MEMORANDUM FOR THE

Presidential Fiscal Policy and Tax Reforms Committee

BY THE MANUFACTURING AND
MINING POLICY COMMISSION OF THE
NIGERIA ECONOMIC SUMMIT GROUP

Introduction

Industry feedback, supported by data, emphasises the necessity for economic policy coordination, business-friendly measures, and trade obstacle removal. Below are the key highlights.

- Promote collaboration and coordination among Ministries, Departments, and Agencies for aligned efforts led by key figures like the Minister of Finance. Focus areas include education, industry, trade, mining, agriculture, environment, communication, innovation, science, technology, transport, and work.
- Trade and investment policies should strategically tap into ECOWAS, AfCFTA, and global trade dynamics. Nigeria's geopolitical position offers opportunities, especially amid West-China trade disputes.
- Incorporate fiscal incentives into trade and investment policies to enhance industry growth.
- Strengthen links between industry and education, focusing on identified sectors and fostering innovation from tertiary institutions.
- Introduce incentives for emerging sectors like circularity/plastics to attract ESG capital, technology, and foreign investments, fostering job growth and capability enhancement.

- Emphasise stability and coordination in fiscal policies to reinforce industrial development.

Against this background, below are the critical areas for Economic Growth Facilitation, investment incentives, economic/fiscal policy coordination, and impediments to trade.

National Trade and Investment Policy

According to the **WTO**, world trade has lost momentum under the weight of the `polycrises' of war in Ukraine, inflation, monetary tightening, and widespread debt distress. Reassessments of investment destinations and the 'reshoring' of global supply chains highlight the ongoing tensions in geopolitical relations as the world transitions from unipolarity to multipolarity. Planetary unsustainability and climate change cover the return of industrial policy with green goals and instruments such as localisation and subsidies for those who can afford them.

Across the Atlantic in the EU, new tools such as the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR) need to take the negative impacts on poor countries sufficiently into account. These policies ensure that the carbon price of imports is equivalent to those produced in the EU. Under its terms, importers will be required to buy CBAM certificates covering the price difference between the carbon price paid in the country of production (if one is paid) and the price of carbon allowances in the EU emissions trading scheme (ETS), which forces African economies to transition to clean systems when financing is expensive and hard to come by.

In Africa, these trends and tensions come on top of high levels of poverty, weak growth, and demographic and climate pressures, which provide a breeding ground for political instability, as recent extra-constitutional changes in power demonstrate. Recurring cycles of debt distress underscore the inherent limitations of economies locked into the lowest levels of commodity value chains.

Trade Performance

- According to the World Bank, the global average of trade (exports plus imports) as a percentage of GDP was 54.4% in 2020. This indicator measures the degree of openness and integration of a country's economy with the rest of the world.
- According to the African Development Bank, Africa's trade as a percentage of GDP was 29.2% in 2020. This shows that Africa's trade performance is below the global average and needs to live up to its developmental potential. Africa's trade performance is also lower than other regions, such as Europe (72.3%), Asia (54.9%), America (38.1%), and Oceania (36.5%).
- According to the World Bank, Nigeria's trade as a percentage of GDP was 22.6% in 2020. This shows that Nigeria's trade performance is below the global

average, the African average, and GDP peers. Nigeria's trade performance is also lower than other countries with similar GDP levels, such as Poland (87.2%), Bangladesh (40.7%), and Egypt (37.4%).

- **Nigeria's economy is one of the least export-competitive in Africa, with a score of 1.2 out of 100, according to the African Transformation Index 2023**. Even with the advantages offered by its Special Economic Zones, competitiveness in non-extractive exports could be better. The oil and gas industry has driven up the value of Nigeria's currency and made exports less competitive, an effect common to many countries rich in natural resources that can hamper other sectors of the economy.

