

EMERGING ISSUES DISRUPTING NIGERIA'S NON-OIL EXPORT AND INNOVATIVE SOLUTIONS

Presented BY

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Introduction

1.0 Introduction

- Export trade is generally considered as a veritable instrument for sustainable economic growth. It normally facilitates improved foreign exchange earnings, strengthens the balance of payments, encourages the development of export-oriented industries in the manufacturing sector, increases the profitability of firms, creates jobs and increases government revenue through taxes, levies, and tariffs. All of which will cumulatively accelerate economic growth.
- Historically, the economy of Nigeria was buoyant during the pre- and post-independence years because of huge earnings from non-oil export like cocoa, cotton, groundnut, palm oil etc. The economy was so strong that it financed an appreciable number of capital projects without borrowing and the export market of the country was reasonably developed.
- However, the discovery of crude oil brought a shift that made the country to majorly depend on the Oil sector to the neglect of other sectors. This made the economy susceptible to fluctuations in revenue, occasioned by the usual instability associated with the prices of crude oil in the international market

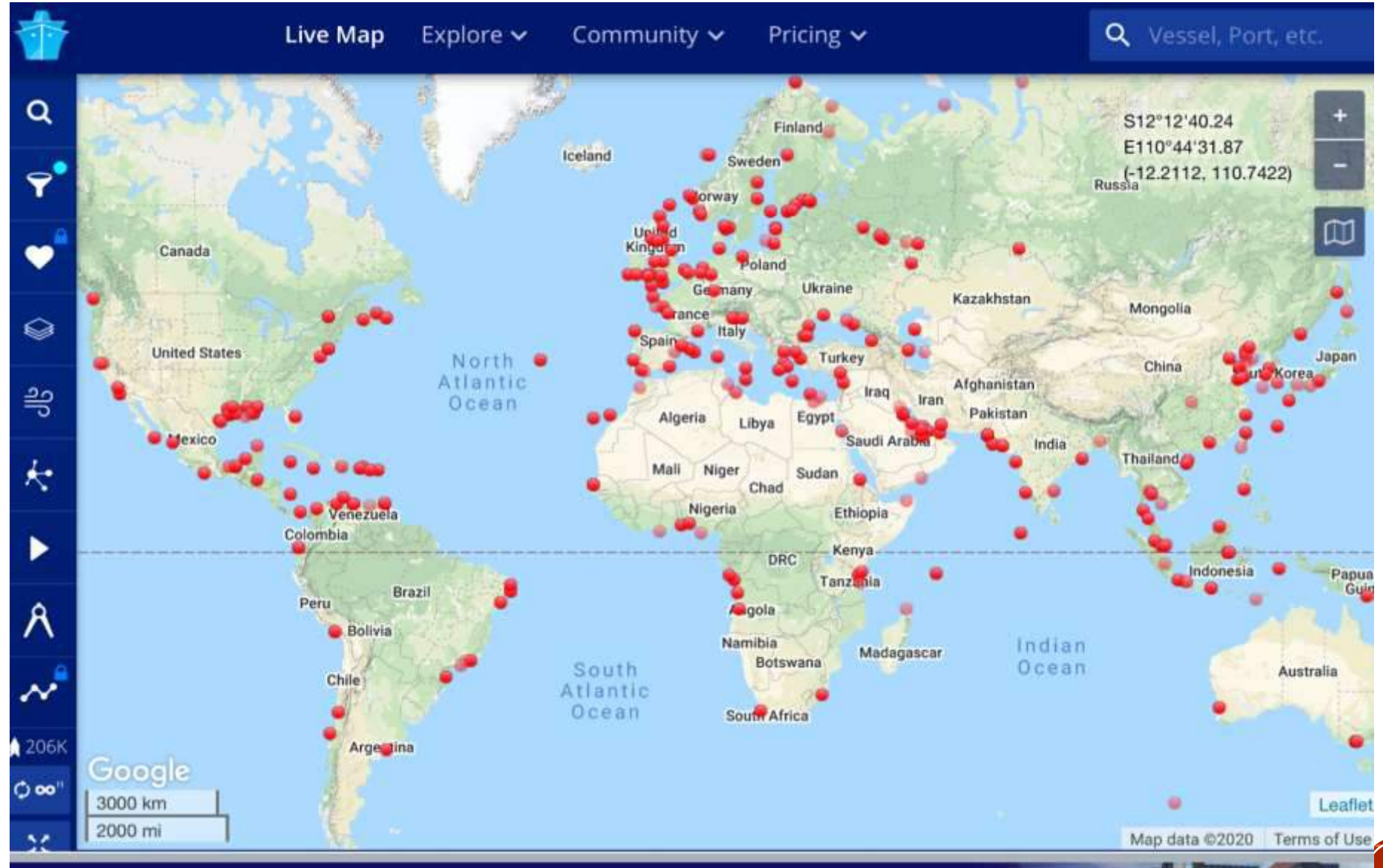
- The oil sector has become the most important in Nigeria. It is the major export of Nigeria and accounts for about 90 percent of the foreign exchange earnings of the country (AFDB Socio-economic Database, 2019).
- Successive Government have made differing efforts at diversifying the revenue sources of the economy. This is because, diversification will translate to the development of other sectors, secure the economy from the impact of exhaustion of Oil, protect the economy from the backlashes of the usually volatile international oil market and guarantee steady Government revenue.

