

FIRST DRAFT



NIGERIA EXPORT PROMOTION COUNCIL

Executive Summary

Of the

Report of the Impact Assessment Exercise on the Restriction of the Usage and Non-Acceptance of the Negotiable Duty Credit Certificates (NDCC) on the Beneficiaries of Export Expansion Grant (EEG) Scheme from 2009 – 2014

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NIGERIAN EXPORT PROMOTION COUNCIL
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1.1

INTRODUCTION

The Export Expansion Grant (EEG) Scheme is a form of export support incentive administered by the Nigerian Export Promotion Council (NEPC). The Scheme provides grants to exporters of fully manufactured, semi-manufactured and agricultural products. The grant is based on the confirmed value of the goods exported for which proceeds have been repatriated to Nigeria.

The acceptance of the NDCC by the Nigeria Customs Service for the settlement of import and excise duties has been bedeviled with incessant restrictions and stoppages. These restrictions and stoppages remain one of the most difficult stumbling blocks in the implementation of the EEG Scheme and constitutes a major clog in the attainment of Nigeria's export performance and by extension diversifying the nation's economic base. On 10th August, 2010, the Nigeria Customs Service issued an audit alert directing all its commands to stop the acceptance of NDCCs. Since then, there have been incessant interruptions in the utilization of the instruments by the Service despite frantic efforts by the stakeholders to ensure that the Service maintains the *status quo ex ante*.

The Council, while desirous of ascertaining the desirability of the Scheme on the economy, embarked on an impact assessment of the restriction and non-acceptance of the NDCC by the Nigeria Customs Service on the beneficiaries of the Scheme. The assessment also sought to determine the impact of the restriction and non-acceptance of the NDCC on foreign exchange earnings, capital investment and employment generation on the beneficiaries of the Scheme.

1.2

SCOPE, APPROACH AND SOURCES OF INFORMATION

The survey focused on beneficiaries of the Scheme between 2009 and 2014. One Hundred and Five (105) companies were visited in the assessment study, while 123 companies were administered the questionnaires, *which represents 38.7% of 271 companies that participated in the Scheme from 2009 to 2014 and 25.1% of the total 491 companies registered in the Scheme since 2005.*

The assessment also included a review of the performance of the beneficiaries of the Scheme in terms of turnover, export earnings, capital investment and employment generation from year 2005 to 2008, using the baseline data submitted to the Council by the beneficiaries for the various years.

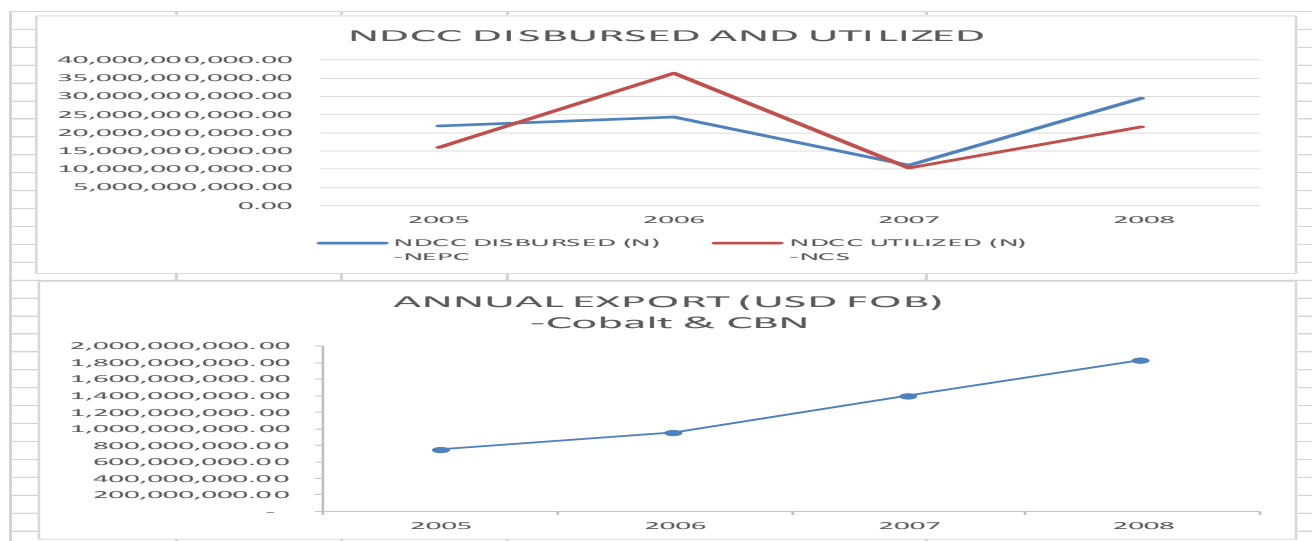
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IMPACT OF THE SCHEME: 2005 - 2008

