THE NIGERIAN ECONOMIC SUMMIT GROUP

Sectoral Reforms and Investments in Nigeria: A Focus on the Manufacturing Sector

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ABSTRACT

Nigeria's manufacturing sector is among the largest in Africa with numerous opportunities. The COVID-19 pandemic which led to suppressed consumer demand and supply-chain disruption resulted in a decline in real manufacturing output in 2020. Prior to 2020, the sector has continuously faced several structural challenges which have caused many manufacturing firms to shut down, limiting growth and investment inflows into the sector. The Nigerian Economic Summit Group (NESG), in its 2021 Macroeconomic Outlook report, highlighted the manufacturing sector as a one of six sectors that have the potential to create jobs and reduce poverty in Nigeria. For the sector to achieve this, the NESG argues that private investment will play a major role. From Nigeria's recent experience, actual investments in manufacturing are realised when there is an intersection of market opportunities and government support. Nigeria's reliance on imports, its large market and the coming into effect of the African Continental Free Trade Area (AfCFTA) agreement present a huge opportunity for investment in the manufacturing sector, especially in areas such as agro-processing and light manufacturing. For these opportunities to fully materialise, crucial actions are required by the federal and state governments, some of which include developing an industrial policy and sectoral plans for identified priority areas, ensuring commitment to implementation of existing plans, addressing the challenge of insecurity, and providing targeted infrastructure.

1.0 Introduction

COVID-19 had a major impact on different sectors of the Nigerian economy. Specifically for the manufacturing sector, the impact of the pandemic was huge. Many manufacturing companies engaged in the production of non-essential items were forced to shut down operations in different parts of the country in the second quarter of 2020. This, and several factors such as weakened consumer demand, supply chain disruption and higher inflation resulted in a contraction of the sector's output by 2.75% in 2020. Manufacturing Purchasing Manager's Index (PMI) was in the contraction region (below 50 index point) for the most part of the year 2020. This was reflected in the higher prices of input, low levels of employment in the sector and weak manufactured goods exports. The pandemic also led to a larger trade deficit in the manufacturing sector, which stood at ₦11.76 trillion in 2020, according to data from the National Bureau Statistics (NBS).

Nigeria's manufacturing sector faced several challenges even before the outbreak of COVID-19. Prior to the pandemic, the sector had suffered mainly from the closure of land borders in September 2019, which reduced informal exports and resulted in direct negative effects on several manufacturing outfits in Aba, Kano and Lagos. Perennial problems of power supply, logistics bottlenecks, infrastructure deficits, limited access to credit, foreign exchange scarcity have continuously affected the performance of the sector overtime. Growth of the manufacturing sector has been stagnant (average growth of -0.6% from 2015 to 2019) while capacity utilisation has remained below par (See Table 1).

One dominant feature of Nigeria's manufacturing sector is the low level of large private investment, despite the numerous opportunities. Between 2013 and 2020, the total investments in the sector were estimated at ₦5.73 trillion (US$15.87 billion) (MAN, 2020). Specifically, in 2020, a total of US$329.2 million (₦118.5 Billion) was invested in

