure in Sub-Saharan Africa, the Nigerian Experience.
[16] (Vito Tanzi has been Head of the Tax Policy Division (1974-81) and Director of the Fiscal Affairs at the IMF (1981-2000),

Importance of Made in Nigeria Goods in Economic Development

Companies that manufacture local goods have been considered to a certain extent by government and donors as a means to fight unemployment and poverty through self-employment.

Governments derive benefits in terms of multiple taxes payable by the companies and their personnel by way of companies income tax (CIT), personal income tax (PIT) and other taxes. Therefore, Government should not allow the companies to be stifled with too many taxes.

Government should take steps to promote Made in Nigeria Goods by curbing the preference for foreign goods and embrace the Nigerian goods made locally. It should therefore regulate the importation of products that can be produced in Nigeria and providing adequate fund to encourage small/medium scale enterprises (SME).

I believe that government is thinking in this direction. Jumoke Oduwole, the Coordinator and Secretary to the Presidential Enabling Business Environment Council (PEBEC) said the 2017 priority areas for business reform include Starting a Business, Getting Credit, Trading Across the Border, Paying Taxes, Construction Permits and Registering Property. Indeed, the Micro, Small and Medium Enterprises Clinic is being organised by the Council across the states of the federation, which aims at addressing the challenges confronting the MSMEs[17]. With all these measures, an enabling environment is being developed to promote the companies that deal in made in Nigeria goods.

Conclusion

The importance of taxation as a veritable tool of economic growth and development depends on efficient and effective tax system which has the capacity to generate adequate revenue through taxes from non-oil. Indeed, all hands must be on deck to advocate for transparency, accountability and equality in Nigeria's tax system.

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Scaling Off Grid Power In Nigeria

Dr. Uzo Egbuche
Consultant NESG Sustainability Policy Commission

Abstract
This article addresses the imperative growth of power as the key solution to issues around production, storage, digital revolution and especially, the current job deficit in Nigeria led by children and youth. It equates the high costs, and sometimes unavailability of electricity in rural areas to the production of low quality goods, leading to an uncompetitive economy. As a result, increasing power access beyond the national grid's current capacity has not only become a necessity, but also an important contribution to inclusive growth. Other forms of power generation, like renewables, must be developed and implemented to bridge gaps created by limited access to power.

Keywords: Off-grid, renewables, electricity, power

Introduction

'Young people need jobs' -- this was the emphatic statement of the World Bank Trade and Competitive Practice in early 2016[1]. It goes on to state that ---'with a median age of fourteen years old, Nigeria's population of 180 million people will require an estimated 40 million new jobs by 2030 to absorb new labor market entrants. Nigeria's population pyramid remains dominated by children and youth, and with three percent annual growth of the population, the working-age population in Nigeria is growing disproportionately. While explicit unemployment in Nigeria - by the ILO definition - appears to be well under ten percent, low-productivity jobs in agriculture and services currently account for the majority of employment. Only 9 million out of 87 million working-age adults are indeed wage workers in either the private or the public sector, while the rest of the population works in agriculture or is self-employed. The shortage of productive jobs is one of the most important current challenge in the country'.

This statement buttresses the absolute urgency underpinning economic growth especially for the young working group which is put at 62.5% or about 112m people aged between 15 and 24years[2] registering an unemployment rate of over 49%[3]. However, at only 30w per capita[4], poor access to electricity tops other growth limiting factors such as infrastructure and social exclusion. Furthermore, in the reality of a rising urbanization rate currently at over 53% urbanization[5], access to power is put at 52.4% by the World Bank[6] and this seems to cover only urban and peri-urban access as many rural areas are unserved. In fact, in 2016 the access to power has been more realistically calibrated by the Nigerian Energy Commission and the World Bank. Only 45%

[1]World bank Trade and Competitiveness Practice 2016 [2]World bank Global Findex data 2014 [3]National Bureau of Statistics 2016
[4]NESG Chairman's Welcome Address at a Joint Workshop held by NESG and HBS to review Renewable Power Policy with Government MDAs in June 2016
[5]Africa's Huge Housing Deficit by PanAfrican Capital 2016 [6]World Bank Index on Access to Power 2015

or 81million have access to the grid and of that number only 25% have 'regular supply' for the 13,000mw. 55% or 91million people are not connected to the grid.

This is a very dismal picture which underscores the fact that power is a critical gap that must be bridged if Nigeria would drive increased human productivity. The Sustainable Development Goals (SDGs) paradigms for growth recognize the role of quality of life in production --- so the SDGs define basic human productivity needs in terms of access to power as 1000w per capita, and this is more imperative under the realities of harsh living conditions in over-urbanization of cities like Lagos, where women, youths and most of the informal sector desperately seek better opportunities and quality of life. Lagos is expected to become a mega -city by 2025 with over 24million inhabitants.

Nigerian youths must catch up with trends of digital revolution gripping Africa just as their peers in the west and also in African countries like South Africa, Kenya, Senegal and Egypt are positioning to take advantage of the so called 4th Industrial Revolution. In a post Davos '2016 panel discussion on CNCBC, one of the panelists Syabong Gama, CEO of the Gordon Institute of Business Science in Pretoria, said that South Africa is collaborating with GE to drive a Digital Transformation in Africa through the transport system by optimizing fleet administration to make assets work better. For example, fuel efficiency alone could deliver about 10% savings, which would translate to billions of dollars, more jobs and higher GDP. The Global Chair of GE Jeff Immelt explained that with constant power such transformations could take center stage in Nigeria and re-stated GE's interest to support Nigeria to achieve 40GW by 2030, leveraging its immense capabilities and capacities. While Africa is on the verge of a 4th industrial revolution – Nigeria with just one bulb per person (for a population of 180m) would be left behind if drastic and urgent measures to improve power access are not taken.

Power: Imperative for Growth and Development

As the rhetoric continues, the impact of power on poverty deepens causing significant losses in productivity and GDP. The prevailing low power in Nigeria contributes immensely to negative growth rates, and adds about 40% to 60% costs to production outputs. According Tokunbo Omisore CEO Top Services (Founder ShopRite market chains in Nigeria) such huge costs of power slows down growth. This is true of businesses, which drive power with diesel generators and thus significantly impacts competitiveness of goods and services. Many small businesses are unable to cope and have shut down. Vacancy rates of shopping, office and residential complexes in Lagos is over 69% indicating that people are adjusting to harsh claims by relocating to suburbs. High costs of electricity is also responsible for lower quality for finished products, making Africa less competitive than other developing countries in terms of packaging, storage and other electricity dependent services. So the much touted economic diversification and imports substitution need electricity access to become a reality.

In agriculture, $750bn post-harvest losses recorded annually[7] due to inability to process and preserve crops and perishables such as onions, potatoes and tomatoes. Huge savings, new jobs and GDP growth could be derived from first stage processing capacity where farmers are able to deliver crops like corn, cassava or sorghum to processors within a 24 to 48 hour window. Livestock requires even quicker processing and the absence of adequate cold- cool chains also means that goods get to markets in very low quality, costing billions of Naira losses to farmers. Dr. Bala Magaji and his colleagues at the Business Innovations Facility estimate that post –production milk can be improved threefold from 500,000litres daily to 1.5m liters to meet national daily needs --- if there are cool chains in the rural areas to preserve dairy products. The growth of jobs from such activities means that Fulani milk girls, for instance, can exponentially grow their incomes and expand their milk cows stock, reduce nomadic grazing and trigger ranching over time.

It is evident that the environmental impacts on health due to generator fumes and noise cuts across the spectrum. A typical example which should resonate is the small 1.5kva petrol generator aka 'I better pass my neighbor', an ubiquitous, affordable but necessary nuisance widely used by small income earners in congested one room apartments in overcrowded city-slums. The fumes are choking and the noise is deafening, sometimes exceeding 120 decibels– this is equivalent to the noise from a stadium during a football match. During an Environmental Impact Assessment for one of the telecommunications companies in Ibadan, a block of 32 one- room apartments in a compound had almost all the generators switched on, recorded almost 120dB. This automatically increased the level of noise pollution, causing discomfort in the neighborhood[8].

The Reality of Increasing Power access

It is impossible to predict when power access would improve appreciably because of the cost of expanding and refurbishing the decadent power infrastructure for the national grid that served one third of today's population three decades ago. In fact the Federal government announced that it would attain only 7000mw in 2017 once the ongoing works at several power stations were completed, but recently the Ministry of Power announced that it had attained power delivery of 7000mw in March 2017.

The Ministry of power has been very proactive to improve power delivery as the Honorable Minister stated that already 60% of the privatization process had been achieved and the Ministry was working assiduously to ensure better enabling environment for private sector investments[9]. Indeed several power policies including the Nigeria Energy Mix, which determines how much power is expected from different resources to chart the way for investors has been released. But even if more sub-stations drive embedded power – these infrastructure do not have the full capacity to deliver all of Nigeria's power needs of 115GW to drive 7% growth[10].

Lagos State leads the country to drive embedded power and has forecasted a trajectory to attain 3000mw by 2022 thus delivering 24- hour power supply for the state.

Late in 2016, around November, the government stepped up its promise to create an enabling environment for the gas investments and held couple of public reviews for the National Gas Policy and Gas Commercialization Policy to guide investments into schemes for flare-out in the Niger Delta. Both policies were very well received and await completion and release. It is envisaged that the over 370 billion scf of gas in 2014 would soon be a source of new jobs, new GDP and boost the gas supplies locally. But there is need for the Federal government to derive domestic pricing for gas to drive down tariffs which are currently

[7] http//agronigeria.com.ng/Nigeria-waste-at-750bn-yearly-danfoss
[8] Environmental Impact Assessment Reports by CERASE Environmental Services limited 2015
[9] The Minister stated this at an Energy Access Seminar organized in Abuja on the 20th of January 2017
[10] Energy Commission of Nigeria Report on the Role of Energy in Achieving the MDGs 2008

pegged at N24 to N28/kwh, instead of benchmarking gas produced in Nigeria against the international Mont Bellvue index which should be used for export only. Other countries such as Saudi Arabia, have domestic pricing for gas so that the citizens can pay lower prices and drive industrial growth.

Therefore, in addition to steady gas supplies a domestic price is critical to electricity delivery and improving access in Nigeria because affordability is an imminent critical element because the purchasing power of Nigerians has been severely eroded with the recession. An off grid installation in Kowa, Gombe state that was installed by one of the NESG SPC members in 2013, had generated much expectations and hope for the future was recently dismantled and relocated to another peri-urban community with better ability to pay for the electricity because the provider was unable to meet up with the repayment plans due to very low demand of the electricity generated. So even though desired the electricity, they simply lacked the ability to pay and would often remove the cut outs to restrict use or not recharge the meters. This shows that livelihoods are important factor in power delivery for rural and peri-urban communities. So adding business activities to stimulate purchasing power especially in rural areas is essential for some very low income communities.

Driving growth for off grid power solutions

Even though ECN recommended 115,000mw power to attain 7% growth rate by 2020 as far back as 2008, that power projection is still valid as the new National Renewable Energy and Energy Efficient Policy released in 2016 estimates this capacity is needed to drive 6.7% growth by 2030. But it is clear that the national grid is not on track to attain these projections and so off grid embedded and renewable energy sources could bridge this gaps.

With unending interruptions to gas supplies and dwindling hydropower from Kainji dam, It is fortuitous that off grid power took center stage in 2016 with the revisions of the National Renewable Energy and Energy Efficiency Policy with its two action plans (NREEP and NREAP) plus the release of the National Electricity Regulatory Policy (NERP) and Rural Electrification Implementation Strategy Policy (RESIP), so from that perspective the legal and regulatory frameworks have gained much needed traction to assuage international and local investors about the seriousness of the country to create enabling environments for growth of off grid power.

Significantly, with intervention of the private sector through the NESG, renewable power space was upgraded from less than 10% of the Nigeria energy Mix to 30%. The energy mix is a policy scale that determines how much investments are expected from the various sources of power including natural gas LPG, solar hydro, biomass and wind. Before June 2016 when the new energy mix was approved at the 10th NACOP, only hydro and natural gas were in the mix especially for the national grid.

As it is today, expansion of the national grid to meet Nigeria's power needs has severe limitations especially with funding and supply of natural gas, the latter being a direct result of the challenges posed by the Niger Delta militants, and incompletion of the Gas Policy to chart a way for investments. Therefore the role of off grid power to bridge the gaps is imminent and crucial. But this also seems to be bogged with a set of other challenges that should be resolved if Nigeria is serious about moving forward.

The Nigerian constitution places the oversight for off grid solutions under the state's governments[11], but despite this investors seem confused about the role of the NERC in off grid power. But the Hon Minister tried to

[11]Second schedule Part II, Concurrent legislative List, Constitution of the Federal Republic of Nigeria 1999

clarify this at the NEXTIER seminar and later in an interview on Power Access in Africa on CNBC in Feb 28th 2017 that irrespective of the source power the state government and investors can deliver power on the basis of agreements with consumers of captive, embedded power or mini-grids. He stated that if consumers were willing to pay higher than the government rates of N24 – N28 per kWh, then government would not interfere. Though he noted that government would intervene if such power exceeds the current production of diesel power at N68perkWh.

Apart from the unclear policies, and the uncertainties about opening up the environment to improve gas supplies – the other very serious challenge lies with the slow pace of credit risk analysis for renewable power solutions by banks. This is a major gap that has become evident as the next major barrier to scale renewable power solutions and more especially the import dependent solar and wind power solutions.

