

MANUFACTURING & EQUIPMENT EXPO

NIGERIA 2017



**MANUFACTURERS
ASSOCIATION
OF NIGERIA**

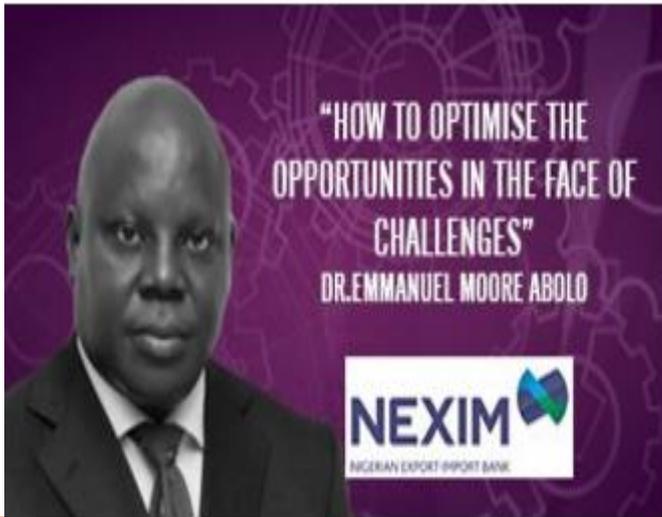


**FEDERAL MINISTRY OF
INDUSTRY, TRADE &
INVESTMENT**



**The Lagos Chamber of
Commerce and Industry**

Faithful Service to All



OVERCOMING THE CHALLENGES OF THE MANUFACTURING SECTOR IN NIGERIA AND THE OUTLOOK FOR 2017

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WHERE MANUFACTURERS COME TO RETOOL AND MODERNISE

AGENDA

- ❑ BACKGROUND
- ❑ MAJOR PROBLEMS FACING THE SECTOR
- ❑ PERCEIVED CHALLENGES FACING THE SECTOR
- ❑ LIQUIDITY PROBLEMS FACING THE SETOR
- ❑ OVERALL CHALLENGES FACING THE SECTOR
- ❑ EFFECTS OF THE CHALLENGES
- ❑ OPTIMISING THE OPPORTUNITIES
- ❑ OUTLOOK FOR THE SECTOR IN 2017
- ❑ Q&A