Investment Concentration

Investment inflows into Nigeria are no better. They perpetuate an economic concentration in the extraction of fuels, ores, and metals. Oil and gas are by far the largest recipients of FDI in Nigeria, accounting for about 40% of the total FDI stock in 2020. To take into context, 40 per cent of EU net foreign direct investment in Africa between 2013 and 2020 went into the mining sector. This starkly contrasts the EU's net FDI elsewhere; only 7 per cent of the EU's total global outward investment is in this sector.

Similarly, 32 per cent of US FDI stock in Africa is in the mining sector, compared with just 3 per cent of US FDI. The energy sector is Africa's most prominent destination for

Chinese outward FDI, transport, and metals. This shows that Investments are reinforcing Africa's unfavourable export concentrations.

Hence, Nigeria's trade flows need to change in terms of volume and composition, and trade policy can be one of the instruments to achieve this. It is crucial to understand what works and does not in Nigerian trade and investment policy and how it interacts with partner countries in trade, investment, and development assistance policies.

Trade and Investment Focus and Recommendations

The Federal Government and its MDAs should collaboratively prioritise key sectors for industrial development. This includes agro-processing, gas, mining and processing, manufacturing and metals industries, textiles, digitisation, and battery technology. These sectors present significant potential for value addition, job creation, export diversification, and environmental sustainability.

- **Agriculture and agro-processing**: This is one of Nigeria's most essential and potential sectors, contributing about 22% to the GDP and employment of about 40% of the population in 2020. Nigeria has a large domestic and regional market for agricultural products and processed foods and a rich and diverse natural endowment, such as cocoa, cassava, palm oil, rice, and livestock. Nigeria also has the potential for increasing the productivity and profitability of the agriculture and agro-processing sector, improving the infrastructure, technology, and quality standards, and exploiting the opportunities of the ECOWAS and AfCFTA markets.

- **Manufacturing and metals industries:** This is one of Nigeria's most diversified and dynamic sectors, with a contribution of about 9% to the GDP in 2020. Nigeria has an extensive domestic and regional market for manufactured goods and a comparative advantage in labour and raw materials. Nigeria has a variety of manufacturing and metals industries, such as cement, steel, GI Sheets, automobiles, pharmaceuticals, and textiles. Nigeria also has potential value addition and export promotion in the manufacturing and metals industries, especially under the AfCFTA, which offers tariff-free and quota-free access to a market of 1.3 billion people. However, these sub-sectors are impacted by illegal imports, low monitoring of substandard goods, and no incentives to continue production.
- **Gas:** This is by far the largest recipient of FDI in Nigeria, accounting for about 40% of the total FDI stock in 2020. Nigeria is the largest gas producer in Africa and the 9th largest in the world, with proven reserves of 5.3 trillion cubic metres. Nigeria has a huge potential for gas development, especially for domestic consumption and export, as well as gas-based industries, such as power generation, fertilisers, and petrochemicals. However, Nigeria also faces many challenges, such as inadequate infrastructure, regulatory uncertainty,

security risks, and environmental issues. Nigeria's gas sector is moderately competitive across Africa, with a strong market position and a low utilisation rate. According to the World Economic Forum, Nigeria ranks 54th out of 137 countries in the Global Competitiveness Index for gas.

- **Textiles:** This is one of Nigeria's most traditional and potential sectors, with a contribution of about 0.5% to the GDP in 2020. Nigeria has a large domestic and regional textile market, a rich cultural heritage and diversity in fabrics and designs. Nigeria has a variety of textile industries, such as cotton, leather, silk, and synthetic fibres. However, Nigeria also faces many challenges, such as low productivity, high energy costs, cheap imports, and limited access to finance and markets. Nigeria's textiles sector could be more competitive across Africa, as it has declined significantly in the past decades and lost its market share. According to the World Economic Forum, Nigeria ranks 118th out of 137 countries in the Global Competitiveness Index for textiles. Local players are already.
- **Battery technology:** This is one of Nigeria's most emerging and innovative sectors, with a contribution of about 0.1% to the GDP in 2020. Nigeria has a massive potential for battery technology, especially for renewable energy and electric vehicles, as well as other applications, such as telecommunications, health, and education. Nigeria has a few battery technology industries, such

as solar, lithium-ion, and lead-acid batteries. However, Nigeria also faces many challenges, such as a lack of research and development, high import dependence, low-quality standards, and limited access to finance and markets. Nigeria's battery technology sector is not very competitive across Africa, as it is still in its infancy and has a low market penetration. According to the World Economic Forum, Nigeria ranks 125th out of 137 countries in the Global Competitiveness Index for battery technology.

