

REPORT



MANUFACTURING THEMATIC GROUP GENERAL ASSEMBLY

Wednesday, 14th February 2024 | 10:00AM
Summit House: 6, Oba Elegushi Close, off Oba
Adeyinka Oyekan Avenue, Ikoyi, Lagos

<p>Date: Wednesday, February 14, 2024</p> <p>Time: 11:00 am</p> <p>Venue: Hybrid</p>	<p style="text-align: center;">SESSION REPORT</p> <p>Session Title: MANUFACTURING THEMATIC GROUP GENERAL ASSEMBLY</p> <p>Details of Discussants:</p> <ul style="list-style-type: none"> • Engr. Mansur Ahmed - Private Sector Co-Chair, Manufacturing and Mining Policy Commission Steering Committee • Dr. Muda Yusuf, Thematic Lead, Manufacturing Thematic Group (MATG) • Ms 'Lumun Amanda Feese, Facilitator, Manufacturing and Mining Policy Commission <p>Moderated by:</p> <p>Mr Sijuola Olanubi – Acting Head, Think Tank Operations, NESG</p>
<p>Background</p>	<p>Mining and manufacturing are crucial sectors to the realisation of Nigeria's industrialisation and economic diversification agenda. It is generally agreed that no country can achieve developed status without a strong manufacturing base. Also, given Nigeria's favourable geological potential, mining holds tremendous potential for broad-based development and industrialisation. However, these sectors have continued to underperform as the structure of the Nigerian mining sector leaves little room for growth and development while a myriad of challenges undermines manufacturing and mining activities.</p> <p>While there are myriad challenges requiring attention, the Policy Commission has identified two (2) urgent policy reforms required to transform the industrial and mining sectors, respectively. They include:</p> <p>a. Industrial sector reforms:</p> <ol style="list-style-type: none"> 1. The need to drive structural reforms for the industrial sector focused on improving the investment climate and competitiveness of the sector 2. The need for a resource-based industrialisation (RBI) policy to achieve a sustainable competitive advantage in Nigeria <p>b. Mining sector reforms:</p> <ol style="list-style-type: none"> 1. The need to drive institutional, legal, and regulatory reforms in the mining sector to improve mining sector performance and contributions to economic and industrial growth and economic diversification 2. The need to develop a suitable resource federalism framework for Nigeria's mining industry to improve the investment climate for mining in Nigeria and mining sector performance.
<p>Context</p>	<p>In recognition of the need for support from sector experts, the Manufacturing and Mining Policy Commission hosted a General Assembly (GA) to engage experts on the proposed policy advocacy plans of the Policy Commission in 2024. The GA provided an opportunity for members of the Policy Commission and external stakeholders to learn about the activities of the Manufacturing and Mining Policy Commission, the agenda for the year, and how to support the Policy Commission's policy advocacy efforts. The General Assembly served as a platform for agenda-setting for the year.</p>