BACKGROUND

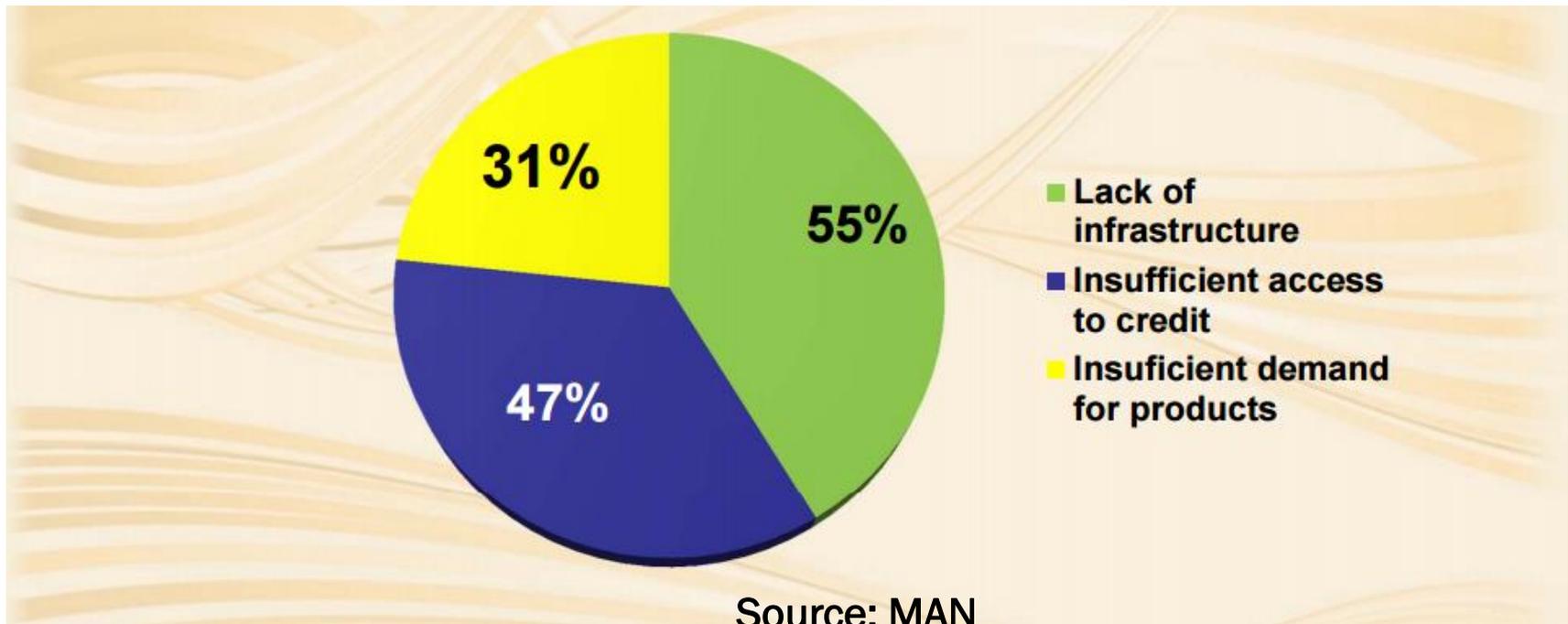
- ❑ Historically, the growth in manufacturing output has been a key element in the successful transformation of most economies that have seen sustained rises in their per capita incomes. The most recent example being that of the Newly Industrialising Countries [NICs] and their success in exporting manufactures.
- ❑ According to Nigeria Vision (NV) 20:2020, **'the manufacturing sector provides the greatest opportunity for the transformation of the Nigerian economy ... It is an antidote for unemployment, a creator of wealth and threshold for sustainable development'**
- ❑ However, Nigeria's manufacturing sector contributes on the average a mere 4.19% to the national GDP. It contributed only 4 per cent to GDP in 2011. For Nigeria to be one of the twenty biggest economies in the world in 2020, the sector must be contributing a minimum of 15% yearly to its GDP and grow it steadily to a minimum of 30% by 2020.
- ❑ MAN projects 15-18% GDP contribution by the manufacturing sector in 2017
- ❑ One important strategy used by India, China and Indonesia – nations with large populations in their quest for economic development was strong internal demand/ consumption of their manufactured goods.