Figure 1: Performance of Nigerian Manufacturing Sector

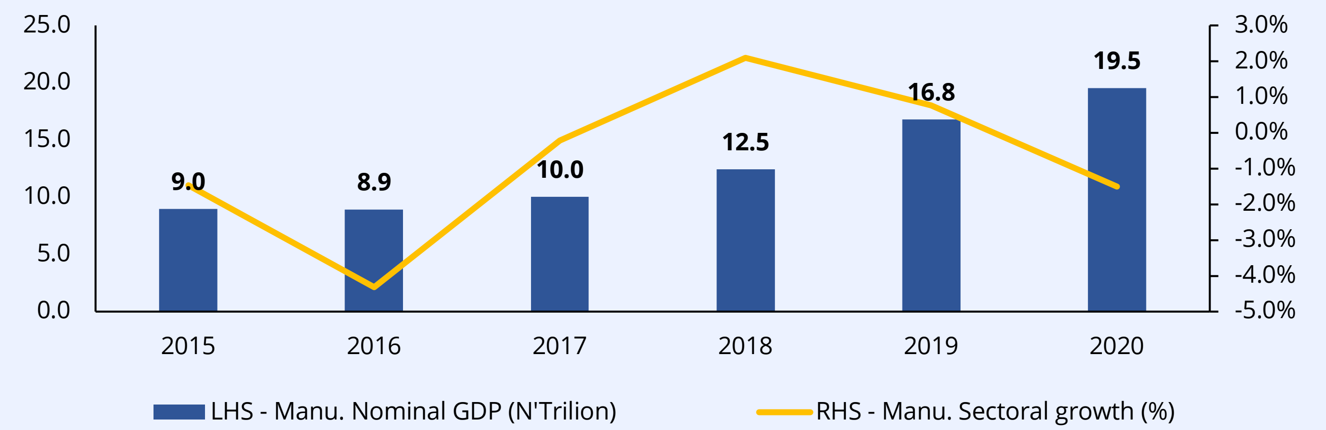

Table 1: Average Capacity Utilisation of the Manufacturing Sector

Year	2015	2016	2017	2018	2019	2020
Capacity Utilization	59.9	49.0	52.0	55.0	56.8	45.2
Growth (%)	0.2%	-18.2%	6.1%	5.8%	3.3%	-20.4%

Source: CBN, NBS

the manufacturing sector, which is equivalent to 0.08% of Nigeria's GDP (MAN, 2020). This is significantly low compared with US$3.31 billion in Malaysia, US$31.38 billion in China, and that of other emerging economies. The low level of investments in the sector has resulted in a poor industrial base of the Nigerian economy, thereby limiting the sector's potential as a critical engine of economic growth and development in Nigeria.

A reversal of the current poor performance of the manufacturing sector can only be achieved with massive inflow of private investment into the sector. A good example of this approach is how the implementation of "Guided Capitalism" by the four Asian Tigers – Singapore, Taiwan, Korea and Hong Kong, helped attract domestic and foreign investments, resulting in the miraculous industrial growth experienced in these countries (Bruno, 2014). In the NESG Macroeconomic Outlook for 2021 titled: "The Four Priorities for the Nigerian Economy in 2021 and Beyond", we resolved that private investments are important in improving the manufacturing sector's productivity and repositioning the sector to drive inclusive economic growth in Nigeria.

Also, there is a conscious narrative that African countries with strong manufacturing base will benefit the most from the African Continental Free Trade Area (AfCFTA) Agreement. For Nigeria, a strong manufacturing sector is also crucial in solving the country's foreign exchange challenges, creating jobs, and addressing the rising poverty level. To achieve these laudable goals, attracting private investment into the sector will be crucial. In pushing this debate further, this brief x-rays how Nigeria can attract investment into the manufacturing sector and ensure the sector contributes significantly to economic growth, job creation and poverty reduction. It highlights reforms that are required to make the sector attractive to investments and identifies critical actions needed from stakeholders to improve the sector.

2.0 Nigeria's manufacturing sector: An untapped gold mine

Based on nominal GDP figures released by the National Bureau of Statistics (NBS), Nigeria's manufacturing sector was valued at ₦19.54 trillion in 2020 (2019: ₦16.78 trillion). Between 2015 and 2018, manufacturing share of nominal GDP was below 10% despite improving economic growth figures. Its share in GDP increased to 11.6% in 2019 and 12.8% in 2020. The increase in 2020 was mainly owing to higher inflation and a larger decline in the output of critical sectors compared to that of the manufacturing sector.

The manufacturing sector is made up of 13 sub-sectors. They include Oil Refining; Cement; Food, Beverage and Tobacco; Textile, Apparel and Footwear; Wood and Wood Products; Pulp, Paper and Paper Products; Chemical and Pharmaceutical Products; Non-Metallic Products; Plastic and Rubber products; Electrical and Electronics; Basic metal, Iron and Steel; Motor vehicles & assembly and Other Manufacturing.