To understand this better, NESG delegates attended a Winrock /USAID workshop for the Financial Sector and it was evident that delegates were overwhelmed by the numerous risks and how to mitigate them for the benefit of protecting the investments. Top on the list was the cost of solar power per kilowatt hour meant that the payback period would extend beyond 3years for assets that could have a 4year shelf life (eg the batteries). Another main concern was the currency risks which could be mitigated if the FOREX policy stabilizes. But then there is the risk of the robustness of the installations, which is significant in the absence (for now) of government regulations for equipment and installations. Concerns include the responsibility to ensure that investors and consumers would get value for money in a solar installation and in the case of mini-grids and solar home systems or stand- alone grids -- who bears responsibility of collecting the tariffs and ensures repayment of loans.

Clearly, mechanisms to build capacities of consumers and financiers is the next important step to unravel this barrier and enable scaling of solar in Nigeria. Low awareness is perhaps the most crippling of all the limitations as most consumers are not even aware of these power options or how to get them. Germany is now able to drive more than 60% of its power needs from renewable sources, and in March 2016, Germany and the United Kingdom were able to deliver 100% power from renewable power sources for one day. This is a tall order for Nigeria though it has be understood that 60% of their baseload is derived from other sources.

Bridging the gap for awareness is a very challenging time and resources consuming endeavor that must happen and to trigger this the Sustainability Policy Commission of the Nigerian Economic Summit Group has entered into a 3 year collaboration with All On[12] (the renewable power delivery subsidiary of Shell International) to improve awareness by tackling the gaps of financing, risk analysis and knowledge transfer for innovations and creative ideas. The latter is especially targeted towards young graduates to build enabling environments that supports their creativity, protects their innovations through proprietary Intellectual Property rights and support start-up for RE business.

In collaboration with *Power4All*[13] (an international NGO supporting renewable energy growth through awareness) NESG also assisted the emergence of the Renewable Energy Association of Nigeria, which is a fusion of all other RE associations and power providers in the decentralized RE space. The idea is to build capacity for

[12]www.All-On.com
[13]www.Power4All.org

startups, assist existing companies and have a one stop shop for information about RE in Nigeria. REAN is also driving self-regulatory efforts by ensuring that members use world renowned manufacturers especially for batteries and that back up support and maintenance is available in Nigeria, as REAN continues to strive to ensure investments for local manufacturing of solar products and equipment. This would be extremely helpful to scale solar power that is up to 90% of imported materials.

Conclusion

Significant support is still needed for the Renewable Power sector and there are encouraging responses such as the $900,000 sponsorship from USTDA for market intelligence in about 30sites which was developed under support of the NESG Sustainability Policy Commission.

With such support the Renewable Energy power providers working in this consortium would access funding much easier as the risk elements would have been fully addresses. However, in today's context of scaling back – the Trump Administration has announced that it would apply significant scale back of funding globally. The onus rests with the Nigerian private sector to seek ways to trigger in-country funding and investments by showcasing attractive returns on investments that are possible from this sector.

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Distributed Renewable Energy:
The Answer to Nigeria's Energy Access Challenge

Mrs Ify Malo
Nigerian Campaign Director PowerForAll

Abstract
Nigeria has one of the greatest energy access challenges in the world, with an un-electrified population of 75 million people. Likewise, the cost of the energy access deficit is huge, and is borne by households, businesses and the government. This article emphasizes the need for cheaper, modern sources of energy to improve energy access, boost the economy and reduce government subsidy bills. With the electricity grid unlikely to reach the entire population anytime soon, decentralized renewable energy (DRE) stands out as the best solution in bridging the gap, and ensuring that the entire population gains access to energy as quickly and efficiently as possible.

Keywords: Renewable Energy, Nigeria, Electricity.

Introduction

Nigeria has one of the greatest energy access challenges in the world, with an unelectrified population of 75 million people[1]. Decades of policy focus on grid expansion have not only failed to deliver improvements in energy access; they have failed to keep up with population growth. The unelectrified population has grown from 44 million in 1990 - an increase of 70%.

The cost of the energy access deficit is huge, and is borne by households, businesses and the government. For instance, in the 2017 budget, the Federal Government of Nigeria, its agencies, ministries and institutions is expected to spend N8.4bn on the maintenance, fuelling and purchase of new generators for the 2017 fiscal year alone. Out of this budgeted figure is the maintenance of generators amounting to N1.8bn; fuelling amounting to N4.1bn; while the purchase of new generators will cost N2.5bn[2]. Around 60 million Nigerians use diesel generators[3] with households spending as much as N6,660 on kerosene monthly according to the General Household Panel Survey by the NBS and World Bank[4]. In total, an estimated N143.3 billion is spent monthly on kerosene by households in the entire country[5]. Industrial and commercial sectors suffer from a lack of reliable electricity supply combined with the huge costs associated with self-generation. 'Getting electricity' is recognized as a key indicator in the World Bank's 2017 Ease of Doing Business ranking - Nigeria comes 180th out of 190 countries. The cost to the government, in kerosene and diesel subsidies, is also significant with one 2014 estimate suggesting N250 billion is spent on kerosene subsidy alone[6]. The figure for diesel subsidies is likely to be even higher.

[1]UN Sustainable Energy for All, Progress Toward Sustainable Energy (2015). [2]http://punchng.com/fg-to-spend-n8-4bn-on-generators-in-2017/ [3]BBC. Nigeria: How noisy generators became a way of life (2013). [4]NBS General Household Survey (Panel) 2012/2013 Wave 2. [5]Leadership. Nigerians spend more on recharge cards than food (2014). [6]Vanguard. Kerosene subsidy, tariffs, others frustrate LPG growth (2016). [7]SolarCity. Island in the sun (2016). [8]ARENA. Regional Australia's Renewables. [9]Africa Portal. Workshop on 'Clean Energy Access towards a Sustainable Society in Kenya' (2013).

There is a clear and immediate need for cheaper, modern sources of energy to improve energy access, boost the economy and reduce government subsidy bills. With the electricity grid unlikely to reach the entire population anytime soon, decentralized renewable energy (DRE) stands out as the best solution in bridging the gap, and ensuring that the entire population gains access to energy as quickly and efficiently as possible.

Distributed Renewable Energy

The energy landscape globally is changing rapidly and we are witnessing a seismic shift from fossil fuel electricity generation to renewables. Even more importantly, distributed energy products are increasingly a part of the new energy landscape. A current example of this shift can be seen in the announcement by TESLA, which has recently provided power to the whole of American Samoa using a 1.4MW mini-grid[7]. Similarly, the Australian utilities is ditching the centralized grid in remote areas as renewably-powered captive systems become more cost effective[8], whilst the Kenyan solar home system market is already saving families $1 billion a year[9]. These successes in off-grid technologies have led to more interest from investors' year-on-year with the sector raising nearly $500 million in investment to datex[10].

Distributed Renewable Energy (DRE) has already played a major role in improving energy access in Africa. The technologies include pico-solar products (solar lanterns and home systems smaller than 10W), DC solar home systems (usually between 20W – 100W), AC/DC solar home systems (100W to 2kW) and mini-grids. Various business models have been employed to make these technologies easily affordable including piecemeal purchasing plans, microfinance loans, and most recently the Pay-as-you-go (PAYG) business model. The PAYG can either be on-network (consumers pay via mobile money through a cellular network) such as the Lumos/MTN yellowbox or off-network (consumers paying cash to appointed agents for prepaid voucher/credit/scratch cards) and can be purchased on a short-term rent-to-own plan or a long-term perpetual lease. The increasing efficiency of the system components has reduced the cost of these systems by over 50%. The same pico solar products that cost $20 in 2010 cost just around $4 presently[11]. This highlights their increasing affordability and efficacy over time.

From basic solar lighting to large mini-grids delivering equivalent or more grid power capacity as conventional generators, DRE has provided energy access to over 10 million households. For instance, in the first 3 months of the Solar Nigeria program, 49,000 families and businesses had access to reliable and affordable solar energy[12]. According to GOGLA / Lighting Global, sales almost doubled from Jul-Dec 2015 (74,000) to Jan-Jun 2016 (129,000) where almost 130,000 Lighting Global quality-verified[13] pico-solar products were sold in Nigeria. This market trend signifies huge market potential for DRE technologies in the country. Despite facing serious macro-economic challenges in the last 18 months, most Nigerian renewable energy companies are witnessing increased sales--a testament to the innovation and drive through which they have adopted new business models. This trend is recognized by the Federal Government who recently launched its own National Solar Program by the Nigerian government in early February 2017[14]. The program aims to provide electricity to 20,000 households and powering rural homes that cannot be serviced

[10]Berkeley Laboratory. Powering a home with just 25 Watts of solar PV (2015). [11]GOGLA and Lighting Global. Global Off-Grid Solar Market Report (2016). [12]Energy Mix Report. Nigeria adds 49,000 solar homes in 3 months (2016). [13]Since 2009, Lighting Africa and then Lighting Global have managed a quality-assurance programme for pico-solar products, aiming to set a baseline level of quality, durability and to ensure truth-in-advertising to protect consumers [14]Business Day. VP Osibanjo flags off solar power initiative by Azuri. (2017)

by the national grid and is expected to scale through a federally supported financing scheme to several other states over the next eighteen months.

The efficiency of several DRE technologies are improving daily, and prices for the technology has come down drastically. Further improvements in tech and cost reductions are likely. It has also led to significant savings for both the consumer and the government. Majority of Nigerians living off-grid have a daily income of less than $2 according to GOGLA / Lighting Global. Consumers save an average of $3.15 on every dollar spent on a pico–solar product in Africa. About $70 is saved annually for an $8 solar lighting solution lasting for 3-5 years for a single consumer[15]. Businesses have the potential for increased profitability due to extended working hours and savings on diesel/petrol. In Nigeria, over 100 barbers using solar PAYG systems offered by Consistent Energy pay weekly installments of N3000 for 18 months rather than spend N5000 to N8000 weekly on powering their diesel/petrol generators. Governments have also been able to make huge savings from kerosene displacement due to the adoption of DRE technologies such as the Kenyan government household reduction in the use of kerosene for lighting has dropped from 74% to 44% in 10 years[16]. Nigeria stands to significantly reduce it's over $1 billion annual expenditure on kerosene subsidy[17] by DRE displacement of kerosene in this potentially huge market.

Manufacturing and Assembly in Africa and Nigeria

The growth of local industrialization recorded in developing countries resulted from the growth of various markets in and outside the country. In China, the city of Shenzhen moved from a mere fishing village to dominating the electrical components industry globally. With a current population of about 15 million people, its massive Huaqiangbei electronics market is home to every electrical/electronic component and hardware that can be produced[18]. The growth of renewable energy and DRE has made the city one of the fastest growing industrial centres for solar components and DRE technology generating millions of dollars in revenue to the country. This growth has had strong government support in terms favourable policies, solar panel subsidies and other incentives with the government declaring the sector one of China's "pillar" industries[19].

In Africa, the growing market for DRE means more and more companies are exploring options for local assembly and manufacturing. In Senegal, Nadji.Bi locally manufactures solar products including solar lighting solutions, phone chargers and solar mini-kits[20] in the off-grid solar market while companies such as Ifrisol and NR-Sol in Tunisia manufacture solar PV modules for the on-grid solar market[21]. Similarly in Ethiopia, South Africa, Algeria, Kenya, Morocco, Mozambique, and Ghana, solar manufacturing for the on-grid market is present[22,23,24].

In Nigeria, some solar companies and entrepreneurs having recognized the potentially massive market for DRE solutions in the country have commenced local manufacture and assembly of solar products. Solar lighting products have been developed by solar entrepreneurs such as Naura Technologies and presently a solar assembly facility is being built in Kaduna state by Blue Camel Energy, an indigenous solar company,

[15]Sunnymoney. Kerosene vs Solar (2017). [16]FSD Kenya. A decade of energy access transformation (2006-2016). [17]Punch Newspapers. Nigeria spent $1bn on kerosene subsidy in 2015 (2016). [18]The Guardian. Inside Shenzhen: China's Silicon Valley (2014). [19]Zhao, Z., Huang, X., Ye, D., Gentle, P. China's Industrial Policy in Relation to Electronic Manufacturing (2007). [20]Nadji.B. (2014). [21]Infrisol (2017). [22]Clean Leap. Ethiopia's leap towards solar energy (2017). [23]Skyei. First solar panel made in Ethiopia. (2017). [24]IRENA. Solar PV in Africa: Costs and Market (2016).

with the potential to train hundreds of people upon operation. However these entrepreneurs face challenges ranging from accessing funds for operation and commercialization to the costs of importing key solar components that are not produced locally. In some cases, the cost of importing whole products can prove cheaper than importing components and assembling locally. Some companies tend to import whole products and assembling with locally made components for their deployment such as iron/steel poles, mounting kit etc.

Subsidies for DRE Manufacturing and Assembly in Nigeria

Considering the tremendous economies of scale achieved by the DRE industry in China, and the infancy of Nigeria's DRE market, subsidizing local production to the point where prices for quality DRE products and services are globally competitive would require huge subsidy. This would place a significant burden on the government looking to exit recession and improve government finances by reducing subsidies in general.

Subsidies also have tremendous potential to distort markets, and run the risk of benefiting businesses involved in subsidized value chains more than end-users, as witnessed with the subsidy on petroleum products in the country[24]. Financial support or tax incentives for local manufacture of DRE products could give local companies an unfair competitive advantage compared to international companies, making Nigeria a less attractive market for international DRE companies, reducing investment in the sector, and slowing overall market growth.