<p>Opening Remarks Engr. Mansur Ahmed Steering Committee Private Sector Co-chair, NESG Manufacturing and Mining Policy Commission</p>	<p>Engr. Mansur Ahmed in his remark noted the following:</p> <p>First, the growth of the manufacturing sector is important for the development of African economies, particularly the development of intra-African trade. Currently, over 70 percent of global trade involves manufactured goods, and as such, for countries to be a part of the global trading system, the importance of a robust manufacturing sector cannot be overemphasised. Sadly, Africa contributes less than 3 percent to global trade. For significant progress to be made in Africa, then it is imperative to scale up the manufacturing capacity of the continent.</p> <p>Second, creating an enabling and competitive environment is both the responsibility of the public and private sector. This is necessary because the manufacturing sector, which currently lacks the depth and resilience to support economic growth, has the ability to rejig the economy and ensure the full maximisation of the potential of the economy if properly developed.</p>
<p>Presentation about the NESG Mr. Sijuola Olanubi Acting Head, NESG Think Tank Operations Department</p>	<p>Mr Sijuola Olanubi started his presentation with a quote from Kingdon (1984), which says, "Policy change and impact comes about when three streams—problems, politics, and policies—connect. Each stream has its own forces acting upon it and ultimately influencing it. The streams do not just converge by chance but rather from consistent and sustained action by advocates". He noted that most times, those who understand the problems are not talking to those who can design the policies to address the identified problems. Therefore, the NESG believes in sustained policy advocacy through public-private dialogue and that policy change happens when there is a connection between problems, politics, and policies. He also added that it takes a willing reformer to achieve policy change.</p> <p>He highlighted the mission of the NESG, which aims to promote and champion the reform of the Nigerian economy into an open, globally competitive economy by enabling this convergence within the private and public sectors. The vision of the NESG is to become the leading private sector Think-Tank in Africa to make it happen. He also noted the four strategic pillars and roles of the NESG, namely:</p> <ul style="list-style-type: none"> • Dialogue Partner: Driving Policy Change through Public Private Dialogue Platforms and Engagements; shaping policy through public debates • Connector: the NESG brings stakeholders together and connects actors together to achieve the desired policy reform • Watchdog: the NESG is apolitical and adopts an evidence-based approach in its policy advocacy. • Intervener: the NESG has a policy innovation centre, which is saddled with performing interventions in the economy <p>Further, he noted that the NESG believes that evidence should be supported by dialogue, which has informed the group's Public-Private Dialogue (PPD) Structures. He went ahead to explain the various PPD platforms at the NESG with special emphasis on the structure of policy commissions and the importance of the annual Work Plans.</p>

NESG PPD Structures, Platform and Frameworks

Policy Commissions	Roundtables	Community of Practices
<ul style="list-style-type: none"> The NESG strategically functions within workgroups known as "The NESG Policy Commissions". The Policy Commissions (PC) comprise of public and private sector networks and experts who bring insight and shape our agenda on most strategic industry and crosscutting issues. The PCs also facilitate and fast track the adoption of various National Economic Summit (NES) recommendations. 	<ul style="list-style-type: none"> These are public and private dialogue platform established to champion a specific reform process. It is usually initiated by MOUs, specific Stakeholder drive, of Donor funding to archive a particular purpose. These roundtables also have their secretariat at the Abuja Offices. Roundtables can either be temporary platforms (e.g. the Fiscal Policy Roundtable, a 2year project funded by the Bill and Melinda Gate Foundation) or Permanent roundtables like National Assembly Business Environment Roundtable NASSBER 	<ul style="list-style-type: none"> The Group re-positioned its Policy Commissions in year 2019 and as part of that process created stand-alone platforms for three (3) key but easily marginalised groups: Micro Small Medium Enterprises (MSMEs), Gender related issues and Youth, so that they can together as communities of practice have a voice to champion and promote advocacy based on thematic areas of focus.
<h3>Thematic Working Groups</h3> <ul style="list-style-type: none"> Thematic Working Groups are focus areas/sub-themes of a Policy Commission, Roundtable or Community of Practice. For instance, Mining and Manufacturing are the thematic groups of Manufacturing and Mining Policy Commission. A thematic group will only be considered as one if it meets the requirement of having a minimum membership of 20 persons who are willing and available to advance dialogue on a subject matter of significance to the PC. 		

He stated the following PPD Guiding Principles:

1. Mandate and Institutional Alignment
2. Structure and Participation
3. Champion(s) and Leadership
4. Facilitation and Management
5. Outputs
6. Outreach and Communication
7. Monitoring and Evaluation
8. Subnational
9. Sector-specific
10. Relevance to FDI
11. Post-conflict/disaster/crisis
12. Development Partners

The Public Private Dialogue Risks were also highlighted as follows:

1. Vested Interests
2. Not fully representative
3. Leading to a talk-shop
4. Risk of hijack or one-man show
5. Risk of being politicised
6. Risk of duplication of efforts

Mr Sijuola Olanubi concluded his presentation by highlighting the responsibilities expected of members of the Policy Commission and, in particular, the Manufacturing Thematic Group and the value proposition of volunteering at the NESG.

Contemporary Issues in the Manufacturing Sector
Dr Muda Yusuf, Thematic Lead, Manufacturing Thematic Group

Given the fact that the manufacturing sector is highly import dependent and energy intensive, the sector has been significantly affected by ongoing economic reforms in the Nigerian economy. Businesses with high foreign exchange exposure are currently struggling in terms of imported raw materials and offshore credit. While the economy is undergoing reforms, it appears the manufacturing sector is not

sufficiently on the agenda. Hence, the general assembly serves as a platform to investigate the implications of the reforms on the manufacturing sector as well as provide solutions to minimise the disruptions the reforms are inflicting on the sector.