The Current Issues Affecting Global Export Trade

2.0 Current issues affecting global export trade

Covid 19 Pademic

- The Covid-19 pandemic has greatly affected the dynamics of world trade.
- However, it was only the countries that were prepared that took advantage of the export business opportunities presented by the same pandemic.
- Only those that had the capacity to produce vaccines, face mask and other drugs required in the treatment of the disease were able to reap the opportunities .

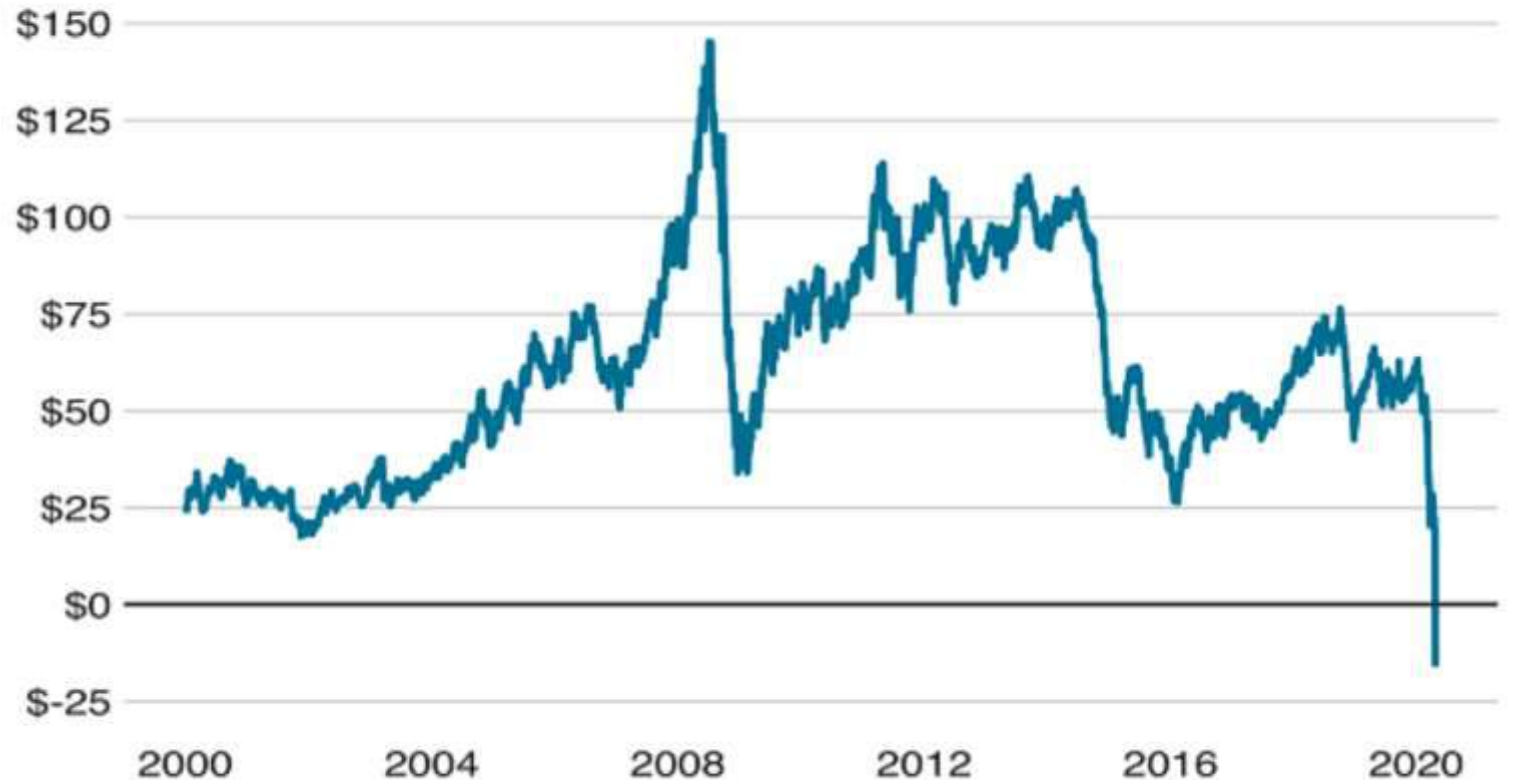


2.0 Current issues affecting global export trade

- This chart shows the all-time low price of oil in the middle of the pandemic
- This was due to supply being more than demand since the world was on lockdown
- By the way, this is also a foretaste of what may become of oil.
- It is therefore a wake-up call to the need to take non-oil export more seriously

US oil prices turn negative

Price per barrel of WTI



Source: Bloomberg, 20 April 2020, 20:15 GMT

BBC

2.0 Current issues affecting global export trade

Russian–Ukraine War

- The war has also had great impact on world trade, yet it created another opportunity to fill the supply gap of different commodities in the world.
- The lack of preparedness of some countries made it very difficult to be among the countries that are filling the gaps created.