To maximize the sector's contribution to job creation and overall economic growth, the focus must be on ensuring that as many people gain access to DRE products – and the cost-savings that DRE brings for households and businesses - as quickly as possible. As the market grows, we can expect in-country assembly and manufacture to emerge organically. The business case for in-country production will be greatly improved when there are tens of millions of customers in the country, as opposed to the hundreds of thousands that exist today.

DRE markets have emerged rapidly in countries where governments have helped to create an enabling environment for market growth to occur. The Government of Nigeria could replicate proven policies, programmes and processes that have helped the market to grow in East Africa, such as:

1. Extending preferential access to foreign exchange for project developers and entrepreneurs in the renewable energy sector.
2. Central Bank of Nigeria support to the Bank of Industry in funding MSMEs through DRE technologies and provision of credit guarantees/de-risking mechanisms for the sector.
3. Raising awareness of the benefits of DRE technologies through 'above the line' media campaigns such as radio, TV, print media etc.
4. Tax incentives such as VAT/tariff exemptions and reduced import duties for importation of quality-assured products and components.
5. Promoting Public/Private Partnership to drive investment and market growth.
6. Limiting the inflow and use of substandard solar products through Customs and the Standards Organization of Nigeria (SON) as well as in the marketplace with public solar projects.

[25]PV Tech. Inside Ghana's first module manufacturing facility (2016). [26]Sun Newspaper. Senate begins N10 trillion fuel subsidy probe (2017). [27]UNEP. Lifting the darkness on the price of light (2014). [28]Vanguard Newspapers. Remove oil subsidy now, World Bank tells Buhari (2015).

With these measures driving the growth of the DRE market, the viability of an active local DRE manufacturing industry in the country and Africa would be achieved similar to the growth of the telecommunications industry in the country where a huge increase in the market boosted local production of telecommunication equipment and mobile phone accessories in the country.

Potential for Reduction in Government's Fuel Subsidy Bill

According to a UNEP report, half of African countries spend an average of 1.4% of their GDP in yearly fuel subsidies[25]. Even with this huge expense, just 19% of the subsidized products out of which 33% is subsidized kerosene get to only 40% of the poorest household[26]. ECOWAS countries are estimated to spend US$4 billion per year in kerosene subsidies for lighting alone[27].

While there have been various calls for the removal of kerosene subsidies in Nigeria, including by the World Bank[28]; subsidy reduction or removal is challenging. Higher kerosene prices would force poor people to use less kerosene, increasing the use of firewood. According to the UNEP report, there is also the associated political risk where the consumers have become accustomed to kerosene subsidies with the fundamental view of it being a permanent entitlement and could create resistance leading to social unrest and violence. In 2012, the Federal Government removed the subsidy on petrol which immediately led to the massive "Occupy Nigeria" protest, civil disobedience and nationwide strike shutting down all economic activities in the country for a week[29]. Subsidy removal on kerosene could lead to an even bigger protest especially as it affects the poorer percentage of the population.

Rather than follow this route, government can implement strategies aimed at displacement - promoting DRE products that replace kerosene and diesel. According to Solar Aid, a British NGO, a basic $8 solar light can replace a kerosene lamp, pay for itself in 12 weeks and last for 5 years. 2.7, 2.5 and 2.0 million households in Kenya, Tanzania, Ethiopia use pico-solar products with the trend gradually growing in Nigeria with 300,000 households as at June 2015x. With increased public awareness of these technologies, government would not only reduce kerosene demand but improve energy access especially as non-subsidized DRE technologies are cheaper than subsidized kerosene. Key alternatives with the greatest potential for kerosene displacement include:

1. Clean Cookstoves

Nigeria consumes million liters of kerosene daily. Also, according to the Global Alliance for Clean Cookstove, 75% of Nigerians use solid fuel for cooking and 126 million of the population are affected by Household Air Pollution (HAP) which has led to 70,000 premature deaths annually[xxxi]. The deployment of clean cook-stove technologies has the potential to create significant savings both for the consumer and government in expenses on cooking fuel and can save up to 80% of fuel wood usages[xxx]. Clean Cookstoves are designed to reduce or eliminate the use of solid fuels such as firewood and other forms of biomass thereby improving efficiency, preventing household air pollution (HAP) and facilitating cleaner household cookingxxx. However the challenge of changing the deeply embedded and distinct cooking[30] practice of various communities and regions of the country would require significant and consistent effort over the long term basis. In the short term,

[29]Vanguard Newspapers. 12 killed a subsidy protests turn bloody (2012). [30]Solar Aid. Solar Aid Store. [31]GACC. Nigeria (2016).
[32]Vanguard. Nigeria consumed 250,000 tonnes of LPG in 2013-PPMC (2014). [33]Business News. NLNG's subsidy on cooking gas hots $50m (2014).

LPG subsidy and DRE technology promotion both offer cleaner and quicker ways to reduce the kerosene and diesel subsidy bill and reduce the impact of fossil fuel and ensures better climate governance.

2. LPG Subsidy

Liquefied petroleum gas (LPG) is a cleaner and better alternative to kerosene. In 2013, just 250,000 tons of LPG was consumed out of 850,000 tons reserved for domestic consumption according to the Pipelines and Products Marketing Company (PPMC)[xxxiii]. Consumption figure stood at 1.8kg, far below the West African regional consumption average of 3.5kg[31]. Key challenges with the growth in LPG consumption in the country include issues surrounding the insufficient number of coastal LPG terminals, few LPG inland storage facilities, challenges in the distribution system, and initial costs associated with the acquisition of cylinders and LPG stove[32].

Currently the Nigeria Liquefied Natural Gas Limited (NLNG) has spent $50 million between 2007 and 2014 in LGP subsidy[33]. Government could further re-direct kerosene subsidies towards improving affordability and demand for LPG. Indonesia successfully eliminated kerosene subsidies within a few years by channeling subsidy towards LPG, which led to a huge shift to LPG as the main cooking fuel. The Indonesian Government was able to save billions of dollars while significantly reducing cooking costs for low income households[34].

However with its existing challenges, this would require a longer term approach while also considering the fact that this would tend to benefit urban areas more than the rural areas unless the subsidy is designed such as to make LPG comparative in cost to kerosene.

3. DRE Technologies

DRE is the best alternative both in terms of cost, potential to scale rapidly, socio-economic impact, improved energy access and the ability to displace kerosene in the short term while achieving government and consumer savings. A recent Solar Aid research shows that one basic solar light replaces a kerosene lamp[i]. On average 2-3 solar lights is enough to prevent a household using kerosene for lighting entirely[i]. As the Solar Aid research further shows, 100,000 solar lights sold displaces 100,000 kerosene lamps and equals £14,513,029 ($17,756,062) in savings for consumers throughout the life span of the solar lights[35]. With the growing deployment of DRE technologies, an equivalent reduction in the use of kerosene in the country occurs especially as non-subsidised DRE technologies are cheaper and more efficient than kerosene. With a grid tied power plant project taking an average of nine years to complete and just weeks or months for DRE technologies[36], DRE's potential to scale increasing energy access and reducing expenses on dirtier fuels is immense. With increasing grid tariffs, the use of DRE also leads to cost-savings for consumer while reducing the need for tariff subsidies.

Conclusion

The growth of DRE in Nigeria will potentially lead to huge savings, significant job creation, economic growth and development outcomes. Households have the potential to reduce their fuel expenses from the use of cheaper and more efficient DRE technologies, businesses will save from reduced expenses on electricity generation and increased profitability, while the government will save from reduced expense on kerosene subsidies through displacement rather than unilateral subsidy reduction. With

[34]Budya & Arofat. Providing cleaner energy access in Indonesia through megaproject of kerosene conversion to LPG (2011). [35]Solar Aid. Impact Calculator. [36]Power For All. Factsheet: A faster road to energy access (2016).

the growth of the market, local assembly and manufacturing will emerge, boost local growth and lead to increased job creation.

As the country looks to tackle its energy deficit and meet future energy demand, DRE is the most promising solution to achieving this within the short term while the long-term adoption of LPG and clean cook-stoves also has tremendous potential to further reduce the demand for subsidized fuel products.

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Made in Nigeria for Nigeria and the World

Maureen Ideozu
Technical Advisor to the CEO, Nigerian Export Promotion Council
an Elumelu Fellow and a Communicator

Abstract
This article examines Nigeria's trade profile, with a detailed look at the imports bill, which consists majorly of manufactured and value added products and export bill, which consists majorly of crude oil. It points out that this trade composition is a huge challenge facing the economy and therefore, conscious efforts are required to rebalance the country's trade profile. The article suggests that Nigeria needs to key into an export-driven industrialization model, which is crucial for the survival and relevance of the Nigerian economy in the global environment.

Keywords: Trade, Export, Import, Nigeria.

Introduction

Understandably, many solutions are being presented across different audiences to manage our economic downturn. One of the most popular solutions is captured under the phrase 'Made in Nigeria'. It has been raised on the floor of the Senate and climaxed when the Nigerian Economic Summit Group used it as the theme for the 22nd Nigerian Economic Summit (NES #22) in October 2016. The justification for promoting Made in Nigeria is as diverse as its various promoters, with the majority seeing it as a key strategy for reducing the country's import bill. They propose that we should produce what we consume and consume what we produce.

There is a lot of gain in consuming what we produce and producing what we consume but the two critical questions to ask are (1) what do we consume and (2) what do we produce? Juxtapose those against what we do not consume that we produce and what we cannot produce that we consume and then it becomes a really interesting argument for understanding why recognising the factors that influence buyer behaviours particularly as they relate to imported goods and untapped potentials for production and foreign trade are critical for charting our overall strategy for growth and economic development.

Nigeria's Trade Profile and Potentials for Made-in-Nigeria

To put things in perspective, it is important to share some information about Nigeria's external trade profile. Nigeria's import bill for 2015 which according to the International Trade Centre (ITC) mirror data was $40.5 billion, signifying 0.2% of the world's import and ranking 52 in world imports, while export trade value was $53.9 billion in the same period, representing 0.3% of world exports and ranking Nigeria 48 in world exports. Further analysis indicate only four countries namely; China, United States of America, Netherlands and the United Kingdom exported more than half the value of Nigeria's total imports in 2015 at $22 billion.

Nigeria's main imports from the four countries (top five in most cases) represent between 40-70% of their export values on products such as, mineral fuels and oils, products of distillation, machinery and electrical appliances, mechanical equipment, nuclear reactors, aircraft vehicles and parts, articles of iron and steel, except for the United States which has cereal among its top five products and China which has Articles of apparel and cotton at significant export values, almost $1bn. On the other hand, 94.3% of Nigeria's total export valued at $50.9illion was from export of mineral fuels, mineral oils and related products meaning less than 6% of exports was from non-oil with the highest being cocoa at 1.1% for $619,701Million. The importance of this analysis is to get our minds thinking clearly about the prospects for Made in Nigeria in global trade.

From the analysis above, it is clear that Nigeria's import bill consists mainly of manufactured, high technology and value added products. In promoting Made in Nigeria therefore, we must find where the gaps are, articulate a vision and chart a critical pathway. The Chief Executive Officer of the Nigerian Export Promotion Council in his article Export for Survival published in March 2016 declared that Nigeria does not have a foreign exchange problem, but an Export Inertia problem! In the article, he described how with an export driven agenda Nigeria's economy would grow exponentially with implications for jobs, investments and local businesses. The Nigerian Export Promotion Council is currently promoting the Zero Oil Plan, which synchronises targets and actions over a ten-year period to move Nigeria's non-oil export earnings to $30billion by 2025.

Interestingly, examples abound about how countries have re-engineered their economies through export driven agendas. Asia comes to mind. In the 1980s and part of 1990s, Taiwan in the Nigerian street vocabulary was synonymous with imitation or fake. So the description of an inferior imported electronic good, was Made in Taiwan. On the other hand, inferior local goods particularly leather and apparel were described as Made in Aba. Over the years, there has been a transformation, while Taiwan may have produced what it consumed it looked beyond consuming what it produced. It went beyond its shores to create wealth and improve lives in Taiwan by pushing its cheap products overseas, penetrating new markets, gathering market intelligence, building trade relations and creating employment in factories back home. Meanwhile, Our Made in Aba products make it overseas especially within the African region but largely under foreign labels that have no connection with Nigeria.

Today the story is different, Taiwan has carved its niche in mobile technology, its high tech companies are providing key components to power mobile phones made in China, Indonesia, India, Brazil, Russia and others. Taiwanese companies such as Largan Precision, its best performing high-tech company, is serving a niche market, making mobile phone camera lenses for IPhones and androids that sell for $400 and above. In his June 2016 article in Financial Times, Why Taiwan is far ahead of mainland China in high-tech, Peter Fuhrman said Largan made over $1bn in revenue with a profit margin of 40%, higher than Apple, its main customer.

Global trade has become a lot more sophisticated with production lines and value chains stretching across continents. Buyers are looking for brands that they can trust to consistently deliver on the quality that they want and at the right price, while companies are looking for the most cost efficient ways of delivering consistently good quality products to their customers at the right price. Take the IPhone for instance, it is designed in the

United States of America but assembled in China with components from Taiwan. How this model works is a mix of innovation, research and development and manufacturing which are applied to give buyers a product that they desire. This intricate value chain is necessary to deliver the products at the right quality and price for customers as well as good returns in earnings for shareholders.

