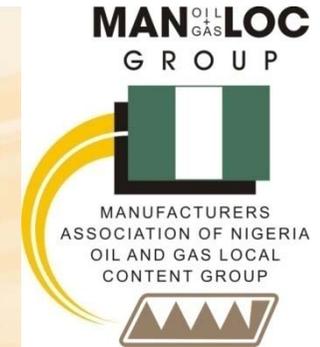
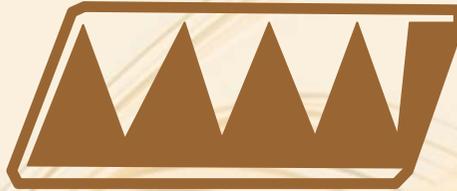


**MANUFACTURERS  
ASSOCIATION  
OF NIGERIA**



***Challenges facing the  
manufacturing/fabrication  
sector over local content  
production***

***By***

***Vassily Barberopoulos***

***Chairman***

***Manloc Group***

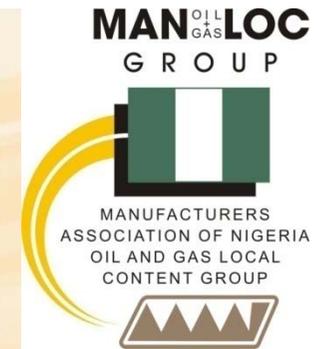
***Presented at NSE/NCDMB Workshop,***

***Port Harcourt.***

***10<sup>th</sup> July 2012***



# *General Outline*

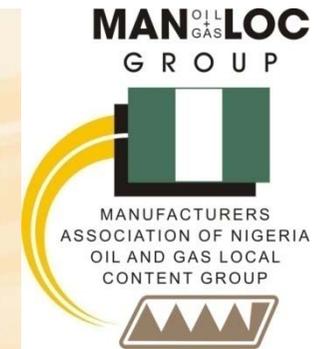


- What does MAN stand for.
- The state of the manufacturing industry.
- Local Content success through procurement policy.
- Challenges facing manufacturers.
- General thoughts.



# What is MAN ?

**“is the main voice of manufacturers’  
interest in Nigeria”**



**“Promotes, in close cooperation with its members, other organs of the Organized Private Sector, the government and other stakeholders in the economy, an enabling environment for industrial development, growth and prosperity of the society at large.”**

## **Product groupings & components required from manufacturers/fabricators (upstream)**

<b>Steel Mills</b>	<b>Corrosion products</b>
<b>Pipe Manufacturers</b>	<b>Cranes &amp; Hoists</b>
<b>Flanges &amp; Connections</b>	<b>Generators and Electric Engines</b>
<b>Boiler works</b>	<b>Substations and Transformers</b>
<b>Pressure Vessel fabrication</b>	<b>Automation &amp; Instrumentation</b>
<b>Subsea and oil &amp; gas structures fabrication</b>	<b>Fabrication of sea vessels &amp; platforms</b>
<b>Pumps</b>	<b>Sacrificial Anodes</b>
<b>Valves &amp; Gates</b>	<b>Construction &amp; Cement</b>
<b>Compressors</b>	
<b>Gas/Diesel Engines</b>	

# Product groupings & components required by IOCs from manufacturers/fabricators (downstream)

<b>Steel Mills</b>	<b>Paints &amp; Corrosion products</b>
<b>Pipe Manufacturers</b>	<b>Cranes &amp; Hoists</b>
<b>Flanges &amp; Connections</b>	<b>Generator Engines</b>
<b>Boiler works</b>	<b>Substations and Transformers</b>
<b>Tank farms and piping fabrication</b>	<b>Automation &amp; Instrumentation</b>
<b>Pumps &amp; Meters</b>	<b>Construction &amp; Cement</b>
<b>Transport Vehicles &amp; tanker fabrication</b>	<b>Plastics &amp; dispensing containers</b>
	<b>Cables</b>
<b>Valves &amp; Gates</b>	<b>Gas cylinders</b>
<b>Sea Vessels</b>	<b>Paints</b>

**According to the NC Act,  
the following sectoral  
groups of MAN are directly  
and positively affected by  
the Act**



# SECTORAL GROUPS

## CHEMICAL AND PHARMACEUTICALS GROUP

- Paints, Varnishes and Allied Products
- Industrial, Medical and Special Gases
- Petroleum Products
- Basic Industrial Chemicals



# SECTORAL GROUPS

## MOTOR VEHICLES & MISC ASSEMBLY GROUP

- Boat/ship-building (Cabotage Act)
- Electric Generators assemblers
- Miscellaneous Machine & Equipment Manufacturers
- Motor Vehicle Assemblers
- Automobile Components Manufacturers



# SECTORAL GROUPS

o

## BASIC METAL, IRON & STEEL & FABRICATED METAL PRODUCTS GROUP

- Association of Steel Pipe Manufacturers
- Foundry
- Metal Manufacturers and Fabricators
- Welding Electrode Manufacturers
- Galvanized Iron Sheets Manufacturers
- Nail and Wire Manufacturers Group
- Steel Manufacturers



# SECTORAL GROUPS

## TEXTILE, WEARING APPAREL, CARPET, LEATHER & LEATHER FOOTWEAR GROUP

- Cordage, Rope (steel or soft) and Twine Manufacturers

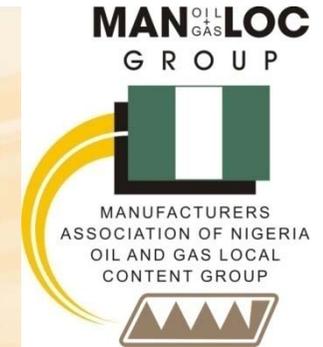
## ELECTRICAL & ELECTRONICS SECTORAL GROUP

- Electrical Power Control & Distribution Equipment
- Cable and Wire



# Original Objective of MANLOC Group

**"to set a platform for manufacturers/fabricators to promote the ideals of the Federal Government of Nigeria initiative towards local content (Nigerian Content ACT) in the Oil & Gas industry and its support into a “buy made in Nigeria” national identity whilst ensuring compliance to requisite standards."**



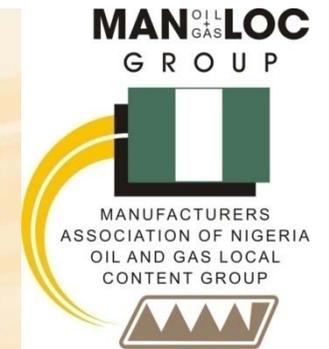
# **MANUFACTURERS ASSOCIATION OF NIGERIA (MAN)**