The Performance of Nigerian Export

3.0 The Performance of Nigerian Export

- The highest export volume done by Nigerian businesses in recent times was \$62.5 billion and that was just before Covid-19.
- This declined principally due to the Covid-19 pandemic in the year 2020. There was a slight improvement post-Covid in 2021
- In any case this volume low compared to what the country is capable of doing. South Africa is doing over \$90billion.



3.0 The Performance of Nigerian Export

- From this NBS data, apart from aluminum alloy, urea and re-exports oil and gas, majority of Nigerian export in 2021 remained raw unprocessed products like crude oil, cocoa, and sesame seeds



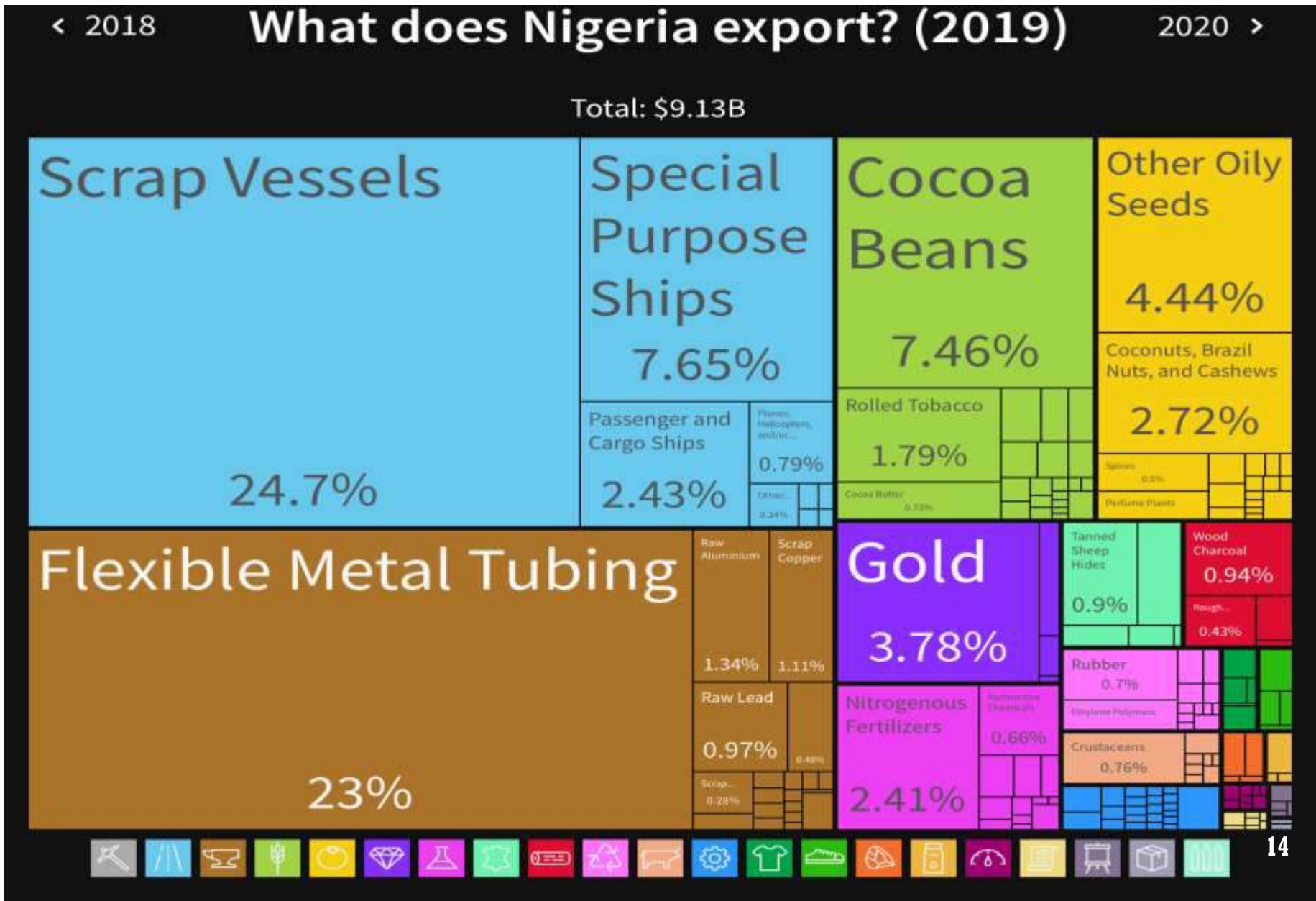
3.0 The Performance of Nigerian Export

- According to the NBS, the top export of Nigeria in 2019 in the Agric sector was unprocessed raw commodities.