Recommendations:

The various sectors above need to be structured based on the recommendations below:

- To attract the required capital, industry interests and multilateral partnerships.
- Policy consistency and focus: A key factor for industrial development is the consistency and focus of policies that align with the market interest, not the selected interest. Investors want a long-term horizon for the government's industrial policy direction. Manufacturing investments are long-term. Long-term policy perspectives are critical for industrial investment. The industrial policy should be monitored effectively to ensure that it is on track and delivers intended outcomes. Such policy should be more effective legislation than

other policies, as they provide more stability and confidence for their investors and partners.

- **Industrial Policy Clarity:** There is a need for clarity of vision and policy for the industrial sector.
- **Civil service reforms:** A crucial aspect of industrial development is the capacity building of the civil servants, who are responsible for implementing the laws and policies and fostering a mindset driven by the private sector, not the bureaucracy.
- **Ease of doing business:** A vital condition for industrial development is the clarity of the role of each MDA, which reduces the confusion and the overlap of functions and enhances the coordination and efficiency of the operations.
- **Export promotion:** Assess the competitive industries (Agri-processing, mining, and manufacturing/metals industry) and provide incentives for export, in line with the FG's plan for the Export Expansion Grant, which aims to drive exports and generate foreign exchange.
- **Standards Implementation:**
    - Improve the implementation of standards to ensure Nigerian goods meet global benchmarks.
    - Align with continental and Western standards for enhanced market competitiveness.

- **Agro-industrial/ Mining development:** Enhance the agro and mining processing and storage facilities by introducing legislation such as the Warehouse Receipt System, enabling smallholder farmers and artisanal miners to access investment and capital, using their stored produce as collateral.
- **Innovation and research**: Foster research and innovation in the industrial sector (Mining, Agriculture, Metals/Manufacturing) by creating linkages between the education sector and the industry and by facilitating partnerships between local and foreign institutions and experts who can provide relevant and cutting-edge solutions for the local and international market.
- **Infrastructure and energy:** Improve the infrastructure and energy supply for the industrial sector by creating linkages between the processing/trade zones and the gas/energy sources and by developing the gas value chain, which will meet the global demand for clean gas energy commodities, such as liquid hydrogen, and diversify the local transport sector with gas-fuelled vehicles.
- **Financing and investment for startups:** Unlock the capital and investment for the industrial sector, especially for the startups in the agricultural and mining sector, by providing access to credit, insurance, and equity and attracting foreign direct investment and public-private partnerships.

Circularity - Plastics

Circularity in Nigeria's Plastic Industry:

Nigeria is uniquely positioned as the sole resin producer in the WACA region, contributing significantly to the plastic manufacturing sector. Despite being the largest producer of olefins and polyolefin plastics in West Africa, Nigeria faces challenges as a net importer of plastics, with raw materials predominantly derived from oil. This dynamic reveals the potential and the gaps in Nigeria's plastic industry.

Current State and Challenges:

- Nigeria produced 498 kt of resin in 2019, yet it imported plastics worth $1.7 billion in the same year, showcasing a substantial reliance on imports.
- The country's vibrant plastic manufacturing sector, growing at 13.9% annually, hosts over 3,000 companies producing a wide range of plastic products.
- However, less than 10% of plastic waste is recycled, contributing to environmental concerns.
- The recycling industry, with a potential market value of $40 billion, is vital in addressing unemployment and fostering economic prosperity.