Made-in-Nigeria: Sectoral Perspectives

Across various sectors, we can achieve our goals for Made in Nigeria products to reach local and international consumers. However, our manufacturing and processing capabilities, which have been overwhelmed by a myriad of challenges including weak infrastructure, poor standards, limited access to finance, inadequate application of technology, poor skills etc. need to be addressed. One key lesson to learn from Taiwan and the United States as we promote Made in Nigeria is to identify our niche, invest in innovation, research and development and to get maximum value out of our products by protecting our intellectual property through patents and operational systems.

One sector that needs to be addressed as a matter of urgency is the Cotton, Textile and Garment sector a critical economic sector. The global fashion industry is currently at $1.1 trillion and represents 2% of the world GDP. It is however estimated to reach $2 trillion by 2020. Despite Nigeria's love for fashion among its 170million people, the country has no significant presence in the global apparel trade. In fact, no item from the sector features amongst Nigeria's first 24 exported products in 2015. On the flipside, Nigeria's import bill for apparel, related articles, cotton and footwear from China was over $1.6 billion in 2015. This huge market can be satisfied by Made in Nigeria products that can also be traded abroad.

Nigerians import apparel from overseas for a number of reasons – including cost, quality and choice options. I recall I was approached sometime back by an American lady who wanted to know what we wear as daily work clothes in Nigeria. Now, most women will relate to my answer. I told her I wear Western suits or dresses because I could not afford the cost for traditional clothes as my daily work outfit. I wore those mostly on special occasions. Besides being more expensive because of the amount of time put into the production of one outfit, as there is an absence of economies of scale, there is also the very predominant problem of non-standardisation. Meaning that most women have the hassle of maintaining and dealing with several tailoring outfits and manage all forms of disappointments. This costs time, money and emotions!

In 2015, in my role as Technical Advisor to Chief Executive Officer of the Nigerian Export Promotion Council, I coordinated the participation of Nigerian brands to the world's largest apparel sourcing event in Las Vegas. There was a real buzz and thrill for our products, they were described as 'Chic' and Hollywood. That event was an opener for our people...while the designs were outstanding our people needed to learn more about pricing, finishing, brand positioning, marketing.

The fashion sector in Nigeria with its high potential for inclusive economic growth along its entire value chain has a number of challenges. The problems begin at the point of primary production and run through the entire value chain. In the last few years, the production of cotton has been minimal. Secondly, there is no spinning capacity in Nigeria and that also means no versatility. Therefore our designers will rely on imported materials to produce apparels. Thirdly, there is limited availability of industrial skills for garment production. This is one of the main problems identified by a study jointly commissioned by the United Nations Industrial Development Organisation (UNIDO) and NEPC in 2015. These skills range from industrial engineering, plant and machinery engineering, machinist, tailoring, pattern making, factory management.

The absence of industrial garment production orientation is the main reason that Nigeria is not receiving interests like other countries in Africa such as Ethiopia, Mauritius and Rwanda where products for brands like H&M, Calvin Klein, Harrods, Tommy Hilfiger etc. are being manufactured. Mauritius for instance, has concentrated on the apparel sector as a main economy driver over four decades, attracting over $1 billion in Foreign Direct Investment and creating 45,000 jobs. In 2015 the country made $933Million from apparel exports, which represented 43% of the country's exports.

Made-in-Nigeria: The Way Forward

For Nigeria, things can change. One of the main challenges, infrastructure is being addressed by the Federal Government through its Industrial Clusters/parks in each of the six geo-political zones initiative spearheaded by the Ministry of Industry, Trade and Investment. This model has been tested in other climes and should provide the necessary buffers to facilitate manufacturing. To make this much more effective will be to link these clusters with growth plans for specific sectors, so that targets can be set and monitored and consistent high standards achieved.

On the business side, there are a number of jobs and skill sets required along value chains. As with the case in Ethiopia, government and private sector will need to work together to address the skills requirement for sectors and if necessary, go back to the education and training curriculum to update them for today's needs. Sector players should begin to apply specialisation orientation to the way of doing business. This way, they can grow expertise and then scale up. As we promote Made in Nigeria for Nigeria and the rest of the world, we need to carve our niche, create and promote strong brands and articulate a value proposition that inspires trust in our products and the brand Nigeria, bearing in mind that trade is buyer driven and technology has made it possible for consumers to easily access a wide range of options and choice.

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"Made In Nigeria" and the Energy Sector

Ayodele Oni
Partner, Bloomfield Law Practice

Abstract
Nigeria's harsh economic situation in 2016 has led major industries to look inwards to resolve supply deficits occasioned majorly by foreign exchange scarcity. In the electricity sector, however, the influx of imported electrical components leaves so much to be desired and hurts domestic companies. This article argues that potentials exist in the Nigerian electricity market, and with the right mix of research, policy and investments, Nigeria would be positioned to fulfil these potential and ensure job creation in the process.

Keywords: Electricity, Energy, Nigeria.

Introduction

In recent times, we have seen a big push towards encouraging the average Nigerians to consume "Made in Nigeria" products. A major drive for this move is the weakened value of the Naira, coupled with its steady devaluation since it became a floating currency. This has led to a slowly growing sense of appreciation for locally manufactured and designed products, and we have seen a renewed interest domestically in Nigerian products spanning all areas of trade and commerce, from clothing and textiles, to food products and household items.

It is perhaps a blessing that our current harsh macroeconomic situation has forced us to look inward and reflect on what Nigeria and Nigerians have to offer, and we are witnessing a gradual reversion –'back to the basics' – in order to ensure economic sustainability. For example, when we examine the growth of the Nigerian textile Industry, rather than focus on the highlights of modern contemporary fashion and dress, we see that Nigerians have realised that there is innate value in the authentically and traditionally made Nigerian product, utilizing Nigerian designs, and we have discovered the untapped potential of these unique pieces in the global marketplace.

With the same imperatives, there has been the growing awareness within the energy industry in Nigeria of the need to adopt a greater level of reliance on locally manufactured components, consumables and spare parts in the generation, transmission and distribution of power across homes, businesses and institutions. Indeed, Nigerians have not always recognized the importance of the research and development required to ensure steady advancements in manufacturing of power equipment and parts. However, this article will show that we at a time of change, and that "Made in Nigeria" is a possibility within the energy sector, driven by the increased capability of domestic manufacturers to meet local needs, and potentially fulfil untapped export demands.

Made-in-Nigeria and Energy Sector

Although, there are in the electric power sector, "domestic acquisition obligations", strictly speaking, there remains in practice, no serious question surrounding the legality of importation of parts and components on a large scale. The effect on the economy however, is the crippling of domestic producers and suppliers, and an impediment to growth of the manufacturing industry, leading to an over reliance on importation. This also has an adverse effect on the value of the Naira, as it widens our trade deficit.

The Nigerian Electricity Regulatory Commission (NERC) in defense of a recent hike in prices of electricity tariffs stated that:

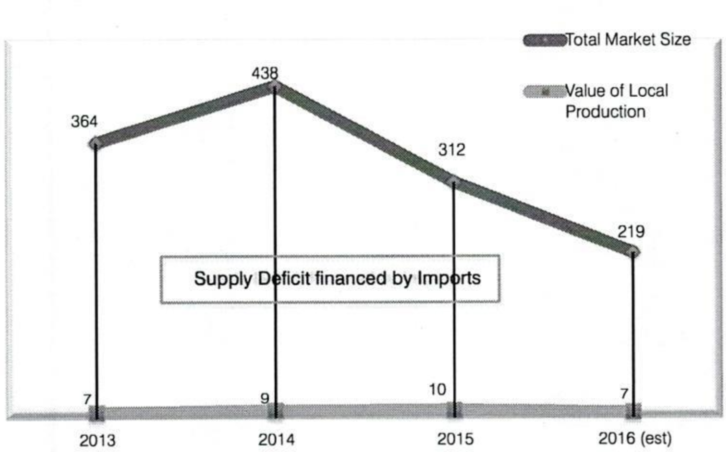
> *'The Multi-Year Tariff Order (MYTO) methodology i.e. the pricing methodology mandates the Commission to carry out a minor review of the Tariff bi-annually and adjust these exogenous factors that are beyond the control of the investors and the regulators. The official exchange rate in the country has risen from N198.97 to over N305.05 to a dollar. Kindly note that the unofficial (black market) exchange rate is about N500 to a USD. This alone is bound to trigger an increase in electricity tariff given the fact that all equipment, spare parts, meters used for the generation, transmission and distribution of electricity in Nigeria are imported. Electricity is therefore a product like any other product that is affected by changes in micro economic indices'*

Generation companies have further suffered from the devaluation of the Naira, which has had the effect of preventing importation of needed parts and components in power generation. In fact, the devaluation of the Naira (up to around 40%), has led to a decrease in the total amount of power generated within the country. According to a report, a representative of the generation companies stated:

> *"In 2013, when we bought the power plants, exchange rate was 150 naira per dollar. Today it is 310 naira per dollar. How can we repair, equip, acquire new turbines at this rate of 310 naira per dollar and yet still operate with an old tariff? A shutdown is, indeed, imminent."*

In Figure 1 below, we see research by the U.S. Department of Commerce which sets out a detailed breakdown of electrical power related equipment imports to the Nigerian economy.

Figure 1: Nigeria's Power Sector Market Size and Value of Local Production (in million USD)

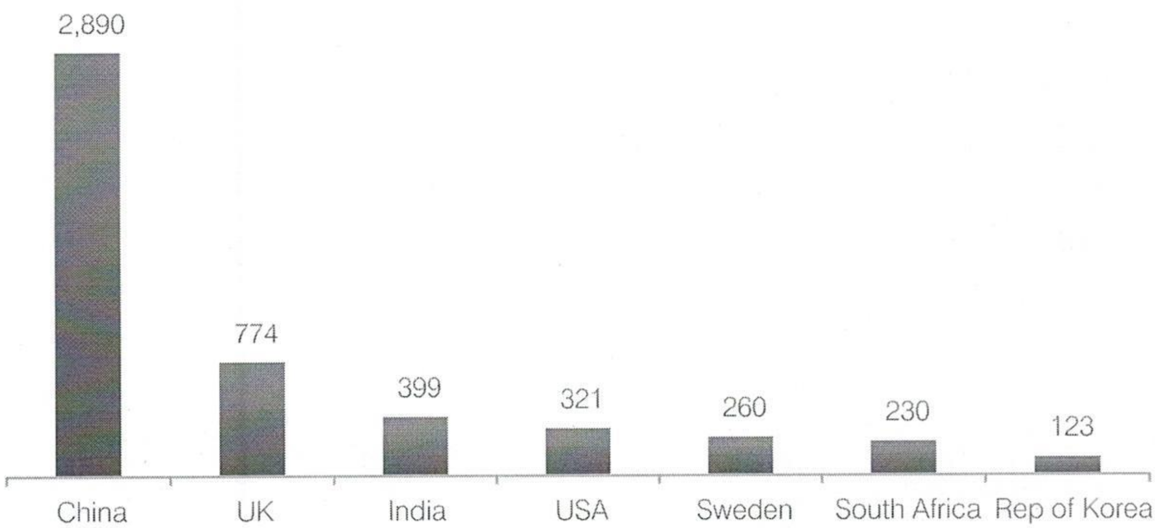


Source: US Department of Commerce

This clearly shows an over reliance on imported products in relation to power equipment, and this has translated to a near crippling of the power generation sector as the Naira is further devalued. It is likely the figures quoted are an underestimate. Virtually all of the spare parts and the components that are utilised in generation of power within Nigeria are imported, and until this is reduced, the ripple effects on the Nigerian economy are unrestrained. Studies have shown that Nigeria imported electricity materials and tools worth N1.34 trillion ($6.71 billion) from foreign countries in the last two years. The items imported include (but are not exclusive to) distribution boards, transformers, circuit breakers and disconnects, power plant valves, power storage devices, switchgears, turbines and voltage regulators, electric switchboards, conductors, power capacitors, power converters, power generation boilers, power generators and electricity meter.

The World Trade Organisation (WTO) statistics shows that the value of power equipment which was shipped to Nigeria from its major trade partners between 2013 and 2014, as follows:

Figure 2: Value of Power Equipment Trade (in million USD)



Source: World Trade Organization

Of note is the fact that some of the equipment imported by the Transmission Company of Nigeria (TCN) between July and August 2014 were abandoned for about a year at the Tin Can Island Ports in Lagos State. This represents a waste of scarce resources that could otherwise be in circulation within the economy, and could have been channelled into propelling domestic production of components and parts.

The "Made in Nigeria" movement has had an effect on the full spectrum of manufactured goods and has led to a surge in local production and a growing awareness of the value of Nigerian industry and enterprise. However, in relation to equipment used in the generation of power within Nigeria, a conundrum exists which can be explained as thus – manufacturing of components and spare parts for the production of such equipment within Nigeria itself is subject to a steady flow of electricity for production purposes.

However, what happens in reality is that as a result of fluctuating power supply, manufactured goods are either of low quality or are produced at exorbitant costs due to private power generation. These products in turn, even though made in Nigeria, are unable to compete domestically with imported goods, or internationally in terms of export potential. Therefore, the appraisal of the made in Nigeria movement cannot ignore the need for improved electricity supply in order to foster growth and sustainable change in the Nigerian economy.