**IS ONE OF THE MAJOR VEHICLES TO PUSH FOR**

**LOCAL CONTENT AND CAPACITY BUILDING**

**DEVELOPMENT IN NIGERIA**





# The state of the Manufacturing industry in Nigeria

# Manufacturing represents a mere 4% of the GDP

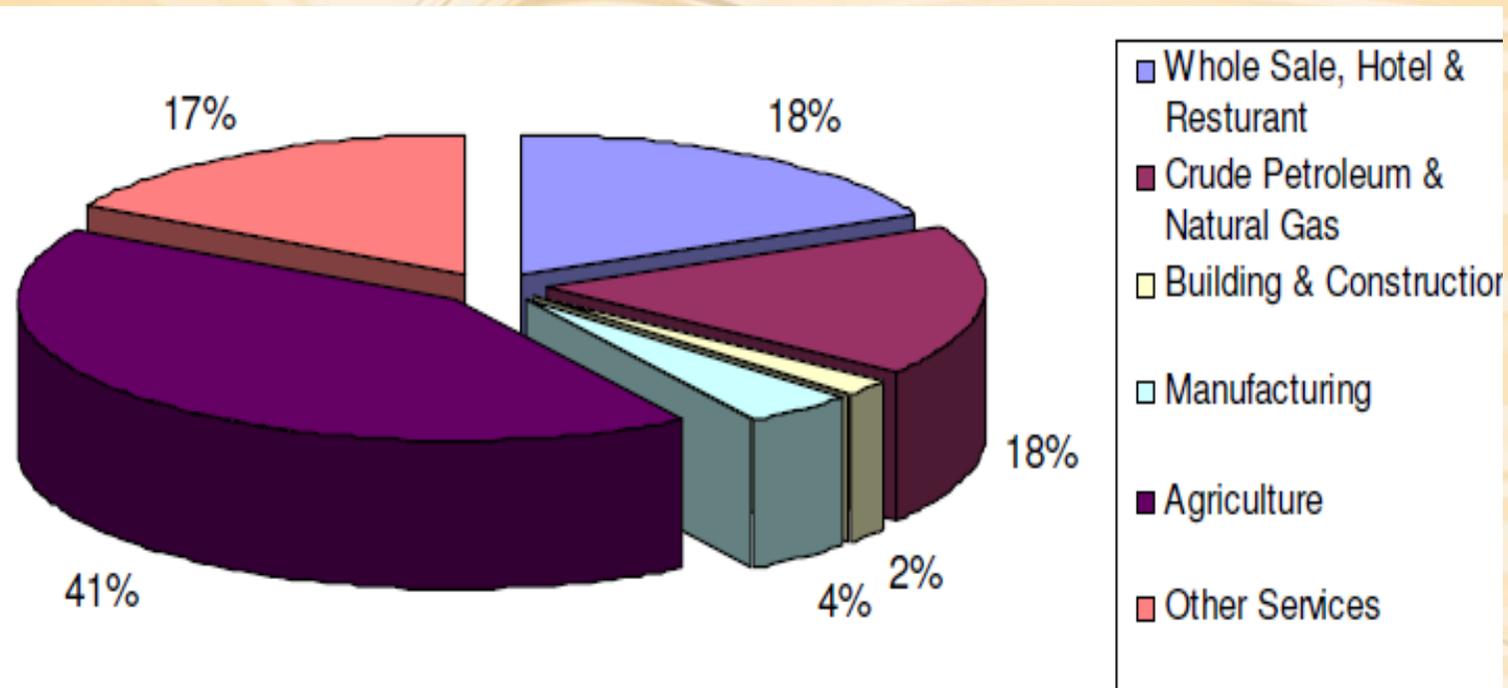
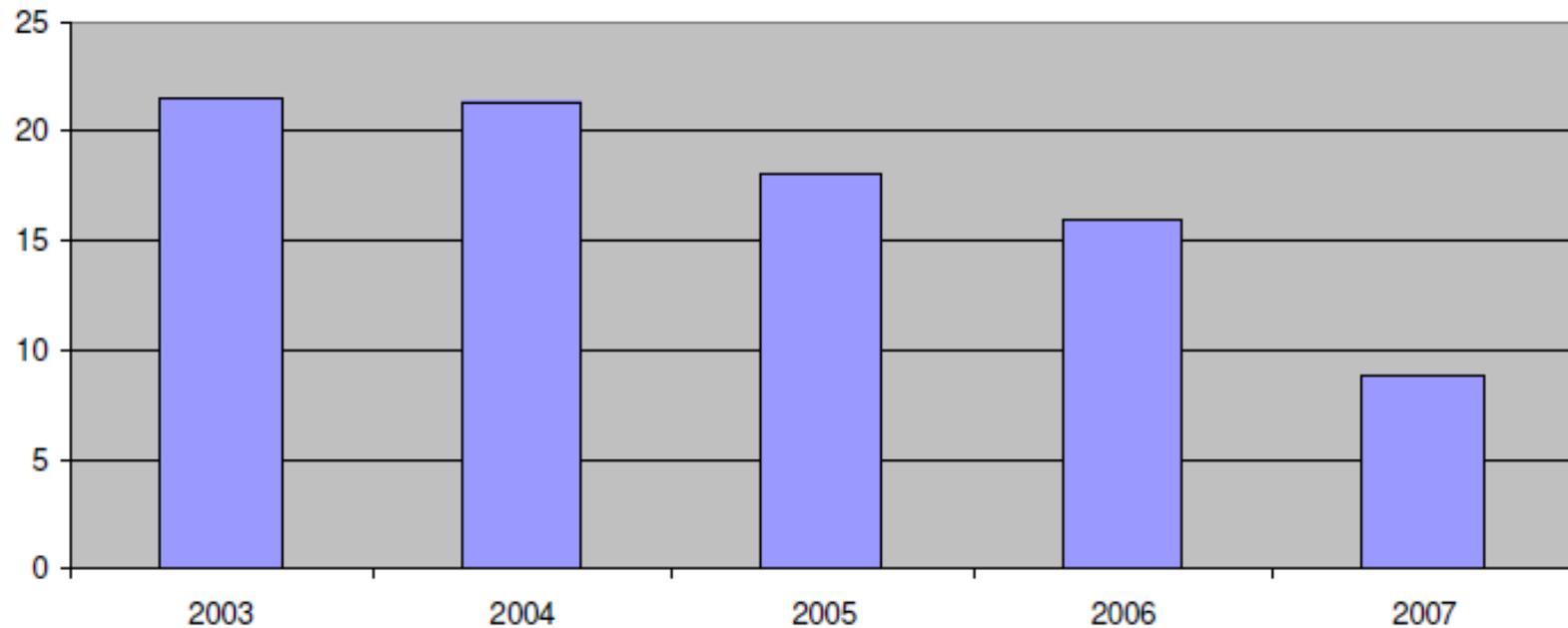
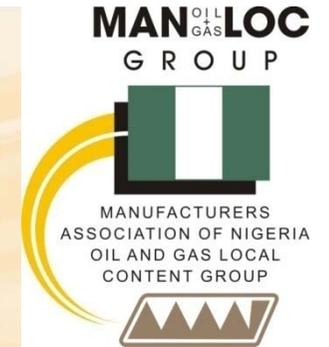


Figure 2.2: Nigeria GDP by Sector 2008 (%)

Source: National Bureau of Statistics

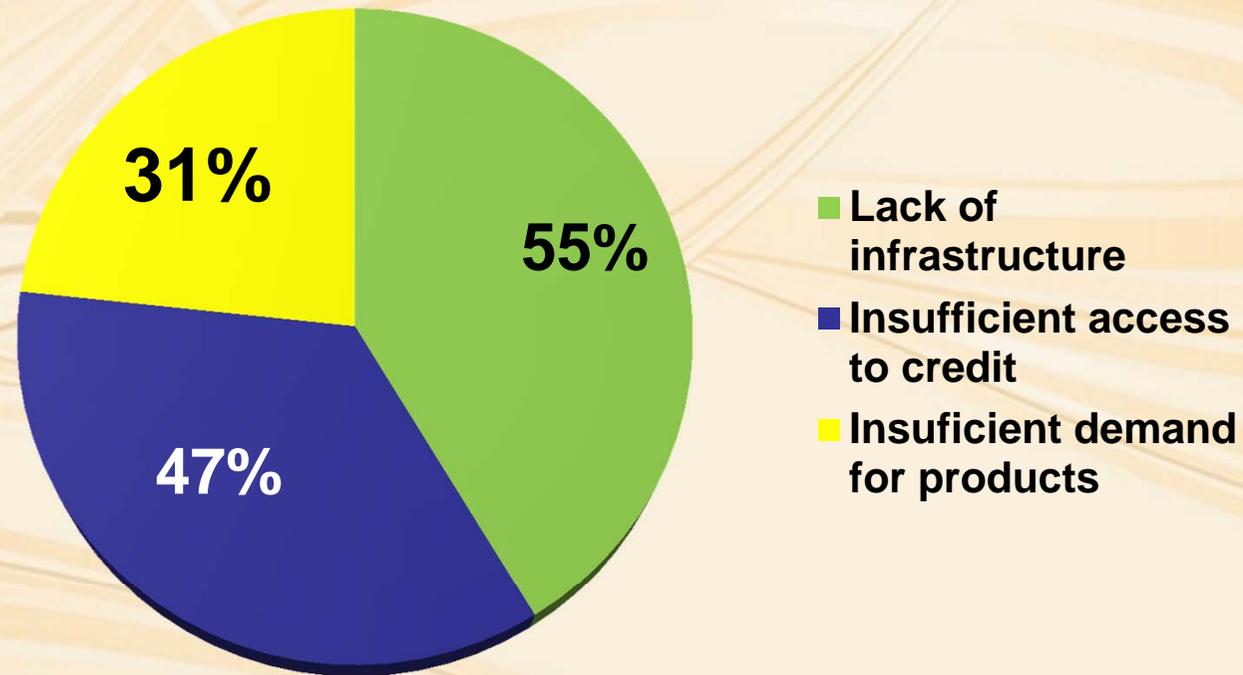
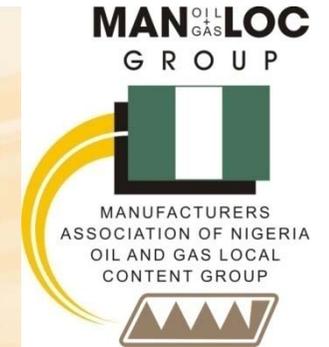
# Manufacturing growth rate has been on a constant decline