To determine the impact of the EEG on the beneficiaries of the Scheme and the Nigerian economy, the Export Expansion Grant Implementation Committee (EEG IC) and other relevant stakeholders had carried out various investigations including field visits to beneficiary companies between 2005 and 2012. A review of the available statistics released by the Central Bank of Nigeria (CBN), Cobalt International Services Limited and the International Trade Centre (ITC) for the period 2005 to 2008 also revealed positive impact of the EEG Scheme on the economy, especially in the area of export growth.

The following positive impacts were revealed by the review:

- i) There is a clear positive correlation between EEG and growth of non-oil exports in Nigeria. The EEG Scheme has been effective in the diversification of the Nigerian economy, by way of increased foreign exchange earnings from non-oil exports, creation of employment opportunities, and value addition to primary commodities. The EEG disbursed and the corresponding Export Earnings in US Dollars are presented in the diagram below:



- ii) According to CBN records, the value of non-oil exports had increased from US\$0.7 billion in 2005 to US\$ 1.8 billion in 2008 representing an increase in non-oil exports total earnings by one hundred and fifty seven per cent (157%).
- iii) The value of the corresponding NDCC released per annum also increased from N21.92 Billion in 2005 to N29.74 Billion in 2008 representing an increase of 35.7% over the period.
- iv) The use of value addition, as one of the criteria to benefit from the EEG Scheme, has contributed to significant investments in processing, particularly in tanning of Hides and Skins, Cocoa, Rubber, Cotton, Textiles, Sesame Seed, Gum Arabic and Cashew products, as well as an increase in exports of

downstream oil derivatives, especially Lubricants, thus, enhancing the non-oil export sector as a source of livelihood to over 10 million Nigerians, especially in the agro-allied sector;

- v) Nigerian non-oil products like processed leather articles, cashew, cocoa, ginger, rubber, sesame seeds, and textiles have earned a distinction in several quality-conscious markets like the European Union (EU) and USA, in spite of their stringent regulatory standards for agricultural products; and
- vi) The EEG Scheme has facilitated the further integration of the informal sector into the mainstream economy through the proper documentation and repatriation of export proceeds by beneficiaries, as verified by the CBN, leading to improvement in the collation and analysis of relevant trade data and statistics.

1.4 KEY FINDINGS ON THE IMPACT OF NDCC UTILIZATION ON SELECTED SECTORS 2009-2014

In order to determine the impact of the restriction and non-acceptance of the NDCC by the Nigeria Customs Service on the non-oil export sector, the beneficiaries used for the survey were also grouped under the following sub sectors:

- i. Agricultural Commodities
- ii. Households and Chemical Products
- iii. Leather and Leather Products
- iv. Processed Foods and Beverages
- v. Rubber and Rubber Products
- vi. Solid Minerals
- vii. Textile and Textile Materials

