INFORMATION DOCUMENT ON
THE NIGERIAN AUTOMOTIVE INDUSTRY
DEVELOPMENT PLAN
JUNE 2014
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**Acronyms**

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<tr>
<td>ALCMAN</td>
<td>Automotive Local Content Manufacturers Association of Nigeria</td>
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<td>CKD</td>
<td>Completely Knocked Down</td>
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<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
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<td>ELV</td>
<td>End of Life Vehicle</td>
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<td>FEC</td>
<td>Federal Executive Council</td>
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<td>FMF</td>
<td>Federal Ministry of Finance</td>
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<tr>
<td>FMITI</td>
<td>Federal Ministry of Industry, Trade and Investment</td>
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<td>FMJ</td>
<td>Federal Ministry of Justice</td>
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<td>FRSC</td>
<td>Federal Road Safety Corps</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ITF</td>
<td>Industrial Training Fund</td>
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<td>MAN</td>
<td>Manufacturers Association of Nigeria</td>
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<td>NAC</td>
<td>National Automotive Council</td>
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<td>NAIDP</td>
<td>Nigerian Automotive Industry Development Programme</td>
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<td>NAMA</td>
<td>Nigerian Automotive Manufacturers Association</td>
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<tr>
<td>NASENI</td>
<td>National Agency for Science and Engineering Infrastructure</td>
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<td>NBTE</td>
<td>National Board for Technical Education</td>
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<td>NCS</td>
<td>Nigerian Customs Service</td>
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<td>NEPZA</td>
<td>Nigerian Export Processing Zone Authority</td>
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<td>NIPC</td>
<td>Nigerian Investment Promotion Commission</td>
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<td>NIRP</td>
<td>Nigerian Industrial Revolution Plan</td>
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<td>NOTAP</td>
<td>National Agency for Technology Acquisition and Promotion</td>
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<td>NSE</td>
<td>Nigeria Society of Engineers</td>
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<td>NTH</td>
<td>Nigerian Trade Hub</td>
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<td>NVIS</td>
<td>National Vehicle Identification System</td>
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<td>NVQ</td>
<td>National Vocational Qualifications</td>
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<td>OEM</td>
<td>Original Equipment Manufacturers</td>
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<td>OSIC</td>
<td>One Stop Investment Centre</td>
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<td>RMRDC</td>
<td>Raw Materials Research and Development Council</td>
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<tr>
<td>SKD</td>
<td>Semi-Knocked Down</td>
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<tr>
<td>SON</td>
<td>Standards Organization of Nigeria</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>TTC</td>
<td>Tariff Technical Committee</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>VIN</td>
<td>Vehicle Identification Number</td>
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<tr>
<td>VIO</td>
<td>Vehicle Inspection Officer</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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CHAPTER ONE
INTRODUCTION

In many countries around the world, the automotive industry plays a strategic and catalytic role in economic development in respect of the employment creation, GDP contribution, small, medium and micro-enterprises (SME) development in respect of automotive parts, components and services, skills development, and the acquisition of technology. An automotive industry will create significant good quality employment and a wide range of technologically advanced manufacturing opportunities. This industrial base can then form the foundation of other modern advanced manufacturing activities. For example, commercial vehicle production will lead to the manufacture of agricultural, mining and railway equipment, military hardware and transport.

Nigeria is one of the most populous economies in the world and with economic growth the demand for vehicles will grow significantly. The effect of this on the balance of payments will be significant and potentially destabilising. Other large economies tend to have automotive industries and can thereby mitigate the balance of payments effects of this very large industry by providing a significant part of their automotive needs through domestic production as well as exports to compensate for imports.

The above are compelling reasons for considering the strategic importance of the automotive industry in Nigeria. There have been previous programmes but adjustments were not made to ensure the growth of these programmes. After extensive consideration and consultation with those involved in other programmes around the world a new programme has been developed by the Federal Ministry of Industry, Trade and Investment and the National Automotive Council.

The Federal Government of Nigeria (FGN) accordingly approved a New Automotive Industry Development Plan (NAIDP) to transform the Nigerian automotive industry and attract investment into the sector. The Auto Sector is a key component of the Nigerian Industrial Revolution Plan (NIRP). The NIRP is a 5 year programme developed by the Federal Ministry of Industry, Trade, and Investments to diversify Nigeria’s economy and revenues through industry and to increase manufacturing’s contribution to GDP from 4% today, to 6% by 2015, and finally above 10% by 2017. Within the NIRP, the automotive sector has been identified as a strategic industry group due to its large domestic market, labour intensive characteristics, strong industrial linkages, existing installed base, and export potential into ECOWAS.

The NAIDP will need to be in place for a number of decades as is the case in other such programmes around the world. This document sets out the NAIDP for the next 10 years. There is a clearly defined administrative procedure for periodic reviews, as experience elsewhere shows that reviews are essential for the success of such complex industrial programmes.