**Figure 2.4: Manufacturing Sector Growth Rate (%)**

*Source: National Bureau of Statistics*

# Major factors of concern to Manufacturers affecting growth rates.

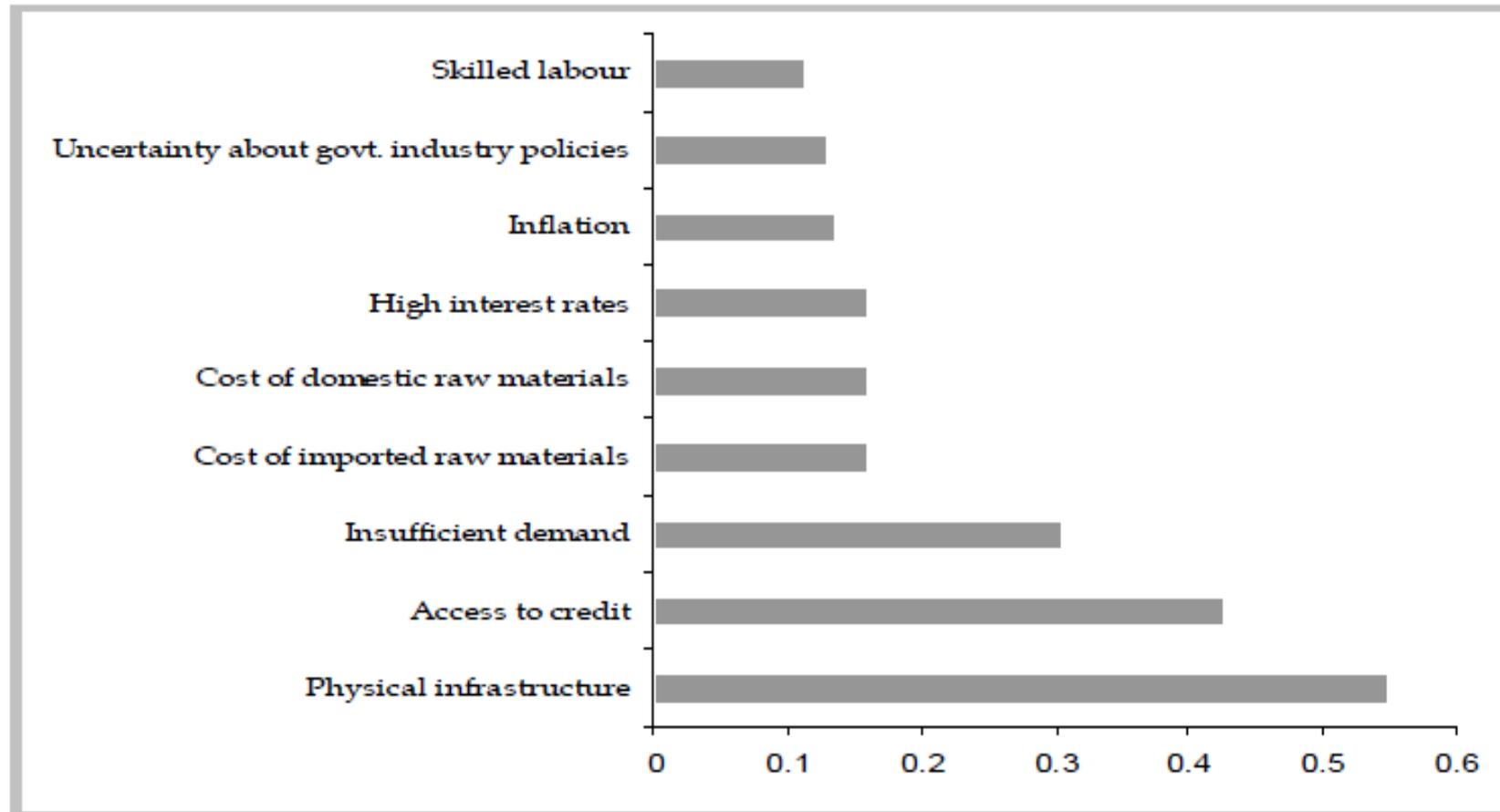


Unido survey on Manufacturing 2008

# Manufacturers specific concerns



## PERCEIVED MAIN PROBLEMS



*Note:* The chart shows the percentage of firms considering a particular category as one of its three principal constraints. [N=124]

# Capacity utilisation 1

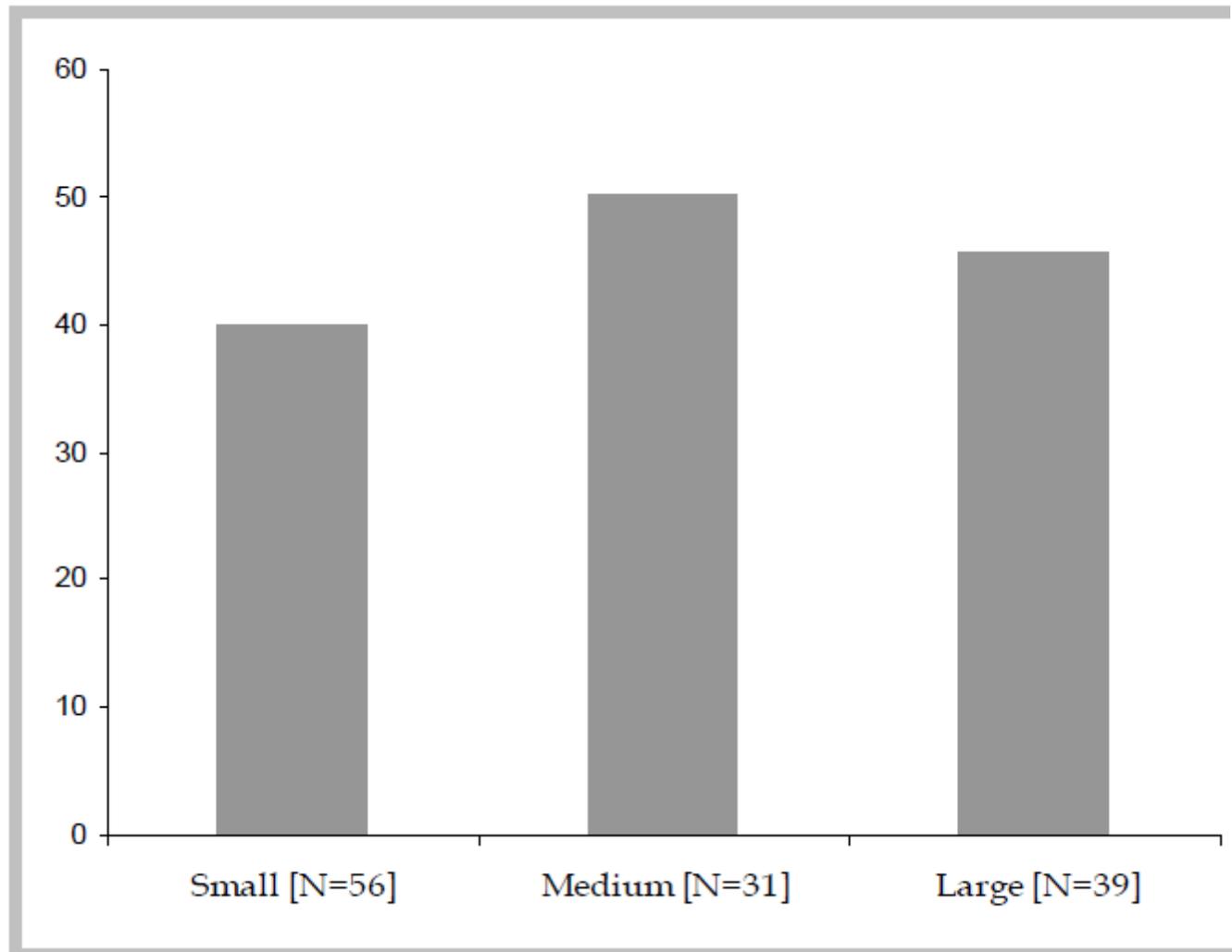
MAN<sup>OIL</sup> LOC<sup>GAS</sup>  
GROUP