3.0 The Performance of Nigerian Export

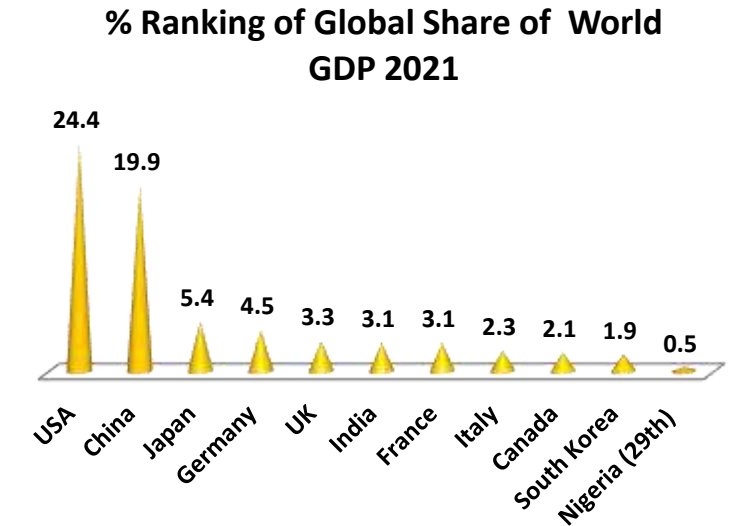
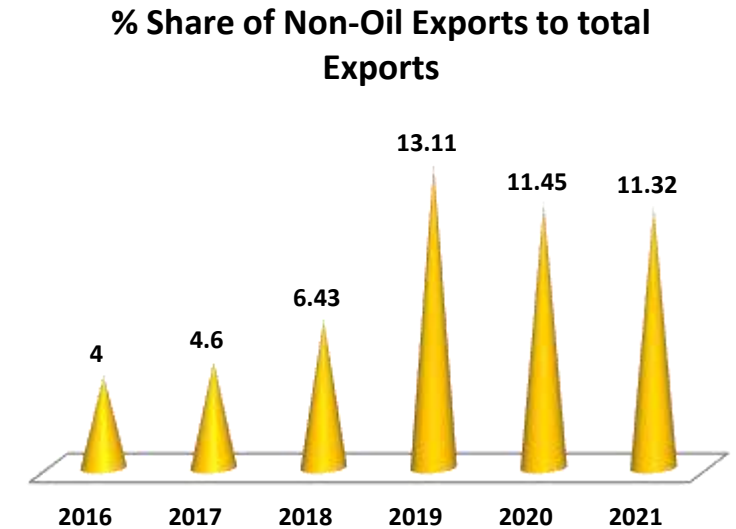
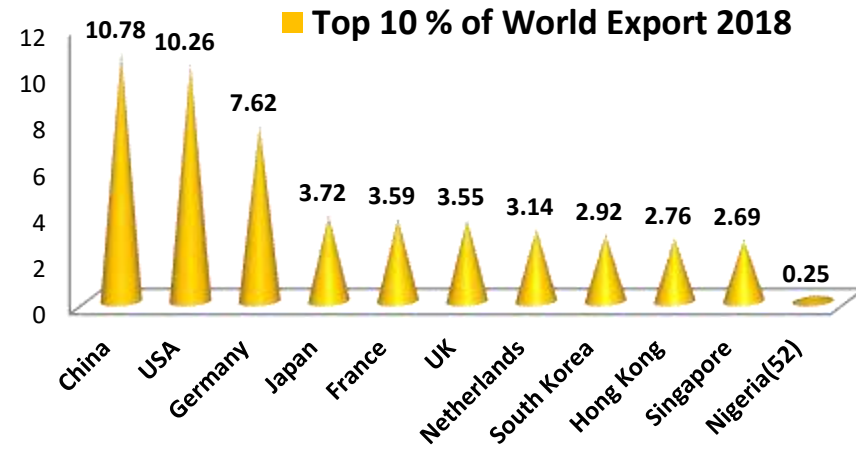
- Total non-oil export of Nigeria in 2019 (the highest in recent times) is just about \$9.13 billion



3.0 The Performance of Nigerian Export

Nigeria has not done well in global export trade as it ranked 52nd among nations.

The country has also not done well domestically in terms of the share of non-oil and manufactured exports to total exports.



Non-oil Export Challenges

4.0 Non-Oil Export Challenges

A. Operating Environment challenges (Perennial Challenges)

Production	Port Administration	Operating Environment
<ul style="list-style-type: none"> i. High cost of local and imported raw materials ii. Insecurity across the country, including industrial areas iii. Dearth of skilled manpower & Low export Capacity iv. High cost of transportation v. Forex instability & deterioration in exchange rate vi. Inadequate access to fund/High interest rate on commercial bank loans vii. Absence official framework for distribution of export products viii. Dilapidated Road networks and inadequate functional rail system ix. High cost of electricity in the face of inadequate supply x. Lower capacity utilization triggered by poor patronage, especially by MDAs xi. Multiples taxes and levies xii. Over-regulation and duplication of roles by Government agencies xiii. High cost of technology 	<ul style="list-style-type: none"> i. Weak Trade Facilitation framework ii. Poor ports administration resulting to delay in handling cargoes/containers iii. Inadequate port infrastructure iv. Poor road linkage at the port and absence of cargo rail at the port v. Poor and inconsistent exports trade policy; vi. Inconsistent implementation of port regulation vii. Conflict in the implementation ports regulations among Government agencies viii. High cost of shipping and ports charges ix. Multiplicity of trade facilitation agencies. 	<ul style="list-style-type: none"> i. Limited Custom cooperation ii. Inadequate transportation logistics, particularly for intra-African trade iii. Standards & Certification iv. Foreign Exchange Restrictions v. Poor competitiveness of Nigerian products internationally vi. Limited export Finance & Incentives vii. Unattractive repatriation policy & Multiple checkpoints viii. Information and Technology gaps & Weak Institutional framework

