Export incentives to boost Nigeria's Agro-allied sector

Strategies for Economic Reconstruction in the Northern States of Nigeria

The African Studies Program

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Export incentives to boost Nigeria’s Agro-allied sector

Key messages

1 Diversification and broad basing the economy is a policy imperative for alleviating poverty and generating employment in the north

2 Incentives are required to attract investment, boost production and improve competitiveness

3 Most developing countries support their industries with incentives

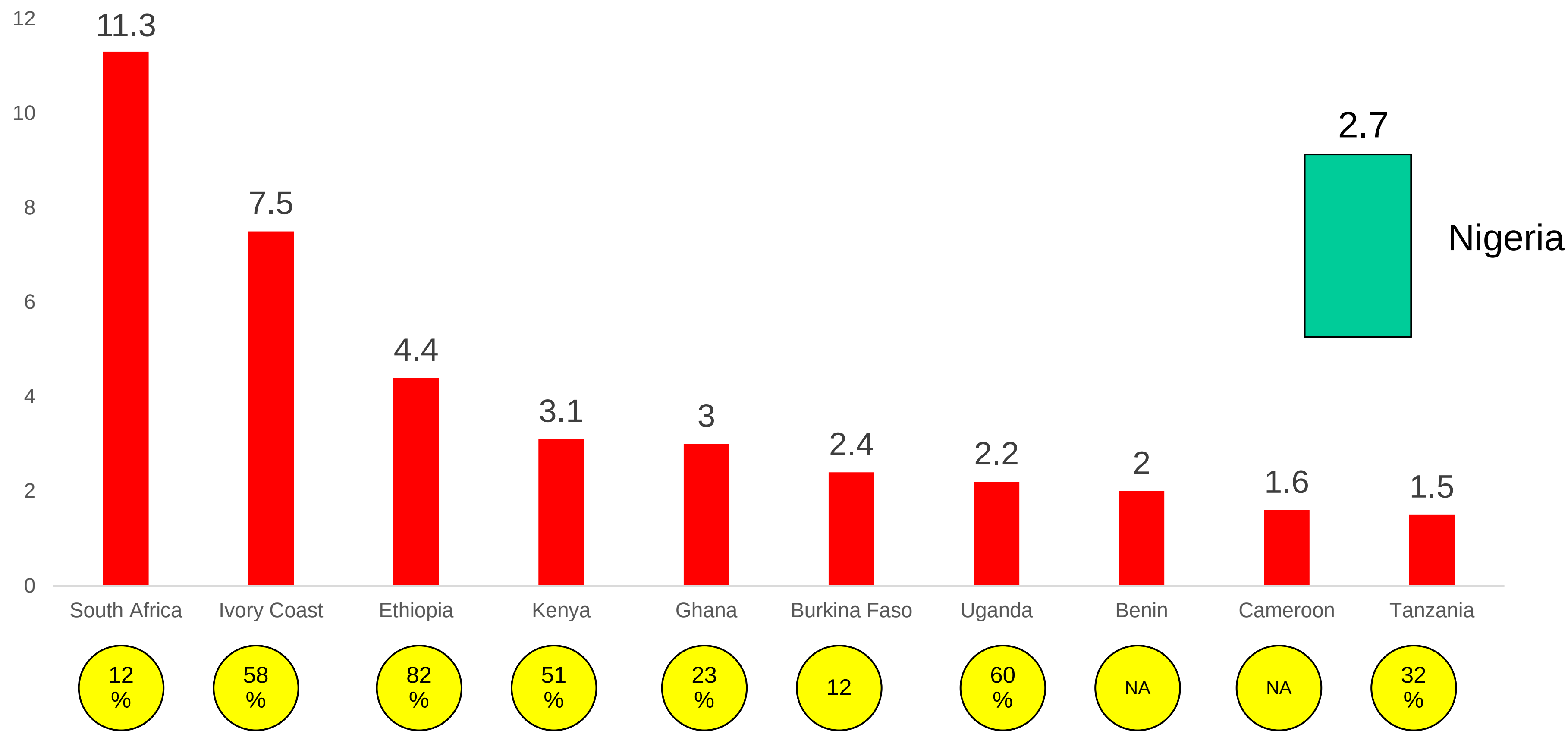
4 Export incentives had a remarkable impact on Nigeria's agro-allied non-oil sector

