

"Made In Nigeria" and the Energy Sector

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Abstract

Nigeria's harsh economic situation in 2016 has led major industries to look inwards to resolve supply deficits occasioned majorly by foreign exchange scarcity. In the electricity sector, however, the influx of imported electrical components leaves so much to be desired and hurts domestic companies. This article argues that potentials exist in the Nigerian electricity market, and with the right mix of research, policy and investments, Nigeria would be positioned to fulfil these potential and ensure job creation in the process.

Keywords: Electricity, Energy, Nigeria.

Introduction

In recent times, we have seen a big push towards encouraging the average Nigerians to consume "Made in Nigeria" products. A major drive for this move is the weakened value of the Naira, coupled with its steady devaluation since it became a floating currency. This has led to a slowly growing sense of appreciation for locally manufactured and designed products, and we have seen a renewed interest domestically in Nigerian products spanning all areas of trade and commerce, from clothing and textiles, to food products and household items.

It is perhaps a blessing that our current harsh macroeconomic situation has forced us to look inward and reflect on what Nigeria and Nigerians have to offer, and we are witnessing a gradual reversion –'back to the basics' – in order to ensure economic sustainability. For example, when we examine the growth of the Nigerian textile Industry, rather than focus on the highlights of modern contemporary fashion and dress, we see that Nigerians have realised that there is innate value in the

authentically and traditionally made Nigerian product, utilizing Nigerian designs, and we have discovered the untapped potential of these unique pieces in the global marketplace.

With the same imperatives, there has been the growing awareness within the energy industry in Nigeria of the need to adopt a greater level of reliance on locally manufactured components, consumables and spare parts in the generation, transmission and distribution of power across homes, businesses and institutions. Indeed, Nigerians have not always recognized the importance of the research and development required to ensure steady advancements in manufacturing of power equipment and parts. However, this article will show that we at a time of change, and that "Made in Nigeria" is a possibility within the energy sector, driven by the increased capability of domestic manufacturers to meet local needs, and potentially fulfil untapped export demands.

Made-in-Nigeria and Energy Sector

Although, there are in the electric power sector, “domestic acquisition obligations”, strictly speaking, there remains in practice, no serious question surrounding the legality of importation of parts and components on a large scale. The effect on the economy however, is the crippling of domestic producers and suppliers, and an impediment to growth of the manufacturing industry, leading to an over reliance on importation. This also has an adverse effect on the value of the Naira, as it widens our trade deficit.

The Nigerian Electricity Regulatory Commission (NERC) in defense of a recent hike in prices of electricity tariffs stated that:

'The Multi-Year Tariff Order (MYTO) methodology i.e. the pricing methodology mandates the Commission to carry out a minor review of the Tariff bi-annually and adjust these exogenous factors that are beyond the control of the investors and the regulators. The official exchange rate in the country has risen from N198.97 to over N305.05 to a dollar. Kindly note that the unofficial (black market) exchange rate is about N500 to a USD. This alone is bound to trigger an increase in electricity tariff given the fact

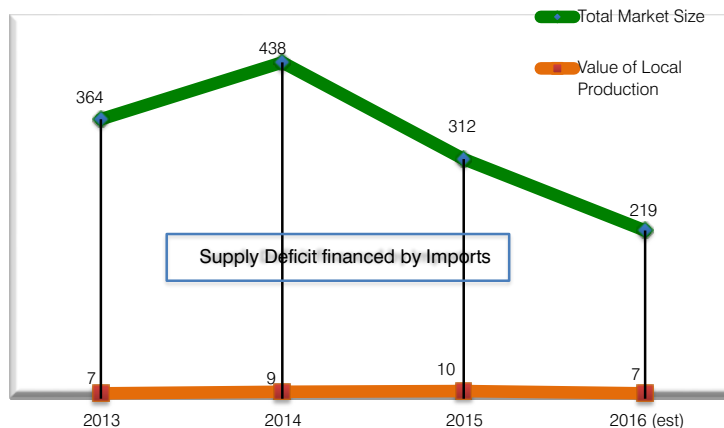
that all equipment, spare parts, meters used for the generation, transmission and distribution of electricity in Nigeria are imported. Electricity is therefore a product like any other product that is affected by changes in micro economic indices'

Generation companies have further suffered from the devaluation of the Naira, which has had the effect of preventing importation of needed parts and components in power generation. In fact, the devaluation of the Naira (up to around 40%), has led to a decrease in the total amount of power generated within the country. According to a report, a representative of the generation companies stated:

“In 2013, when we bought the power plants, exchange rate was 150 naira per dollar. Today it is 310 naira per dollar. How can we repair, equip, acquire new turbines at this rate of 310 naira per dollar and yet still operate with an old tariff? A shutdown is, indeed, imminent.”