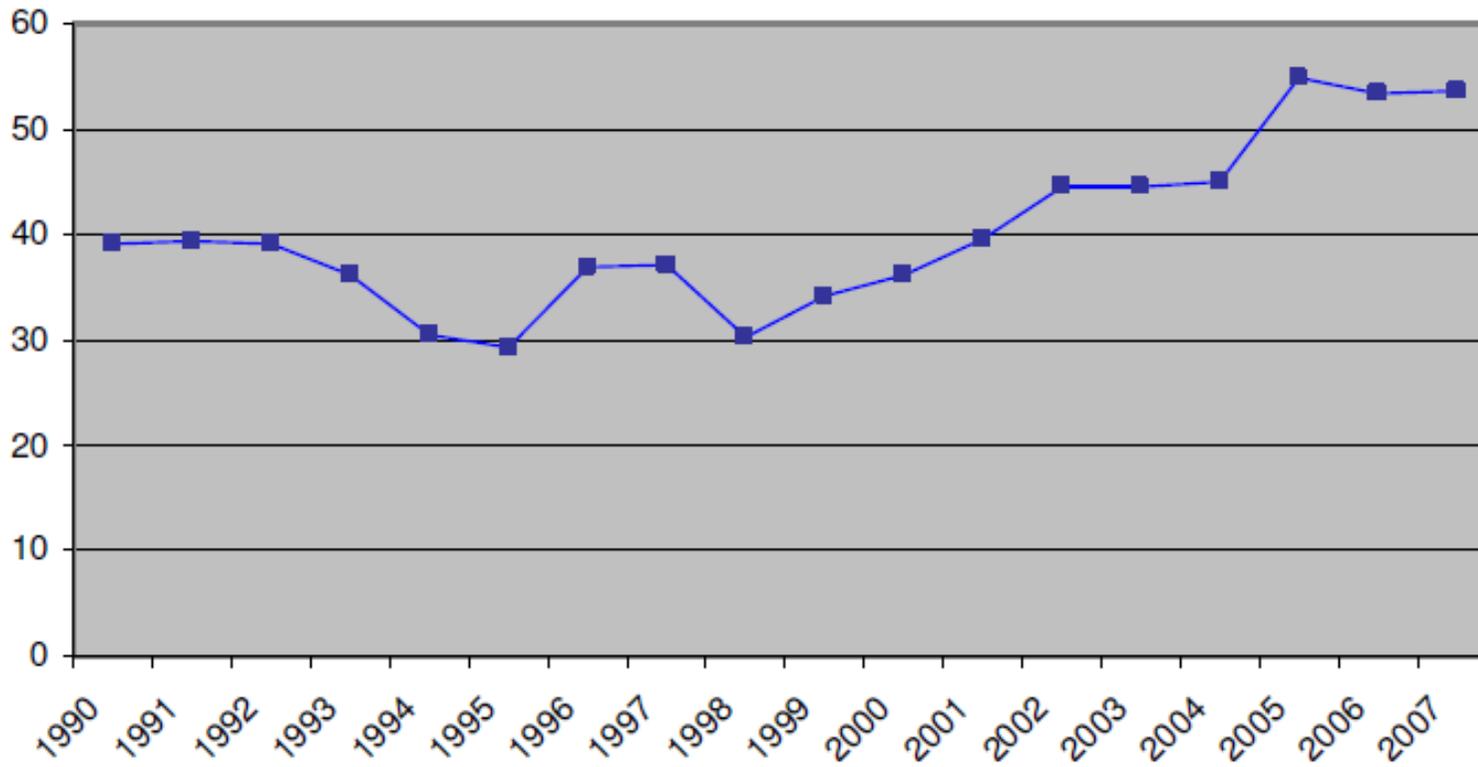
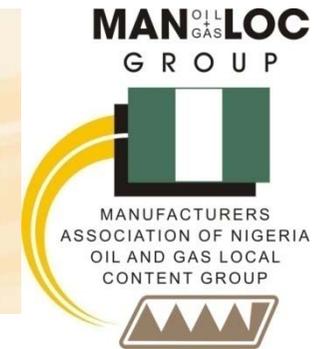
MANUFACTURERS  
ASSOCIATION OF NIGERIA  
OIL AND GAS LOCAL  
CONTENT GROUP



CAPACITY UTILIZATION, BY FIRM SIZE (%)



# Capacity utilisation 2



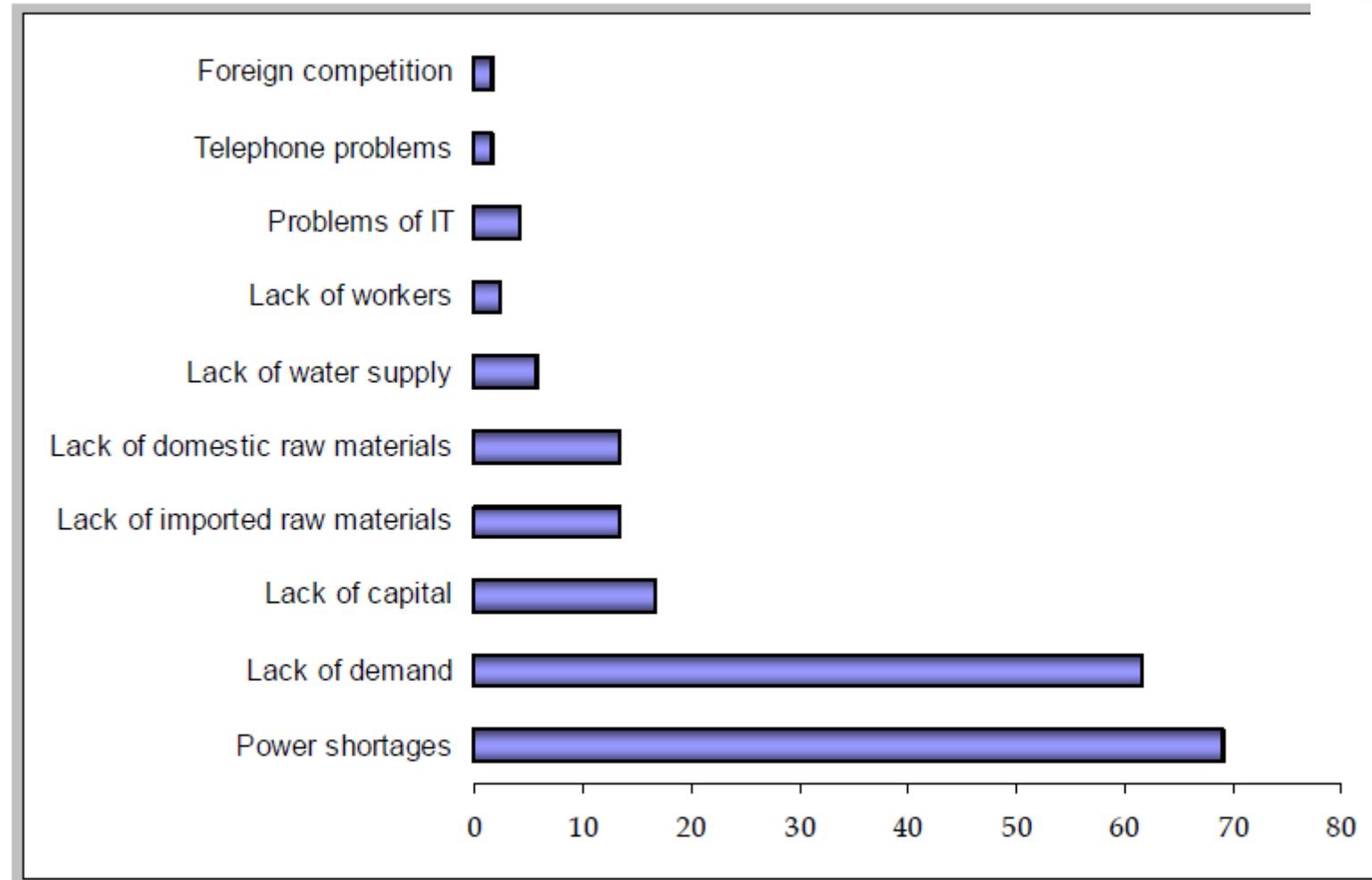
**Figure 2.3: Manufacturing Sector Capacity Utilization (%)**