5 An effective policy framework is required for consistency in policy implementation

Potential to grow agro-allied sector

Despite having the largest GDP in sub-Saharan Africa, Nigeria's non-oil exports at US$ 2.6 bn in 2014 are less than those of even smaller African countries

Top 10 exporters of agricultural products in sub Saharan Africa (US$ Bn) 2014



Yello circles show share in economy's total merchandise exports

Source: WTO

Cost disadvantages

Incentives are needed to off-set cost disadvantages

- Cost disadvantages up to 30% faced by Nigerian exporters due to infrastructural deficiencies and high cost of doing business

- Most developing countries support their exports with incentives to boost competiveness

- China the world's largest exporter, gave $ 55 bn as export tax rebates p.a.

- India aims to double its exports from US$ 400 to 900 bn by 2020 with a package of incentives to its exporters.

Cost disadvantages

1. High cost of power and need to set up own infrastructure
2. High finance cost and lack of long term funds
3. High transportation cost
4. High labour cost due to lack of skilled workers and low productivity
5. Low agricultural productivi
6. High cost of doing business (High transaction costs,multiple taxation,etc.)
7. Loss of preferential market access to EU

Cost benchmarking

When benchmarking a number of Nigerian input cost factors with a panel of countries, with which Nigeria competes, it becomes evident, that Nigeria has very high costs for the most important inputs...

Panel of countries

Key factors which are benchmarked:

1. Cost of power/kwh
2. Cost of finance

Although this study was done for the textile industry however the results could be applied universally to the entire manufacturing sector in Nigeria

