NOV 23, 2021

Nigeria Update

Risk and Return: Sectoral Review

Automotive industry

For the benefit of: Bernice Bailey

INTRODUCTION

Nigeria is now six-years into a ten-year automotive policy. Implementation has been highly uneven, harried by swings in political will and the economy. It will not pick up pace before 2024. But car ownership is low, imports are expensive, and Nigerian public and private entities are pushing mobility solutions that require vehicles at scale.

Current situation

Nigeria has an estimated 12.6 million vehicles for its 211 million population[1]. South Africa has a similar number of vehicles for its 70% smaller population. Nigeria's automitive council (NADDC) has licensed 59 manufacturers/assemblers with combined capacity to produce 470,000 units a year, but just 30 of them have functioning plants.

Drivers

A recession in 2016 changed the complexion of Nigeria's vehicle market by unforeseen proportions. Prior rapid sector growth was quickly reversed while political decision-makers looked elsewhere – three critical components of the National Automotive Industry Development Plan (NAIDP) were not implemented in the circumstances.

Outlook

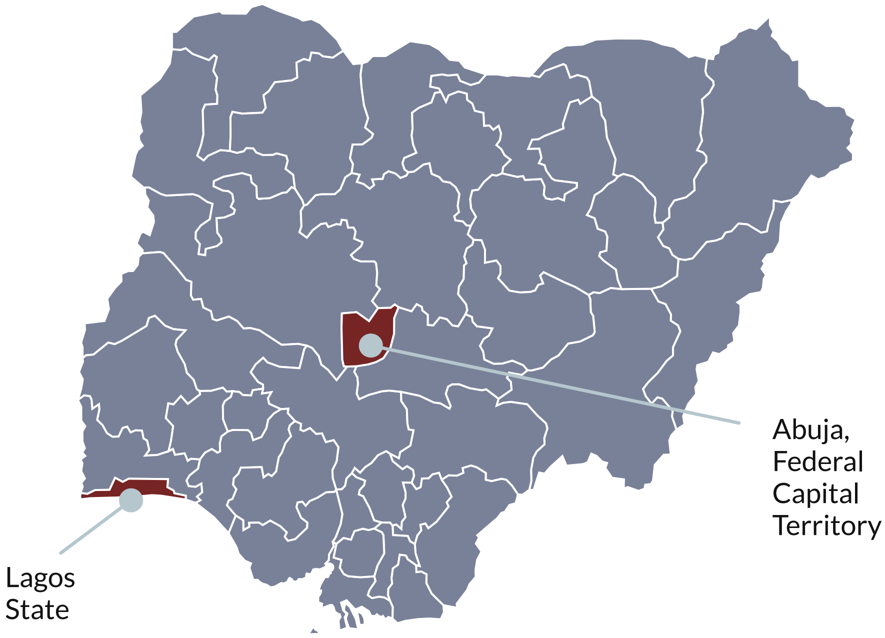
Enabling environment reforms are more likely to occur after 2024. President Muhammadu Buhari completes his final term in 2023 and the NAIDP elapses the following year. Meanwhile, signs of growth in the mobility industry point to increasing demand for new cars – especially in Lagos.

RISK ASSESSMENT

Scale problems encountered by manufacturers in neighbouring markets are not characteristic of Nigeria. However. other enabling environment pillars are not yet in place. Sectoral reforms outlined in the medium-term sectoral development policy that would materially impact incentives for vehicle assembly locally have not been implemented. Market information and counterparties require substantive due diligence. The political and policy calendar make meaningful reforms before 2024 unlikely. Tax measures are a possible exception, which could shape competitiveness and accessibility of imported vehicles.