BACKGROUND

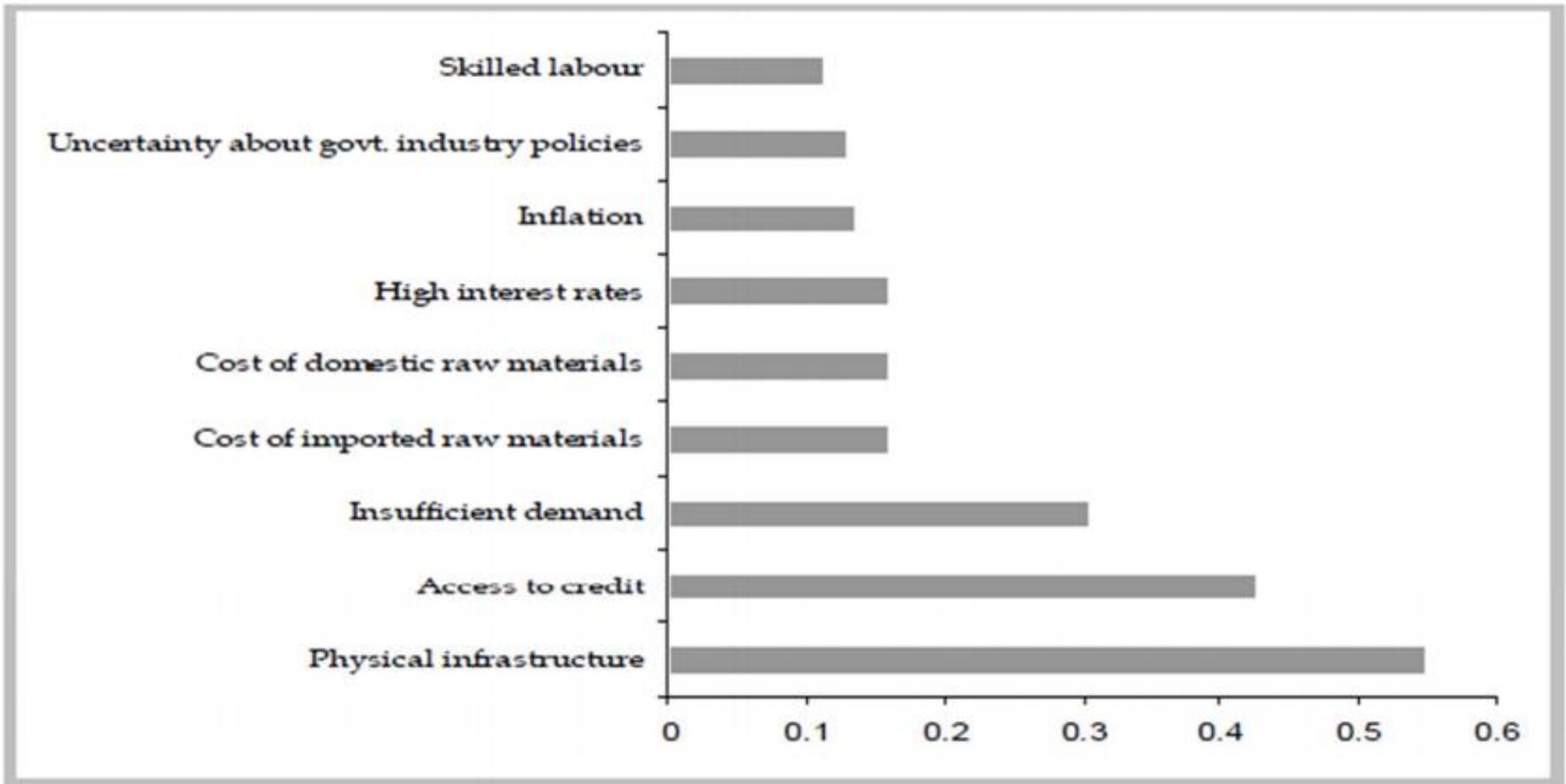
- ❑ Nigeria with a population of over 170 million people, obviously is the biggest market in Africa, and ought to be a strong market for its manufacturing sector. When West African sub-region and other African markets are added, then there is a huge existing market for whatever quality products and services from Nigeria. Unfortunately, this has not been so.
- ❑ The sector has been operating under very unfavourable environment. More than 270 firms closed shop in 2016 due to lack of patronage of their products both in Nigeria and beyond. Others reduced production and retrenched workers.
- ❑ If the sector succeeds, it can generate massive employment, fight poverty, create wealth, and enhance exports and diversify foreign exchange earnings.