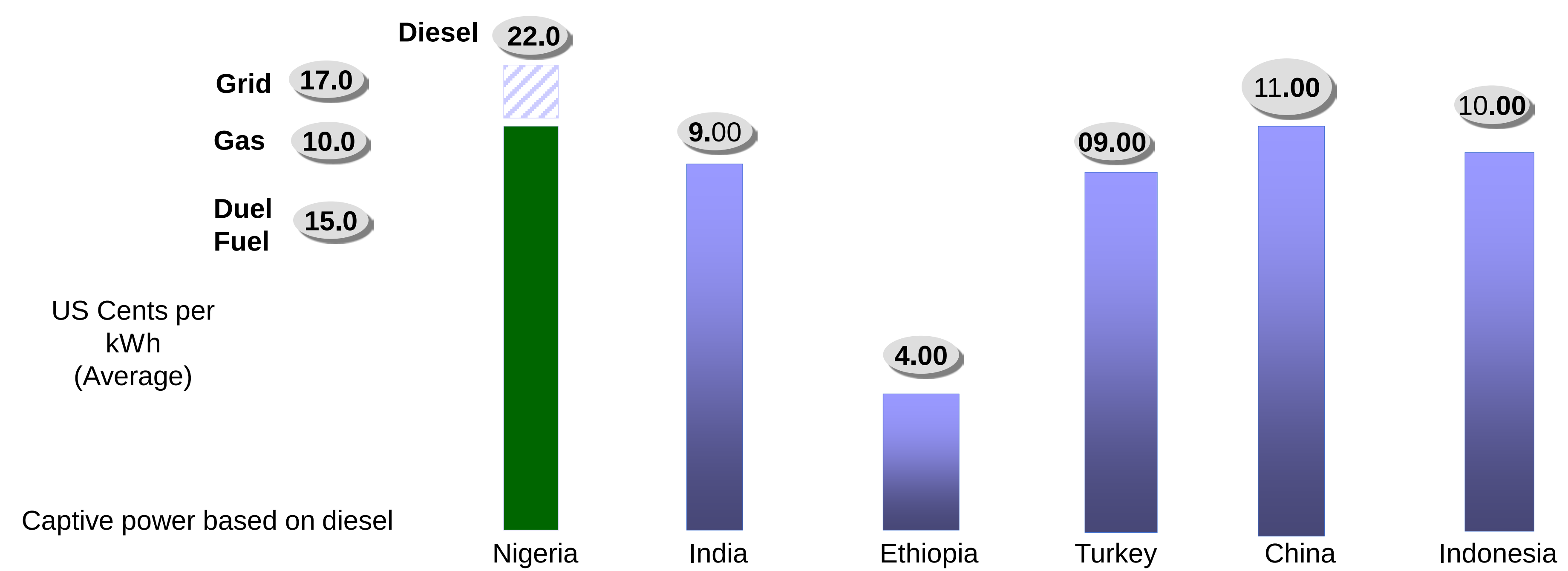
Source : Gherzi,UNIDO Study

Cost benchmarking

Cost of power – Nigeria is the highest among competing countries with

Factor Cost - Power (US Cents per kWh) (2016)

Cost parameter	Nigeria	India	Ethiopia	Turkey	China	Indonesia