The sector is dominated by informal players that are mostly micro, small, and medium enterprises. According to data from the NBS, the sector employed at least 5.4 million individuals in 2017. This represents 7% of Nigeria's labour force population that are working. Manufacturing is Nigeria's third largest sector in terms of employment, after Agriculture and Trade.

Just like major sectors of the economy (Agriculture, Finance, Information and Communication, etc), output of the manufacturing sector is skewed in favour of a few sub-sectors. As at 2020, three of the thirteen sub-sectors accounted for 77% of total manufacturing output. These three sectors are Cement (17.6%), Food, Beverage and Tobacco (37.1%) and Textile, Apparel and Footwear (22.0%). This means that the remaining ten sub-sectors contributed a combined share of 13% to manufacturing output in the year.

Among the thirteen sub-sectors, Food, Beverage & Tobacco; Chemical & Pharmaceutical Products and Cement have been the best performing in the last four years in terms of output expansion. Average output growth in these industries was 2.2%, 1.1% and 2.3% respectively, from 2017 to 2020. Growth of these sectors has been driven mainly by two factors- available demand/market opportunity and government policy. For Chemical & Pharmaceutical Products, higher demand for pharmaceutical products occasioned by the COVID-19 pandemic played a great part in improving the sector's output.

At present, Nigeria is unable to satisfy the local demand for most manufactured goods due to the low productivity level of the sector. As a result, manufactured goods have accounted for over 55% of total imports since 2018 (NBS, 2021). With Nigeria having a sizeable consumer market, some countries in the Economic Community of West African States (ECOWAS) are importing manufactured goods for re-export to Nigeria. For instance, prior to the closure of Nigeria's land borders in 2019, Benin Republic was the largest importer of rice from Thailand, despite having a small market.

On exports, manufactured goods accounted for 7.7% of Nigeria’s total export earnings in 2020. As a share of manufacturing sector GDP, manufactured goods export averaged 6.2% in the last four years (2017 – 2020), according to data from the NBS. Oil exports earnings in 2020 was 11.5 times larger than export earnings from the manufacturing sector. These statistics suggest that Nigeria is not producing enough manufactured goods for exports.

Table 2: Nigeria’s Export Earnings from Oil and Manufacturing (N’Billion)

	2018	2019	2020
Oil earnings	17,340.1	16,673.7	11,089.3
Manufactured goods earnings	645.7	2,074.4	960.8

Data Source: NBS

The structure of Nigeria's manufacturing sector reflects weak diversification and the existence of untapped areas in manufacturing, thus, signifying numerous investment opportunities.

In terms of investment, the intersection of market opportunities and government support policies such as the Free trade zone incentives and pioneer status incentives among others have resulted in the inflow of investments into the manufacturing sector. For instance, over the years, companies such as Nestle, Dangote, BUA Group, PZ, Beloxxi Industries, to mention a few have invested in key areas of the sector - food processing, motor vehicle production, oil refinery, oil palm and cement.

Despite the numerous opportunities in the sector, the quantum of investment in the manufacturing sector has been sub-optimal. In the last 8 years, only ₦5.73 trillion (US$15.87 billion) has been invested in the sector. Specifically for FDI, the gap between announced investment and actual investment points to the low confidence level of investors in the real sector. Between 2019 and 2020, investment announced stood at US$46.4 billion, with the manufacturing sector accounting for 25% (US$11.56 billion) of these announced investments. Actual FDI inflows into the economy in both years was US$1.96 billion (just 4% of announced investment) with sectors such as

Telecoms, Trade, Agriculture and Manufacturing accounting for the larger inflows (NIPC, 2021).

One major reason why the manufacturing sector has not attracted significant investments when compared with those of other countries is policy and regulatory inconsistency. Frequent reversals of government policies on importation, lack of implementation of the provisions in national policy documents and regulatory lapses are key factors that have affected the manufacturing sector in Nigeria.

What are other challenges facing the sector?

Poor quality of infrastructure is the longest-standing problem of the manufacturing sector in Nigeria and has contributed to the high cost of production. It is a disincentive for investment despite huge potentials and a large consumer market in Nigeria. Bad road networks and inadequate electricity supply make it difficult for businesses to maximise returns and limit cost of operations.