Way Forward for Improved Non-oil Export

5.0 Way Forward For Improved Non-Oil Export

Critical measures to guarantee improved export include:

- i. Encourage investment in local raw materials through direct incentives
- ii. Ensure that significant proportion of available foreign exchange is allocated to productive purposes
- iii. Give significant attention to protecting the industrial areas; the use of satellite transmission, CCTV camera, drones and well-motivated security personnel against insurgence
- iv. Review the curricular of tertiary institutions to align with industry skill requirements and subject to update based on the direction of global changes
- v. improve the capital base of BOI to allow for adequate lending to the productive sector by the bank
- vi. Rehabilitate existing major road corridors and construct new ones for seamless movement of raw materials to factories and finished goods to the markets
- vii. Implement the harmonized taxes and levies project which should be monitored strictly by the Joint Tax Board (JTB)
- viii. Ensure that all tiers of Government comply with the Taxes and Levies (Approved list for collection) Act CAP T2 LFN 2004
- ix. Fully implement the Steve Oronsanye Report on the reduction and re-alignment of Government Agencies and Parastatals in order to streamline the number of taxes, levies, fees and administrative charges.

5.0 Way Forward For Improved Non-Oil Export

Improving Ports Administration

- i. Invest significantly in ports infrastructure including scanners, etc
- ii. Improve on the link roads to ports
- iii. Resuscitate the moribund rail tracks leading from the ports to industrial areas;
- iv. Allow export policies to gestate before they are changes;
- v. Government agencies should be on the same page in the implementation of ports regulations
- vi. Ensure only commensurate charges on HS Codes
- vii. Set specific target on number of containers cleared per year and not on a given Naira amount to Customs
- viii. Implement the single window platform to eliminate significant human inference in the ports clearing system

Resolving Operating Environment issues

- i. Encourage more customs cooperation both at the regional customers interaction and World Custom Organization.
- ii. Encourage and support the Trans-African Highway Network which is at about 50% completion
- iii. Effective implementation of the Export Expansion Grant (EEG,) which significantly supported export in Nigeria during the peak of implementation
- iv. Avail to the productive sector the CBN non-oil export stimulation facility with liberal term and condition
- v. Allow exporters 100 percent access to foreign exchange proceeds