Power cost (Range) (Source of power)	(grid) Diesel	(Grid)	(Grid)	(Grid)	(Grid)	(Grid)



Source : Gherzi

Cost benchmarking

The cost of short-term borrowing at the present rate of 20% is a major cost disadvantage for the Nigerian manufacturers as the comparison clearly shows...

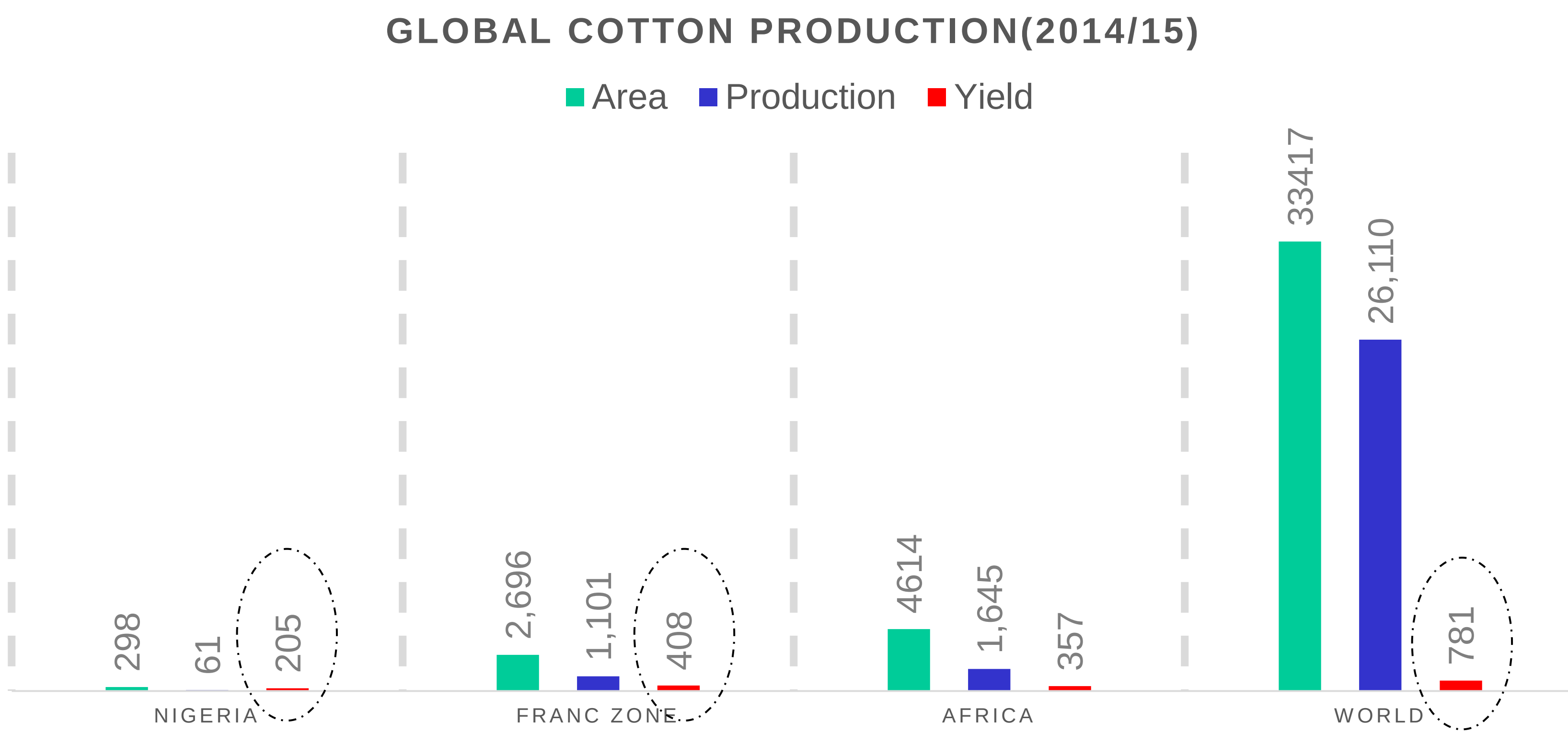
Financial costs – Interest (2011)