The National Agency for Science and Engineering Infrastructure in a 2014 address stated that it has reached out to the power sector in Nigeria, to exhaust its options with locally made components and parts before seeking to demand imported equivalents. The NASEI stated,

"Our Power Equipment and Electrical Machinery Development Institute (PEEMDI) in Kogi State was set up to reproduce technologies for the production and distribution of spares and component parts required for production of power equipment and electrical machines for the sustenance of a viable power industry in Nigeria. The Institute has made tremendous progress in producing Pole- mounted transformers, 15KVA stabilizers and 415/220V transformers currently in use in NASENI and by other clients. With the support of Chinese experts, the Institute is setting up a transformer assembly plant in Kogi State with the State government having a stake in the project......In fact we have a new slogan 'Ask us first', which is our gentle appeal to Nigeria industrialists and SMEs that they should inquire from NASEI first before placing orders to import spares, machine parts and equipment or other technologies from China, Malaysia, Indonesia, and other such countries"

Policy Recommendation

There is incredible potential untapped within our domestic economy, which with the right level of research and investment, can reap manifold reward for the growth of the power sector, increase employment, and maintain a sustainable GDP.

A way we can tackle this problem is by undertaking a review of the Public Procurement Act (PPA), as one way in which we can encourage and support local innovation and productivity is through robust government patronage of local goods and services. There is a need to encourage the development of local preference rule in governmental and industrial procurement. The Public Procurement Act recognises this by indicating that one of the aims of a sound public procurement process is to encourage the development of local contractors and manufacturers. Section 34 (1) of the PPA provides that

"A procuring entity may grant a margin of preference in the evaluation of tenders, when comparing tenders from domestic bidders with those from foreign bidders or when comparing tenders from domestic suppliers offering goods manufactured locally with those offering goods manufactured abroad"

Another solution would be based on a public private partnership between the Nigerian Government and the most suitable foreign trading partner, to develop and harness the most cost effective and sustainable means of production of components and parts within Nigeria. This venture can be aimed at long term development support and training of manufacturers to ensure world class globally competitive standards are maintained. However a significant amount of investment would be required from the Government.

The private sector also has a role to play. More private companies have to start thinking long term about how to meet the product requirements through domestic companies. For example, distribution companies should consider joining forces to invest in manufacturing companies that manufacture meters, which would lead to the development of a "Nigerian Standard" meter. Alternatively, our indigenous engineering firms could join forces to develop turbine technology that is suited to Nigerian weather conditions. In the long run, the private sector will generate more revenue by investing in domestic sources rather than continually depending on imports.

Apart from the foregoing, the federal government needs to ensure its ministries, departments and agencies help improve Nigeria's Doing Business Index (which currently stands at 169th out of 190 countries) as small and medium scale business find it rather difficult to survive in the current business clime. One way would be to streamline existing regulatory framework in the electric power sector for example. The Regulator in the power industry for example, should make licensing and or permitting, particularly for indigenous companies less tedious and ensure that fees (particularly those paid upfront) are not too onerous. It is ridiculous for licensing for power generation to take two (2) years or a certification that qualifies one to install meters in people's premises to take six (6) or more months to obtain. Indeed, Nigeria needs to implement reforms in its "ease of starting business", if 'made in Nigeria' would not remain a distant dream.

In addition to the foregoing, there is a need to forge a workable synergy between the Nigerian Judiciary and the business community, to seek ways of easing business and contractual relationships such that the judiciary is not used by mischief makers, to kill trade and commerce, whilst exploring the means of reducing cost of adjudicating matters.

Conclusion

But in the end, it all depends on Nigerians learning to love Nigerian products and the determination to really make things work. There is no doubt that the initial products may not meet international standards. However, if we do not patronize our own goods and government does not show real political will, there is little to no possibility that 'made in Nigeria' will not remain a pipe dream and products produced in Nigeria, will eventually meet foreign standards.

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Public Procurement Process: Global Practices and the Nigerian Experience

NESG Policy Brief: April 2017

Abstract

Public procurement has evolved as a powerful tool to deliver public goods and facilitate economic development. Sustained interest in public procurement gained momentum in the 1990s as governments at all levels came under increasing pressures to provide more public goods with less resources. Indeed, all governmental entities are struggling in the face of unrelenting budget constraints; increased demand for transparency in public procurement; and greater concerns about efficiency, fairness, and equity. A World Bank Country Procurement Assessment survey conducted in 1999 established a strong link between ineffective public procurement process and corruption. The survey also established the negative impact of defective procurement process on national development. Against this backdrop, governments world over are devising means of improving on their public procurement operations and processes.

The case of Nigeria is not an exception. In a bid to develop its procurement process, the Nigerian government enacted the Public Procurement Act (2007) [1] which provides legislative framework for operationalisation of public purchase. However, the procurement process remains ineffective, thus, impinging delivery of public goods. In this brief, we examined operation of public procurement in Nigeria within the context of some international guidelines, principles and best practices. Also, recommendations bordering on improving the efficiency of public procurement procedure were offered. In all, the urgent need to constitute the public procurement council and the imperative to strengthen Nigeria's budgeting system cannot be overemphasised.

Introduction

Public Procurement has undoubtedly become an increasingly important factor in economic and business spheres globally. According to the World Bank Report: Benchmarking Public Procurement 2017, [5] "public procurement market is vast, and the range of economic sectors it encompasses is as wide as the needs of governments to function properly and deliver value added services to their citizens." Therefore, the underlying objective of public procurement in most countries remains to promote healthy competition, create value for money and ensure economic growth and development. This indicates the strategic importance and role of public procurement.

In the European Union (EU), public procurement framework or guidelines are domesticated and embedded in national legislations. These provisions compel member nations to patronize indigenous companies or organisations within the EU, before considering options outside the region.

This is expected to foster healthy competition and ensure value-for-money in the public procurement process. United States with annual public expenditure of about US$500 billion worth of products and services, practices procurement process that prioritises value delivery rather than budget centred. At both the federal and state levels, acquisition processes undergo competitive bidding with preference to the local providers of the same or similar goods and services.

This brief, therefore, seeks to decipher the bottlenecks in operationalisation of public procurement in Nigeria by examining what is obtainable in other climes with the aim of articulating necessary lessons and practices. While accounting for country specifics, the brief also accentuated inferences that would enhance the Nigeria procurement process going forward.

Global Frameworks: Making Public Procurement Fit for Purpose

The overriding global procurement policy requirement attests to the need for all public procurement to be based on competition to ensure and promote value-for-money. Efficient public procurement rides on healthy competition. Public sector procurement is subject to a legal framework which encourages free and open competition and value for money in line with internationally and nationally agreed obligations and regulations. Globally, governments often align their procurement policies with globally acceptable legal frameworks, namely the Government Procurement Agreement (GPA) from the World Trade Organization (WTO) and the United Nations Commission on International Trade Law (UNCITRAL). Public procurement guidelines developed by the World Bank or development finance institutions, including multilateral regional development banks are also increasingly influential in achieving a sustainable public procurement process. In what follows, we review global experiences and best practices in public procurement.

European Union

The European Commission report on Sustainable Public Procurement (SPP) states that public procurement is governed by the EU Public Procurement Directives which are then transposed in legislations. These laws specifically ensure member nations patronize indigenous companies or organisations within the EU, especially in products where they have comparative advantages, before exploring other options outside the EU. This is to promote healthy competition and ensure value for money in the public procurement process. The Member States at the national government level are required to adhere to sector-specific EU laws and act upon mandatory requirements of the SPP. Definitions and verification techniques are also provided as a form of regulation to ensure strict adherence by member states. The EU SPP legislative framework is one of the most elaborate in the world. The extent to which SPP is integrated into the core public procurement, legal or regulatory structure affect the outcomes of practices. Many countries, regions or local governments in the EU took a first step towards adopting SPP policies through Agenda 21 that was adopted in Rio in 1992.

Afterward, SPP has been on the front burner of sustainable development discourse. At the World Summit on sustainable development in 2002, SPP was featured as one of the means to achieve sustainable economic development.

United States of America

Public procurement in the United States is estimated at US$500 billion worth of products and services annually. It is, thus, regarded as the largest public expenditure in the world as contained in the U.S. Federal Government

Procurement and Innovation [4]. Public procurement is carried out at two levels, namely the federal level and state levels. Strong relationship has been established between competition and value-for-money in the United States to the extent that procurement process and the regulation binding on all federal agencies is the Federal Acquisition Regulation (FAR). FAR clearly stipulates that the acquisition process must undergo competitive bidding with preference to the local providers of the same or similar goods and services. In most situation, state governments, though not under compulsion, operate procurement process that mirrors FAR. Besides FAR, the other important controlling documents are the Office of Management and Budget (OMB) Circulars and Memorandum issued from time to time with the aim of promoting economic effectiveness and efficiency. More so, US budgetary system supports efficiency in public procurement in creating and delivering public value. To this end, public expenditure, in particular capital spending, is usually implemented substantially in each fiscal year.

South Africa

Public procurement in South Africa rests on five core principles/pillars, namely value for money, open and effective competition, ethics and fair dealing, accountability and reporting, and equity. This is contained in the Institutional Legal Structure for Regulating Public Procurement [2] guidelines issued by the government. The guideline represents not only a prescription of standards of behaviour, ethics and accountability, but a statement of the government's commitment to a procurement system which enables the emergence of sustainable micro, small and medium enterprises promote common wealth of the country and social well-being. This guideline is an essential test against which procurement outcomes are justified as price alone is often not a reliable indicator. The guideline states that procurement organisations, whether centrally located or devolved to individual departments, must always avoid any unnecessary costs and delays for themselves or suppliers; monitor the supply arrangements and reconsider them if they cease to provide the expected benefits; and ensure continuous improvement in the efficiency of internal processes and systems. The Office of the Chief Procurement Officer in South Africa oversees the procurement process. This effective coordination has improved procurement process and increased capex spending significantly.

Ghana

In Ghana, the government has made great strides to reform its public procurement system holistically by tackling underlying issues affecting performance, such as patchwork legal framework, weak civil service system, and lack of access to information for civil society partners and the public. This led to the enactment of the Public Procurement Act in 2003, laying the foundation for a standardized procurement system that takes into account the country's decentralization and creating value for money as well as local industry development policies.

The Act recognises the Public Procurement Board as the central entity charged with harmonizing policy and ensuring efficient and transparent procurement carried out by the Public Procurement Authority (PPA).

Ghanaian procurement process has gained global recognition. The West African country is an active member of international procurement networks such as the Task Force on Procurement and the Marrakech Task Force on Sustainable Procurement. The Ghanaian government recently partnered with the government of Switzerland to develop sustainable public procurement policies and practices and also sits on the advisory committee to the World Bank on procurement reforms. More so, public procurement is not government's sole business in Ghana, the civil society also provides essential input and oversight to national procurement functions. In 2003, the World Bank expressed strong optimism that public procurement reforms in Ghana will culminate in annual savings of about US$150 million through better management of government-financed procurement.

India

In India, it is mandatory for government procurement policy to obtain best value-for-money by promoting effective competition among suppliers and providing incentives for integrity in the procurement chains. The rationale is that procurement activities and operations have a direct effect on market behaviour. In this view, procurement and distribution activities could be used to stimulate and promote local manufacturing and production capacities, set benchmark prices in essential goods and services, prevent artificial scarcities arising from hoarding, and provide support to priority sectors for becoming more competitive and export oriented. The importance of public procurement in India is becoming increasingly vital as these measures are not only undertaken to serve the purpose of immediate interests but also keep the long-term objectives of boosting India's economy.

Factors Affecting Public Procurement in Nigeria

The Nigerian public procurement system is still in its relative development stage given that the legislation regulating government contracts is still not fully utilized to achieve its overarching objective. Despite the passage of the Public Procurement Act (2007) and the establishment of a procurement cadre in government ministries, departments and agencies (MDAs), the procurement system is still characterised by inefficiency, official misconduct, indecent behaviour, irregularities, corruption, red tape among others. The Public Procurement Act has, however, assisted in creating a system in which international best practice in procurement may thrive. The Act provides for the use of competitive procurement methods, allows formation of new institutions to monitor and direct public procurement, supports transparency and offers a system of supplier remedies through administrative review of procurement decisions. Despite these provisions, multi-dimensional challenges subsist in true practice. Few of these are highlighted.

Nigeria's Budgeting Process is Inimical to Effective Public Procurement

One of the major challenges being encountered in Nigeria's procurement process is the late passage of the annual national budget. National budget is often passed at the end of first quarter or even more in some cases. Even when budget is passed, financial releases for capital expenditure, especially, foot drags. The implication is that MDAs are usually put under undue pressures to start and conclude their yearly procurements within a short period so as to avoid their budgetary allocation being mopped up. Also, the mismatch between budgetary appropriations and the actual release of funds inhibits procuring authorities from meeting financial obligations to contractors. In some cases, procuring authorities had to cancel awarded contracts or divert funds from other sources when it became clear that the government was not going to release sufficient funds. The current administration is seemingly committed to sound procurement principles and the development of a procurement system that meets the requirements of international best practice. However, absence of clear ownership among implementing MDAs is negatively affecting the procurement ecosystem.

Bureaucracy in the Procurement Process

In the Public Procurement Act (2007), there is a clear distinction between statutory responsibilities of the Ministers and that of the Permanent Secretaries. Ministers are political heads while the Permanent Secretaries are considered as administrative head in the ministries.