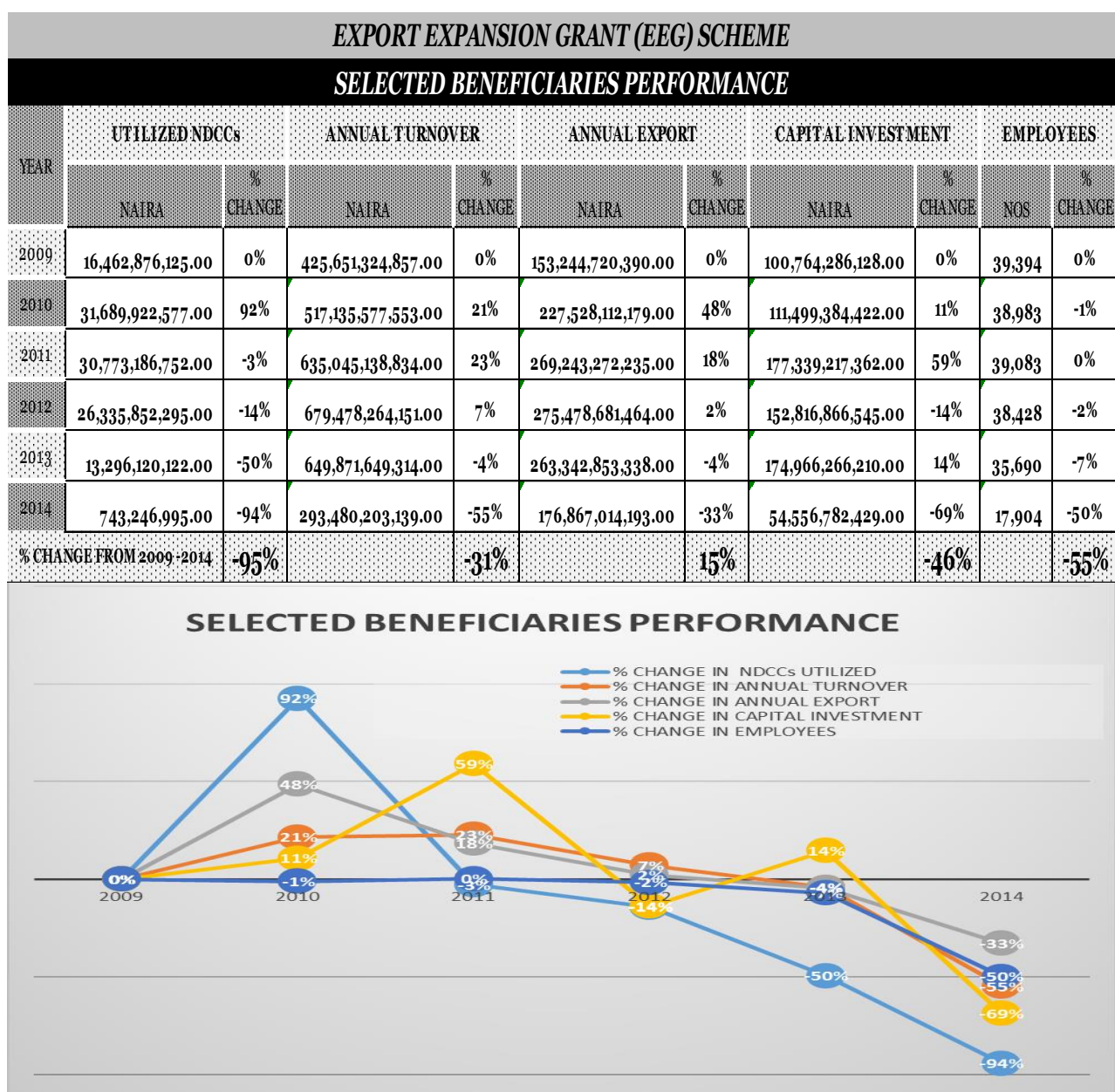
The detailed findings and observations of the various teams that conducted the nationwide survey in respect of the various sectors is presented in the Full Report.