**Purchasing Managers Index [PMI] stood below 50 point in 2016
indicating decline in industrial production**

MAJOR PROBLEMS FACING SECTOR



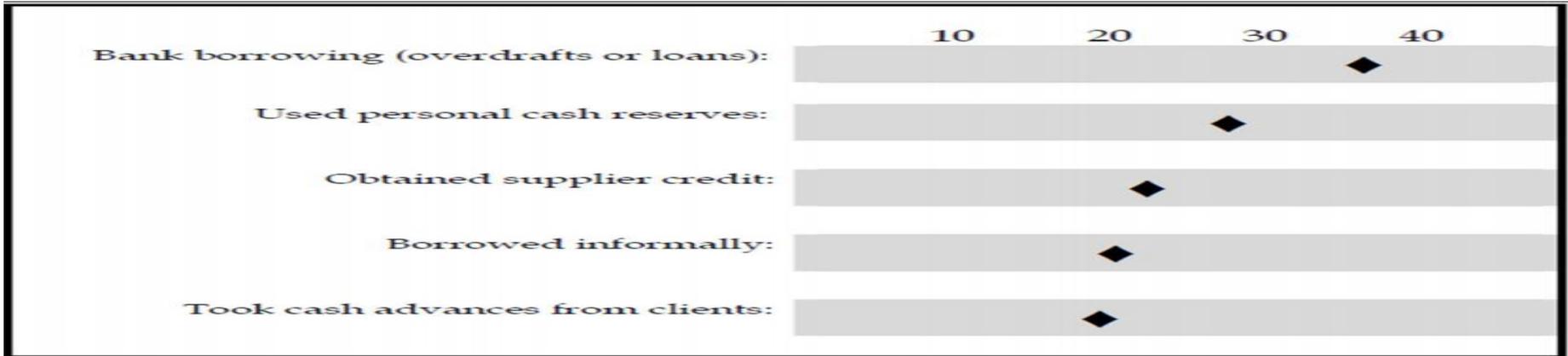
PERCEIVED CHALLENGES FACING THE SECTOR



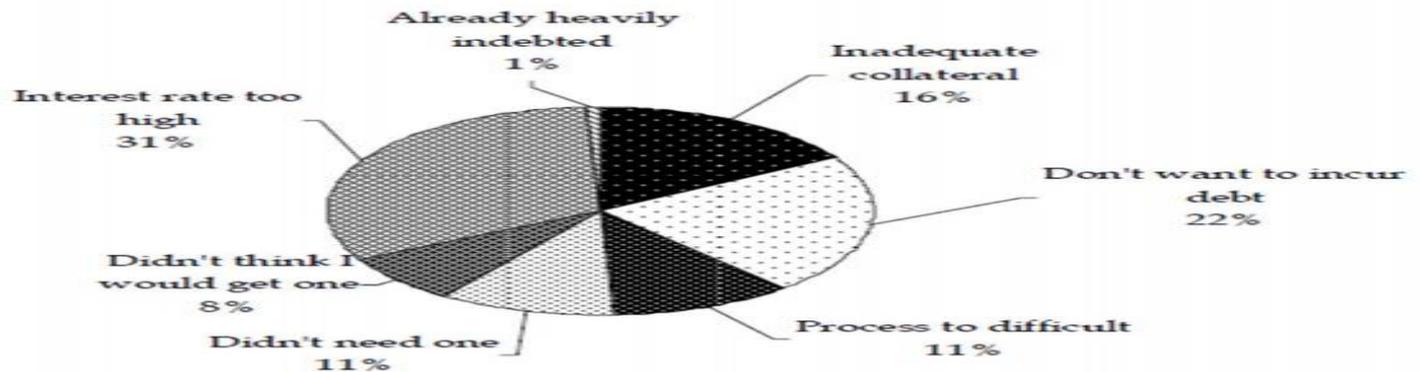
Source: MAN

LIQUIDITY PROBLEMS FACING THE SECTOR

HOW FIRMS RESPOND TO LIQUIDITY CHALLENGES



REASONS FOR NOT APPLYING FOR BANK LOANS



OVERALL CHALLENGES FACING THE SECTOR...

- ❑ Poor and deteriorating infrastructural services.
- ❑ Deepening weak domestic demand.
- ❑ High and unplanned inventories .
- ❑ Unbridled influx of cheap imports of substandard, fake and used products, including dumping of all manner of finished goods. Competition with substandard imports and illegally manufactured/ uncertified local goods has led to the lack of competitiveness of 'made in Nigeria' goods.
- ❑ Imported alternatives, despite their poor quality, are cheaper and typically considered more appealing despite their quality and safety issues.