Despite this clear provision which allows checks and balance among the rank and file, Nigeria's political landscape allows ministers dictate procurement procedures sometimes even awarding contract to companies directly owned by the ministers or their cronies thereby undermining the legitimacy and statutory responsibilities of the real accounting officers. The involvement of politicians in the procurement process is a serious problem that deserves urgent attention to prevent Nigeria's nascent procurement system from further executive abuse. The overbearing influence of politicians in the procurement process is responsible for the avalanche of uncompleted high profile projects scattered across the country. Even in cases where physical projects are completed, there is substantial cost and time overrun tied to it.

Lack of Harmonised Structure of the Public Procurement Cadre in the Federal Civil Service

The present inefficient and ineffective structure of the Public Procurement Cadre in the Civil Service poses a major challenge to the procurement process. Presently, some MDAs still conduct their procurement activities in the Department of Policy, Research and Statistics (PRS), contrary to the provisions of the Public Procurement Act. This is mostly because of lack of clarity from the Office of the Head of the Civil Service of the Federation as to whether the public procurement cadre and officers should be transferred to the Bureau of Public Procurement (BPP). Though postings of procurement officers in the civil service has been transferred to the BPP, implementation is still challenged.

Non-Constitution of National Council on Public Procurement

Despite repeated calls and appeals by concerned stakeholders, the federal government is yet to inaugurate the National Council on Public Procurement, whose membership are statutory and obvious. In line with the provision of the Public Procurement Act (2007), the powers and responsibilities of the Council are critical to the activities of the BPP and practice of public procurement. In the absence of the Council, BPP has commendably tried to close the operational gap created by the absence of the Council, nevertheless inauguration and operationalisation of the council is sacrosanct to give effective procurement coordination. This obviously constitutes a hindrance in the effective implementation of public procurement process.

Policy Options for Enhancing Nigeria's Procurement Process

Perhaps the Public Procurement Act (2007) is excellent in letter, however, procurement process is not only a matter of sound legislative provision. The end game which is to deliver sustainable public goods in an efficient manner. This tangible dividend of good governance could only be achieved if there is a sincere political will rooted in efficiency in practices complemented by effective coordination. By way of illustration, allocating N2.2 trillion to capital spending in the 2017 budget can only attain substantial implementation if necessary steps are taken to reform the procurement process.

In the near-to-medium term, we offer following policy options

Harmonize Structure in the Civil Service Procurement Cadre

The lack of harmonized structure in the public procurement cadre in the civil service continues to pose as a challenge to achieving the core objectives of the procurement process in Nigeria. The current structure has proven ineffective and needs to be urgently addressed to promote transparency and accountability in the process.

Eliminate Bureaucracy and Fast Track Budget Process

To ensure that the public procurement process in Nigeria is more effective to deliver its mandate, there is need for the government to fast track the current budget process to enable procurement officers to make better procurement plans and also see to the implementation of the plan within timelines/budget cycles. This will also help to reduce and possibly eliminate the challenge of bureaucracy in the process as politicians currently take undue advantage of the ineffective process for selfish interest to the detriment of the good of all and sundry.

Constitute the National Council on Public Procurement

The non-constitution of the National Council on Public Procurement as provided by the Act of 2007 has remained a major hindrance in the procurement process in Nigeria. In fact, there is a widespread climate of mistrust among firms, contractors and the government. Unfortunately, firms are reluctant to file complaints of gross misconduct based on fear of being reprimanded. The Act provides for the establishment of the National Council on Public Procurement (NCPP) as regulatory authority responsible for the monitoring and oversight of public procurement, harmonizing existing government policies and practices. It is believed that if the Council is properly constituted, it will oversee the entire process and thus reduce corruption in the public procurement. Composition of the Council at this time of expansionary capital votes will be quite remarkable, it will instil confidence in the system and fast track the delivery of public goods.

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Enhancing Intra-african Trade: How will Nigeria's Service Sector Fare?

NESG Policy Brief: April 2017

Abstract

African Union's vision of integrating markets across Africa through the Continental Free Trade Area (CFTA) will soon become a reality if the current level of negotiation among the 54 African countries is sustained. The core objective of the agreement is to promote trade in goods and services within Africa. While services sector represents the largest contributor to aggregate output in the continent, its exports remain challenged with Nigeria being the least service exporter among the largest three economies in Africa. In this Policy Brief, we analysed the potential of Africa's trade in services and examined Nigeria's preparedness for gaining market access leveraging on its areas of strength. This report provided some recommendations such as the need for Nigeria to clearly define its proposition as we go into the CFTA agreement; the need for government to continuously engage the private sector to seek technical support and the urgent need for the National Bureau of Statistics (NBS) to gather data relating to the value of service trade in Nigeria to aid decision making.

Introduction

The negotiation to establish a Free Trade Area in Africa has commenced with Nigeria providing leadership in the trade agreement. The African Union seeks to create a Continental Free Trade Area (CFTA) to integrate markets across Africa and establish a mutually beneficial trade agreement. Expert put the focus areas of the CFTA to include: trade in goods, trade in services, investment, trade development, intellectual property rights, competition policy and movement of business persons.

The first phase of negotiations is ongoing with Nigeria requesting for flexibility that allows protection of the domestic economy from imports that may ensue as a result of the agreement. While this stance is rational, the final outcome of the negotiations, together with its impact on the economy, will depend largely on how aggressively Nigeria negotiates for market access in the services sector, which has become very critical to the economy. Looking at the current mood, it appears that Nigeria's position on trade in services remains unclear to major stakeholders.

Getting the modalities for market access right entails negotiating conditions that support exports potentials of Nigeria's financial services, entertainment services and qualified professionals to African markets to improve Nigeria's foreign exchange receipt.

In trade agreements spanning several countries such as the CFTA, having a clear direction and proposition is crucial for a country like Nigeria, given its role in Africa. We believe that going into this trade agreement, Nigeria needs to be clear on its proposition for trade in services across Africa. Nigeria also needs to articulate how it will take advantage of the opportunities that avail in the services sectors of African countries to boost foreign exchange earnings and become the driver of development of other countries.

In this policy brief, we seek to analyse Africa's trade in services, the potential for services exports and assessment of Nigeria's position in the CFTA.

Global trade in Services

Services account for 68.3% of the world's Gross Domestic Product (GDP) and over 50% jobs in the world. Over the years, the sector has become a catalyst for economic growth and development across countries. More so, services have become the most dynamic segment of international trade. Since 1980, world services trade has grown by leaps and bounds, albeit from a relatively modest basis, compared to trade in goods.

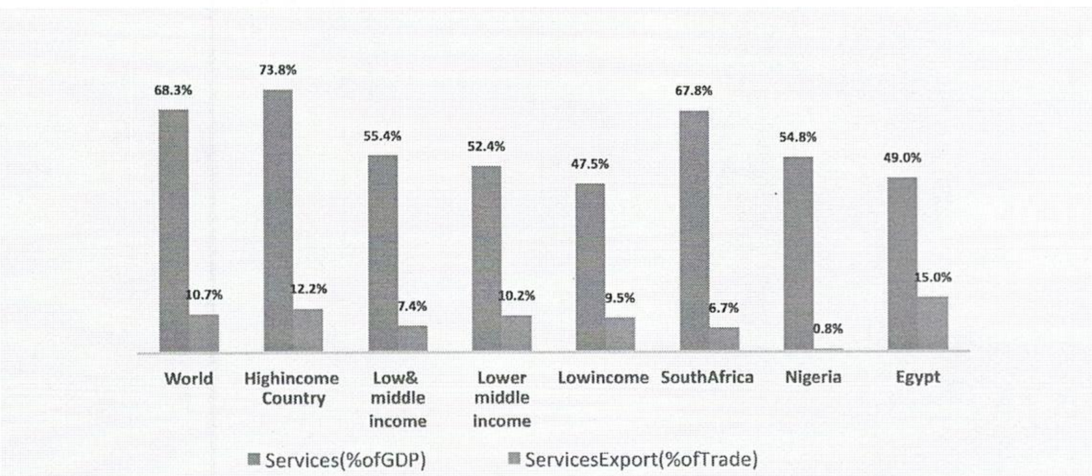
For instance, world services exports, which amounted to US$389 billion in 1980 rose to US$3.6 trillion in 2010 and US$5.2 trillion in 2016. With this trend, trade in services is now as important as trade in merchandise. Though developed nations have been leading in the services trade revolution, developing countries have strongly participated.

Understanding services sector potentials, developed economies have leveraged on service activities to build a robust service ecosystem that assists manufacturing and agro-allied industries. For instance, with little mineral deposit, Singapore built a formidable service-led economy and has experienced growth of exportable services industries such as finance, insurance and wholesale trade. Even its manufacturing industry has progressively moved into knowledge- and skill-intensive activities. The Singaporean economy has become more services-oriented with services export contributing 25% to its external trade.

Africa's trade in Services, a reflection of unused potentials

Looking at African economies, most of which are largely agrarian with low industrial capacity, services contribution to GDP is quite impressive. However, services exports remain a reflection of unused potentials with Nigeria being a classic example. In Africa's biggest economy, services contribution to GDP increased from 22% in 2000 to 58.76% in 2015 but service exports remain challenged falling from 5% in 2000 to about 0.6% of GDP in 2015.

Figure 1: Economic Importance of Services Sector (2014)



Source: WTO, World Bank and IMF

Integrating Service Markets in Africa, A Path to Inclusive Growth and Wealth

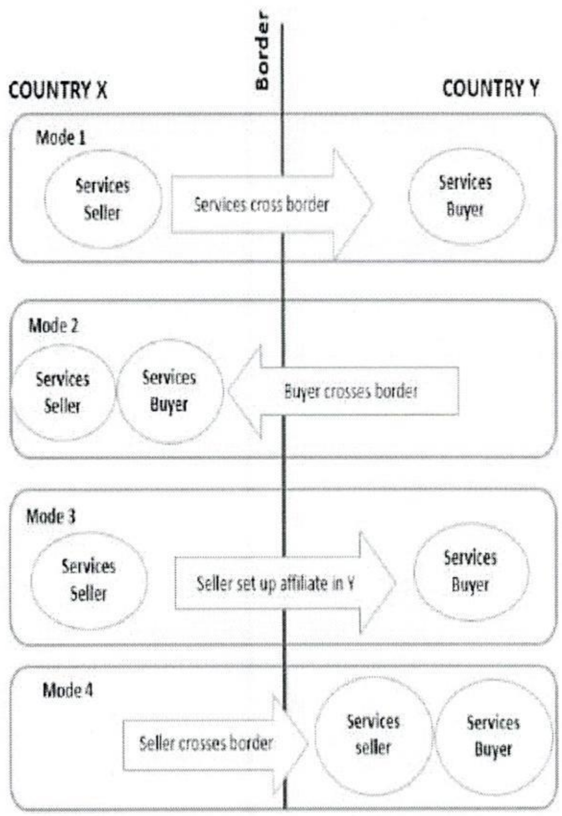
CFTA a vehicle for Africa's development

The Government of African Union (AU) agreed to establish a Continental Free Trade Area (CFTA) to increase trade among AU countries, reduce cost of production and create wealth in the continent. This is in line with Agenda 2063 and supported by the Abuja treaty. The rationale is that minimal barrier to movement of goods, services, capital and business persons will increase economic growth in Africa as well as improve welfare of its inhabitants.

In addition, liberalising tariff and non-tariff barriers to trade in services will enhance Africa's trade position in the global space. Based on the fluidity of trade in services, there is a universal framework that provides a guide to contracting parties. It is, therefore, crucial for negotiators to understand trade in services supply modes, as this will enable them properly classify trade barriers affecting market access and national treatment.

Figure 2: Services Modes of Supply as provided by General Agreement on Trade in Services (GATS)

For easy classification and uniformity, GATS defines four (4) supply modes for trade in Services



Source: WTO General Agreement on Trade in Services (GATS) & NESG Research

Mode 1 - Cross-Border Trade

Services from country X is supplied to another country. For example, users in country Y receive services from abroad through the telecommunications or postal network.

Mode 2 - Consumption Abroad

This is services in the territory of one member to the service consumer from another. In this case, nationals from country Y have moved abroad (country X) as tourists, students, or patients to consume the respective services.

Mode 3 - Commercial Presence

This is offered by a service supplier of one Member (say country X), through commercial presence, in the territory of any other Member (e.g country Y). The service is provided within country Y by a locally-established affiliate, subsidiary, or office of a foreign-owned and controlled company

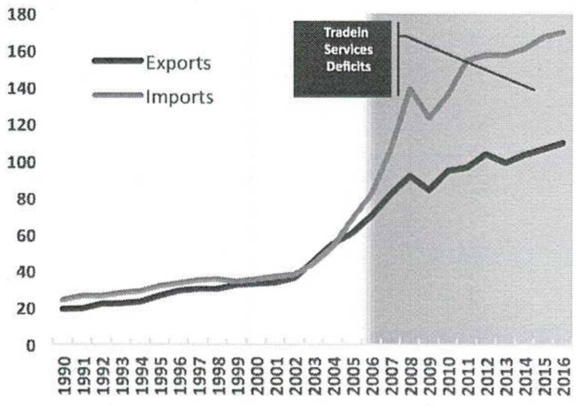
Mode 4 - Presence of natural persons

This mode involves service supplier of one member, through the presence of natural persons of a Member in the territory of any other member. A foreign national provides services within country Y as an employee of a foreign service firm.