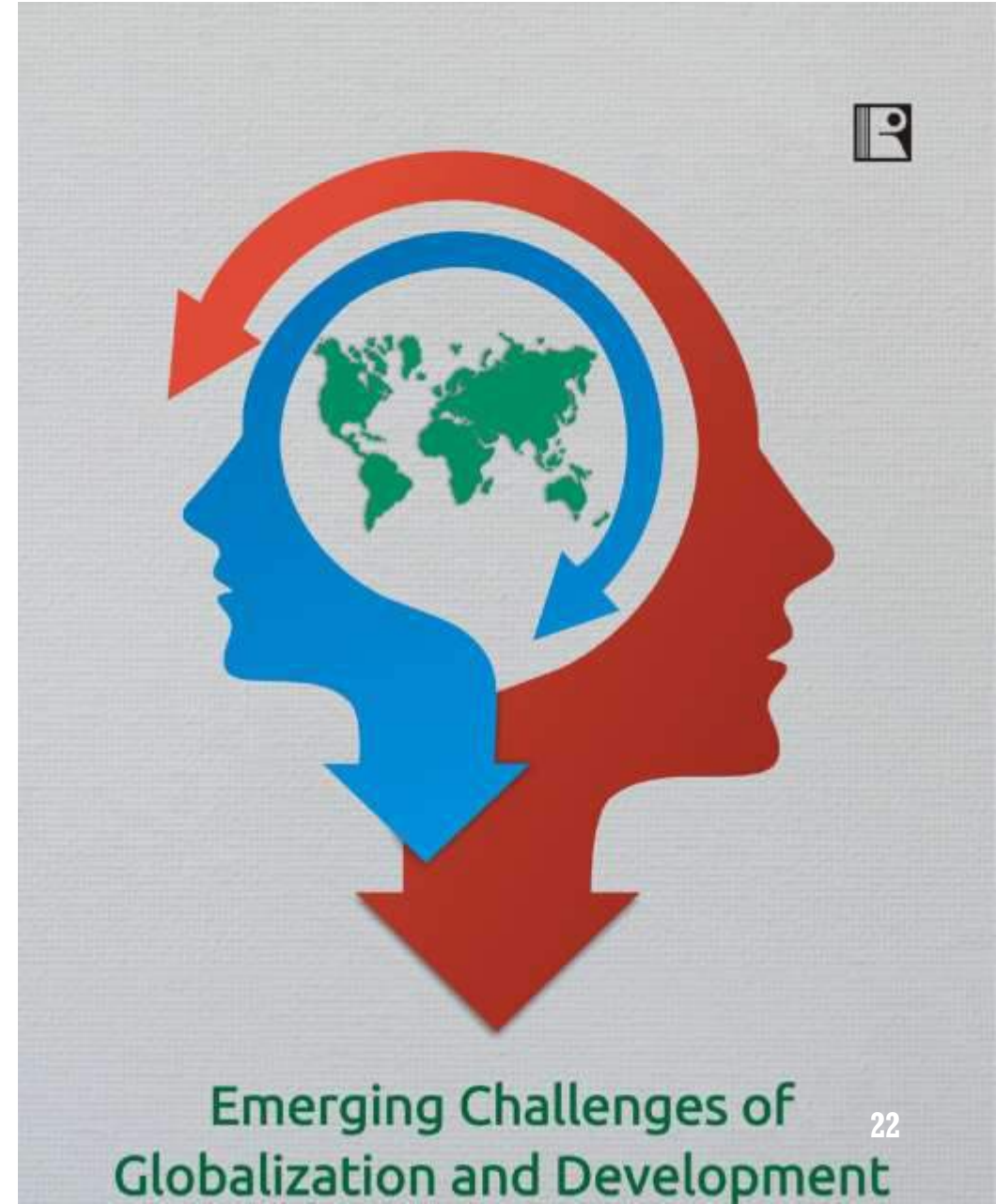
Resolving the issues of Innovation

- i. Encourage significant investment in broadband development with appropriate incentive
- ii. Encourage the development of innovations hubs and centres through appropriate policy for infrastructure on-sharing
- iii. Create an innovation fund to support R& D in the innovation solution processes
- iv. Incentivise new investment in innovation solution through tax holiday or rebate or any other measures
- v. Encourage collaboration between innovation hubs and the university and align relevant curricular of tertiary institutions with the requirement of innovation

The Problem Compounded

6.0 The Problem

- The fact that Nigeria is only able to take up less than 1% of the global market share of most products it exports is a sign that all is not well
- Apart from the perennial macro-economic, infrastructure and policy environment challenges, there are emerging challenges that have compounded the situation and led to declining volume of the meagre exports from the country



Emerging Issues Disrupting Non-oil Exports

7.0 Emerging Issues Disrupting Non-Oil Exports

- 1. Repatriation sales price**
- 2. Readiness to export**
- 3. Risks on payment methods**
- 4. Relationship management**
- 5. CBN rebate**
- 6. Replacement of collateral**
- 7. Regulation in export market**



7.1 Repatriation sales price

- One of the major emerging challenges of the export business sector is the control of the sales prices of repatriated export proceeds by the CBN. This has been a source of discouragement to exporters who sell their export proceeds at the controlled price on the Importer & Exporter FX Window