SONGHAI ADVISORY

Sub-Saharan Africa | Local Knowledge | Transformative Investment

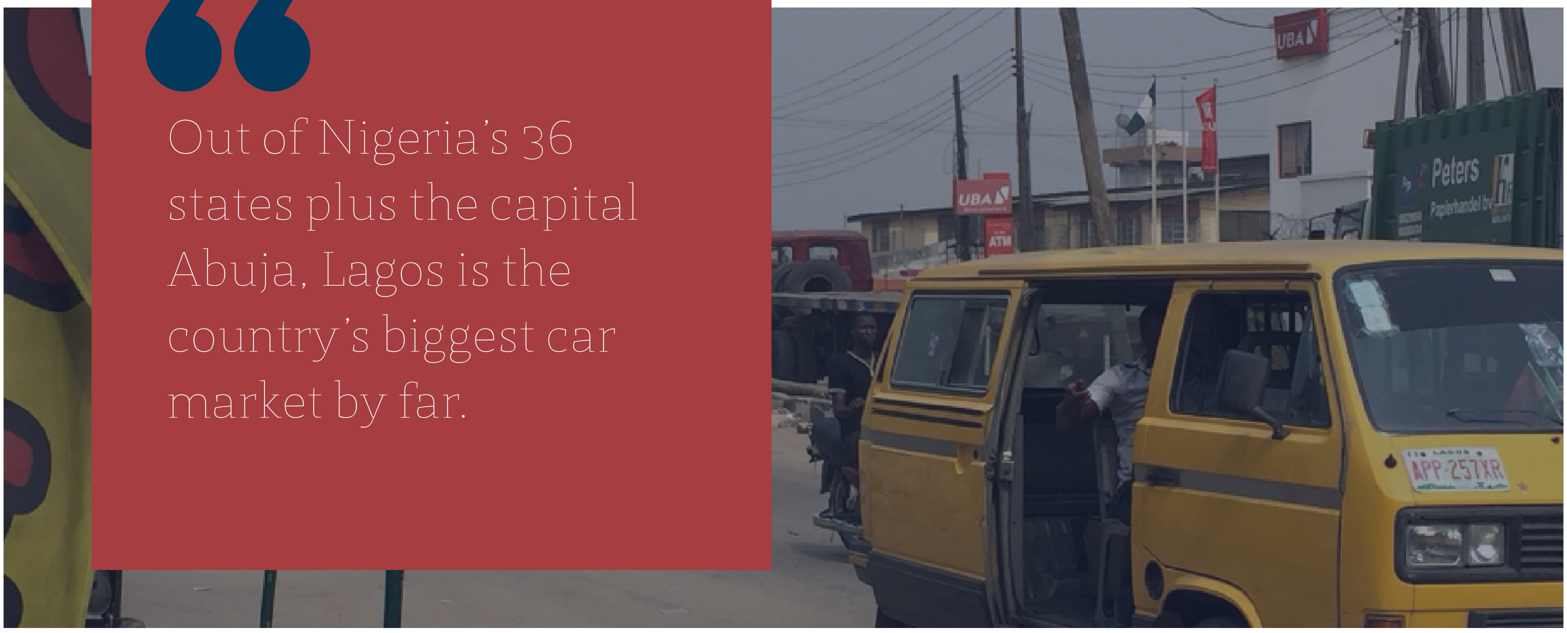


Nigeria's automotive industry contributed only 1% of manufacturing output before Covid.

To put that in perspective, that was 30% in South Africa.

We estimate that there are only 12.6 million vehicles in Nigeria for a population of 211 million. Lagos is the prime market.

Official data suggests that this state alone accounts for more than 60% of all new license plates issued in the country. It is distantly followed by the capital Abuja with 11%.



> Out of Nigeria's 36 states plus the capital Abuja, Lagos is the country's biggest car market by far.

Speed bumps and a clear destination

Nigeria put forward the National Automotive Industry Development Plan (NAIDP) in June 2014 during then-President Goodluck Jonathan's Peoples Democratic Party (PDP) administration. The 10-year scheme featured proposals to stimulate demand for vehicles that would be assembled in the country such as raising import tariffs for fully built up (FBU) cars from 20% to 70% and subsidising vehicle financing.

Jonathan had just begun implementing the NAIDP when he lost a re-election bid in March 2015 to Muhammadu Buhari of the All Progressives Congress (APC). Even so, the Buhari administration continued to apply the plan and tariffs were hiked in November 2015 accordingly. However, a slump in oil prices and militant sabotage in the country's oil-producing Niger Delta severely changed the economic dynamic.

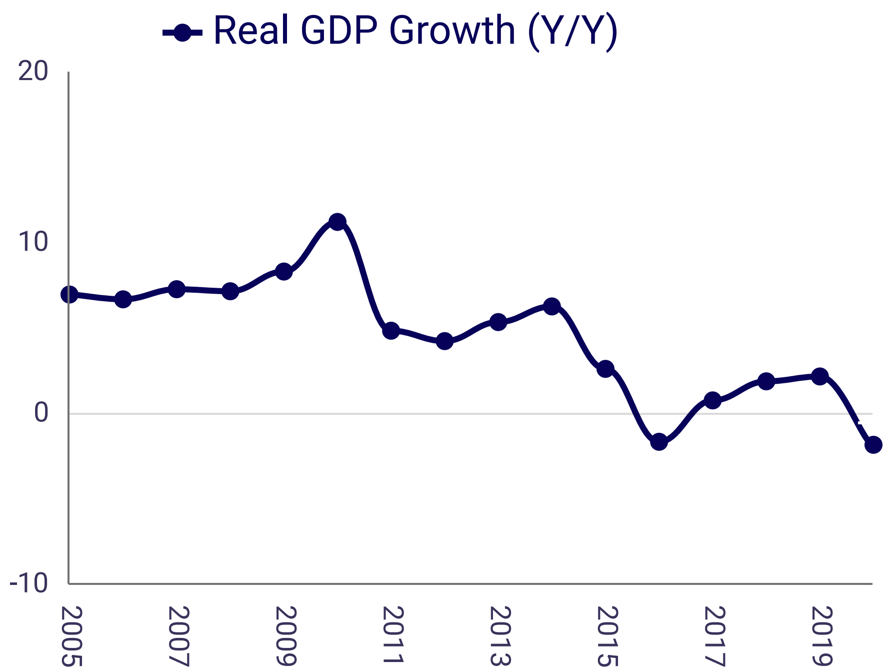
At the time that the NAIDP was drafted, annual GDP had averaged 7% year-on-year for a decade and high oil prices buoyed public spending given the product accounted for more than two-thirds of government revenue. After 2015 however, the naira depreciated within a year as oil output nearly halved and the government's petrodollar revenue dwindled. As of November 2021, the currency had fallen further from NGN165 per dollar in 2015 to NGN410, and inflation stood at 16% compared to 8% when the NAIDP was proposed in 2013.