In Figure 1 below, we see research by the U.S. Department of Commerce which sets out a detailed breakdown of electrical power related equipment imports to the Nigerian economy.

Figure 1: Nigeria’s Power Sector Market Size and Value of Local Production (in million USD)



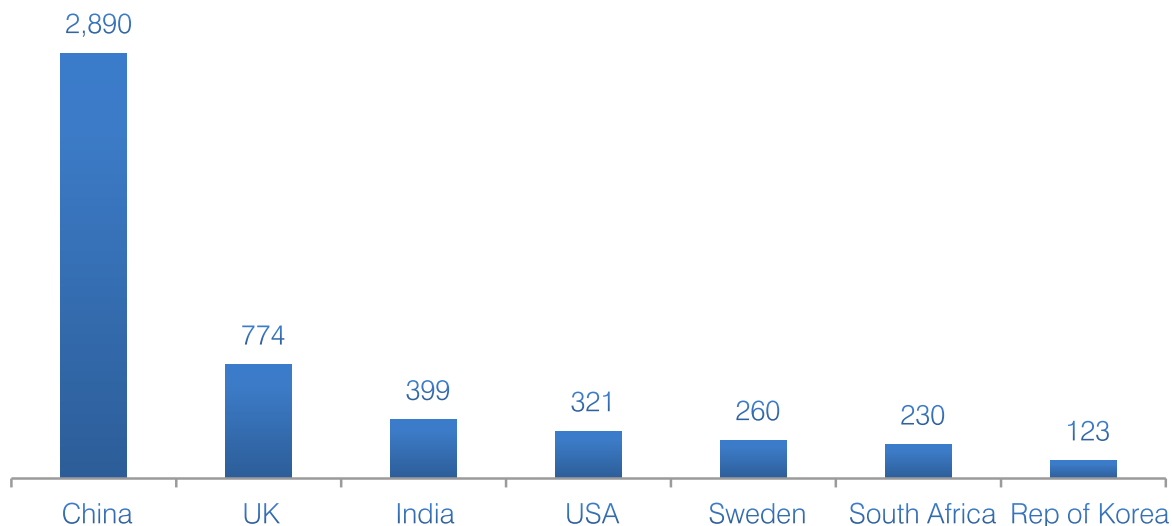
Source: US Department of Commerce

This clearly shows an over reliance on imported products in relation to power equipment, and this has translated to a near crippling of the power generation sector as the Naira is further devalued. It is likely the figures quoted are an underestimate. Virtually all of the spare parts and the components that are utilised in generation of power within Nigeria are imported, and until this is reduced, the ripple effects on the Nigerian economy are unrestrained. Studies have shown that Nigeria imported electricity materials and tools worth N1.34 trillion (\$6.71 billion) from foreign countries in the last two years. The items imported include (but are not exclusive

to) distribution boards, transformers, circuit breakers and disconnects, power plant valves, power storage devices, switchgears, turbines and voltage regulators, electric switchboards, conductors, power capacitors, power converters, power generation boilers, power generators and electricity meter.

The World Trade Organisation (WTO) statistics shows that the value of power equipment which was shipped to Nigeria from its major trade partners between 2013 and 2014, as follows:

Figure 2: Value of Power Equipment Trade (in million USD)



Source: World Trade Organization

Of note is the fact that some of the equipment imported by the Transmission Company of Nigeria (TCN) between July and August 2014 were abandoned for about a year at the Tin Can Island Ports in Lagos State. This represents a waste of scarce resources that could otherwise be in circulation within the economy, and could have been channelled into propelling domestic production of components and parts.

The "Made in Nigeria" movement has had an effect on the full spectrum of manufactured goods and has led to a surge in local production and a growing awareness of the value of Nigerian industry and enterprise. However, in relation to equipment used in the generation of power within Nigeria, a conundrum exists which can be explained as thus – manufacturing of components and spare parts for the production of such equipment within Nigeria itself is subject to a steady flow of electricity for production purposes.