The Nigerian Market for automobiles is substantive and can readily sustain an automobile industry. In 2012, the Country imported about $4 billion worth of automobiles of which about two thirds were pre-owned (UNCTAD). Estimated annual vehicular demand for new vehicles is over half a million made up of 1000,000 new and 400,00 Used (NAC) As at 2012, the population of the middle class was 38 million (FMITI) and growing, assuring sustained market for the automotive industry. According to research work by the Lagos Business School, the market size for automobiles in Nigeria can easily reach the 1 million units mark annually if there is an affordable vehicle credit purchase scheme. Cost of asset financing at the moment is prohibitive so most Nigerians save up to buy cars on a cash and carry basis.
NAIDP aims to curtail Nigeria’s almost total dependence on imports and to meet a significant proportion of its demand through domestic production. Automotive industries around the world tend to be integrated with significant trade in vehicles and components between the automotive producing economies. The objective of the NAIDP is to move as rapidly as is feasible to balance of payments neutrality and then into surplus if Nigeria can ensure a competitive components industry based on her hydrocarbon value chain. The application of petrochemical based raw materials in the automotive industry has increased proportionately over the years. Nigeria can readily sustain requirements for related component manufacturing activities because of its petroleum and gas resources as the 7th largest oil producing country in the world.
CHAPTER TWO

THE NEW AUTOMOTIVE INDUSTRY DEVELOPMENT PLAN

2.1 POLICY FRAMEWORK

Over the last decade a number of measures have been introduced to bring about development in the Nigerian economy. Government Policy intervention in the cement industry led to increase in installed capacity from 5 million metric tonnes and 40% capacity utilisation in 2002 to 28 million installed capacity and 75% capacity utilisation by 2014. There have been significant gains from the National Sugar Policy as well. In February 2014, the Nigerian Industrial Revolution Plan (NIRP) was announced. The NAIDP falls within this policy framework. In developing industrial strategies it has become evident that Nigeria needs to use its tariff structure to achieve industrial policy objectives without unduly raising the domestic price structure. To this end negotiations have taken place with ECOWAS to allow for such a tariff policy for strategic industries. The automotive industry is one of these industries in Nigeria. The plan encompasses the following elements which will ensure competitiveness and increase productivity of the sector:

(i) Industrial infrastructure
(ii) Skills Development
(iii) Standards
(iv) Investment Promotion
(v) Vehicle Purchase Scheme

2.2 INDUSTRIAL INFRASTRUCTURE

Nigeria currently suffers a deficit in infrastructure needed by industries. While government is doing its part to remedy this deficit, automotive supplier parks and clusters will provide the industrial infrastructure needed by the automotive industry.

Automotive supplier parks and clusters are where industries can share infrastructure, resources, information, knowledge and technical expertise. It will enhance competitiveness, learning and technical innovation. This will reduce production costs due to inadequate infrastructure and high logistics costs and attract investment in local content production. NAC has started discussions with some state governments and the various industrial clusters to facilitate the establishment of these parks. The three existing auto-clusters in Nigeria, namely Lagos-Ogun-Oyo, Kaduna-Kano and Enugu-Anambra, will also serve as established zones around which NAC will strategically facilitate more investments by international OEMs, and their strategic global suppliers that are expected to accompany them into Nigeria.
2.3 SKILLS DEVELOPMENT

The automotive industry is a high technology and knowledge intensive industry. The major vehicle manufacturers, also called Original Equipment Manufacturers (OEMs) and their global suppliers have extensive manpower development programmes, both local and international. NAC will work with pioneer OEM investors to fill skills gaps in auto operations, by ensuring all lower skilled and mid-skilled roles are immediately filled by Nigerians, and with concrete plans to staff high-skilled positions with Nigerians over first 4 to 6 years. The Industrial Training Fund (ITF) and NAC also have the following training programmes.

Training/Manufacturing centres
The Industrial Training Fund (ITF) is already working with SENAI in Brazil to design auto training centres similar to what they have in Brazil in the three existing Nigerian auto clusters. These centers will not only train Nigerians to maintain and service vehicles, but will also train them to manufacture spare parts.

Manpower Training for Maintenance and Repair, Operations, Design and Development
In Nigeria, there are many Federal, State and private universities and polytechnics offering relevant engineering courses like mechanical, electrical and electronics, materials science, etc. However, automotive engineering is only offered by four polytechnics.

The National Automotive Council (NAC) has been implementing foundational skills development programmes for the automotive industry for the longer term. NAC, with the Nigerian Universities Commission and other stakeholders, has developed a curriculum for a degree programme in automotive engineering. Three Universities, Abubakar Tafawa Balewa University (in Bauchi), Elizade University (in Ondo) and the University of Ibadan already have plans to offer the programme.

In addition, NAC, with the National Board for Technical Education (NBTE), Federal Ministry of Labour and Productivity and other stakeholders, have developed a new curriculum and training manuals for teaching automotive mechanics. This forms part of the new National Vocational Qualifications (NVQ) scheme approved by the government recently. 260 workshops that can teach the new curriculum were identified and their staff, who are the prospective trainers trained. The Council is currently training assessors and verifiers as required by the NVQ scheme before rolling out the mechanics training programme. However, this curriculum is already been used to teach mechanics in new automotive technology by the NAC in collaboration with other agencies like SMEDAN and SURE-P.