Africa could reduce trade in Services deficit if barriers to intra-trade are removed

One justification of CFTA is that Africa needs to enhance intra-African trade. Looking at the trade in services profile for 2016, Africa exported about US$110 billion worth of services and at same time imported US$170 billion. This unfavourable trade position is a reflection of weak trading relations among the AU member countries. As important as transportation and logistics services are to trade in Africa, a substantial proportion is still supplied by non-African countries. Even when these services are locally available, African suppliers are constrained from penetrating other territories through barriers created by domestic laws.

Figure 3: Trade in Services in Africa (1990-2016)



Source: World Bank, IMF and NESG Research
**2015 & 2016 are Estimates

The CFTA should provide the basis for African countries to leverage on their respective strengths. From available statistics for instance, Ethiopia's strength lies in Air Transportation Services; Nigeria leads the continent in Financial/Banking Services. Senegal is the powerhouse of Business Process Offshoring (BPO) and Information-Communications Technology (ICT) Services; Burkina Faso has exportable Cultural Services; and Uganda is a top exporter of Education Services. These examples are significant as they highlight least developed African countries with comparative advantage in certain service export markets. They also change the narrative of the widely-held perception that African countries at lower levels of development cannot export services. By removing barriers to trade in services under the CFTA, AU member nations will be empowered to maximise their potentials in services export.

Nigeria's Services import calls for sincere concerns

Among the three largest economies in Africa, namely Nigeria, South Africa and Kenya, Nigeria has the largest trade in services deficit to the tune of US$22 billion in 2016 as against South Africa's deficit of US$180 million. Egypt, however, recorded a surplus of US$4 billion. Nigeria's common service imports are factor services, such as:

- Skilled labour to critical sectors
- ICT solution to businesses
- Personnel and logistics to transport (air transportation, aerospace, aeronautics and maritime)
- Expatriates, resources and tools to education and human resource
- Professionals in the health sector among others.

In terms of service exports, Nigeria is reputable for exporting banking services and financial products across the continent, but contribution to exports and accruable benefits to the economy at the moment is seemingly infinitesimal.

Considerations for Nigeria's Service sector under the CFTA

In line with experts' opinion and analysis , Nigerian negotiators need to go to the negotiation table with a clear understanding of the country's strength in the area of service exports. What areas do we have comparative advantages in, vis-à-vis major African countries? How can we export certain services to neighbouring countries that need them? To what degree should we open our economy to trade in services? What commitments should we expect from other African countries during the negotiation process? As a leading country in the African continent, Nigeria should develop a clear position going into this agreement and the above questions should drive negotiations in the CFTA.

Furthermore, there is need to understand that comparative advantage alone is insufficient to wheel our national interest into existence. A more pragmatic and result-oriented lines of strategies to gain markets would do. This negotiation would require high technical wherewithal, clear understanding of other countries' comparative advantage and apt negotiating skills and experience. In scheduling sectors and sub-sectors for liberalisation and treatment, negotiators face serious uphill task to align with national interest and to conform with GATS principles.

Perhaps, one key area where Nigeria could advance its interest across Africa is in financial and entertainment services. Already, Nigerian banks are spread across the continent, however, there is more room for further improvement. With the level of financial service deficit across Africa, Nigeria is in a better position to offer banking services to a wide number of countries in the region. More so, growth of industrialisation across Africa will create new business lines that require financial products.

Nigeria could take a cue from Singapore to articulate its options for financial services. The financial services sector is very critical to Nigeria due to its size, growth and prominent impact, along with the presence of foreign services suppliers, and an export potential for financial services.

Nigeria also has a thriving entertainment industry, which is playing a crucial role in the African continent. From the movie industry (Nollywood) to the music industry, broadcasting among others, these sub-sectors are strategic and should be catered for in the CFTA by Nigerian negotiators.

There is every tendency for Nigerian negotiators to focus on trade in goods during negotiations. However, the service sector should also be given prominence, owing to the vast opportunities that exist within this space in Africa. Given Nigeria's experience with previous external agreements such as Structural Adjustment Programs (SAP) for instance, the consequences could be disastrous especially when such agreements are not well thought of, by local experts and the Nigerian government. Going into the CFTA, it therefore becomes important for the Nigerian government to engage with trade experts on a broader level to define a clear path for the service sector in relation to external trade and articulate Nigeria's position in future agreements.

Recommendations

The CFTA negotiations for trade in services have crossed the foundation stage with all members looking forward to finalising and signing of the agreement in order to meet the December, 2017 deadline. Nigeria, therefore, needs to do the required groundwork before further negotiating meetings. Based on compelling realities, all stakeholders in Nigeria must act on the following set of options:

Comprehensive review of Nigeria's areas of strength in services

Many countries view Nigeria as an economic powerhouse in Africa and this view must be reflected in our trade negotiations. Nigeria needs to go into the negotiation with a clear proposition taking into consideration its strengths as well as the short, medium and long-term benefits and costs of liberalizing certain service-related activities. With this, Nigeria would be able to make commitment that would not hurt domestic capacity.

Technical Support from Stakeholders is needed

The government cannot act alone. It must engage with the private sector to provide a clear position that is in the interest of the nation, especially given that any agreement reached will affect businesses operating in the country. Private sector stakeholders must provide technical support that reflects overall national interest and business concern to negotiators. Subsequently, private services providers should sponsor delegates to meetings to represent them and put their interest on the table.NBS should commence the gathering of data on service trade

Currently, Nigeria does not have data on the value of services it exports and imports. This is a weak-link in the negotiation given the importance of such data in negotiating a fair deal for the country. The National Bureau of Statistics should expedite action in collecting data on the value of Nigeria's trade in service (imports and exports) as already being done for trade in goods. Quality data should inform national planning and strategy for trade in services.

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Rising Public Debt Profile In Nigeria: Risks and Sustainability Issues

NESG Policy Brief: February 2017

Abstract

The recent surge in the debt profile of the federal and state governments has echoed new concerns for policy stakeholders in Nigeria. Although debt is important for economic growth, the size of the debt is important for sustainability. Despite the "green light" signal that Nigeria has more fiscal room for accumulating more public debt, our analyses show that Nigeria's debt is fast rising and could approach unsustainable level given the low revenue and export profiles. In this Policy Brief, we traced recent trends in Nigeria's debt profile and explored the various sustainability assessment indicators to gauge the possibility of impending risks in the near term. The report sets out with the review of studies on debt and economic growth nexus and also narrows down on the implications of various issues unfolding in the public debt structure in Nigeria.

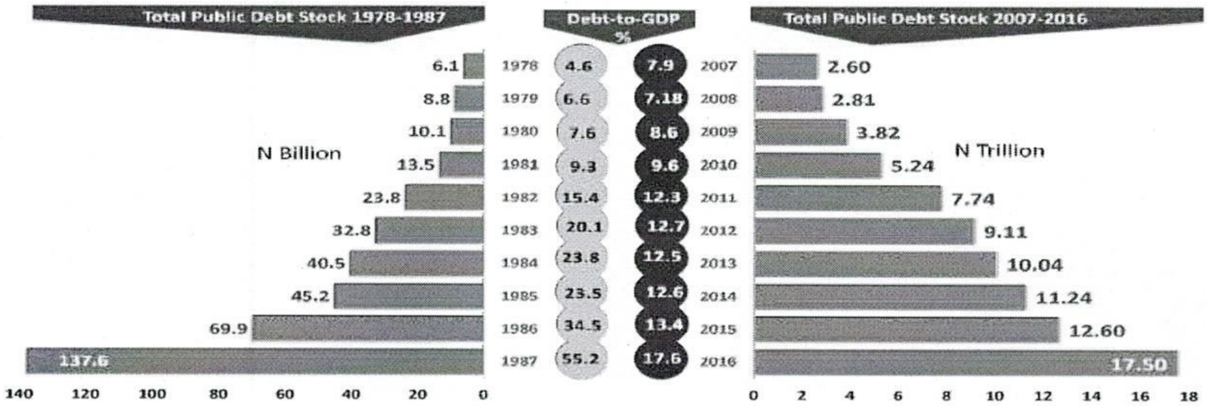
As a way forward, government should increase the share of concessional loan in external debt stock and develop Public-Private Partnership (PPP) Framework for financing infrastructure projects.

Introduction

Taking a casual look at the level of Nigeria's public debt profile, which stood at 18% of GDP, it may seem obvious that the total debt stock of N17.5 Trillion (as at December 2016) is well below tolerable threshold and that there is sufficient room in the Government's debt management strategy to cope with adverse shocks. However, it is not obvious that this relaxing mood would be sustained if the debt profile is subjected to sustainability assessments within short to medium term.

In the aftermath of debt relief deal in the 2000s, the level and composition of Nigeria's public debt have changed and are gradually picking up to historic levels. An assessment of the Nigeria's debt profile in the last decade shows how much and how quickly the structure has changed. For instance, external debt stock has jumped by almost 200%, from $3.8 billion (15% of export) in 2006 to $11.4 billion (65% of export) in 2016. Likewise, domestic debt has been increasing on steep cliff starting from the mid-2000s to reflect the substantial efforts being made by the Central Bank of Nigeria(CBN) to develop the bond market and government's gradual shift from relying heavily on external to domestic sources of budget finance. In 2016, domestic debt was at a record high, mounting sharply to N14 trillion. Whereas in 2006, domestic debt was N1.7 trillion. One of the major transformations in the debt profile is the debt mix. The share of domestic debt to total debt stock has abruptly changed from an average of 25% in the early-2000's to 84% between 2006 and 2016 - an effect of the debt relief deal in 2005.

Figure 1: Public Debt Stock and Debt-to-GDP Ratio



Source: CBN, DMO, World Bank

Why does this trend matter at this point? History has shown that public borrowing accelerates markedly and systematically ahead of a sovereign debt crisis. The Latin American case of the 1980s showed the adverse macroeconomic impact of not solving the debt problems at the signal of the crisis. Also, the recent case of Greece's fiscal collapse is a story of repeated underestimation of debt dynamics. With hindsight, Nigeria's current debt profile is exhibiting similar pattern as in the pre-crisis period in the 1980s. In the five years preceding the 1983 refinancing agreement of \$2.1 billion and the subsequent run-up in the Nigeria debt profile, debt-to-GDP ratio averaged 16.7% and external debt stock averaged 53% of total exports. Not only do these indicators reflect current trajectory, the macroeconomic fundamentals also follows similar pattern in the pre-crisis period in the 1980s.

Yet, there are indications that debt level is just building up. In the 2016-2018 Medium Term Expenditure Framework (MTEF), the government plans to borrow N3.6 trillion. The International Monetary Fund (IMF) projects that Nigeria's debt to GDP ratio will rise to 18% by the year 2020. Without a doubt, at this point when policy priority is to stimulate economic activity and foster job creation, public debt will inevitably increase. However, the fact that the rise in the debt profile is coming at a time when government revenue has dropped creates some uncertainties that shroud the outlook for Nigeria's debt sustainability and raises concern about prudent debt level that government should be targeting.

Table 1: Nigeria's Public Debt Profile 2011 - 2016

	2011	2013	2015	2016
External Debt (US\$ Billion)				
Fed. Government	3.5	6.0	7.3	7.7
State Governments	2.2	2.8	3.4	3.7
Sub-Total	5.7	8.8	10.7	11.4
Domestic Debt (N Trillion)				
Fed. Government	5.6	7.1	8.8	11.2
State Governments	1.2	1.6	1.7	2.8
Sub-Total	6.9	8.7	10.5	14.0
Grand Total (N Trillion)	7.7	10.0	12.6	17.5

Source: DMO, World Bank

Public Debt, Sustainability Threshold and The Economy

Debt is Important for Growth

Of the several reasons why countries borrow, deficit financing remains the most prominent. Borrowed funds are either channelled to public investment or used for stopgap fiscal measures applied in an economic recession. Several studies have documented how countries' debt rise in an economic downturn and how countries have efficiently utilised borrowed funds to lift output growth. To eliminate the tendency for borrowing in a recession would make the recession worse and increase inequality. Such studies also emphasised the importance of applying the right fiscal instruments, economic conditions and the timing of the debt. A country could go for foreign borrowing, as it allows for deficit financing without creating money supply-driven inflationary pressures or crowding out domestic lending to the private sector. However, the fact that external debt is typically denominated in foreign currency, it creates additional constraints on monetary policy and exchange rate management.

Due to some of the flaws identified with external debt, countries had shifted the bulk of their fiscal financing sources from external to domestic debt market. But such move weighs pros and cons of both financing sources to fine-tune the optimal mix that suits the specific need of each economy. For the reason that domestic debt is contracted in local currency, it reduces the exposure of the public debt to unanticipated movements in the exchange rate. In addition to that, developing countries where the larger share of fiscal financing is sourced from domestic debt market have been found to have broadened their investor base, increased the market depth and lengthened debt maturities. Yet, domestic debt has been found to present a significant burden to fiscal policy in terms of interest payments. Supporting this view, studies have analysed the structure of public debt in Sub-Saharan African countries and found that short-term maturity of domestic government debt is a source of rollover risk and macroeconomic instability. These studies also documented the existence of crowding out effects on private-sector borrowing.

The Size of Debt is Critical for Debt Sustainability

While debt plays a crucial role in economic growth, its size is important for effective and independent policymaking. Excessive debt levels can weigh on an economy's growth as highly indebted countries are constrained by the extent of fiscal maneuvering to play with and in most cases, they do reduce their investment and consumption. This explains why limit on debt profile are often suggested for countries. For instance, the World Bank and the IMF developed The Joint Bank-Fund Debt Sustainability thresholds for both the developing and market access countries (see table 2). It should be noted that the case of the maximum public debt limit is not that of one-size-fits-all for countries as it is being misconstrued. Countries use debt sustainability thresholds to keep track of debt profile and guide their borrowing decisions in a way that matches their financing needs with their current and prospective repayment ability, taking into account the economic circumstances.