*Source: Central Bank of Nigeria*



# Reasons for idle capacity

REPORTED REASONS FOR IDLE CAPACITY (%)



*Note:* Each category on the Y-axis represents one of the multiple reasons cited for idle capacity (firms were allowed to indicate multiple reasons)



## **Poorly crafted trade policies**

**Trade policies need to be changed to encourage export activities, prevent importation of finished goods and halt the present trend of closure and relocation of Nigeria's manufacturing industries. The low duty attached to import of some finished goods, leads to their cost competitiveness in comparison to locally manufactured goods.**

## **Inconsistent tariff**

**The tariff regime is comprehensive, but lacks consistency in balancing tariff regime rates on finished goods and rates on raw materials imported for the production of import substitutes. The common concern is that in most cases, the tariff rates on finished goods are lower than the rates for raw materials meant for production of the import substitutes. This situation has tended to discourage higher value-added local production. There is, however, a tendency for each investor to view the tariff regime only in the way it affects his investment directly and get special concessions.**

## **Inappropriate fiscal and monetary policy**

The design and implementation strategies of fiscal and monetary policy have failed to enhance capacity utilization and industrial growth. Government's fiscal and monetary policies are generally well intended, there is, however, some gap between policy postures and their actual implementation. The 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.

## **Import Policy leading to Import Dependence**

The delay in the clearance of imported items at the ports continues to constitute a major headache. The regular port congestion and decongestion exercise, in spite of the commercialisation of ports, is a case in point. The multiplicity of Government agencies, tariffs, fees etc creates huge added costs on imported materials. SON sometime ago requests N150,000 per container of goods coming in.

Nigeria today is still heavily dependent on imported industrial goods in both the finished and intermediate forms and over 60 percent of foreign exchange disbursement is spent annually on the purchase of industrial commodities. Import dependence has imposed severe leakages on the economy and tends to render fiscal and monetary incentives less effective.

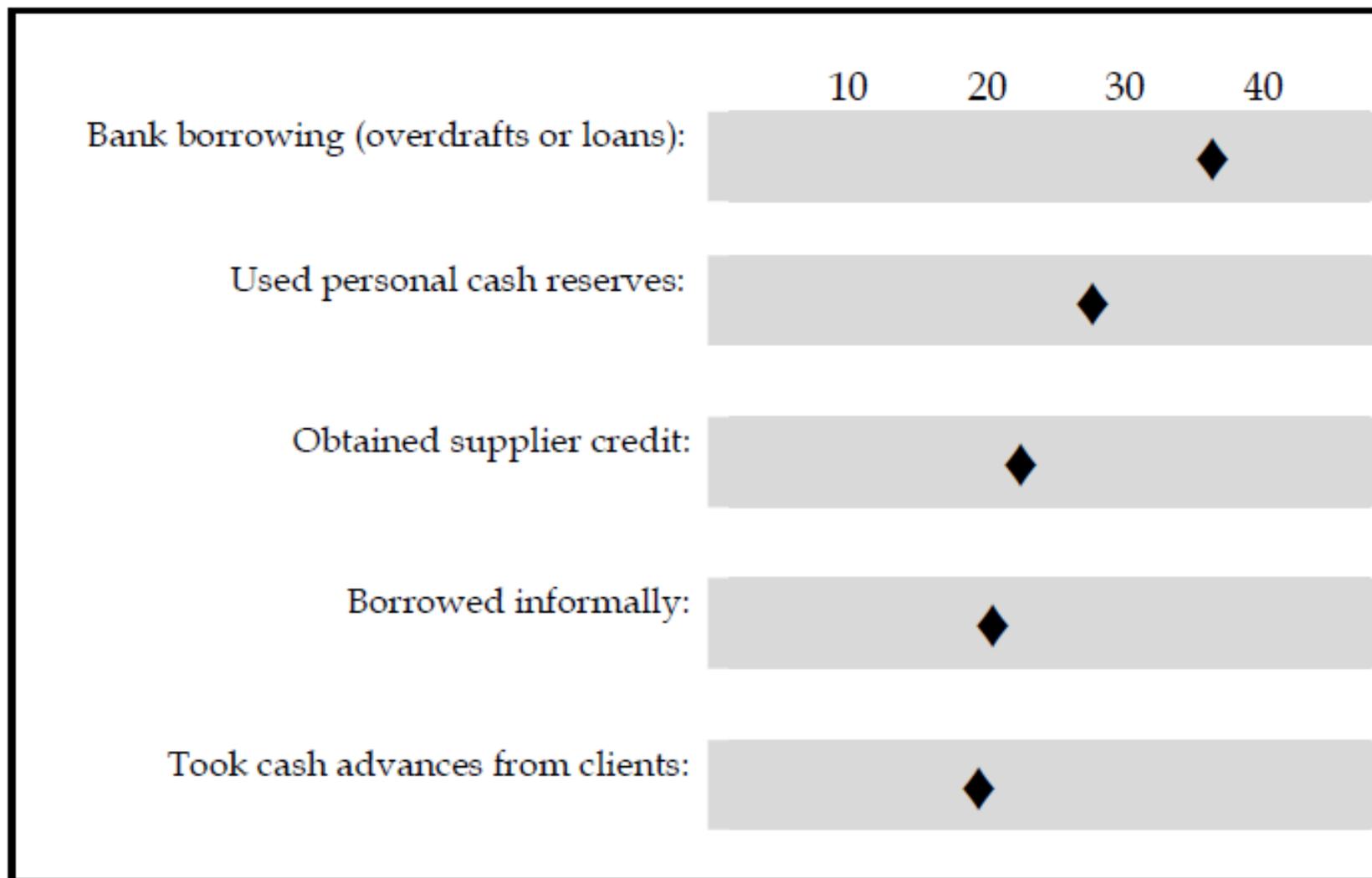
## **Competition with sub-standard imports:**

- ***Competition with sub-standard 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. It is important for the government to prevent smuggling in of illegal imports by; improving administration and management of ports, ensuring adequate number of regulatory agencies to manage the affairs of port operators, improving the quality of port handling equipment and reducing high port charges from concessionaires.***



# Liquidity problems facing the industry

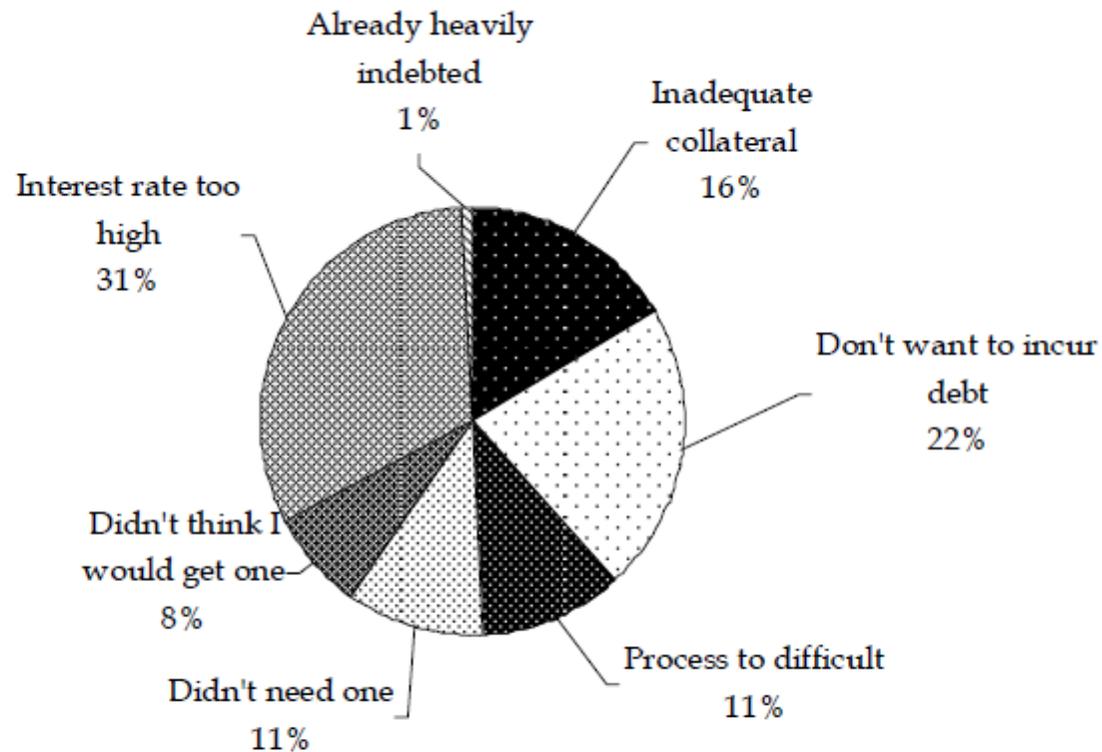
## HOW DO FIRMS RESPOND TO LIQUIDITY PROBLEMS?