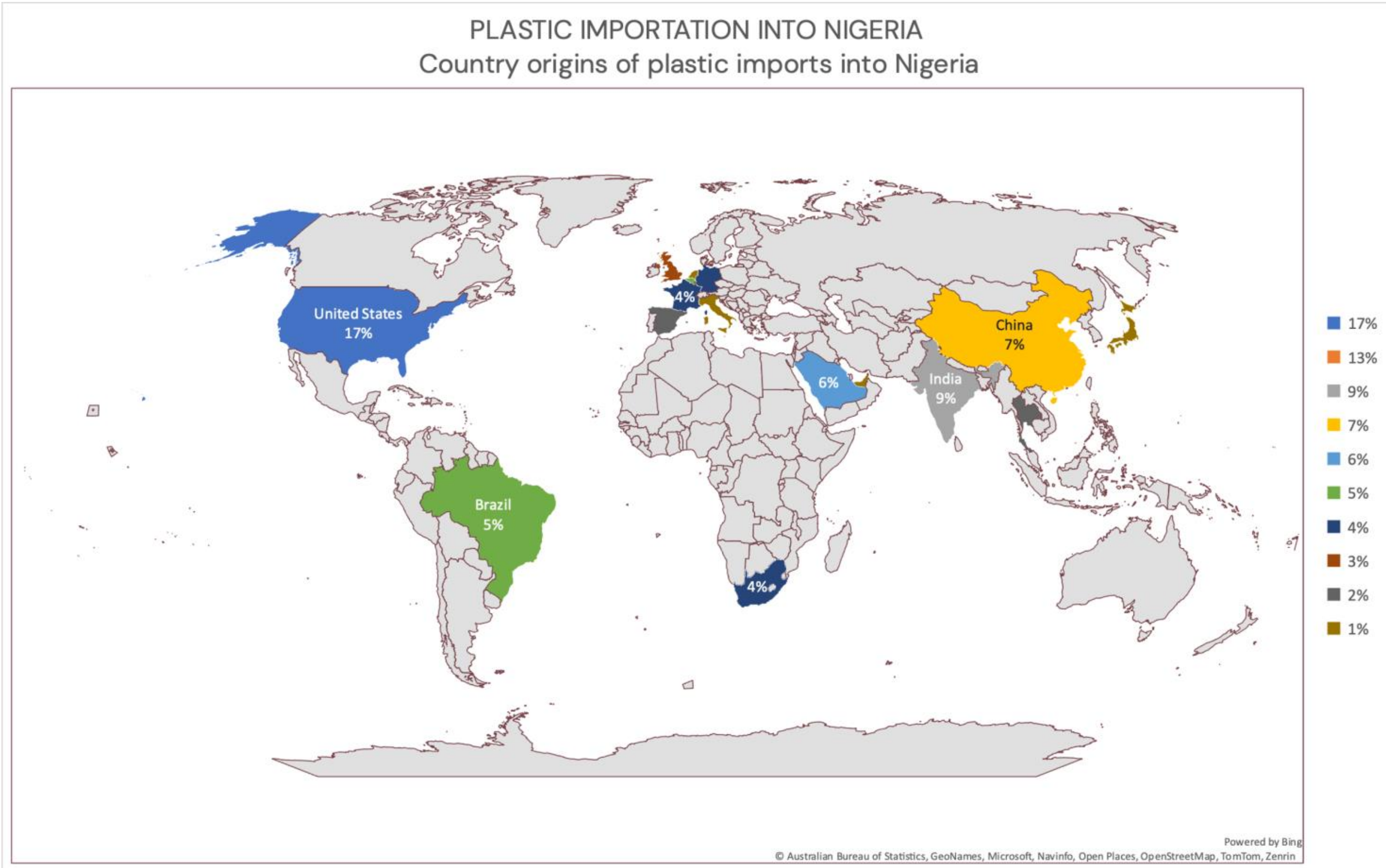

Figure 1. Nigeria is Africa's second-largest importer of plastics in primary form, used for making supermarket bags, plastic bottles, and furniture, among many other products.