The vehicle assembly/manufacturing industry was especially hit by the downturn as firms struggled to get dollars to import required inputs. The industry's GDP growth was 25.61% when investors were preparing for the new auto policy in 2014, but two years later it shrank by -29.01%.

The Buhari administration reacted slowly to the changing economic dynamic.

- Buhari himself was overseas on a sick leave for more than three months in 2017 and has since mostly stayed in the background while his inner circle has directed affairs.
- Parliament passed a bill to enact the NAIDP in November that year, but the president did not sign it into law.

Further, three critical components of NAIDP (outlined below) were not implemented in the circumstances. Addressing them could have significant implications on production incentives.



Justice Minister Abubakar Malami is a central figure in the Buhari administration. He comes from the same Sokoto/Kebbi region as Jelani Aliyu, who is the director-general of the National Automotive Design and Development Council (NADDC) - the primary regulator for the automotive industry.

A. Tariff measures and financing schemes

The NAIDP not only required the government to set a 35% duty and another 35% levy for FBU car imports, but to cushion demand-side constraints, it also required the government to put the proceeds of the 35% levy into a state-owned asset management company that would be established to operate a vehicle financing scheme. The tax was introduced[1] but neither the company nor the scheme were established, and inflationary pressures further priced new vehicles out of the market.

We note here that cheaper second-hand imports (known locally as tokunbo) already made up three-quarters of the market when NAIDP was developed. Last year, Nigeria imported 95,000 used passenger vehicles from the US but only 15,000 new ones.

B. Vehicle identification

It was envisioned in NAIDP that a newly introduced system for vehicle identification would curb cross-border smuggling of cars, through improved coordination between customs at the federal level and vehicle licensing authorities at the state level. But coordination did not improve as envisioned, and smuggling increased as demand for second-hand cars grew and importers turned to neighbouring ports in Benin and Togo.

The head of Nigeria's ports authority, Hadiza Bala-Usman, told parliament in June 2018, "We have recorded a drop in revenue by 20%. How many cars are being manufactured and how many Nigerians can really afford to buy brand new cars? So, the implication is that while the government is losing revenue on importation, the manufacturing or assembly plants are not achieving the aims of the policy."

C. Government procurement

Policy makers pledged to buy locally. But federal and state governments continue to prioritise imported vehicles during procurement. For example, in 2018 the Lagos state government began procuring buses from overseas for a new mass transit programme – with a target of 5,000 units.

[1]Reduced in 2021 Finance Ministry proposals

OUTLOOK AND CONCLUSION

Over the next 18 months, unsteady economic recovery alongside spending power and currency depreciation will remain top sources of risk for the auto industry. This is essentially due to the oil sector's inability to raise output due to an investment backlog. The Nigerian economy is recovering from recession in 2020. But GDP growth slowed to 4.03% from July to September this year compared to 5.01% in the previous quarter.

The level of vehicle ownership is low, particularly set against Nigeria's status as Africa's largest economy and most populous. The burgeoning mobility industry has been an important source of business for vehicle assembly/manufacturers in neighbouring markets that have more successfully established enabling market dynamics over the last five to ten years. And there are signs of growth in the Nigerian mobility industry. Bolt is now present in 24 Nigerian cities having expanded to 13 in the past year alone. In July 2020, Uber also formed a partnership with Nigerian startup Moove to finance new cars for potential and existing Uber drivers across sub-Saharan Africa. Moove raised USD23 millionin August this year to support its expansion in the country and the region.

Policy clarity could drive growth further still. However, at this time, a reform agenda for the auto industry is not a priority for the ruling APC as it prepares for 2023 general elections when Buhari's final term will end. Therefore, the impending change in government is the next feasible opportunity for an update of NAIDP. Leading candidates including former Lagos State governor Bola Tinubu, former president Goodluck Jonathan and former House of Representatives Speaker Aminu Tambuwal

GET IN TOUCH

To discuss these issues with the team, please do drop us a line: questions@songhaiadvisory.com. We are an African owned and managed company using local knowledge to advise clients pursuing or supporting sustainable and transformative economic activities across Sub-Saharan Africa. Alongside managing partners, advisors, directors and full-time consultants in the UK, Ghana and Nigeria, the Songhai team includes over 150 experts, researchers, investigators and analysts living locally in 21 countries across Anglophone, Francophone and Lusophone Africa.

SONGHAI ADVISORY

Sub-Saharan Africa | Local Knowledge | Transformative Investment