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# Export Promotion Incentives: Is Nigeria running on the spot?

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Nigeria has never disguised its desire to promote exports. Indeed, this year marks the 39th anniversary of export promotion as a formal objective of successive Federal Governments in Nigeria. It is noteworthy that Nigerian Export Promotion Council (NEPC), as the "arrowhead" of Government's drive in this area, was set up since 1976.

NEPC has sought to make the non-oil export a significant contributor to Nigeria's GDP by facilitating exports to promote sustainable economic development. Given that its overall strategy is to diversify the productive base of the economy away from oil and to foster market -oriented, private sector-driven economy, this strategy now aligns with the overall economic agenda of today's Federal Government to intensely grow revenue from non-oil sources within the economy. Tax, as a significant source, makes Federal Inland Revenue Service (FIRS) to be feeling the heat on this already.

From the rebased Gross Domestic Product (GDP) figures, the oil sector contributes only about 15.9% to the entire GDP, leaving the remaining 74.1% to be shared among the sectors (the non-oil sector); i.e. agriculture, services, manufacturing, telecoms, etc. This is a gradual reversal of the initial trend in the GDP proportions between the oil and non-oil sectors. If these percentages are real as presented, then it is obvious that the potential for enhanced non-oil tax revenue can be tapped more significantly.

To complement its export promotion drive, the Federal Government, has, over the years, set up various incentive schemes for companies whose business is export focused. The incentives range from tax exemption to duty drawbacks as well as other forms of grants. Some of the incentives were those set up in 1986, under the Export Incentives and Miscellaneous Provisions Act. These included:

- Export Development Fund
- Export Expansion Grant
- Export Adjustment Scheme Fund

Out of the above schemes, the only one in operation till 2013 is the Export Expansion Grant (EEG). It was re-designed in 2005 and now administered by the Nigerian Customs Service (NCS). EEG is a grant issued to non-oil exporters to reduce production, distribution and logistics (Production) costs which will enable them compete effectively in the international market since production expenses will naturally impact product price. It was expected that goods from other countries with cheaper production costs would ordinarily sell cheaper than those exported from Nigeria.

The grant ranges from 10 per cent to 30 per cent of the Freight On Board value of the products being exported with a confirmation that the export proceeds have been repatriated. The amount received by the exporter also depends on the categorization of the exporter among others.

Prior to the 1999 fiscal year, the EEG was paid to beneficiaries in cash.



However, from 1999, the grant came in form of Negotiable Duty Credit Certificates (NDCCs) issued by the NCS. The NDCC is a negotiable instrument that can be used to settle or reduce import and Excise Duties. Accordingly, it offers the following benefits to the exporter:

- enhances the ability of such exporters to reduce overhead costs given the potential to reduce or eliminate incidence of import duties on products used by such exporters in their production
- use of the NDCC as security to obtain loan from banks.
- given the negotiability of NDCC, an EEG can be transferred from the original beneficiary to third parties (up to a maximum of three transfers). Thus, where the exporter has no import duties payable, it could still benefit from the NDCC.

This was how the EEG operated and/or administered between 2005 and 2013. In 2013, the EEG was re-designed but not long thereafter, was suspended for another review exercise following allegations of abuse. It is on record that the scheme was suspended and reactivated 8 times between 2005 and 2013. The last suspension was the August 2013 suspension. The NCS no longer honours the NDCC. This has triggered the following adverse consequences:

- challenges of loan repayment in respect of funds borrowed by exporters from financial institutions for export on the strength of the NDCC
- incidence of bad loans in the hands of the bank since the NDCC collaterals are no longer honoured
- potential non-competitiveness of products exported from Nigeria in the international market. It is expected that failure to access the EEG cushion would impact product pricing as payment of customs and excise duties would need to be reflected in the pricing structure
- outright failure of the export business and attendant impact on the personnel employed in those operations

The reality is that Nigeria cannot remain a consumptive economy. It must produce. It cannot abandon mid-stride its export promotion agenda. Policy flip-flops, inconsistency or sudden reversals do not promote confidence in the economy or its managers. It results in un-intended socio-economic, commercial and financial agonies for those impacted by such reversals. Whilst it is appreciated that the operation of EEG has an impact on the cashflow of the Federal Government, it becomes imperative that an incentive scheme, which is consistent with the drive to improve fiscal receipts from non-oil sources without eroding the level of those receipts through cash payouts, should be developed.