2.4 STANDARDS

Safety and products standards are crucial to the development of a viable automotive industry. Local content manufacturers would be encouraged and assisted to produce good quality items and obtain ISO quality certification. NAC has been working with the Standards Organization of Nigeria (SON) and other stakeholders, and have developed 106 vehicle safety standards in the last two years. The Council is also building automotive component test centers where automotive products can be tested to ensure conformity with standards and vehicle homologation. The targeting of international OEMs into Nigeria’s auto industry is strategic and will enhance overall product quality and standards. The Council has been in contact with the states’ Motor Vehicle Administration Departments to review and reform the vehicle inspection
Standards of Vehicles Assembled in Nigeria
Until we acquire the ability to conduct vehicle homologation, all vehicles to be assembled and/or sold in Nigeria would be required to have a homologation certificate from the country of origin issued by the relevant agency. Nigerian assembly plants are also required to have ISO 9001 QMS certification within two years of start of operations.

Vehicle Road Worthiness Inspection
Vehicle Inspection is a procedure mandated by national or sub-national governments in many countries, in which a vehicle is inspected to ensure that it conforms to regulations governing safety and emissions. Roadworthiness Inspection and examination ensures that major safety items (tyres, brakes, steering, suspension system, seat belts, lamps and reflectors, windscreen, wipers, emissions, chassis and performance are examined to ensure they meet the prescribed safety standards. The NAC has been in contact with many agencies both in Nigeria and overseas and resolved to review/revamp the current vehicle road worthiness inspection system and with the roles to the federal and states’ governments.

2.5 INVESTMENT PROMOTION

While the provision of appropriate tariff measures, patronage, supplier parks, etc, will attract investors, a deliberate campaign is being mounted to attract them. The following are also prerequisites for investment in the automotive sector:

(a) **Fiscal Measures:** The incentives and support measures required by the industry can be achieved through appropriate fiscal measures and patronage (see chapter 3).

(b) **Checking Smuggling:** It is important that smuggling of vehicles into Nigeria is checked. The Federal Road Safety Commission (FRSC) recently introduced the National Vehicle Identification System (NVIS). Under the NVIS, the details of a vehicle owner, including passport photograph, copy of driver’s license and evidence of duty payment are submitted before the vehicle license is issued. The registration details are stored electronically and can be accessed via the internet, and the licence plate is non-transferable to other vehicles. In case of change of ownership, the details of the new owner will be captured during the annual vehicle licence renewal. The Nigerian Customs Service (NCS) is also working on database to capture the VIN numbers of vehicles that paid import duty. The NCS, FRSC, NAC and the states’ vehicle licencing officers are working to use these systems to combat smuggling of vehicles.

(c) **Policy consistency by government through legislation:** The industry is long-term in nature, with companies that started the industry over 100 years ago still around in one form or the other (Daimler-Benz, Peugeot, Ford, GM, etc). Accordingly, our development plan should also be long term, 10 years, to be reviewed every five years. It is proposed that key aspects of this plan should be legislated to give comfort to investors that there will be no abrupt policy changes.

(d) **Investment Promotion Activities:** The automotive policy and Nigerians potentials as a vehicle manufacture should be “sold” to potential investors worldwide, in particular,
the OEMs and component manufacturers by the Council in collaboration with the Nigerian Investment Promotion Commission (NIPC).

2.6 VEHICLE CREDIT PURCHASE SCHEME/DEALER AND AFTERMARKET DEVELOPMENT PROGRAM

The NAIDP elaborately addresses the supply side of automobile in Nigeria but also provides for the establishment of Automobiles Purchase scheme to drive the demand side which is equally critical for success. Easy access to cheap and medium term funds for the purchase of Nigerian new and used automobiles will reduce the impact of inevitable price rise and drive demand for Vehicles at the same time. Irrespective of NAIDP provisions to ensure easy entry for OEM dealers in the implementation process, the barrier against Used vehicle import accounting for 2/3rd of Nigeria’s supply and the time needed for Local plants to ramp up production, will constitute an upward push on cost of automobiles. This is a mine in NAIDP implementation process which must be managed. It can potentially mobilise the public against the policy. The Scheme will therefore act as a cushion for existing vehicle owners to trade in their vehicles for new ones while new applicants can immediately acquire new ones from local Assemblers or OEM dealers registered under NAIDP.

The policy as approved by FEC, directs that a Credit purchase scheme be established and funded from amongst other sources, the levies charged on FBU imports.

Vehicle Purchase credit is already an established products of most Nigerian Commercial Banks and NAC. However, apart from NAC who charge 7.5% interest annually on its very small fund of N2.5 billion, interest by the rest average 22%. This has made the products largely unaffordable and unattractive to most Nigerians especially for the purchase of new vehicles. Used and cheap vehicles have understandably been the preference of most low and medium income Nigerians who have to saves up to afford outright purchase. A new Asset Management Company will be established by NAC to administer the scheme.
3. THE STRUCTURE OF THE NAIDP

3.1 FISCAL STRUCTURE OF THE NAIDP

Over the last few decades the tariffs on vehicles have fallen. The current level of 20% on passenger vehicles makes it impossible to compete against more established automotive industries in other economies. However, the potential market size for vehicles in Nigeria makes it an industry in which Nigeria should have a competitive advantage since the auto industry is strongly driven by economies of scale. In addition Nigeria has a strong hydrocarbon value chain potential that can underpin an automotive components sector based on plastics and related materials that are heavily used in modern vehicles.