The survey revealed that out of the one hundred and five (105) companies slated to be visited, ten (10) were not in operation while fifteen (15), about 14.2%, were confirmed not to be in existence. The survey teams could not reach eight (8) companies.

On analysis of the information provided by the companies in the questionnaires, the survey revealed that NDCC utilized, which had increased from 2009 by 87% in 2011 drastically reduced to 95% in 2014. The performance of the beneficiaries also got to a peak in 2011 and thereafter started experiencing decline. Between 2009 and 2011, Annual Turnover increased by 49%, while Annual Export and Capital Investment experienced an increase of 76% respectively. However, due to the restrictions on the utilization of NDCC, which started from August 2010, Annual Turnover decline by 31%, while Capital Investment decline by 46%. Due to the remarkably growth in the exports, as a result of the success earlier recorded by the utilization of the NDCC and

the commitments to overseas buyers, the effect of the restrictions on exports was not observed until 2013. The Annual Export experienced a reduction of 4% in 2013 and became worse with a reduction of 33% in 2014. The most striking negative impact of the restrictions in the utilization of NDCC is the massive loss of jobs. ***The total employment of the selected beneficiaries which stood at 39,394 in 2009 drastically reduced by 55% in 2014!***

The review therefore revealed a positive correlation in the changes in NDCC utilized and the changes observed in Annual Turnover, Annual Export, Capital Investment and Employees for the period covered by the survey. The table and the graph below present the details statistics from the survey.



The backlog of claims in the Scheme has gone beyond the conventional claims applications undergoing the normal EEG administrative processes but are yet to be approved and released to beneficiaries. It also includes outstanding Negotiable Duty Credit Certificates (NDCCs) yet to be utilized by the beneficiaries and claims of exports carried out by the beneficiaries within the period yet to be called for by the Council. It is pertinent to note that as a result of the non-conclusion of the EEG review, which commenced since 2010, there is no clear position as to the extant guidelines for 2014 exports and as such the Council is yet to request for submission of claims for 2014 and 2015 exports.

The records of the Nigeria Customs Service and available records at the EEG Secretariat in respect of NDCCs released and utilized, a total of **N109,052,997,691.09 (One Hundred and Nine Billion, Fifty Two Million, Nine Hundred and Ninety Seven Thousand, Six Hundred and Ninety One Naira, Nine Kobo)** is estimated to be the value of unutilized NDCCs in possession of the beneficiaries.

The outstanding claims with the Council, estimated to be a total of **N123,537,208,870.26 (One Hundred and Twenty Three Billion, Five Hundred and Thirty Seven Million, Two Hundred and Eight Thousand, eight hundred and Seventy Naira, Twenty Six Kobo Only)**, include claims approved by the EEG IC but yet to be approved by the Ministry of Finance for issuance of NDCCs, claims already processed and awaiting approval by the EEG IC and claims being processed for approval. While a total of **N38,105,180,649.92 (Thirty Eight Billion, One Hundred and Five Million, One Hundred and Eighty Thousand, Six Hundred and Forty Nine Naira, Ninety Two Kobo)** is awaiting the approval of the Federal Ministry of Finance for the issuance of NDCC for release to beneficiaries, a total of 8423 claims amounting to **N69,883,426,523.42 (Sixty Nine Billion, Eight Hundred and Eighty Three Million, Four Hundred and Twenty Six Thousand, Five Hundred and Twenty Three Naira, Forty Two Kobo)** has been processed by the Secretariat, awaiting presentation to the EEG Implementation Committee as at 31st May, 2015.