However, what happens in reality is that as a result of fluctuating power supply, manufactured goods are either of low quality or are produced at exorbitant costs due to private power generation. These products in turn, even though made in Nigeria, are unable to compete domestically with imported goods, or internationally in terms of export potential. Therefore, the appraisal of the made in Nigeria movement cannot ignore the need for improved electricity supply in order to foster growth and sustainable change in the Nigerian economy.

The National Agency for Science and Engineering Infrastructure in a 2014 address stated that it has reached out to the power sector in Nigeria, to exhaust its options with locally made components and parts before seeking to demand imported equivalents. The NASEI stated,

"Our Power Equipment and Electrical Machinery Development Institute (PEEMDI) in Kogi State was set up to reproduce technologies for the production and distribution of spares and component parts required for production of power equipment and electrical machines for the sustenance of a viable power industry in Nigeria. The Institute has made tremendous progress in producing Pole-mounted transformers, 15KVA stabilizers and 415/220V transformers currently in use in NASENI and by other clients. With the support of Chinese experts, the Institute is setting up a transformer assembly plant in Kogi State with the State government having a stake in the project.....In fact we have a new slogan 'Ask us first', which is our gentle appeal to Nigeria industrialists and SMEs that they should inquire from NASEI first before placing orders to import spares, machine parts and equipment or other technologies from China, Malaysia, Indonesia, and other such countries"

Policy Recommendation

There is incredible potential untapped within our domestic economy, which with the right level of research and investment, can reap manifold reward for the growth of the power sector, increase employment, and maintain a sustainable GDP.

A way we can tackle this problem is by undertaking a review of the Public Procurement Act (PPA), as one way in which we can encourage and support local innovation and productivity is through robust government patronage of local goods and services. There is a need to encourage the development of local preference rule in governmental and industrial procurement. The Public Procurement Act recognises this by indicating that one of the aims of a sound public procurement process is to encourage the development of local contractors and manufacturers. Section 34 (1) of the PPA provides that

"A procuring entity may grant a margin of preference in the evaluation of tenders, when comparing tenders from domestic bidders with those from foreign bidders or when comparing tenders from domestic suppliers offering goods manufactured locally with those offering goods manufactured abroad"

Another solution would be based on a public private partnership between the Nigerian Government and the most suitable foreign trading partner, to develop and harness the most cost effective and sustainable means of production of components and parts within Nigeria. This venture can be aimed at long term development support and training of manufacturers to ensure world class globally competitive standards are maintained. However a significant amount of investment would be required from the Government.

The private sector also has a role to play. More private companies have to start thinking long term about how to meet the product requirements through domestic companies. For example, distribution companies should consider joining forces to invest in manufacturing companies that manufacture meters, which would lead to the development of a "Nigerian Standard" meter. Alternatively, our indigenous engineering firms could join forces to develop turbine technology that is suited to Nigerian weather conditions. In the long run, the private sector will generate more revenue by investing in domestic sources rather than continually depending on imports.

Apart from the foregoing, the federal government needs to ensure its ministries, departments and agencies help improve

Nigeria's Doing Business Index (which currently stands at 169th out of 190 countries) as small and medium scale business find it rather difficult to survive in the current business climate. One way would be to streamline existing regulatory framework in the electric power sector for example. The Regulator in the power industry for example, should make licensing and or permitting, particularly for indigenous companies less tedious and ensure that fees (particularly those paid upfront) are not too onerous. It is ridiculous for licensing for power generation to take two (2) years or a certification that qualifies one to install meters in people's premises to take six (6) or more months to obtain. Indeed, Nigeria needs to implement reforms in its "ease of starting business", if 'made in Nigeria' would not remain a distant dream.

In addition to the foregoing, there is a need to forge a workable synergy between the Nigerian Judiciary and the business community, to seek ways of easing business and contractual relationships such that the judiciary is not used by mischief makers, to kill trade and commerce, whilst exploring the means of reducing cost of adjudicating matters.

Conclusion

But in the end, it all depends on Nigerians learning to love Nigerian products and the determination to really make things work. There is no doubt that the initial products may not meet international standards. However, if we do not patronize our own goods and government does not show real political will, there is little to no possibility that 'made in Nigeria' will not remain a pipe dream and products produced in Nigeria, will eventually meet foreign standards.

References

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