Following the successful experience of economies such as Australia, South Africa and Brazil the NAIDP raises tariffs for vehicles but allowing gives rebate for those OEM that produce vehicles in Nigeria. Along with the other incentives for investment that are set out in this information document, this tariff mechanism incentivises local production of vehicles and components. The approach taken is realistic in that it accepts that the installation of productive capacity will have to be done in stages as the complementary energy, logistical and maintenance infrastructure is developed. As in other programmes this phasing is achieved through allowing for the importation to progress from Semi Knocked Down vehicles (major parts of the vehicle are imported along with components) to Completely Knocked Down (components are imported and assembled). Incentives are also built into the programme to encourage local component production. The NAIDP is designed in such a manner that it mitigates against a rapid increase in vehicle prices by linking tariff rebates to local production.

The NAIDP sets tariffs at a maximum of 70% (35% duty plus 35% levy) for fully built up cars and 35% duty without levy for commercial vehicles in the first phase. This level will decrease as the sector grows and becomes more competitive. Completely knocked down parts (CKD) and semi-knocked down parts (SKD) for assembling will be charged 0% and 5%-10% duty. The CKD and SKD definitions are in annex 1. As an incentive measure, local manufacturing operations are allowed to import fully built cars without the levy and commercial vehicles at 20% in proportion to their local production as detailed in table 1. Tariff on these inputs will increase as well once local manufacturing capacity strengthens.

The objective of this policy is to establish vehicle assembly plants that source many of their local content locally. An assembly plant may start operations with SKD2 assembly and move to SKD1, CKD and finally assembly operations, or skip some of the phases. The maximum time to move from SKD2 to full assembly is 54 months and detailed in annex II.
Table 1. Key Fiscal Drivers of the 10-year Nigerian Automotive Industry Development Plan, 2014 to end 2024

<table>
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<th>Year</th>
<th>Objective</th>
<th>Incentive</th>
<th>Remarks</th>
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| 2014-2015| Create an environment to allow existing assembly plants to survive and attract other OEMs. | (i) Cars (HS Heading 87.03): Levy of 35% charged on Car FBU in addition to 35% duty.  
(ii) Commercial vehicles (HS Headings 87.01, 87.02, 87.04, 87.05, 87.16): Levy of 35% duty without levy.  
(iii) Tariff on CKD*, SKD1 (HS Heading 87.06) and SKD2 (HS Heading 87.07) at 0%, 5% and 10% local assembly plants.  
(iv) Assembly plants to import FBU at 35% and 20% duty without levy for cars and commercial vehicles respectively in numbers equal to twice their imported CKD/SKD kits**. | The levy to be used for the development of the automotive industry, including the creation of automotive supplier parks, an affordable vehicle financing scheme and a credit guarantee scheme.  
The APs and NAC to develop and implement a local content incorporation programmes |
| 2019-2024| Institute incentive for local Content incorporation                        | (i) Levy on Car FBU reduced to 20%. Tariff remains at 35%.  
(ii) Duty on CV FBU remains at 35% without levy.  
(iii) Tariff on CKD, SKD1 and SKD2 remain at 0, 5% and 10% respectively.  
(iv) Concessionary FBU import by APs to be up to half of their imported CKD/SKD kits. |                                                                                                                                                                                                         |
| 2016-2018| Create an environment to allow existing assembly plants to grow and continue to attract other OEMs, in particular, local content suppliers. | (i) to (iv) as above  
(v) Concessionary FBU import by APs to be equal to their CKD/SKD imports                                                                 |                                                                                                                                                                                                         |

*See annex I for CKD and SKD definitions.

**FBU vehicle imports should be of the same type and brand as assembled as categorised in the following groups: (a) Cars, SUV and Pick-up Trucks (b) buses (c) Trucks, etc.
3.2 THE LEGISLATIVE AND REGULATORY BASIS OF THE NAIDP

The formulation of industrial policy is a function of the Federal Ministry of Industry, Trade and Investment. Once approved by the Federal Executive Council, the policy is implemented by the designated agencies. Tariff setting is done by the Tariff Review Board from the recommendations of the Tariff Technical Committee. The Nigeria Customs Service administers all imports and exports and rebates in terms of circulars from the Federal Ministry of Finance. The Nigerian Automotive Council will administer the NAIDP in terms of the Act establishing the NAC. The administrative arrangements are set out in the next section.