*Note:* Share of firms reporting a response to liquidity problems. The total number of firms in these calculations is 101.

# Liquidity problems facing the industry

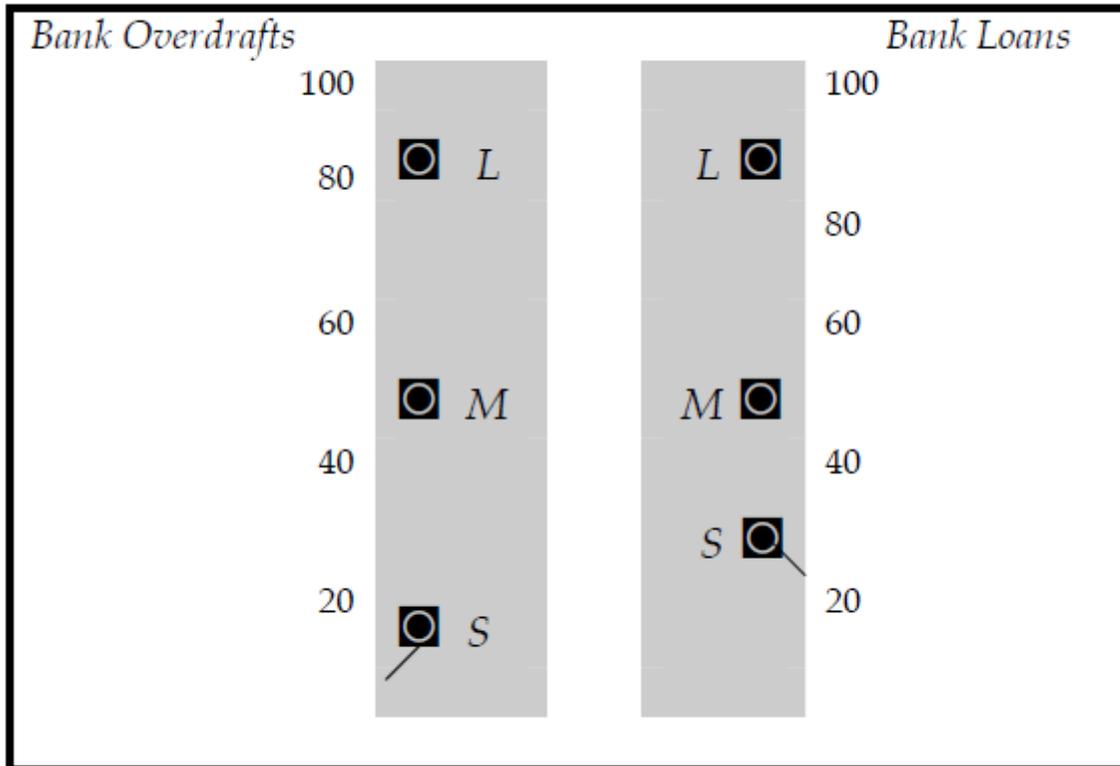
## REASONS FOR NOT APPLYING FOR A BANK LOAN



*Note:* Share of firms reporting a particular reason. The total number of firms in these calculations is 101.

# Firms rely on Overdraft facilities/loans

FIRMS WITH OVERDRAFT & LOAN FACILITIES, BY FIRM SIZE



Notes: The symbols should be read as follows, L: large; M: Medium; S: Small Data on overdrafts is based on the question; "Has

# Situation of Manufacturing in Nigeria

## **Nigeria's Manufacturing Sector Dying –MAN Chairman**

**The Chairman of the Manufacturers Association of Nigeria (MAN), Ikeja branch, Rev. Isaac Agoye, says the nation's manufacturing sector is on the throes of death and will witness total collapse if the government continues to deny it the enabling environment. Rev. Agoye disclosed this at the MAN, Ikeja branch's Annual General Meeting which was held at the Lagos Airport Hotel .**

***"Eromosele Ebhomele***

**Harsh clime forces firms into sharp practices**

**Label goods produced abroad 'made in Nigeria'**

**Shut production lines, sack Nigerians**

# ***The Result***

***Many small enterprises have closed down, while rationalization and staff layoffs are being experienced in many medium and large-scale establishments. As depicted in the Unido survey, 30 % of firms have closed down, 60 % are ailing and only 10 % are operating at a sustainable level.***

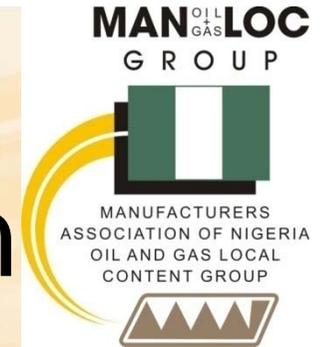
**With the introduction of the ECOWAS free trade treaty for freer movement of goods within West Africa, many Nigerian and multinational manufacturers have relocated to other Ecowas countries and produce for the Nigerian market.**

**The major contributory factors are the high operating costs and challenging economic environment.**

**The Nigerian Content Act  
is  
the  
last, consistent attempt  
we have as a nation  
to promote industrialisation of Nigeria  
and secure  
the future of our people for generations to come.**

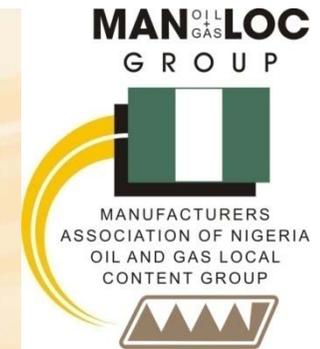


# The Trillion \$\$\$\$ Question



Trillions of dollars of goods and services will be procured over the next ten years in exploring and developing for oil, gas and mineral resources around the globe.

Over the same period more trillions of dollars' worth of goods and services will be procured by public and private companies and official development agencies to construct water, power, buildings and transportation infrastructure and to purchase associated manufactured equipment and components.



But how much of this expenditure will be required to be discharged through contracts with suppliers and subcontractors either resident in, owned by, or tax-registered in the country in which this expenditure is to be invested? This is the trillion-dollar question on **local Content**.

# **LOCAL CONTENT SUCCESS LIES ON IMPLEMENTING A LOCAL CONTENT FRIENDLY PROCUREMENT POLICY**

**Large-scale local procurement by private and public companies is a vibrant policy that can be used by any country to strategically and tactically develop national industries and generate employment of a country.**

**The basis of this is to harness and develop all instruments of procurement with the specific aim of building national competitiveness through capital investment, technology transfer and skills development.**

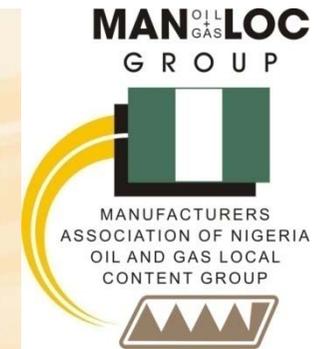
**Local Content is happening world wide and catching on !**

# Definitions of Local Content & Procurement

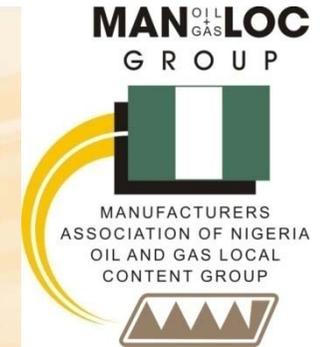
- **Local content is the composite value contributed to the national economy from the purchase of “made-in Nigeria” goods and services.**
- **Procurement is a process for acquiring equipment, material and services at the *right price*, at the *right time*, to the *right quality*, in the *right quantity* and from the *right place*.**

# What Procurement Involves

- 1) Procurement regulations,
- 2) Contracting strategies,
- 3) Vendor pre-qualification,
- 4) technical standards,
- 5) bid documents,
- 6) Tender evaluation criteria
- 7) contract conditions