OVERALL CHALLENGES FACING THE SECTOR...

- ❑ Internal Security: For example, Vita-Foam had to close its manufacturing plant in Jos while Nigerrite Managing Director was at one time kidnapped along with his wife.
- ❑ Inappropriate Fiscal Policy: Government's procurement policies, for example, do not encourage local content production. As such, the Nigerian market is inundated with a myriad of foreign goods, a high percentage of which can be produced locally, given the right policy atmosphere.
- ❑ High costs of funds arising from depreciation of the Naira against major currencies coupled with high lending rates and extreme difficulties in accessing credit for working capital.
- ❑ Problems of supply of petroleum products, particularly AGO (diesel) LPFO (black oil).

OVERALL CHALLENGES FACING THE SECTOR...

- ❑ Policy inconsistency and anomalies in customs duty.
- ❑ Multiple taxes and levies by the three tiers of government.
- ❑ Scarcity of FX—led to exchange loss of N500b in 2016.
- ❑ Crime and corruption: gratifications to public officials for sundry purposes such as accessing public utilities, clearing goods at the ports and obtaining licenses and permits.
- ❑ Cumbersome port administration that hinders the attainment of the 48-hour cargo clearing at the ports.
- ❑ Dearth of qualified skilled middle level manpower worsened by the decaying educational system.
- ❑ Slow rate of technology acquisition stemming from low investments in Research and Development.

OVERALL CHALLENGES FACING THE SECTOR...

- ❑ **Infrastructural Deficit:** The current power generation capacity is less than 4000 Megawatt, which is about 20 per cent of the estimated national demand.
- ❑ Figures released recently by the National Electricity Regulatory Commission (NERC) indicate that of the N796 billions spent to fuel generators in 2008, members of MAN spent over N350 billion.
- ❑ This excludes amount spent on maintenance, repairs and acquisition of new generators. For instance, some companies run their plant 16 hours a day on generator!

OVERALL CHALLENGES FACING THE SECTOR...

- ❑ **Over Dependence On Foreign Machines** : Most of the technology and machines used by local manufacturers in Nigeria are imported from other countries. And these machines are usually very expensive.
- ❑ **Inadequate Raw Materials:** Due to the poor state of our agricultural sector. Thus, manufacturers depend largely on foreign sources.
- ❑ **Regulatory compliance and traceability:** Nearly every type of manufacturer faces increasing regulations aimed at everything from ensuring product safety to managing disposal and reclamation procedures.
- ❑ Each regulation adds an additional burden to the companies that must comply with the requirements

OVERALL CHALLENGES FACING THE SECTOR

Constraints to Manufacturing Growth

Sector	Telecomm.	Transport	Electricity	Crime	Corruption
Textiles	0.57	1.43	3.36	1.57	1.64
Garments	0.60	1.60	3.45	1.40	1.49
Food	0.63	1.97	3.17	1.47	1.42
Wood & furn.	0.62	2.10	3.15	1.29	1.46
Other man.	0.58	2.02	3	1.45	1.35
Construction	0.94	1.94	1.72	2.53	2.13
All sectors	0.62	1.91	3.11	1.50	1.46
N	1,001	1,001	1,001	1,001	1,001

Source: The World Bank

EFFECTS OF THE CHALLENGES.....

- ❑ Operating below installed capacity: at 47% in 2009 and 45% in 2010.
- ❑ Losing business opportunities, incurring losses and closing shops.
- ❑ MAN has officially declared that of its 2000 members, 30 percent mostly small and medium scale industries (SMEs) have closed down, 60 percent of them ailing while just 10 percent of them, notably the multinationals currently operate at sustainable level
- ❑ Between 2000 and 2016, over 900 manufacturing companies closed down or temporarily suspended production.