3.3 ADMINISTRATIVE ARRANGEMENTS

The NAIDP will be administered by the Federal Ministry of Industry, Trade and Investment, (FMITI) the Federal Ministry of Finance (FMF), the Nigerian Customs Service (NCS) and the National Automotive Council (NAC). NAC is the Federal Government Agency established by act of parliament as part of the institutional framework for the implementation of automotive policy/NAIDP. Membership of its governing board is made up of:

(i) Nigerian Automotive Manufacturers Association (NAMA),
(ii) Automotive Local Content Association of Nigeria (ALCMAN),
(iii) Nigerian Society of Engineers (NSE),
(iv) Raw Materials Research and Development Council (RMRDC),
(v) Standards Organisation of Nigeria (SON),
(vi) The Federal Ministry of Industry Trade and Investment (FMITI),

NAC takes effective control of the automotive sector through planned consultation with all stakeholders and activities monitoring. This enables it to advice government/ the Minister of MITI on reviews and Fiscal measures. Once considered by the HM, proposal for fiscal measures are submitted to the National Tariff Technical Review Committee (TTC) chaired by the Director (Fiscal) of the Federal Ministry of Finance (FMF). Other members are the Nigerian Customs Service, MITI, Manufacturers Association of Nigeria (MAN) and the RMRDC. The report of the TTC is then forwarded to the national Tariff Review board Chaired by the Federal Minister of Finance, with the Minister of Industry as member. The outcome is then presented for Presidential or Federal Executive Council consideration. If approved, extant circulars are released as issued by FMF for compliance. This elaborates procedure is to ensure that policies are not suddenly changed. In addition, legislation on the key components of the NAIDP is ongoing.

NAC capacity to monitor and continuously advice on review measures for NAIDP will be strengthened i by its data bank on a secure electronic platform www.nar.com.ng designed to register and host licensed automotive Manufacturers, Dealers and vehicle Identification Numbers (VIN) for all vehicles manufactured locally and imports. The Customs department will be expected to populate the platform with VIN of all vehicles imported for which duty has been duly paid, Bonafide local Assemblers/manufacturers will provide VIN as they complete manufacturing process while VIN of all vehicles in stock in Nigeria can be accessed from Dealers to have a complete repository of VIN. It is expected that the Road licensing authorities including Federal Roads safety (FRSC) and Vehicle Licensing offices of the 36 States and FCT will use this platform as a reference data bank. It means that the bank will host all vehicles imported and made in Nigeria at all time. If effectively referenced by FRSC and other road
licensing authorities, all smuggled vehicles will be squeezed out and smuggling which has the potential to undermine the policy will be curtailed. The Bank will be an invaluable monitoring resource for effective planning and implementation of the NAIDP.

3.4 MITIGATING MEASURES TO ALLOW FOR ADJUSTMENT BY INDUSTRY PARTICIPANTS AND CONSUMERS.

NAIDP recognises that the automotive industry is long term in nature requiring extensive investment over a reasonable period. Nigeria has existing installed capacity for the assembly of automobiles especially commercial vehicle and buses but in order to encourage further investment, NAIDP provides for OEM importers to continue import for a considerable length of time; long enough to establish the most basic assembly line. Thereafter participants are encouraged by a combination of tariff incentives and rebates to increase levels of investment and therefore capacity.

As part of the transitional arrangements, authorised automotive distributors who demonstrate commitment to assemble vehicles in Nigeria through a signed agreement and manufacturing licence with their global OEM partner may import fully built vehicles at duty rate of 35% for Cars and 20% for commercial vehicles without levy. The concessionary import is subject to the following terms:

(a) An indication of commitment (by signing agreement with a their global OEM partner, obtaining land and/or factory space, amongst others) to invest in vehicle assembly operations.

(b) An unconditional bank guarantee against each import will be provided to the National Automotive Council to cover the 35% levy for cars or the 15% duty differential for commercial vehicles. Failure to adhere to planned investment commitment will lead to the cancellation of the concession and the redemption of the guarantee.

(c) This concession will be allocated to registered and authorised OEM distributors only based on certain criteria, including their average imports over the last three years to compensate for the gap between local supply and market demand, amongst others.

The above measures are to create an environment to support existing assembly plants and attract other Original Equipment Manufacturers who have expressed interest in Nigeria. Chapter 4 lists additional incentives for investors.

The Consumers capacity to buy new automobiles through the establishment of a National Automotive Credit purchase Scheme will be vigorously pursued to as a demand side support scheme.

Review Periods and purpose of the review.
The NAIDP will be reviewed every five years. Reviews would not lead to structural changes but to adjustments to deal with changes that are adverse for the economy or the industry.
CHAPTER 4
INVESTORS GUIDE

4.1 METHODS OF CONDUCTING BUSINESS

All business enterprises must be registered with the Corporate Affairs Commission. Business activities may be undertaken in Nigeria as a:
(i) Private Limited Liability Company;
(ii) Public Limited Liability Company (Plc);
(iii) Unlimited Liability Company;
(iv) Company Limited by Guarantee;
(v) Foreign Company (branch or subsidiary of foreign company);
(vi) Partnership/Firm;
(vii) Sole Proprietorship;
(viii) Incorporated trustees (religious, charitable, philanthropic or cultural);
(ix) Representative office in special cases.