Based on the context of the reforms, some of the identified contemporary issues in the manufacturing sector include macroeconomic, funding, regulatory, market, energy cost and logistics and supply chain issues.

The Nigerian manufacturing sector faces macroeconomic issues such as (1) the foreign exchange crisis: the unification and depreciation outcomes, liquidity issues, implications for cost, competitiveness and sustainability as well as (2) the adoption of the inflation targeting policy- 21 percent inflation target.

The importance of interrogating whether the manufacturing sector can survive and be sustainable under a completely free market cannot be overemphasised. This is because manufacturing is a development issue and as such the intervention of the government is important. Countries doing well globally in manufacturing have state support. Therefore, there is a need for targeted state support in manufacturing in Nigeria, and the definition of the type of state support needed for manufacturing.

While the central bank has adopted the inflation targeting policy, which puts the inflation target at 21 percent, there is a need to understand the impact of this on the real economy, particularly on manufacturers, as the implication is an increase in interest rates. The current reforms pose the challenge of funding issues, such as the prospects of tighter monetary policy and implications for interest rates, tenure of funds in the financial system, and the fate of intervention funds under the new dispensation. In manufacturing, there is a need for a low-cost fund and a long-tenure fund. Hence there is a need to strengthen advocacy.

The exit of multinationals and downsizing of operations of companies such as GlaxoSmithKline, Procter and Gamble, Unilever, PZ and Nampak from Nigeria is also a challenge. While the exit of multinationals is known, several less well-known foreign and indigenous manufacturing companies have shut down due to the challenges in the sector, which poses a risk of de-industrialisation.

Furthermore, regulatory issues such as the ban on single-use plastics, circular economy and plastics tax, and ban on sachet alcoholic beverages, while having environmental advantages, pose a challenge to manufacturers who already have made investments in these products. As such, the government needs to look at proposals and provide a policy transition framework to ensure a seamless transition for these businesses.

The customs benchmark exchange rate for cargo clearance is another issue the manufacturing sector currently faces in Nigeria. There is also the challenge of supply chain and logistics, that is, the cost of transportation, the ports logistics and road access. In addition, weakening purchasing power, changing demand dynamics, limited scope to transfer increased costs to consumers and implications for profitability are market issues affecting the manufacturing sector.

Industrialisation strategy options include Resource-based industrialisation (RBI), Import substitution strategy, Export-led strategy, and Protectionism as an industrialisation strategy.

Energy Policy and Industrialisation: Energy and power is an important aspect of industrialisation and as such there is a need for the development of a framework for an energy ecosystem that can support industrialisation.

Also, the gradual shift in backward integration is needed to protect domestic manufacturers, and as such should be explored.

Resource-Based Industrialisation Strategy- Leveraging Nigeria's Natural Resources to Accelerate Industrialisation

Ms 'Lumun Amanda Feese, Facilitator, Manufacturing and Mining Policy Commission

Industrialisation is key to Nigeria's and, on a large scale, Africa's development, yet with a manufacturing sector as old as Nigeria's independence, we are yet to become an industrialised nation.

Nigeria is currently in the stabilisation phase of ensuring that there is a macroeconomic framework that addresses the challenges affecting the growth and development of the manufacturing sector, which led to the closure of several firms. A new industrial policy framework that would help in positioning Nigeria also needs to be put in place to become a fully industrialised nation to support growth following efforts to stabilise the economy.

A lot has been learnt from countries such as China and Vietnam that have focused on light manufacturing, and as such, there are small to medium sized companies that are currently involved in light manufacturing, particularly in food, beverage and cosmetics. There are also lessons from Japan, South Korea & Taiwan, which are non-resource-rich countries but have leveraged the importation of natural resources, such as iron ore, which was converted to steel and then developing steel-based industries, electronics, and so on, from different countries to become industrialised.