According to the World Bank (2021), businesses in Nigeria lose about US$29 billion annually due to the country's unreliable electricity. The Manufacturers Association of Nigeria (MAN) also confirmed that inadequate electricity supply & the high cost of alternative energy sources are the topmost challenges hampering the performance and growth of the sector (see Table 3). Other challenges such as port congestion, logistics bottlenecks are also important factors that limit the performance of the sector.

Table 3: Ranking of Critical Challenges Facing Manufacturing Sector in Nigeria

Broad classifications	Challenges	2019	2020
Infrastructure	Poor Electricity & gas supply/High cost of LPG/Non-reliability of gas supply	1st	2nd
	Poor accessibility to ports/bad roads/High demurrages	5th	10th
	Poor economic infrastructure/Bad roads/ poor rail transport system/high cost of transport	6th	3rd
Regulations	Multiple Taxation/levies	2nd	6th
	Over regulations	3rd	13th
	Closure of borders	12th	7th
Business environment	High-interest rate/Difficult condition in accessing loans/finance	4th	9th
	Difficulty in sourcing Forex/Multiple Forex windows	7th	1st
	High inflation/high cost of raw materials	10th	5th
	High cost of spare parts/high cost of machines	11th	5th
	Low patronage/poor patronage from government & households	8th	4th
	Counterfeiting/influx of sub-standard products/Too many uncertified products in the market	9th	8th
	Lack of skilled labour/expensive skilled labour	13th	12th
	High cost of production	14th	11th

Source: Data: MAN (2019; 2020)

3.0 Where are the opportunities in the Manufacturing Industry in Nigeria?

Nigeria has numerous favourable conditions for investment, especially in its manufacturing sector. Some of these conditions include:

- Large arable land.
- Strategic location in Africa.
- Large market and opportunities presented by the AfCFTA.
- Import dependent – manufactured and agricultural goods account for 72.5% of total import in 2020.
- Weak manufactured goods exports – share of manufactured goods to total exports was 7.7% in 2020.
- Large population – Nigeria has a population of over 200 million people.

From a sectoral perspective, the Nigerian Investment Promotion Commission (NIPC) has prepared research reports on investment opportunities across different sub-areas in manufacturing (see https://nipc.gov.ng/product-category/downloads/research-reports/). Key areas highlighted by the NIPC include:

- Wheat value chain
- Maize value chain
- Sorghum value chain
- Poultry value chain
- Piggery value chain
- Cassava value chain
- Rice value chain and
- Renewable energy.

Table 4: Opportunity Areas in Nigerian Manufacturing Sector

	Local Demand ('000 MT)	Local Production ('000 MT)	Gap ('000 MT)	Key areas of opportunity
Wheat	4,100	74	4,030	Wheat grains milling;
Rice	6,400	4,100	2,300	Commercial rice milling;
Maize	12,700	12,300	400	Integrated processing
Poultry	340	170	170	Integrated processing
Cassava	24,000	61,000		Cassava processing into ethanol and industrial starch
Piggery	340	170	170	Pork processing

Data Source: NIPC

Other sub-sectors such as pharmaceuticals and oil refining also have huge investment potential in Nigeria.

Actual investments are realised when there is an intersection of market opportunities and government support for the sector

For the manufacturing sector in Nigeria, the existence of opportunities is not enough to attract significant investment into the sector, especially given Nigeria's history of policy inconsistency. Investors are therefore apprehensive to make huge investments despite having in-depth understanding of the opportunities that exist. This is reflected in the huge gap between announced and actual investments.

To attract significant investments and narrow the gap between potential and actual investments, federal government support for the sector is of utmost importance. Drawing from the experience of the few sub-sectors in manufacturing that have attracted investments in the last few decades, government support in the form of (1) developing sector plans and (2) intervening to resolve specific challenges faced by investors in the sector have been instrumental in attracting investment.