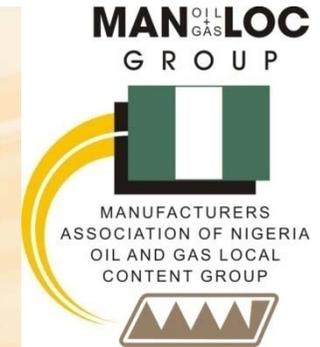


# Constraint Process steps for Manufacturers/fabricators



6. Contract award on competitive basis
5. Tender short listing
4. Pre-qualification
3. E-procurement technology
2. Knowledge of opportunities
1. Start

# Procurement plan constraints for Manufacturers.



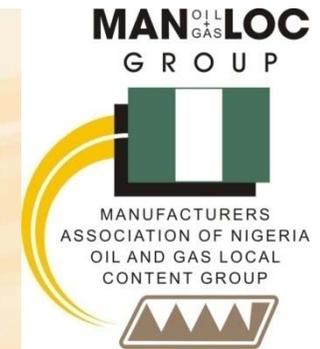
- Sole Sourcing
- Long term Contracts
- Contract Renewal.
- Single sourcing

# Knowledge of opportunities

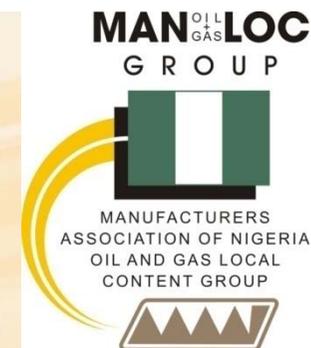
*The general lack of detailed, reliable and timely data and information on the requirements of the Oil & Gas industry is of great concern to the manufacturing industry. Lack of data means lack of understanding of the available present & future opportunities:*

- Planning of production & raw material procurement.
- Financial planning
- Investment planning into new technologies or upgrading technologies.

The inadequacy and unreliability of data often, both combined, have frustrate potential investors in the assessment of the economy and in the planning of their businesses.



# Case in point: EGINA Project

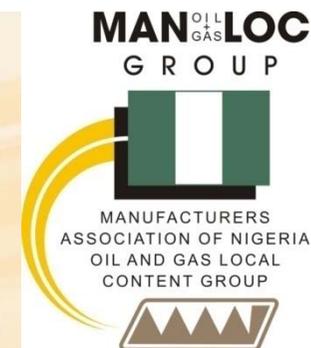


- What are the requirements of products and services
- What are the quality requirements
- What are the time frames
- What are the expenditure budgets.
- Training requirements
- Manpower requirements

**This calls for a proper recognition by NCDMB to set up a Procurement Communication Plan in conjunction with the Local Content departments of the IOC and EPC companies**

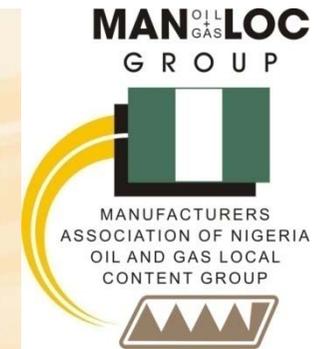
**If Local Content is to become a success Specialised Work shops must be arranged with each of the NCCF stakeholders addressing the requirements as per stake holder on a per project basis.**

# E-procurement technology requirements



- E-Vendor registration with large companies
- E-Registration with NJQS
- Efficient quality control system: *This means having a Quality Management system based on ISO9000:2008 and certified through SON.*
- *Have an acceptable HSE plan that is enforced according to the Oil & Gas industry. No HSE, No work*
- *Have an acceptable Management Software system that has a good and fast reporting system.*
- *Ensure traceability of materials*
- *Understand the stringent reporting requirements of the Oil & Gas Industry. i.e. Manufacturers Data Book.*
- *Have all your corporate affairs documentation in order and up to date.*

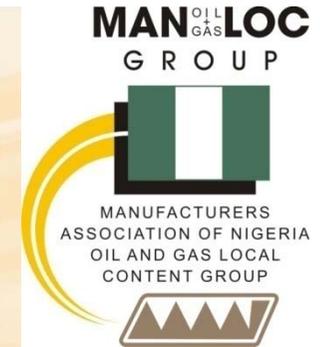
# Pre-qualification Challenges



- Vendor must show projects/jobs he/she has successfully completed.
- Vendor must show improvements in enforcing HSC plan meeting key indicators.
- Vendor must show training schedules and improvements.
- Vendor must show Community Relations Plan
- Vendor must show financial stability with 3 years financial accounts

**The problem is that a lot of companies or new entrants did not know that in order to pre-qualify they would have to meet the above requirements. Meeting the above requirements can take years !**

# Tender short listing



**Meeting all Pre-qualification criteria does not mean that you are shortlisted for the tender.**

**This will depend on a number of criteria, some of which are below:**

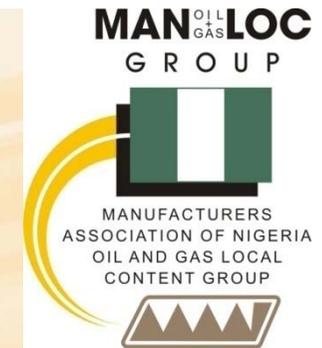
- **Having passed the pre-qualification stage with high scores.**
- **How many jobs the company has performed on TIME and at the stipulated QUALITY**
- **Confidence of the IOC/EPC procurement dept in your coy.**
- **Ability to meet your working capital requirements which affects the execution of the job.**

# **Contract award on competitiveness**

What is competitiveness:

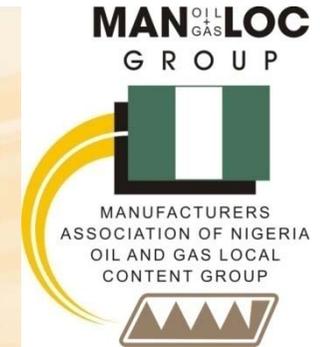
The ability of a manufacturing concern to deliver orders with level of costs, scheduling, reliability and quality equal or better to those of its peers and to win contracts in an open market.

# Common constraints on Competitiveness



- **State bureaucratic barriers to entry for new firms.** length of time and number of separate procedural steps in registering a business to operate or for tax purposes; set-up costs, including facilitation payments
- **Corporate bureaucratic barriers to entry, e.g. procurement** pre-qualification hurdles biased towards long-term established firms; international quality and health and safety Standards
- **High cost of accessing credit, due, to lack** of equity and accumulated assets, banking fraud and bad loans, poor visibility by financial institutions of the creditworthiness of Manufacturing owners, stringent requirements to obtain financing.

# Common constraints on Competitiveness

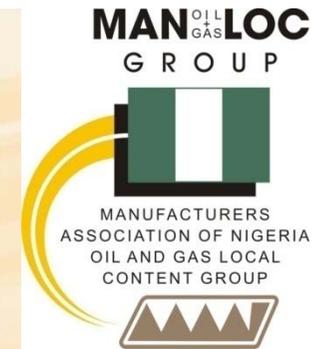


- **Regulatory compliance costs, including fees for meeting** legal and tax obligations, DPR, health, safety and environmental standards and reporting obligations, requirements to report on local content and assure ethical conduct.
- **Multi taxation** of State governments and illegal taxes from Local Governments. These affect smaller companies more.
- **Lower productivity and quality** due to older technology and lack of human technical skills.
- **Lack of or high cost of physical infrastructure and utilities** Including access to and affordability of clean water, energy, transportation, information technology.
- **The adverse influence** and market power of larger suppliers.

# Common constraints on Competitiveness

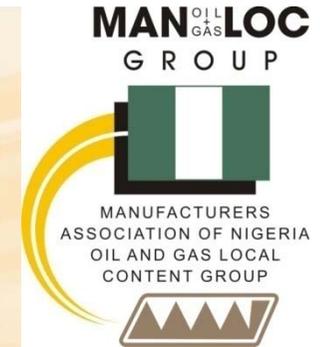
- **Importation costs and tariffs.**

An example is zinc/aluminium ingots attract a 5% duty but by the time it reaches the manufacturing plant, the price has escalated between 20-25%

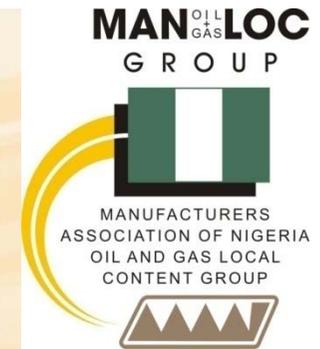


# **What the Government has to do to support Local Content and increase competitiveness**

- Pass laws and legislature supporting Local content.
- Create Business friendly infrastructure.
- Offer various fiscal incentives.