Cost parameter	Nigeria	India	Ethiopia	Indonesia	China
Rate of interest on foreign currency long term loan	LIBOR + 3.5 %	LIBOR + 2.5 %	LIBOR + 3%	LIBOR +2.5%	6.5%
Rate of interest on local currency long term loan	20%	12% *	12%	12 %	6.5%
Sectoral concessional funds	Negligible impact of BOI/NEXIM schemes	7%	8%	- NA	NA

Source Gherzi

Agricultural Productivity

Nigeria's cotton yields are half of the CFA Franc zone and a third of global average



Yield/ha in Kgs

Doing business

Nigerian exporters face several disadvantages due to lack of an enabling environment reflected in high transaction costs

- **Doing Business**

Profile

Doing Business 2016 presents quantitative indicators on business regulations and property rights that can be compared across 189 economies. A powerful benchmarking exercise

		
Ease of doing business	169	73
Starting a new business	139	120
Registry of property	181	101
Contract compliance	143	119
Trading across borders	182	130

Ranking of 189 countries

Source World Bank 2016

Export incentives to boost Nigeria's Agro-allied sector

1	Rationale for incentives
2	**Impact of export incentives**
3	Policy framework
4	Q&A

Impact of export incentives

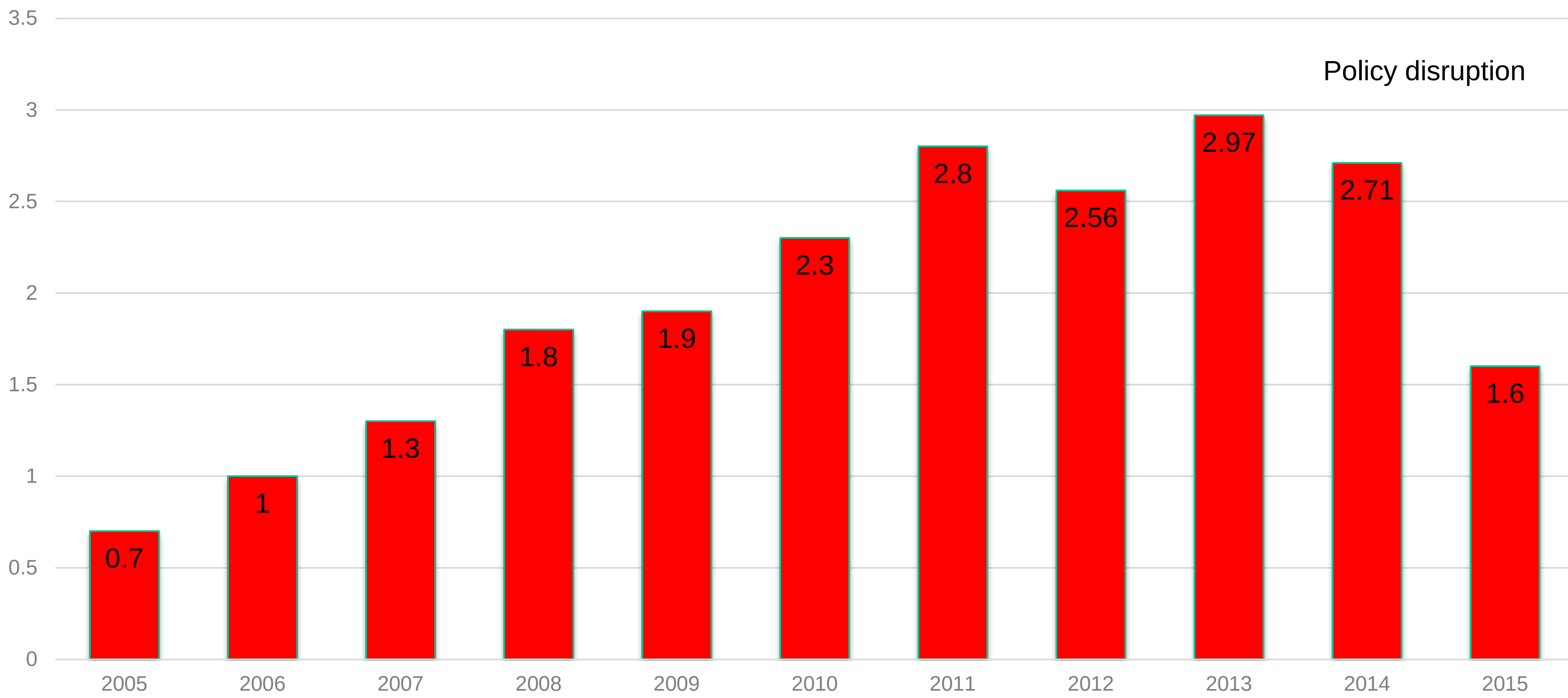
Non-oil exports grew 4-fold between 2005-13 and employ over 11 million Nigerians in the agro-allied value chain directly and indirectly

- Transparent sectoral policy introduced in 2006
- Based on the government policy, companies have invested in export processing factories to add value to primary commodities
- Non-oil exports increased 4-fold
- The bulk of non-oil exports are agro-allied and employ over 11 million Nigerians directly and indirectly and have boosted agricultural incomes
- Non-oil exports impact the lives of Nigerians in all geo political zones
- Strengthening of formal channels

Impact of export incentives

Nigeria's non-oil exports achieved a 4-fold growth till 2013 however on a declining trend since 2014 due to policy paralysis

Nigeria's non-oil exports(2005-15)– USD Billion



Source: NEPC

Impact of export incentives

Non-oil exports impact the lives of Nigerians in all geo political zones

Policy framework

A clear vision and policy is required to create transparency

Policy

- Strong political will and support from northern states
- Clear sector vision to implement the Export (Incentives & Misc Provisions) Act 1992
- Predictability (5 year horizon)
- Consistency in implementation

Funding

- Create a budget line
- Introduce a levy on oil exports or all imports to finance the incentives

Safeguards

- Introduce safeguards and impact assessment by reputed audit firms

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Questions & comments

Contact

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