EFFECTS OF THE CHALLENGES

- ❑ In 2008 and 2009, this sector contributed only 4.2% to the nation's GDP and 4.19% in 2010.
- ❑ Inability to provide/create employment opportunities in a country where the rate of unemployment (particularly graduate unemployment) is very high.
- ❑ High debt burden to financial institutions both in Nigeria and abroad.
- ❑ Relocation of industries to neighbouring countries
- ❑ Unplanned inventories of both raw materials and finished products.
- ❑ Inability to compete globally and earn foreign exchange for both themselves and the economy, etc.

OPTIMISING THE OPPORTUNITIES

- ❑ Manufacturers will need to either invest into new technologies in order to 'grow the pie' or resort to a brutal competitive fight to steal market share away from rivals. The only certainty is that there will be winners and losers.
- ❑ Manufacturers should push government to grant licenses to generate their own power.
- ❑ Companies should turn to local inputs where available.
- ❑ Focus attention on R &D: digital information technologies would allow decoupling of research, engineering and manufacturing capabilities
- ❑ Grow Talents: Talented human capital will be the most critical resource differentiating the prosperity of companies.

OPTIMISING THE OPPORTUNITIES

- Improve workforce productivity
- Cost competitiveness
- Need to develop affordable clean energy strategies and effective energy to serve as important differentiators.
- Improve ability to innovate
- The key to success would be collaboration between the government and private sector.

OPTIMISING THE OPPORTUNITIES

Global CEO survey: Drivers of global manufacturing competitiveness



Source: Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2016 Global Manufacturing Competitiveness Index

Maintaining the status quo does not drive growth. Nigerian manufacturers will need to do something different in order to win market share in today's environment.

OUTLOOK FOR THE SECTOR IN 2017.....

- ❑ MAN projects 15-18% GDP contribution by manufacturing sector in 2017
- ❑ There seems to be a ray of hope for the sector in 2017 as indicated also by the PMI. The Manufacturing PMI stood at 52.0 index points in December 2016 compared to 46 in November 2016.
- ❑ This has elicited optimism that 2017 will be a better year for the sector.

Month ▲	Composite PMI Manufacturing ▲	Composite PMI - Non Manufacturing ▲
01 Jul 2014	51.30	55.00
01 Aug 2014	49.70	58.90
01 Sep 2014	54.00	54.70
01 Oct 2014	51.90	57.30
01 Nov 2014	52.20	59.60
01 Dec 2014	49.80	53.80
01 Jan 2015	50.20	50.60
01 Feb 2015	53.00	54.00
01 Mar 2015	48.90	48.60
01 Apr 2015	52.00	53.70

OUTLOOK FOR THE SECTOR IN 2017.....

- ❑ Sources of optimism includes:
 - ❑ Improved power supply: effective implementation of power sector road map
 - ❑ Improved exchange rate of the Naira and stabilisation of the forex market
 - ❑ Concessions on imported raw materials and other inputs for production
 - ❑ Modernized agriculture to promote backward integration
 - ❑ Improved infrastructure
 - ❑ Rehabilitation of existing road network, construction of new ones and the railway system should be completely overhauled and privatized.
 - ❑ Establishment of a revolving intervention fund by the Government to meet the long-term funding needs of the manufacturing sector.
 - ❑ Businesses need to create a demand-driven and responsive business model that provides flexibility and agility to respond to increased (even unpredicted) demand and market disruptions

OUTLOOK FOR THE SECTOR IN 2017

- ❑ Push for patronage of Made-in-Nigeria goods.
- ❑ Effectively tackle of security challenges
- ❑ Right macroeconomic stabilization strategy
- ❑ Business-friendly environment: non-multiplicity of taxes, etc
- ❑ Reduced interest rate on lending and improved access to finance
- ❑ Skills development
- ❑ Better product standards
- ❑ Potential game changer: efficient technology deployment

Manufacturing executives need to fight for growth:

Change the range of products you offer

Change the range of services you offer

Enter new geographic markets

Enter new sectors

Thank you!