1.6 CONCLUSION AND RECOMMENDATION.

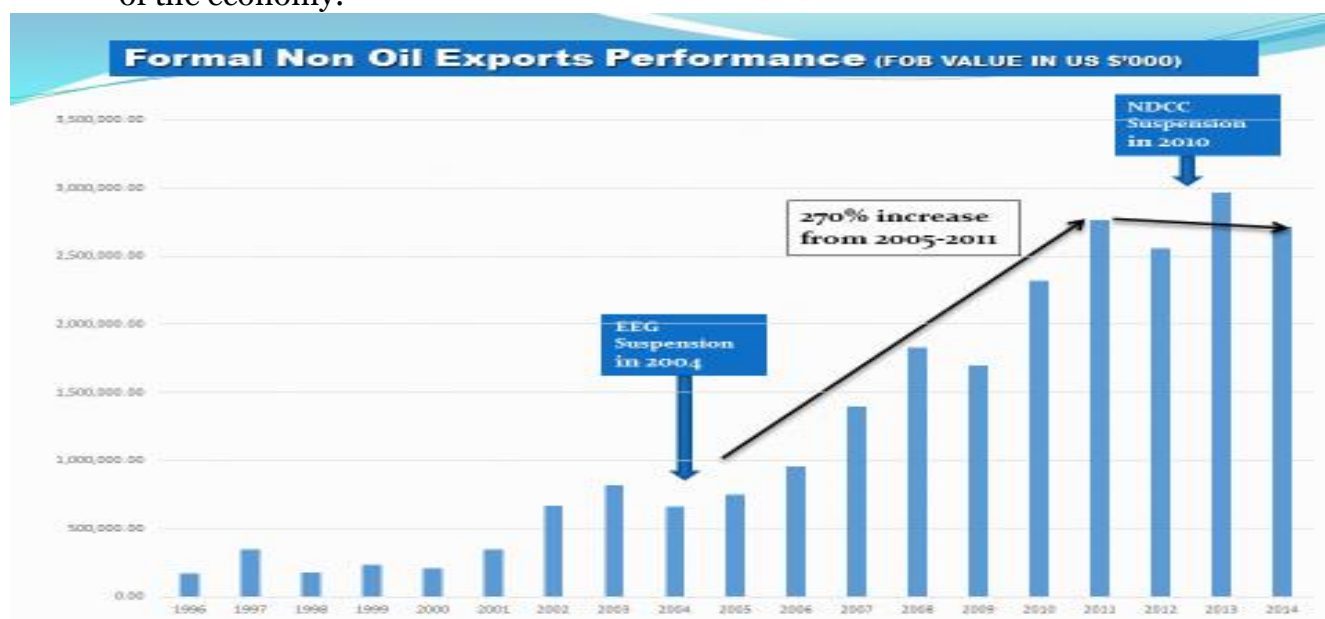
1.6.1 *IMPACT OF THE SCHEME*

To fully appreciate the impact of the Export Expansion Grant on non-oil exports, it is better to re-state its objectives and compare with available evidence.

When viewed against the background of its objectives, the Export Expansion Grant (EEG) has made significant positive impact on non-oil export performance especially during the period of smooth utilization of the NDCCs by beneficiaries.

YEAR	FOB VALUE (\$'000)	% Increase/ Decrease
2005	749,472.22	
2006	957,305.37	27.73
2007	1,398,823.20	46.12
2008	1,828,700.32	30.73
2009	1,700,000.00	-7.04
2010	2,320,833.93	36.52
2011	2,765,290.41	19.15
2012	2,561,243.65	-7.38
2013	2, 970, 107.35	13.77
2014	2, 714, 188.34	-8.62

- a. Statistics from individual companies from the impact assessment carried and the ones released by Central Bank of Nigeria (CBN), and Cobalt International Services Ltd (Cobalt) reinforces the conclusion that, Nigeria's non-oil export is not only growing, the markets and products have been diversified. The growth as per the table above occurred when NDCCs utilization was unhindered. No doubt, the utilization of the Certificates and otherwise has been a critical factor behind both the positive and negative performance of the non-oil export sector of the economy.



- b. The survey carried out also provided ample evidence that many companies have utilized their EEG to procure more machinery to expand their production for export, and thereby generating more employment. For example at the peak period (2012) the seven sample sectors had a total capital investment of over N152.816 billion and had generated employment of 38, 428 workers. This

however went down to N54.556 billion for capital investment and 17, 904 workers in 2014. This was equivalent to 64.3% and 53.4% decline respectively for the period under review.