4.2 OPERATIONS OF FOREIGN COMPANIES IN NIGERIA

A non-Nigerian may invest and participate in the operation of any enterprise in Nigeria. However, a foreign company wishing to set up business operations in Nigeria should take all steps necessary to obtain local incorporation of the Nigerian branch or subsidiary as a separate entity in Nigeria for that purpose. Until so incorporated, the foreign company may not carry on business in Nigeria or exercise any of the powers of a registered company.

The foreign investor may incorporate a Nigerian branch or subsidiary by giving a power of attorney to a qualified solicitor in Nigeria for this purpose. The incorporation documents in this instance would disclose that the solicitor is merely acting as an “agent” of a “principal” whose name(s) should also appear in the document. The power of attorney should be designed to lapse and the appointed solicitor ceases to function upon the conclusion of all registration formalities.

The locally incorporated branch or subsidiary company must then register with the Nigerian Investment Promotion Commission (NIPC) before commencing formal operations. The new company may also apply to NIPC for other investment approvals (e.g. expatriate quota) and other incentives (see www.nipc.gov.ng).

4.3 FOREIGN INVESTMENT REQUIREMENTS AND PROTECTIONS

Principal Laws on Foreign Investments
The principal laws regulating foreign investments in Nigeria are:
(a) The Nigerian Investment Promotion Commission Act No. 16 of 1995; and

Effectively, the Nigerian Investment Promotion Commission (NIPC) Act No. 16 of 1995 has abolished any restrictions, in respect of the limits of foreign shareholding, in Nigeria registered/domiciled enterprises. However, certain business/enterprises are exempted from
free and unrestrained participation by any person or group of persons irrespective of their nationality. These are:
- Production of arms and ammunition;
- Production of and dealing in narcotic drugs and psychotropic substances;
- Manufacture of military/paramilitary wears and accoutrements;
- Participation in coastal and inland shipping

Provisions Relating to Investments
Notable amongst the provisions relating to investments are the following:
- A non-Nigerian may invest and participate in the operation of my enterprise in Nigeria;
- An enterprise, in which foreign participation is permitted, shall after its incorporation or registration, be registered with the NIPC;
- A foreign enterprise may buy the shares of any Nigerian enterprise in any convertible foreign currency;
- A foreign investor in an approved enterprise is guaranteed unconditional transferability of funds through an authorized dealer, in freely convertible currency, be it:
  (a) Dividends or profit (net of taxes) attributable to the investment;
  (b) Payments in respect of loan servicing where a foreign loan has been obtained.
- The remittance of proceeds (net of all taxes) and other obligations in the event of sale or liquidation of the enterprise or any interest attributable to the investment;
- Total repatriation of capital should the investor choose to relocate elsewhere.

Unconditional repatriation of Capital, profit and dividends is allowed, while technical fees and royalties on imported technical services and technologies are payable. Repatriation of proceeds from disposal of assets is allowed. Foreign Exchange transactions are carried out at the Autonomous Foreign Exchange Market.

Investment Protection Assurance
- No enterprise shall be nationalized or expropriated by any Government of the Federation, and
- No person who owns, whether wholly or in part, the capital of any enterprise shall be compelled by law to surrender his interest in the capital to any other persons.
- There will be no acquisition of an enterprise by the Federal Government unless the acquisition is in the national interest or for a public purpose under a law which makes provision for:
  (a) payment of fair and adequate compensation; and
  (b) a right of access to the courts for the determination of the investor’s interest of right and the amount of compensation to which he is entitled.
- Compensation shall be paid without undue delay, and authorization given for its repatriation in convertible currency where applicable.

Investment Promotion and Protection Agreements (IPPPA)
Apart from the investment guarantee assurances of the NIPC Act, countries are welcome to execute and enter into bilateral Investment Promotion and Protection Agreements (IPPPA) with the Nigerian government. Already, the country has signed with a number of countries including the United Kingdom, Spain, France, Romania, South Africa, etc. Negotiations are also on with a couple other countries.
**Application for Technical Agreement**

This is a form of technical co-operation agreement in which a party will agree to offer technical services to a company for the payment of a fee. Details and terms of such agreements are normally worked out between the parties involved but such agreements should be registered with the National Office for Technological Acquisition and Promotion (see www.notap.gov.ng).

**4.4 COMPANIES INCOME TAX**

The Income Tax Act has been amended in order to encourage potential and existing investors and entrepreneurs. The current rate in all sectors, except for petroleum, is 30 percent (see www.firs.gov.ng).

**4.5 ONE STOP INVESTMENT CENTRE**

The One Stop Investment Centre (OSIC) is an intervention mechanism, conceived and designed to serve both as a mechanism and a strategy for investment facilitation and promotion which brings together relevant government agencies in one location under one roof for the purpose of removing administrative bottlenecks experienced by investors in the course of especially, business entry and doing business in Nigeria. It is housed at the premises of the NIPC.

OSIC therefore coordinates and streamlines the processing and issuance of necessary business entry requirements by simplifying, shortening and clarifying administrative and regulatory requirements for entry into the economy.

The OSIC during the first phase of implementation commenced operations with 13 agencies which were later increased in the second phase to 26 including Regional Bodies for North, South-West and South-East/South-South respectively. More agencies will be included based on their respective roles in the investment facilitation process.