Referencing the three proposed phases as captured in the NESG's 2024 Macroeconomic outlook report titled "Economic Transformation Roadmap: Medium Term Policy Priorities", she noted the importance of the first phase, which focused on stabilisation of the macroeconomic framework. After the stabilisation of the macroeconomic framework, the transformation of productive sectors like the manufacturing sector is important, and afterwards the acceleration of the growth stage, which is harnessing Nigeria's natural endowments, all of which plays into a resource-based industrialisation strategy.

The resource-based industrialisation strategy positions Nigeria to harness its natural resources to achieve industrial growth, broader economic growth, high quality jobs, and economic diversification. Case studies of countries utilising this strategy to achieve world-class industrialisation status were considered.

Natural resource-based industrialisation refers to the process of utilising a country's natural resources to develop and grow its industrial sector. Nigeria could benefit from adopting the resource-based industrial (RBI) approach used by Australia, Canada, Finland, Norway, Sweden, South Africa and the United States.

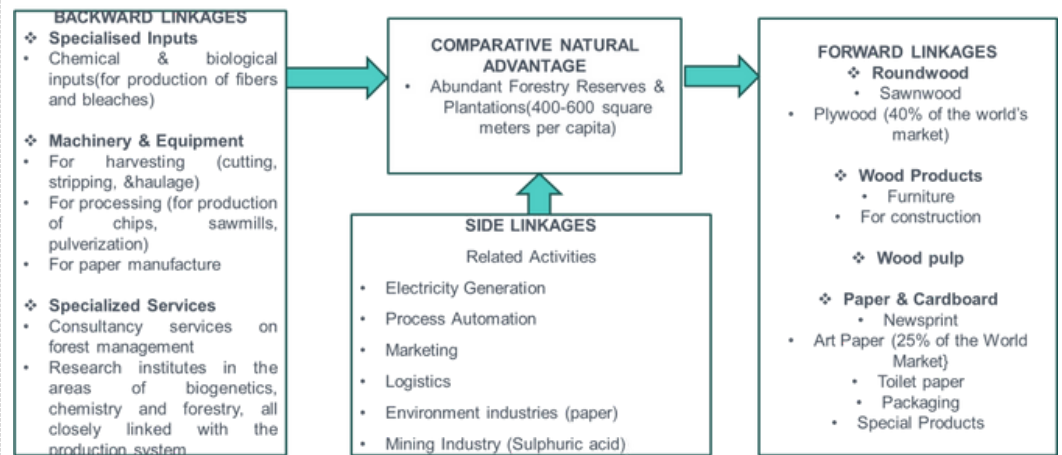
The paradox of plenty shows that a country can be rich in natural resources yet underdeveloped compared to countries not rich in natural resources. However, the listed countries diversified beyond the extraction, processing, and exporting of the resources to developing industrial activities that naturally tend to spring up and concentrate around such resources in clusters, thereby developing innovative, engineering, and high-tech skills, which were then exported or migrated to other sectors.

This was accomplished through:

- Backward linkages: domestic industrial activities developing inputs, machinery, equipment, and engineering services for natural resource extraction and processing
- Forward linkages: domestic industrial activities processing and benefiting natural resources for use by the manufacturing sector
- Side linkages: Migrate innovations, skills, engineering from backwards and forward linkages to other economic sectors

An example of a cluster is Finland's mature forestry cluster built on its forest resources. Finland was able to migrate the innovations, skills, engineering from the forestry cluster to develop a mature mining cluster.