- c. Report from the last revalidation exercise conducted in 2008 by PricewaterhouseCoopers (PWC) on companies benefiting from EEG, revealed that substantial number of Nigerian Exporters had cultivated the habit of keeping proper records of their transactions, and are more organized unlike in the past. The redesigned EEG does not admit of any transactions that are not transparent, or done without proper and adequate documentation.
- d. The use of value addition, as one of the criteria to benefit from the EEG Scheme, has contributed to significant investments in processing, particularly in tanning of Hides and Skins, Cocoa, Rubber, Cotton, Textiles, Sesame Seed, Gum Arabic and Cashew products, as well as an increase in exports of downstream oil derivatives, especially Lubricants, thus, enhancing the non-oil export sector as a source of livelihood to over 10 million Nigerians, especially in the agro-allied sector;
- e. Nigerian non-oil products like processed leather articles, cashew, cocoa, ginger, rubber, sesame seeds, and textiles have earned a distinction in several quality-conscious markets like the European Union (EU) and USA, in spite of their stringent regulatory standards for agricultural products; and
- f. The EEG Scheme has facilitated the further integration of the informal sector into the mainstream economy through the proper documentation and repatriation of export proceeds by beneficiaries, as verified by the CBN, leading to improvement in the collation and analysis of relevant trade data and statistics.
- g. There was significant increase in job creation. EEG beneficiary companies employed 105, 220 in 2005, rose to 211, 291 by 2010. However from 2011 it went down to 183, 823 and 159, 926 in 2013 due to interruption of the Scheme.
- h. From 2009 to 2010, there was an increase in the value of NDCC utilized by the NCS from N16.4 billion to N46.3 billion, representing 182% increase. Regrettably from 2010, there has been a steady decline in the value of NDCC accepted for utilization by the NCS to N7.4 billion in 2014. This represents 84% decline from the value utilized in the year 2010.
- i. The country's export earnings has continuously been experiencing a downward trend. There was a decline of 7.4% from \$2.7billion in 2011 to \$2.5 billion in 2012. The export earning further went by 8.62% in 2014 to \$2.71 billion as against \$2.97 billion of 2013.
- j. The Council has also experienced a downward trend in the number of beneficiary companies which might likely suggest that some of the companies are shutting down or have stopped exporting. From 2009 to 2011, the number of EEG beneficiaries increased from 166 to 194 companies, i.e. 16.4% increase;

while from 2011 to 2013, the figure has reduced from 194 to 147. This represents a decline of 24.2% in the number of EEG beneficiaries companies.

- k. It is difficult to adequately quantify the exact losses to the economy at large and individual exporters, which resulted from sudden delay and or “suspension” of the EEG scheme. International trade is based on contracts, and once any of the inherent variables in the contract is defective, the performance of such a contract will be adversely hindered, in addition to credibility problem which may affect future transactions.
- l. The assurance of benefiting from the Export Expansion Grant (EEG) has motivated many companies to invest in production for export. Some had already negotiated and signed their export contracts with the grants factored into them. This non-release and non-utilization of the NDCCs had shattered such dreams. Besides, such actions are already sending wrong signals to the International Community that we are incapable of sustaining our policies for any reasonable length of time.
- m. Already, feelers from the business community upon this recent development and this survey confirmed our fears as there are indications of uncertainty and loss of trust among our trading partners resulting in loss of foreign exchange earnings.

It is important to mention that in spite of the analysis provided in this report, we wish to observe that the fortunes and misfortunes of non-oil exports cannot be attributed only to EEG and or non-utilization of NDCCs, as there are several other variables influencing it negatively or positively. All these factors have combined to make export business in Nigeria very difficult, and our products less competitive in international markets. The EEG is currently the only functional incentive scheme that tends to mitigate these adverse circumstances.