When these two conditions are available, investors are more assured to make significant investments amidst structural challenges such as inadequate power supply and infrastructure deficit. Even when issues of policy inconsistency and regulatory heavy-handedness arise, they are often resolved while investors are protected by the government.

A clear example is the development of the National Sugar Master Plan (NSMP) in 2012 and the commitment of the federal government to ensure self-sufficiency in the sugar Industry. According to the National Sugar Development Council, over N157bn has been invested in the sugar sector through the Backward Integration Strategy since the implementation of the plan Master Plan. Industries such as Cement and Motor Vehicle have also benefitted from government's commitment, which are often shown by import restrictions, access to foreign exchange, industry coordination and political support from the Presidency.

4.0 How the government can attract investment into these areas?

Some crucial actions are required from the Nigerian government to attract significant investment into the manufacturing sector. They include:

- **Develop an industrial policy and sectoral plans for identified priority areas**

As revealed earlier, the few sub-sectors in manufacturing that have attracted private investment are those that enjoyed significant government support. As a way forward, the federal and state governments need to identify priority areas in the manufacturing sector and communicate this to investors. This must be followed by the development of an industrial policy and sectoral master plans that set clear goals, identify linkages, and devise strategies of attracting and maintaining investments in the sector. Not only will this create some level of certainty for potential investors, it will also highlight clear roles of stakeholders in achieving set goals. Cassava, rice, maize, wheat processing, pharmaceuticals, oil refining are areas that should be prioritised. It is important that the government moves beyond providing general incentives of pioneer status, tax holidays, etc. to delivering specific sectoral support – planning and coordination – for key areas in manufacturing. This is important in view of the AfCFTA and Nigeria's foreign exchange problems.

- **Ensure Implementation**

Sector plans must be backed by the government's commitment to ensure implementation. The Federal Ministries of Industry, Trade and Investment, Agriculture must be at the forefront of the implementation process, working with support from the Presidency. Stakeholders, including the private sector and business member organisations must constantly hold the government accountable, monitor implementation and show the implications of lack of government commitment on both economic and social goals of improving GDP and reducing unemployment and poverty.

- **Address insecurity**

The biggest threat to investment in Nigeria is insecurity. The President and National Assembly must provide security agencies with adequate resources -equipment, finance, training, etc. – to tackle the insurgency, banditry, and other forms of social vices. There must be clear key performance indicators and heads of security agencies must be sanctioned when they fail to meet relevant goals.

- **Provide targeted infrastructure**

Inadequate infrastructure has consistently featured as a limiting factor facing businesses in Nigeria. In several instances, all that is required to attract investment into certain areas of the manufacturing sector is to build new ports, market access roads, port access roads and provide adequate electricity. This must be considered as a priority of the federal and state governments. Considering the limitations associated with government finances and Nigeria's large infrastructure deficit, the government needs to be committed to embracing public-private partnership models in developing infrastructure.

Priority areas for infrastructure should include port and market access roads, rail, dry ports, seaports, and renewable energy.

5.0 Conclusion

Developing Nigeria's manufacturing sector is the solution to Nigeria's foreign exchange problems. The sector has the potential to create jobs and lift millions of Nigerians out of poverty, if the current challenges are addressed by the government. Already, there are several initiatives and interventions in the manufacturing sector, ranging from import restrictions to the establishment of 43 export processing zones which are currently at different stages of development, according to the Nigerian Export Processing Zones Authority. In addition, the National Action Committee of the AfCFTA is working to develop Nigeria's strategy for the AfCFTA, which commenced in January 2021. These initiatives, and many more, will influence the performance of the manufacturing sector. It becomes imperative that there is synergy and consolidation of efforts from all government ministries, departments and agencies involved in the development of the sector.

Lastly, the current situation of the country requires urgent intervention by the government to develop the industrial sector in Nigeria. The cost of not implementing crucial reforms to reposition the sector for competitiveness are evident in the weak state of the sector and in Nigeria's high unemployment and poverty rates. Good sectoral planning, therefore, must be accompanied by effective implementation to ensure that Nigeria becomes a prosperous nation in the near future.

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