**Services**

- Granting of business entry approvals, licenses and authorizations.
- Provision of data and general information on the Nigerian economy, investment climate, legal and regulatory framework as well as sector and industry specific information to aid existing and prospective investors in making informed business decisions.
- Facilitation and follow up services on behalf of investors in all government Ministries and Agencies.

For further details see www.nipc.gov.ng
4.6 FREE TRADE ZONES

The Free Zones scheme was set up to strategically improve the investment climate of the economy through strengthening strategic national economic policies, streamline administrative approval processes, provide industrial infrastructure and a one-stop-shop service for businesses both within and outside Nigeria. Rules and Regulations relation to International Trade and Finance are partially applicable or completely inapplicable to Free Zone Areas.

In Nigeria, there are currently about 25 Free Trade zones with seven operational listed in Table 1. The Nigeria government has put in place an enabling environment and various incentives to encourage would be investors in Nigeria free trade zone, this include among others:

- Waivers of all imported and export licenses
- Waivers on all expatriate quotas.
- One stop and incorporation papers approvals for permits, operating license.
- Complete holiday from all federal, state and local government taxes rates, and levies.
- Duty free importations of capital goods, machinery/components, spare parts, raw materials and consumable items in the zones.
- Permission to sell 100% of goods into the domestic market (However, when selling into the domestic market, applicable customs duty on imported raw material shall apply).
- Minimize delays in the movement of goods and services.
- 100% repatriation of capital, profits and dividends.
- One-stop approvals for permits, operating license and incorporation papers.
- 100% foreign ownership of investments.
- Rent free land during the first 6 months of construction (for government owned zones).

Given the above incentive, the investment opportunities in Nigeria free trade zones are include:

- Vehicle Assembly Plants
- Metal Products and Machinery
- Rubber and Plastic Products
- Electrical and Electronic Products
- Petroleum Products
- Textile Products
- Leather Products
- Wood Products and Handicraft

For further details see www.nepza.gov.ng

4.7 IMPORT AND EXPORT FACILITATION: THE NIGERIAN TRADE HUB

The Nigerian Customs Service facilitates import and export through the Nigeria Trade Hub (www.nigeriatradehub.gov.ng). The Nigeria Trade Hub(NTH) mainly a portal for the importer or exporter to get correct information about doing business in Nigeria.
NTH provides information about all the Nigerian Regulatory Agencies, their contact details, processes, documents, fees and processing times that an Importer or Exporter will need to liaise with to obtain the necessary import permits and certificates that are required to ensure compliance. The NTH further provides contact details of organisation linked with trade in Nigeria.

NTH also has a searchable Document Library providing all the necessary downloadable documents relevant to trade in Nigeria, from Official Publications to Legal Information, Regulatory Documents and Customs Procedures.

Tools of the NTH include The HS Code Classification Tool – an intuitive tool that assists the Importer with the correct classification of their products for both import and export. Once the correct HS Code for an importation product is obtained, the tool provides the necessary regulatory information about the product including Regulating Agencies, Control Measures, Prohibition Status, ETLS status depending on the Country of Origin, Document Requirements, Related Duties and Fees and Processing times. For export products, the exporter on selection of the Country of Export is presented with the Exportation Country’s Market Access information including the relevant HS Code and the rates of duty it will attract upon entry.

Other Useful Tools include The Duty and Fees Calculator, The CPC Code Directory and the Currency Converter.
Useful Websites

5. Industrial Training Fund. www.itf.gov.ng
### National Automotive Design and Development Council

#### SKD/CKD Definitions

<table>
<thead>
<tr>
<th>Title</th>
<th>Definition by Process</th>
<th>Definition by Equipment</th>
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<tr>
<td><strong>SKD</strong></td>
<td>Car, Truck, Bus body painted or not. The engine, gearbox, axles, suspension, driveshaft, steering, tyres, batteries, exhaust system are supplied as sub-assemblies for assembly in Nigeria.</td>
<td>(i) Assembly line, miscellaneous tools. (ii) Wheel alignment tester, Turning radius tester, Head light tester, Sideslip tester, Speedometer tester, Brake dynamometer and Shower testing. Test Track (iii) Paint booth and oven (optional).</td>
</tr>
<tr>
<td><strong>CKD</strong></td>
<td>Body sides, Roof and Floor pan are supplied loose final welding, painting and final assembly. The engine, gearbox, axles, suspension, driveshaft, steering, seats, tyres, batteries, exhaust system, electrical, etc. are supplied as sub-assemblies for assembly in Nigeria.</td>
<td>(i) Welding guns, Jigs, Templates, Metrology Equipment (3-D measuring machines), etc. (ii) Conveyors, paint tanks, paint both, drying oven, etc. (iii) Assembly line, miscellaneous tools. (iv) Wheel alignment tester, Turning radius tester, Head light tester, Sideslip tester, Speedometer tester, Brake dynamometer and Shower testing. Test Track.</td>
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</table>
Registration is open to any company that may want to join the programme. They can start at any SKD, CKD or assemble phase as they choose. The indicated periods for the phases are the maximum expected in each phase.