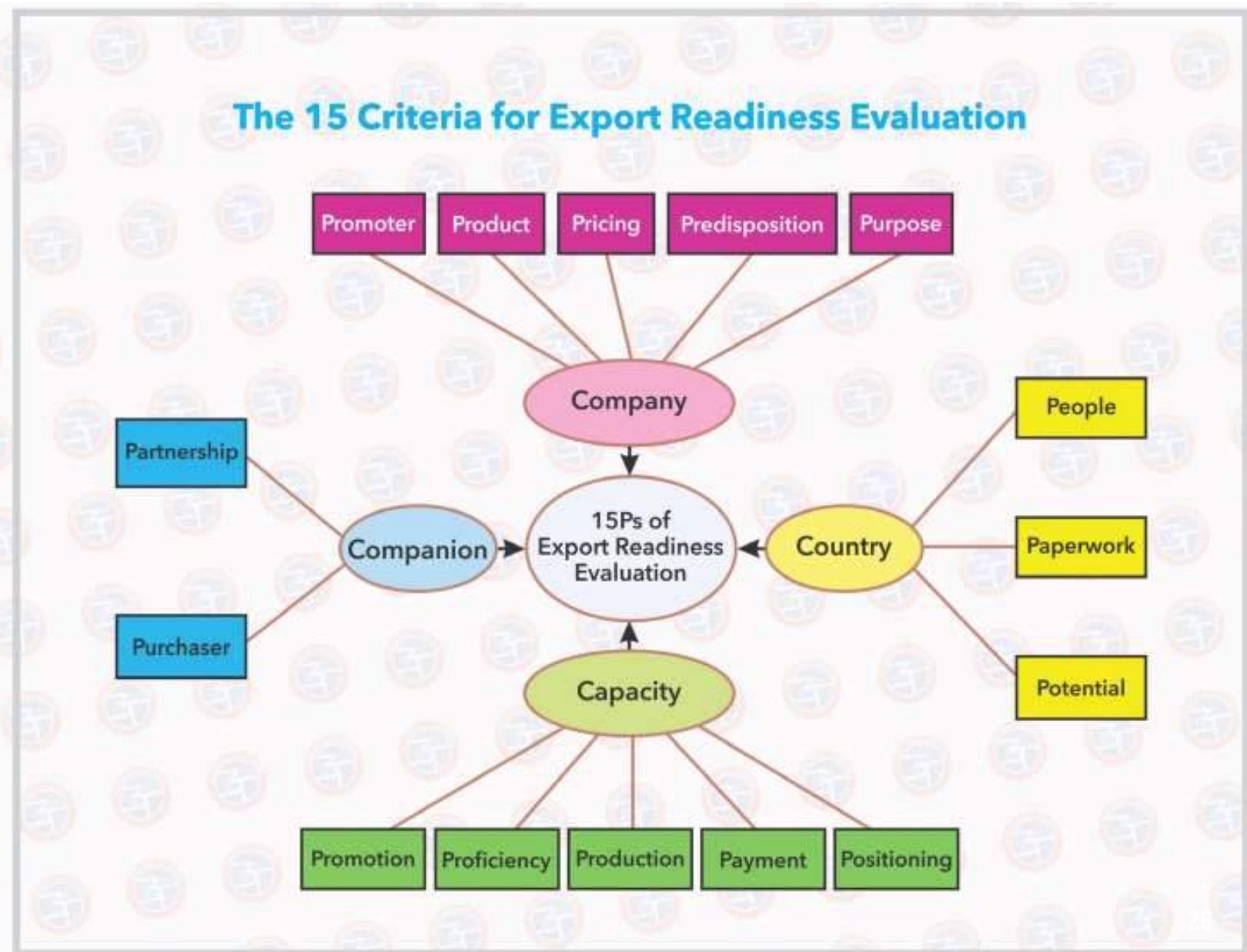


FOREIGN CURRENCY
PROCEEDS FROM EXPORTS



7.2 Readiness to export

- More than 1,000 businesses register with NEPC to export every year
- But less than 800 are able to export each year
- Also, most businesses are only able to export once or twice
- This speaks to high level of dropout from export business.
- This is mainly due to their lack of readiness for the export business.



7.3 Risks on payment methods

- There are now incidences of fake letters of credit being received via SWIFT by Nigerian banks and their export customers
- There are also incidences of fake documentary collection transactions being received by Nigerian exporters and their banks



7.4 Relationship management

- The fact that Nigerian exporters do not have presence abroad to manage relationships with their buyers is making them to lose business opportunities to their counterparts in Asia and other parts of the world



7.5 CBN Rebate

- The CBN RT200 FX programme is a good initiative designed to stimulate the growth of non-oil export in Nigeria
- The programme has a pillar for the non-oil export Fx rebate scheme
- However, the N65 to \$1 offered by CBN is not covering the FX rate gap between the official and parallel market



7.6 Replacement of collateral

- The emphasis on collateral by banks is a major hinderance to granting credit facilities to export business
- Replacement of collateral is becoming highly imperative if the country is going to grow its export volume



7.7 Regulation in export market

- Rejection of Nigerian products by market that buys the same products when it is shipped through other countries
- This is because the regulators in those markets have an understanding on those products with regulators in the exporting countries



Proposed Solutions

8.0 Proposed Solutions

1. Repatriation sales price
2. Readiness to export
3. Risks on payment methods
4. Relationship management
5. Rebate of CBN
6. Replacement of collateral
7. Regulation in export market