Finland: Mature Forestry Cluster

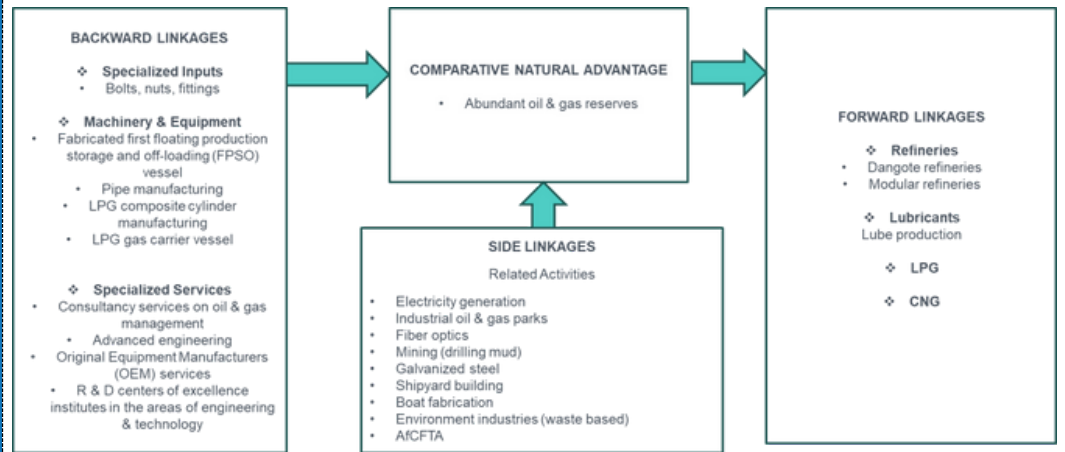


There are three questions that need to be answered, and they include:

- Should Nigeria only focus on light manufacturing like Vietnam?
- Can Nigeria start working on manufacturing heavy machinery, equipment, and advanced technologies?
- Can it do both?

A participant in response to these questions noted the challenge that exist in Nigeria where the Nigerian appetite for foreign product has affected the production of light and heavy manufacturing and use of locally produced equipment. Meanwhile, the Private Sector Co-chair, Engr. Mansur Ahmed, stated that there currently is a policy environment framework that makes it possible for both heavy and light production.

Nigeria: Incipient Oil & Gas Cluster



The Manufacturing Thematic Group in 2024 intends to drive resolutions to contemporary issues confronting Nigeria's industrial sector, and advocate for a natural resource-based industrialisation policy and strategy.

Issues and Challenges

- **Macroeconomic issues:** The macroeconomic challenges and the economic instability in Nigeria have inhibited the growth of the manufacturing sector. The high instability leads to high production costs, thus inhibiting maximum production as it makes it difficult for market participants and manufacturers to plan appropriately.
- **Massive Divestments:** The manufacturing industry in Nigeria is faced with the challenge of divestments, particularly Foreign Direct Investment (FDI). The lack of a regulatory framework, the instability and devaluation of the naira are challenges that have reduced the interest and willingness of foreign investors to invest in Nigeria.
- **Inadequate Funding:** The Nigerian manufacturing sector is facing significant funding issues, such as the prospects of tighter monetary policy and its implications for interest rates, the tenure of funds in the financial system, and the fate of intervention funds under the new dispensation.
- **Regulatory Challenges:** The sector faces regulatory challenges, which hinder active participation within the sector. The lack of regulations that build up the sector and the lack of enforcement of relevant regulations have impacted the sector negatively.
- **Rising energy costs and inadequate energy infrastructure:** The inadequate energy infrastructure in Nigeria has posed a challenge to manufacturers. This inadequacy leads to the use of alternative energy sources, such as diesel. The

rising cost of diesel invariably impacts the overall cost of production, which then leads to a price increase in manufactured products.

- Poor logistics and inadequate supply chain infrastructure: The vast majority of manufactured products are transported by road. However, the poor road network, inadequate infrastructure, bad roads, and traffic delays across the nation lead to delayed delivery and, ultimately, bad/spoiled products. The inadequacy of cold trucks is also a challenge, particularly for food manufacturers.

Recommendations and Action Points

- Stakeholders Consensus on a Regulatory Framework: There is a need for the federal government to convene a stakeholders' meeting for a consensus on an effective and detailed regulatory framework needed for the advancement of the manufacturing sector.
- Enabling Environment: The current barriers to entry within the sector should be eased to encourage and create a more enabling environment within the manufacturing sector.
- Data-Driven Policymaking: For effective progress, there is a need to ensure that policies made are data-driven. This would ensure an unbiased approach to policy-making through proper research and data.
- Stakeholder Engagement: There is a need for stakeholders to validate policy, and as such, the government should ensure that relevant stakeholders are engaged as policies are being written.
- Institutional Stability: The need for institutional stability cannot be overemphasised, as it provides the platform for a solid manufacturing sector and the economy at large. As such, it is necessary to ensure that as the tenure of elected administrators expires, the institutions are still effective in carrying out their designed roles and objectives.