The green line denotes mid-term review point (36 months)
ANNEX III: FREQUENTLY ASKED QUESTIONS

1. Do we qualify for concessionary import based on a commitment to assemble vehicles in Nigeria through a signed agreement and manufacturing license with an OEM from 1st of July 2014? Or through a signed MOU with Government and by submission of roadmap of our OEM CKD/SKD proposal?

   a. Both

2. Do we qualify as "Prospective Manufacturer" based on the fulfillment of one of the condition mentioned above in (a)?

   b. Yes

3. Which Ministry, Department or Agency of Government would certify us with the "Prospective Manufacturer" status?

   c. National Automotive council (NAC). It is a parastatal under the Federal Ministry of Industry Trade and Investment;

4. How would Nigeria Customs service recognize our status and allow us to pay only 20% of duty applicable on commercial vehicle once we attain the eligible status of Prospective manufacturer.

   d. NAC would have forwarded details of your particular status to NCS;

5. Which agency or authority collects levy on automotive imports and duty differentials on commercial vehicles?

   e. Levies and duty differentials will be paid as advised by NCS to a designated bank account and evidence provided to NCS as well;
6. The investment timeline of NAIDP suggests setup period or grace period of one year given to Prospective Manufacturer (from 1/7/2014 to 30/6/2015) and actual assembly would begin latest by 1/7/2015. Our understanding of the grace period is 18 months and total phase allowed for prospective manufacturer to fully attain CKD status is five years. Kindly confirm.

   f. You can enter the industry at any level within the first 5 years of the 10 year development program but concessions for SKD categories will be reviewed downward thereafter in favor of CKD and local content manufacture. The transition from SKD2 phase I => SKD2 phase II => SKD1 => CKD is expected to be not more than 12 months each, totaling 36 months;

7. Is the one year grace period for concessionary import extendable and if so, for how long?

   g. A 12 month only set-up period will precede assembly/manufacturing at any time before the end of the 1st 5 year period of NAIDP. The earlier, the better for new entrants. This may be extended by another six months depending on vehicle demand and supply conditions, etc.;

8. During the setup period, prospective manufacturer may import FBU at duty rate of 35% for cars and 20% for commercial vehicles without levy subject to an unconditional bank guarantee against each import to NAC to cover the 35% levy for Cars or the 15% duty differential for commercial vehicles (as per information document of NAIDP) while Investment Timeline for NAIDP suggests 35% duty to customs and 35% levy to NAC’s interest yielding escrow account for Cars and 20% duty to customs and 15% duty differential to NAC’s interest yielding escrow account for commercial vehicles. Kindly confirm the procedure we need to follow for the said payment.

   h. A bank bond in favor of NAC;

9. We would like to know the detailed process for each procedure i.e. Using Escrow account and with unconditional bank guarantee.

   i. A bank bond is preferred as it is less cumbersome and inexpensive;

10. As per the information document the concession will be allocated to registered and authorized OEM distributors only based on certain criteria, including their average imports over the last three years. Kindly confirm the entire criterion.
j. Government will monitor vehicle supply and demand and will take decisions based on outcome from time to time but an average of previous import over a time period will most likely apply;

11. How would Nigeria Customs service get notification of criteria mentioned in (10) for proper application of duty

k. NAC will inform NCS.

12. How long will assemblers import two units of fully Built vehicles for any one locally assembled?

l. The ratio is essentially to ensure that there is sufficient supply to the market. Once there is sufficient indication that this has been achieved, it will be gradually reduced and finally removed. A case may be made for extension if necessary but council hope that this will not arise;

13. What does "Assembly to commence with full local content development from June 2016" stated in Investment timeline for NAIDP mean"? Does it mean that local content is mandatory at that juncture even if it fails to comply with the standards required by OEM's? Does it mean local content inclusion from June 2016 subject to the requirement of OEM's? Kindly confirm.

m. It means that new measure to encourage local content development become a priority. These may include increase of tariff on certain items on the CKD kits, quality will never be compromised and NAC will have established sufficient infrastructure to monitor quality base on global standards;

14. Although there is a guideline provided for assembler to move from one stage to other, however we understand that it is up to assembler's decision on whether and when they move to next level of operations (i.e. SKD2=>SKD1=>CKD).

n. Its up to Assembler to enter at any level or move to any level but SKD2 will be discouraged after 2016;

15. Will SONCAP certification be mandatory and strictly monitored to exclude gray imports?

o. Yes;
16. For consideration for concessional FBU imports under the 1:2 ratio, would Passenger Cars and Light Commercial vehicles be included in the same category?

   p. No. Cars, SUVs and Pick-up trucks would be in the same category;

17. Which category of distributor and Dealers will be licensed by NAC? We recommend issuing license only to Authorized Distributors of the Manufacturers and accredited dealer satisfying criterion.

   q. Authorized Distributors and accredited dealers of OEMs.
The green line denotes midterm review point (36 months). The Red dot denotes the Information document release date. A company may begin setup period as soon as registration is completed.