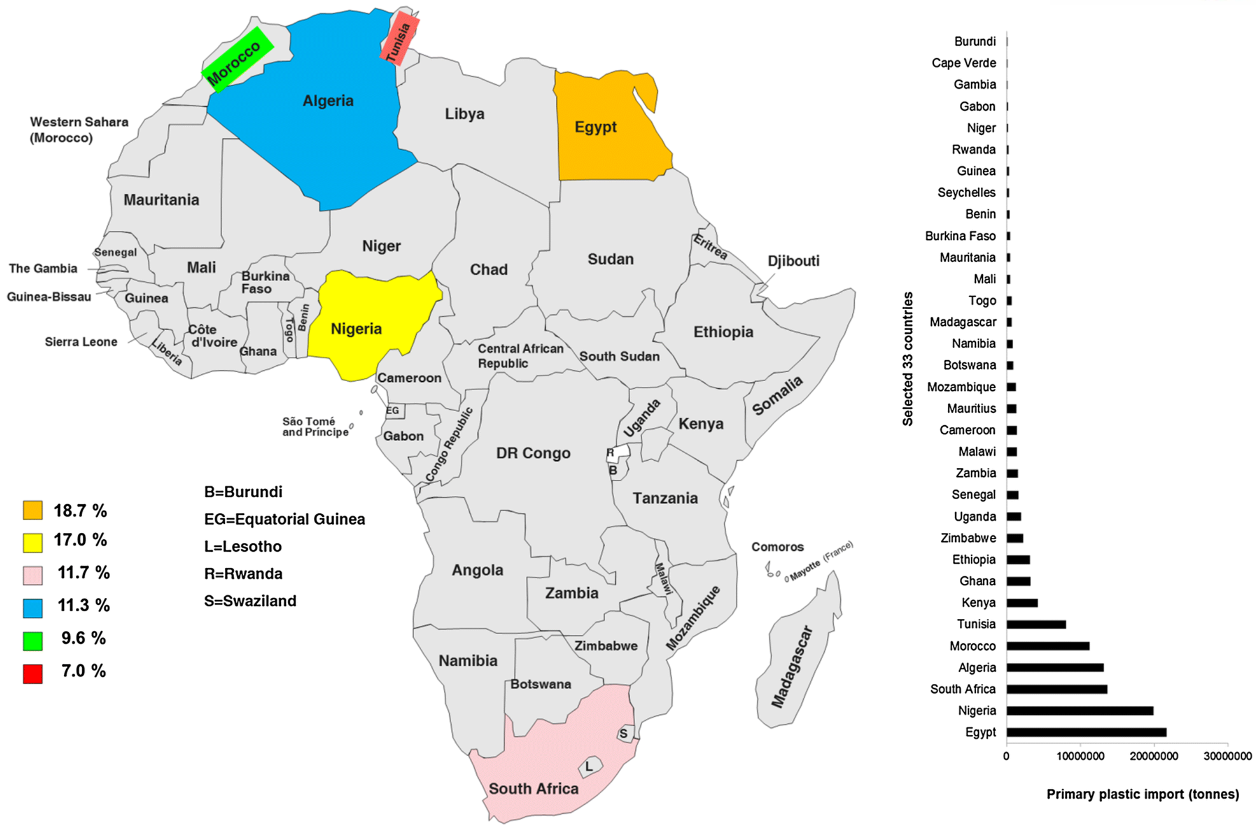

Figure 2. The six African countries with the highest import and use of plastic

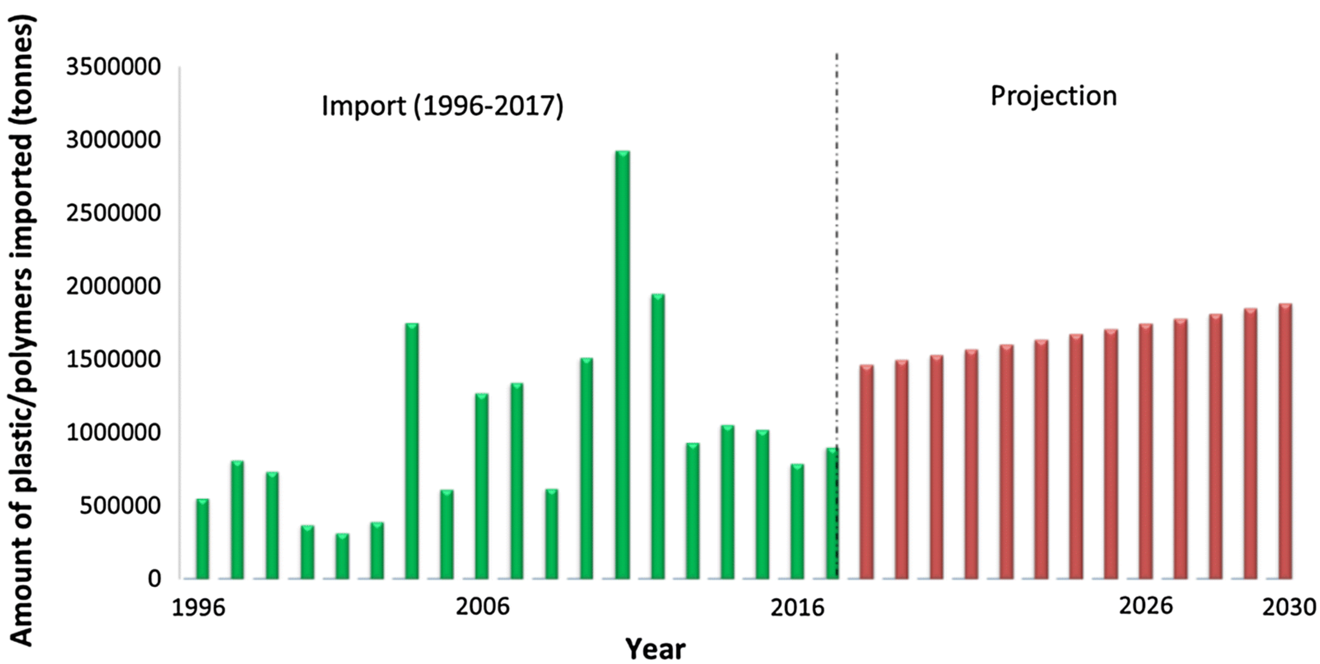

Figure 3. Time trend of plastic/polymer import into Nigeria

Economic Potential:

- The green economy in Nigeria holds a remarkable $250 billion investment potential, and the plastics recycling industry alone represents a $40 billion market.
- Initiatives by existing recycling companies, aligned with the Nigerian Export Supervision Scheme (NESS), demonstrate significant income generation, GDP growth, and foreign exchange availability.
- Investments in recycling infrastructure, such as high-tech recycling facilities, signal a commitment to sustainable practices and economic growth.

Challenges:

- The multiplicity of regulations: too many rules (about 34) for the industry alone, which need to be aligned, appear overlapping and ambiguous and should be more focused on fines and penalties rather than the objective of deepening the market. The country's huge litter of plastic waste shows that the regulations are ineffective.
- The current trajectory of recycled PET into the 2030s and beyond needs to be higher to meet demand; there is an urgent need to raise production sharply, perhaps several times over. This is because of the recycling rate or low rate of PET plastic collection within Nigeria.

- There needs to be more incentives for local recycling companies to encourage the competitiveness of recycled plastics. There is a Lack of tax rebates on recycling equipment and machines to promote plant recycling infrastructure.
- Inadequate recycling plants are a significant gap in implementing the Environmental Producer Responsibility (EPR) Policy. The cost of logistics/transportation of plastics from the point of collection in one part of the country to the location of the few recycling plants is very high and makes the business unattractive. For example, it currently costs N1.2m to move recovered PET bottles from Adamawa State to the recycling plant in Lagos, thus significantly reducing the profit margin for the collector and increasing the landing cost of the recycled plastic resin.
- Lack of implementation of the existing Extended Producer Responsibility (EPR) Policy to drive a level playing ground for everyone in the value chain.
- Inadequate waste sorting and segregation at source reduces the quality of the recovered recyclable materials, thus increasing the cost of food-grade recycled PET due to the intensive decontamination process.