Considerations may border on the growth, interest rate, foreign reserves and the previously observed capacity of governments to react to rising debt. Irrespective of country-specific circumstances, developing countries have been found to be exposed to the debt crisis phenomenon than the developed economies. While developing economies debt threshold is in a range of 30% to 50% of GDP, the suggested thresholds for emerging markets and developed economies are 70% and 85% respectively. The concept of debt sustainability threshold does not suggest that countries should dare to approach the indicative limits, as the risk of debt distress can occur below the thresholds. For instance, even with the 70% debt-to-GDP threshold stipulated for emerging markets, it has been found that more than half of debt defaults in those economies occur below the threshold.

Table 2: The Joint World Bank-IMF Debt Sustainability Framework for low-Income and Market-Access Countries

	Low-Income Countries (Categorised base on Policy Ratings)			Market-Access Countries	
Country Grouping	Weak Policy	Medium Policy	Strong Policy	Advanced Economies	Emerging Markets
Threshold Indicators					
Debt (as % of GDP)	30	40	50	85	70
Debt (as % of Exports)	100	150	200		
Debt (as % of Revenue)	200	250	300		
Debt Service (as % of Export)	15	20	25		
Debt Service (as % of Revenue)	18	20	22		
Bond Spreads				400 - 600	200 - 600
Change in Short-term Debt				1 - 1.5	0.5 - 1.0
Foreign Currency Debt (% of Total Debt)					20 - 60
Non-Resident-Held Debt (% of Total Debt)				30 - 45	15 - 45
External Financing Requirement (% of GDP)				5 - 15	17 - 25

Source: International Monetary Fund

The Evolving Issues on the Nigeria's Debt Profile

Nigeria's Public Debt is no Longer at Low Risk of Distress

For an economy facing revenue shortfall such as Nigeria's, borrowing is a healthy option as long as the government can repay its debt. Looking at the total public debt to GDP in 2016 at 17.3% and averaging 13.8% in the last five years, it appears government debt burden has more room to go higher as recently projected in the debt sustainability assessments. But peeking below the surface, other indicators of debt sustainability reveal that while Nigeria's public debt might still be at the moderate level, its trajectory is highly vulnerable to revenue shocks given the low revenue base and high debt service burden. As at 2016, debt-to-revenue was 360% and debt-to-export was 223%. These are pointers suggesting that debt crisis is possible if the current trends continue and that the harmful effects of debt on the fragile economic growth are likely to kick in well before 30% debt-to-GDP threshold.

More worrisome is the rising debt service payments in the past few years. Between 2008 and 2016, the government has spent close to c.N6.9 trillion on debt servicing. The sum is almost 75% total budgeted capital expenditure within the same period and equivalent to the total capital funding requirement projected in the 2017-2019 MTEF. In 2017 budget, the debt service jumped significantly to 33% of revenue following its gradual build-up from 4% in 2008. This is far above the 22% threshold for developing economies. These are the effects of weak revenue base in the face of rising debts and servicing costs.

Excessive Domestic Borrowing in the Debt Structure is Creating Macroeconomic Distortions

The financing costs are sharply higher for domestic than external debt.

The financing costs of domestic debt in Nigeria has been more expensive than external financing. From 2008, the average yield on 10-year FGN bond has moved between 9% and 18%. At the current level of 15.9%, the FGN bond is perhaps the highest in the world and yet it is above rates obtainable in the US (2.4%), UK (1.1%), the Euro Area (0.45%), China (3.2%), Brazil (10%), Kenya (14.0), South Africa (8.7%) and Japan (0.9%). Not even a high-risk market as Venezuela, which has a 10-year bond yield of 10.4% could match up with Nigerian bond yield. The federal government has been unable to issue long-term securities at a reasonable interest rate at the Nigeria bond market. This has resulted in maturity mismatch for development projects, even far worse than currency mismatch that would have been created if the bulk of debt burden was external loan.

Table 3: Nigeria's Debt Sustainability Ratios

Indicators	Threshold	2008	2012	2014	2015	2016
Debt Stock						
Total Debt (% of GDP)	30-50	7	13	13	13	18
Total Debt (% of Exports)	100-200	27	60	87	142	223
Total Debt (% of Revenue)	200-300	36	85	112	182	361
External Debt (% of Oil Revenue)		7.6	12.7	24.0	55.1	144.6
Debt Service						
Debt Service (% of Export)	15-25	2.8	5.1	7.1	12.2	17.5
Debt Service (% of Revenue)	18-22	3.7	7.2	9.2	15.6	28.2
Debt Terms						
Ave. Grace Period on New External Debt (years)		9.8	8.0	4.9	4.9	
Ave. Maturity on New External Debt (years)		40.2	29.5	21.5	20.5	

Source: NESG Research and World Bank

...and given Nigeria's macroeconomic policy constraints, it is difficult to control rates in the debt market.

Domestic borrowing brings benefits only in the presence of an effective institutional and macroeconomic policy framework. Leaving it to provide 80% of deficit financing shows some dysfunctions in the debt management strategy. On the first note, considering that the CBN's monetary policy rule has always been anchored on inflation targeting, it may be difficult to control the rates in the domestic bond market. Besides, the current macroeconomic fundamentals cannot cope with distortions that domestic debt market has been creating. Indeed, countries with debt profiles worse than Nigeria's, but with clear macroeconomic policies will pay less attention to debt limits. For instance, Japan's debt is about 230% of its GDP, far beyond the 85% threshold set for market access countries. The domestic debt component has the largest share of the debt but different factors explain why it works out for Japan: The

Central Bank of Japan has kept the interest rate close to zero for a long period; debt is held by Japanese investors, especially public pension reserve funds; and not foreigners and the net financial asset position of the country is large.

On the second note, activities at the Nigerian bond market have been crowding out loanable funds to the private sector. By statutory provision, Nigerian banks are the biggest players in the local bond market. At such a lucrative rate that the Nigerian bond market offers, banks are incentivised to direct funds to the debt market. Undoubtedly, this is profitable for the banks, but only at the expense of lending to local businesses and improving financial inclusion.

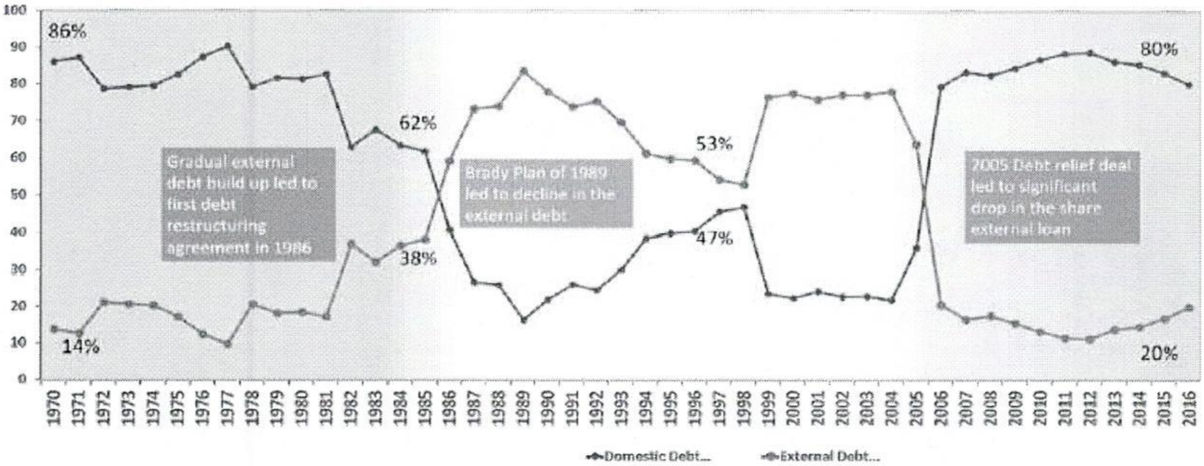
Increasing the share of external loan in the bulk of deficit financing requires cautious steps

Considering the high relative cost of domestic debt to that of the external debt market, the idea of rebalancing Nigeria's debt portfolio to have more share of external debt component is a welcome development from the government. Such initiative from the government would trigger double-barrelled effects on both the foreign exchange liquidity and cheaper source of deficit financing. Based on the analogy of the Two-Gap Model and considering the current realities of the Nigerian economy, reducing exchange rate premium is a dominant factor for Nigeria's economic recovery and growth. Addressing such constraint will have far-reaching impact on the economy faster than correcting the high cost of borrowing and misapplication of domestic savings created by the domestic bond market.

However, there is the need for government to be cautious about the type and terms of the external loan deal. Going for external loans is important. Yet the terms of external loan deals are also important. We notice that some of the recent external loan deals are veering more into commercial loans with high financing costs and short maturity. A review of new loan commitments of Nigeria's debt in recent years has shown that the average grace period on new external debt commitments in Nigeria has slipped to 5 years in 2015, from 10-year grace period just after debt relief deal in 2007. Whereas, an assessment of the sectoral allocation of external loan between 2011 and 2015 reveals that the bulk of external loans were used for long-gestation public infrastructure and social service projects ranging from Electricity (16% of total external loan), Road Transports (8.8%), Agriculture (9.8%), Rail Transport (8.8%), Education (6.0%) and water supply (5.8%).

Likewise, the sovereign bond has been popular with the Nigeria's external debt pursuit in recent years. The fact that the recently issued $1 billion Eurobond was oversubscribed is a good pointer to the interest of international investors in the Nigerian economy. Yet offering such bond at 7.8% would likely constitute a huge fiscal burden on Nigeria for the next 15 years – a step that defeats the purpose of securing the external loan. Also, not only do investment funds trail after high return on investment, sound macroeconomic fundamentals are also put into consideration. Assets prices have remained low in developed and emerging markets compare to the lucrative rate of 7.8% Nigeria had offered in the international bond market. If policy rate edges up in the global markets in the near term, it may be difficult for Nigeria to meet its external financing requirement, as the bulk of funds will be redirected to more safer markets.

Figure 2: Share of Domestic and External Debt



Source: CBN, Budget Office and NESG Research

Alternative Options to Deficit Financing

Despite the fact that Nigeria's debt sustainability assessment ratios are still below thresholds, government should avoid approaching them. This does not imply that government should actively pursue debt reduction policies. More importantly, Nigeria should avoid premature tightening of deficit financing to the possible extent, as any retrenchment of public debt could prolong the lingering economic recession. Even as government budget is facing revenue shocks, the financing needs will not decline. The scale of infrastructure and industrial development funds needed to diversify the economy underscores the level of loan capital flows expected in the economy. Nigeria's infrastructure deficit has been put at $3 trillion for the next 30 years. This suggests that N2.2 trillion allocated to capital expenditure in 2017 budget is a scratch in the surface of annual infrastructure investment. As an alternative to accumulating debt proportionally, it is imperative to exploit complementary financing option to fund development projects and get more mileage out of fiscal intervention.

The following are the imperative policy options

Increase the share of concessional loan in external debt stock

Given the high cost of domestic debt, seeking external financing at commercial rates may be harmful to the economy. Currently, 69% of the bulk of the Nigeria external debts are contracted on commercial terms, while the concessional loans hover around 31%. To avoid the risks of debt service overhang, a key initiative for Debt Management Office will be to find a way of contracting larger share of the external debt on soft terms. Multilateral and Bilateral loans are contracted far below market interest rates and are usually placed with long maturity periods. In recent time, both the federal and state governments have been enjoying some levels of infrastructure development partnerships on bilateral agreement basis. Such deal could be scaled up to fund the infrastructure projects. For instance, China Investment Corporation recently announced it will use about 40% of its

$200 billion overseas sovereign wealth fund to broaden its infrastructure investment in the US. Such opportunities could be considered to close the infrastructure gap in Nigeria.

In addition to rebalancing the public debt portfolio, it is imperative for government to reduce excessive refinancing of domestic debt. Given the recent improvement in government revenue, paying off domestic debt at maturity would achieve significant reduction in debt stock and improve the maturity profile of debt.

Develop Public-Private Partnership (PPP) Framework for financing infrastructure projects

The Nigerian government has not recognised the importance of harnessing PPP Model into development projects. Given the daunting limitations on government budget across all levels, private sector participation has become necessary in the delivery economic and social infrastructure without losing the essence of social value. There is no legislation which sets out the framework of collaboration between public and private sectors for infrastructure investments. The federal government can develop such policy framework, with clear guidelines on how the PPP model could be put into practice. With such intentions, the clause for PPP financing could take a certain share of deficit financing in the annual budget of Nigerian governments and the bulk of private capital chasing ailing government revenue with exorbitant interest rates in the capital market could be redirected to infrastructure funding.

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Lagos Address: 6 Oba Elegushi Street, Off Oba Adeyinka Oyekan Avenue, Ikoyi, Lagos.
P.M.B 71347, Victorial Island, Lagos.
Tel: +234 1 2952849, 2952003.Website: www.nesgroup.org Email: research@nesgroup.org
E-mail: publications@nesgroup.org

Abuja Liaison Office: 3rd Floor, Right Wing, Unity Bank Tower, Plot 785, Herbert Maculay Way, Abuja

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