8.1 Repatriation sales price

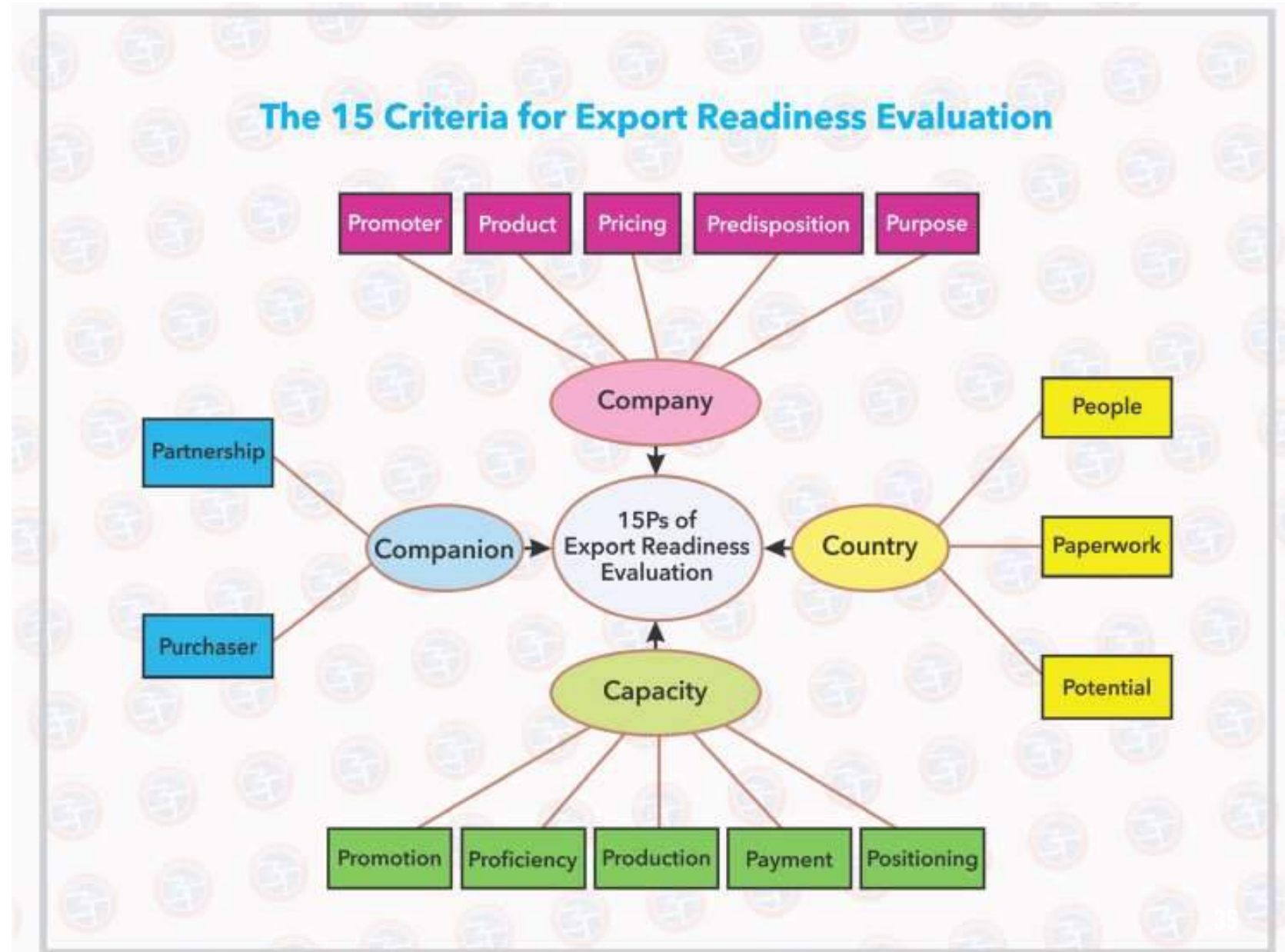
- The CBN needs to allow the forces of demand and supply to determine the FX prices on the I & E window. This will encourage more repatriation leading to improved supply in the FX market and consequently causing a decline in the FX prices in the I & E window

**FOREIGN CURRENCY
PROCEEDS FROM EXPORTS**



8.2 Readiness to export

- Intending and existing exporters need to do export readiness assessment test in order to know the area of readiness gap that they need to cover
- This assessment is available FREE of charge via www.bit.ly/exportreadiness



8.3 Risks on payment methods

- It has now become imperative for exporters to ask their banks to confirm SWIFT MT700 messages sent to them via SWIFT in letter of credit transactions before dispatching the shipping documents to banks abroad
- Also the exporters need to talk to their banks to confirm the address of the importer's bank in documentary collection transactions before dispatching the shipping documents to banks abroad



8.4 Relationship management

- The NEPC needs to engage and put on retainership marketing consultants at destination where Nigerian exports are mostly sold.
- These marketing consultants should be saddled with the responsibility of getting new buyers, managing existing buyers and giving timely feedback to exporters on the situation in the export market.



8.5 Rebate of CBN

- Rather than giving money out to those that repatriate funds on the export of value-added non-oil export, CBN should use its good offices to support the current Export Expansion Grant (EEG).
- If the CBN wants to retain the rebate, then it should consider increasing it to at least N100-N120. This is because the current gap in the FX rate is at least N150



8.6 Replacement of collateral

- The banks should embrace the use of trade finance instruments like guarantee instead of tangible collateral to secure export financing.
- The NEXIM Bank should also speed up the implementation of export credit insurance for commercial risks
- The NEPC should spare head the advocacy for NEXIM Bank & CBN to de-risk export financing just the way NIRSAL is doing in the Agricultural sector.



8.7 Regulation in export market

- The Nigerian regulatory agencies, particularly NAFDAC and SON, need to venture beyond local regulations
- There is need for them to have a firm handshake and harmonize regulatory requirements with counterparts abroad
- This is to enable them accept our goods based on NAFDAC and SON certification.



Conclusion

9.0 Conclusion

- It is imperative for Nigeria to address the perennial challenges confronting businesses in Nigeria. The manufacturing sector is particularly hit and deliberate action must be urgently taken to boost its competitiveness.
- There is the need to review and re-energize the vision of NEPC (Export For Survival) & CBN (RT200 FX Programme) in the light of the forgoing presentation.
- If the way forward and proposed solutions offered above are favourably considered, it will:
 - Encourage the exporter
 - Empower the exporter
 - Expand their market
 - Enhance the inflow of non-oil export proceeds into the country.
 - Ameliorate the disruption of Nigerian non-oil export potentials.