Recommendations

- **Regulations:**
  - There is an immediate need to harmonise the existing regulations and develop a circular plastic economy roadmap for the country while ensuring

the harmonised regulations are focused on encouraging business model changes, including scenario analysis to check acceptability, intended and unintended consequences, etc.

- Regulations should also be set at the federal level, and all state entities should draw from this rather than duplicate efforts and set new rules, e.g., Lagos State.
- Regulation development should be a collaborative effort between all the key government stakeholders that should be involved in coming up with the regulations to drive a broader circular economy – Federal Ministry of Industry, Trade & Investment; Investment (focus on driving investment and deepening the recycling value chain), Federal Ministry of Environment, Ministry of Finance (Funding), NESREA and private sector. Currently, NESREA seems focused on plastic waste, while the Federal Ministry of Trade & Investment appears focused on the production of plastic.
- Regulations should focus more on incentives than penalties. For example, aside from pioneer status benefits, tax incentives would lure foreign investors and existing companies into investing more in the building of recycling plants, thereby reducing the landing cost of recycled plastics and logically encouraging local uptake as it only makes business sense, such as pioneer taxes, policies to solve the collection infrastructure such as

reduced taxes for SMEs operating in the plastic recycling space to encourage them, incentives such as reduced waste disposal fee to households that practise 100% source segregation.

- **Investments/incentives required**:
  - **Fiscal Incentives and Economic Circularity*:*** To deepen the circular economy and protect the environment, tariff incentives should be for importing machinery for recycling plastics. This would incentivise investment in recycling plants in the country. Currently, over 80% of plastic wastes are not recycled. Nigeria is ranked 9th in global plastic pollution rating. One of the most significant risks to the environment today is plastic waste. These incentives would boost investment in recycling plants and further entrench the culture of ESG among manufacturers. Focusing on incentives would yield better outcomes for plastic waste management than sanctions. There should be a framework to ensure a country-wide incentive-driven approach to plastic waste collection nationwide. Incentives given to lure investments would generate even more long-term benefits to the government from improved net FX balance, FX inflow from the export of recycled materials, and PAYE on additional jobs created, all the while achieving a cleaner and healthier environment.

    - Need to deliberately encourage investments and funding in technology and into building more recycling plants in other regions of the country to deepen the plastic value chain, enable expansion in the recycling industry and reduce collection logistics costs.
- **Research and Innovation:** Drive private (local and international) research and education sector linkages to drive innovation. For example, bio-based plastics will be cost-efficient for plastic production and better for the environment.
- **Technology transfer:** More advanced technologies are also emerging rapidly to facilitate increased production of recycled plastics, improve quality and reduce residual wastages. This requires federal government incentives as foreign investors are most often wary of bringing new technologies into the country. Some technologies include.
    - NIR (near-infrared) sorting systems Use sensors to identify resin-specific wavelength signatures while the material is processed through recovery facilities.
    - Artificial Intelligence / Advanced Robotics Integrate computer vision technologies with machine learning and robotic systems to identify and quickly sort materials into respective waste streams. This will require incentives from the Federal Government.

Fiscal Policy Reforms for Industrialisation

Fiscal and Tax policy issues have profound implications for manufacturing sector performance. Policy and structural problems have considerably subdued Nigeria's industrial sector growth over the past few decades by policy and structural issues.

The growth has averaged 2.2% over the past two decades, average industrial capacity utilisation consistently below 50% and contribution to GDP of an average of 10% over the past decade. The sector's competitiveness needs to be stronger, and productivity is significantly constrained.