# INCREASING COMPETITIVENESS



- Reform of import duties, taxes and levies for raw-materials & inputs
- Rationalization of State, Local and Federal Government taxes, legal vs illegal.
- Unfair competition from Multinational EPZ located companies.
- Supply of local content products to companies in EPZ zones must be viewed as an export and must attract a duty/tax draw back scheme of 40% rebate (similar to normal exports).
- Availability of cheap credit and finance through a local content fund.
- Price advantage differential must be increased from 10 to 65% if no reforms in import duties, improved infrastructure and cheap credit.
- If substantive reforms do happen, then drop to 40%.
- Pascal Lamy Director General of WTO said that West African countries have an inherent cost competitiveness disadvantage of up to 40% .

# SETTING OF QUALITY STANDARDS



- SON must work together NCDMB to establish a road map to setting quality standards for the Oil & Gas Industry..
- SON must be urged to form a Local Content department whose obligation will be anything to do with standards of local content manufacturers. This means setting standards, aligning standards to IOC requirements and accrediting the quality of local content manufacturers.
- Work with IOC's & EPC companies to agree on the standards.
- SON's starting point must be those Local content companies that have been accredited by IOC & EPC companies. These standards can then be adopted as Nigerian Oil & Gas Standards.
- Setting of standards will allow new intending manufacturer entrants to know to what standard to produce to.

# ACCREDITATION OF MANUFACTURERS



- Criteria must be set on who is a local content manufacturer. Based on the NC Act, a local content company is that company that has a 51% Nigerian Shareholding.
- Each local content manufacturer must have a local content policy and local content officer to ensure that his/her company support local content by buying form other local content manufacturers.
- All local content manufacturers must be members of MAN & MANLOC Group subsector. This will ensure that they are manufacturers.
- NCDMB through NJC and MANLOC must establish the same criteria of who is a local content manufacturer. Only approved local content manufacturers should be allowed to have concessions.

# ACCREDITATION OF MANUFACTURERS



- Both MANLOC and NJS will act jointly as accreditation group This will ensure that the minimum quality standards are acceptable.
- Importance of establishing actual production volumes per company. This will assist as a bench mark in attaining local content.
- SON accrediting companies so that quality standards are met.
- Local Content Manufacturers must show they support Local Content themselves by buying from other local manufacturers.
- First two concessions will allow for special concessions to be created FGN to become more competitive.

# **BASIC CRITERIA THAT MANUFACTURERS NEED TO HAVE TO WORK WITH THE OIL & GAS SECTOR**

- **Know what the requirements are to enter the Oil & Gas Sector**
- **Run an internet based management system.**
- **Utilize a good ERP Management Software.**
- **Have an effective HSE plan.**
- **Base your Management system on ISO9000.**
- **Have QC/QA system that has traceability to the end user.**
- **Set up a good HRM training programme.**
- **Upgrade production techniques using CAD/CAM processes and higher technology so as to ensure continuous and constant production of quality work.**
- **Make sure all your Corporate Affair requirements are in order.**
- **Have a ready to learn attitude.**

# LACK OF PUBLICITY & AWARENESS

- Nigerian Content Act is still not well known
- In Nigeria business captains believe it is one more of a passing fad that will not work, no policy consistency.
- Out of Nigeria they feel that it is a hostile way of blocking imports not understanding that by investing in local manufacturing they will have the market.
- Local manufacturers do not understand how they can become a local content company.
- Create a Local Content seal /certification for approved manufacturers.

# **PUBLICITY & AWARENESS THIS IS THE TASK OF NCDMB & NCCF STAKEHOLDERS**

**1. Create Supplier workshops. 'Meet the buyer' workshop, and meetings held in the project area, with information on:**

a. The available expenditure sub-categories that offer opportunities for local Companies, including:

—Clarity on the level of confidence that these opportunities will be forthcoming, including whether budgets have yet been sanctioned.

—The anticipated probability of contract award.

—Clear explanation of why certain categories of expenditure is not being tendered, whether for reasons of single or sole sourcing, or because of outstanding long-term contractual arrangements

b. Information on how to navigate the selection process

c. Examples of successful local Companies, and their key success factors

d. Meet the buyers workshops may also include major contractors, so provide information on their subcontracting and supplier procurement processes

# PUBLICITY & AWARENESS THIS IS THE TASK OF NCDMB & NCCF STAKEHOLDERS

## 2. NCDMB to create a Local Content website

Where companies can be informed of:

- a. Forthcoming procurement opportunities
- b. Requirements for entering and processing the selection process
- c. Where to go to receive training and advice

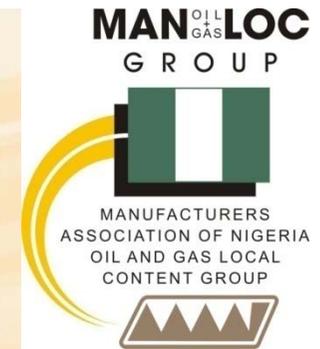
## 3. Published Newsletter electronic & hardcopy

including, :

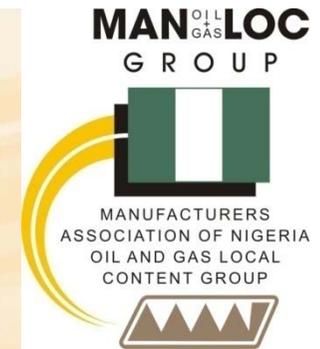
- a. How to register as a vendor
- b. How to be e-procurement ready
- c. What industry standards will need to be met
- d. How to prepare bids and understand tender documents
- e. Share success stories. (NLNG)

## 4. NCCF Stake holders to create a group within their association on local content. For example: MANLOC Group

- a. Successful companies will guide other member companies.
- b. Become a unified platform for dissemination of ideas, views and problems
- c. Arrange events to further enhance local content.



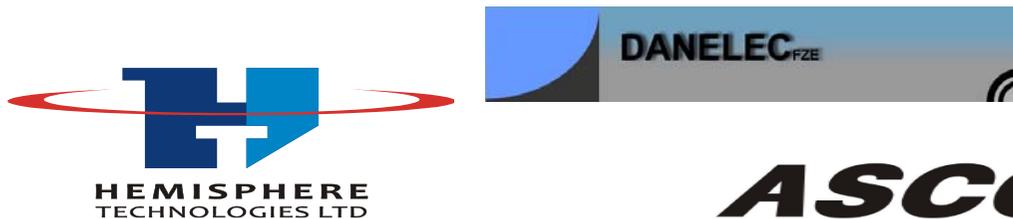
# OTHER ISSUES TO BE ADDRESSED BY NCDMB



- Meet with IOCs and EPCs and create a Local Content friendly procurement procedures.
- Enhance dissemination of Communication.
- Create a metrics system to show the progress of the overall local content system.
- Announce and explain the metric system to all stakeholders.
- Create a company metrics system that is unique per stake holder of NCCF.

# GENERAL THOUGHTS FROM MANLOC GROUP ONLY

- Local content policy must be developed to apply to the whole federation at all levels.
- Government must be unified in its approach to Local Content. House of Reps deals with Local content so does Senate and nobody knows what the other is doing!
- NCDMB and Ministry of Petroleum and Finance and Industry (must take active role in applying local content to entire federation.
- Each Federal Ministry must create an NCD division answerable directly to the Minister.
- Each Minister must make NCD his/her priority.
- NCDMB must become the catalyst at the beginning stage.
- The Presidency must set up an NCD division to coordinate all ministries and their efforts and encourage State governments to emulate same.
- The existing support groups i.e. MAN, SON, NSE etc should be used to assist.
- Special financing terms must be given to local content manufacturers.



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The background of the image consists of numerous thin, overlapping, wavy lines in shades of gold and light beige. These lines flow across the frame in various directions, creating a sense of movement and depth. The overall effect is a soft, textured, and warm-toned background.

**THANK YOU ALL**

**AND**

**GOD BLESS**