1.6.2 CHALLENGES

The Scheme in itself has other inherent challenges bedevilling its smooth running, that is, apart from the non-utilization of the NDCCs and they include the following:

- i. Paper-based export documentation and procedure resulting in delay in data collation and confirmations: “one-stop-shop” may not be the answer. This could be resolved with the single window concept as being operated by the NCS on the import side.
- ii. A very large backlog of EEG claims, arising from institutional interruptions, or disruptions and suspensions of the Scheme, at different periods of time as presented in the submission.
- iii. The lack of consistency and predictability in the application of the EEG Scheme. The Scheme had not operated smoothly for more than two years without an interruption or introduction of policy, such as the use of Bank Guarantee for collection of NDCCs, payment of 7% to Customs prior to utilization of certificates etc.

- iv. The restricted application of the Negotiable Duty Credit Certificates (NDCCs) which makes Nigeria Custom Services to assume it is losing substantial amount of revenue has also contributed greatly to the problem bedeviling the Scheme.
- v. Poor or inadequate documentation submitted by the beneficiaries also causes delay in processing and to some extent contributes to the generation of backlogs of claims applications pending with the Council.
- vi. Actions or inactions of other agencies in the processing chain is another challenges affecting the Scheme especially in terms of processing of claims. The full process circle for the EEG involves inputs and actions by several agencies. Once there is a disruption in the process flow, its causes delay in beneficiaries getting their claims paid on time or paid at all.
- vii. Deliberate attempt by some exporters to circumvent extant guidelines, thereby leading to aversion to inspection of company facilities or validation of claims. While other resort to occasional blackmail by some stakeholders and sometimes by those who have no stake in the Scheme.
- viii. Lack of funding for the administration of the Scheme to enable to the carryout most of its statutory activities like maintenance of the software for the EEG processing, engagement of consultant/audit firms to validate claims, factory inspection exercise, holding of regular meeting etc. All these and so many activities are funded from the resource of the Council which is not adequate.

1.6.3 THE WAY FORWARD

The following recommendations are herewith submitted as the way forward to resolve the current problem hindering the smooth running of the Scheme.

- a. Complete digitization of the EEG processes that will encompass an end-to-end web-based application. The single window platform of the Nigeria Customs Service under the aegis of the Nigeria Integrated Customs Information System (NICIS) should be integrated to the web-based application that will be developed for the Scheme. The NICIS application should also be replicated on the export-side to allow for a seamless process.
- b. The need to carryout intensive programme of enlightenment on the operations of the Scheme cannot be overemphasized especially in the light of the misconception about the administration and implementation of the Scheme.
- c. It is also recommended that the CBN reverses its directive on the Export Proceed Retention to enable exporters have access to their repatriated export proceed.
- d. That provision of budgetary allocation should be provided in the annual appropriation by the National Assembly for the utilization of the NDCCs. Once it is incorporated in the budget; it will go a long way in addressing to issue of acceptance or non-acceptance by the NCS or any other agency directly involved

in the utilization chain. It will also resolve the issue of recognizing NDCCs as an integral part of revenue collected by Nigeria Customs Service.

- e. Coupled with the above is the need to expand the usage of the Negotiable Duty Credit Certificate to include payment instruments for other Government collectibles, such as income tax, VAT etc. This can be administered using the existing framework for payment of import and excise duty. FBIR to be included to work out the modalities for its implementation
- f. That an acceptable timeframe of 5 years for policy implementation should be adopted before any review. This will allow for the achievement of maximum impact of the policy.
- g. Review and adopt the funding options of the administration of EEG as contained in the review proposal developed by the Council.
- h. Adoption of the review proposal developed by the Council with a view to streamline and improve the Scheme to make **Affordable and Sustainable**, while at the same time improving on transparency and accountability in the EEG Administration. The review is also targeted at achieving an efficient and independent administration of the Scheme.