Tweaking the fiscal and tax policies could positively impact the sector's recovery and performance, even amidst the structural and macroeconomic headwinds. The critical issues relate to tax administration, tax incentives, fiscal policy measures, and institutional effectiveness.

The time-tested principles of taxation - simplicity, transparency, predictability, stability, clarity, equity, and cost-effectiveness should be further entrenched as critical outcomes of the current reforms. Fiscal reforms should drive productivity, competitiveness, and economic growth.

Tax challenges

- **Tax Policy Stability:** Frequent changes in tax regimes are detrimental to investment. Such changes distort investment projections, create economic shocks and undermine investor confidence. Enactment of Finance Acts has now become an annual occurrence. The Acts effected wide-ranging changes to the entire spectrum of significant taxes – capital gains tax, companies income tax, customs and excise tariffs, petroleum profit tax, value-added tax, and stamp duties. These changes have become as recurrent as the annual budgets, as seen with the finance Acts of 2021, 2022 and 2023. This approach to tax policy is inimical to investors' confidence because of the inherent uncertainty and instability it creates.

- **Accessing Tax Incentives:** The process for accessing tax incentives must be streamlined for efficiency and effectiveness. Current processes could be more bureaucratic, slow, and vulnerable to corruption risks. The methods should be more technology-driven and remove any discretions by approving authorities. An audit of the process needs to be undertaken.

  It could take six to nine months to process pioneer status and about three months to process capital allowance. Backlogs of the Export Expansion Grant of 2007 -2016 were only recently approved for payment this year, according to the Nigeria Export Promotion Council.

- **Multiplicity of Taxes and Levies:** Currently, there are 14 federal taxes, 25 state taxes and 21 local government taxes. Regulatory agencies also impose various regulatory fees in their drive to meet their IGR targets.

- **Taxes by Non-State Actors:** The practice of imposition of illegal taxes by non-state actors is prevalent, especially in the logistics aspect of industrial operations. It is a nationwide phenomenon that needs to be addressed in conjunction with the subnationals. It is a significant disruption to the logistics operations of manufacturers in the economy. A study by Price Waterhouse Coopers (PwC) revealed that there are 108 informal taxes collected primarily by non-state actors in the country. Previous interventions by the Joint Tax Board had yet to yield results.
- **Fiscal Policy Stability:** Fiscal policy stability is critical for investors' confidence in manufacturing. As policy instability disrupts investment, frequent policy changes are inimical to industrial sector performance. The fiscal policy regime should return to the seven-year tariff book for budgetary policy stability. Manufacturing investment is long-term and requires much policy stability to reduce investment risk.

  Where fiscal policy changes become inevitable, Stakeholder engagement should precede such changes. This is necessary to capture investors' perspectives in the process.
- **Institutional Reforms:** Tax authorities should promote professionalism and implement continuous training and capacity building for tax officials at all

levels. There is an urgent need to improve the work ethics of the tax authority staff.

Tax authorities should ensure the full adoption of technology platforms and measure the rate of usage by taxpayers as a basis for continuous improvement. The frequency of technology failures is of concern and needs to be addressed.

Recommendations

- Enhancing the coordination and cooperation among the federal, state, and local governments, as well as the relevant agencies and institutions, to ensure the consistency and coherence of the tax policy and administration.
- Enforcement of tax on state and non-state actors needs to be driven by proper legislation for implementation.
- The Finance Act should focus more on expanding the tax base rather than increasing taxes on businesses, as the latter would impose a high burden on the already taxed industries.
- The tax act should increase the tax base by capturing more taxpayers, especially those in the informal sector, who are not paying or underpaying taxes. This would also reinforce the stability and fairness of the tax system and reduce the tax gap and evasion.

- Access to tax incentives should be managed digitally to ease the process and eradicate heavy reliance on manual labour.
- We are pleased that the Fiscal Policy and Tax Reform Committee is working to reduce the number of taxes to a single digit. However, we also urge that any proposal from the committee should have the consensus and support of all levels of government and effective enforcement.

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