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Analysis of Potentials of Nigeria's Services Sector for Economic Diversification, Employment and Foreign Trade (040 TRD AB)

<u>FINAL REPORT</u>

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Acronyms

ACP-EU	African, Caribbean and Pacific – European Union
AfCFTA	African Continental free Trade Area
BMOs	Business Membership Organisations
CAC	Corporate Affairs Commission
CBN	Central Bank of Nigeria
COREN	Council for the Regulation of Engineering in Nigeria
CPC	UN Conference of Product Classification
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
I - O	Input -Output
ICT	Information and Communication Technology
IDCC	Industrial Development Coordination Committee
ITC	International Trade Centre
MSMEs	Micro, Small and Medium Enterprises
NAICOM	National Insurance Commission
NBA	Nigerian bar Association
NCC	Nigeria Communication Commission
NESREA	National Environmental Standards and Regulations Enforcement Agency
NIPC	Nigerian Investment Promotion Commission
NTDC	Nigerian Tourism Development Corporation
RA	Regulatory Authority
SGF	Secretary of the Government of the Federation
TISA	Trade in Services Agreement
UNCTAD	United Nations Conference on Trade and Development
UR	Uruguay Round
WTO	World Trade Organisation

Executive Summary

Africa's contribution to global trade in services is little with slow growth despite rapid globalisation and liberalisation. The continent's intra - African trade in services is also relatively little. Nigeria's services sector contribution to its GDP is huge, representing 55.8 per cent in 2017. It recorded a growth rate of 1.83percent in 2018. Hence, the services sector possesses immense potential to promote diversification, employment and growth, even without a current holistic services sector policy. This study specifically mapped and profiled key services sectors; reviewed domestic regulations relating to services; estimated the current and future potentials for export; and provided associated recommendations.

The methodology is multi - faceted comprising trend analysis data, input - output analysis, econometric estimation, desk review, survey of services firms including focused group discussion and key in-depth interviews in South West, South East, North Central and North West of Nigeria. Special focus was put on influences on services production and export such as *trade - related infrastructure*, *trade - related inputs and services*, *compensatory/complementary arrangements,* and *macroeconomic environment.* The findings and recommendations are presented in what follows.

Findings

Structure of the Economy

- ✓ Services contributed about 54.1%, 57.6% and 57% to Nigeria's GDP in the years 2010, 2015 and 2017 respectively.
- ✓ The largest contributor to GDP is Trade (wholesale and retail services) and information and communication sectors
- ✓ The average growth rate of services sector is higher than the growth rate of GDP.
- ✓ Fast growth services are: Information and Communication (14.12 %), Other Services (10.12%), Arts, Entertainment & Recreation (8.45%), Construction (7.32%), Trade (7.20%) and Education (6.83%).
- ✓ Accommodation and Food Services (5.76%), Human Health & Social Services (5.53%), Transport (5.42%) and Utilities (5.53%) are also fast growth sectors

Services Contribution to facilitating other sectors of the economy

- ✓ Services sector contribution to direct employment is quite high. The proportion of direct employment to the total direct and indirect employment effects between the year 2007 and 2017 is as follows:
  - ➢ Utilities (52.2%), Building and Construction (60.2%), Information and Communication (72.6%), Finance and Insurance (87.7%), Transport (46.7%) and Other Services (75.5%).
- ✓ In 2017, Induced employment effect generated jobs across a range of sectors: Utilities (1.2 million jobs), Building and Construction (767.5 thousand jobs), Information and Communication (64.9 thousand jobs), Finance and Insurance (9.1 million jobs), Transport (863.3 thousand jobs) and other services (8.2 million jobs).
- ✓ The highest employment was created by other services sectors (such as, Hotels and Restaurants, Wholesale Trade and Retail Trade) followed by finance and insurance sub-sectors and Utility services
- ✓ Information and Communication barely contributed to the employment effect in Nigeria (less than 1 % of total employment) over the years.

- ✓ Finance and Insurance sectors have ability to create high employment effect with low production share in the economy unlike Mining and Quarrying, Building and Construction, and Information and Communication with relatively high production but low employment generation effects.
- ✓ The Utilities and Transport sectors however generate low production and low employment effects

Factors affecting Current and Future Production of Services as well Export

In the ***macroeconomic analysis***, the determinants of export supply are indicated pictorially below:

Long run effects of Factors Influencing Services Export Supply

	Financial	Insurance	Other business	Telecoms	Transport	Travel &Tourism	All Services
Trade-related infrastructure:							
Business regulatory environment indicator	🟢	🔴	🟢	🔴	🔴	🔴	🔴
New businesses registered	🔴	🔴	🔴	🟢	🟢	🟢	🟢
Quality of port infrastructure	🔴	🔴	🔴	🟢	🔴	🟢	🔴
Internet	🟢	🔴	🔴	🔴	🔴	🟢	🟢
Fixed telephone subscriptions per 1000 people	🔴		🔴	🟢	🟢	🟢	🟢
Direct Input vector:							
Total natural resource rents as % of GDP	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Gross fixed capital formation	🔴	🔴	🔴	🟢	🟢	🟢	🟢
Permanent cropland as % of land area	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Human Capital (School enrolment, secondary)	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Trade-related input services:							
Energy use (kg of oil equivalent) per $1,000 GDP	🟢	🔴	🟢	🔴	🟢	🔴	🟢
Air transport, freight	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Macroeconomic Environment:							
Official exchange rate	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Foreign direct investment, net inflows as % of GDP	🟢	🟢	🟢	🔴	🔴	🔴	🔴
Real GDP	🟢	🟢	🔴	🔴	🟢	🟢	🟢
Consumer price index	🟢	🟢	🟢	🔴	🟢	🔴	🔴
Tariff rate, applied, simple mean	🟢	🔴	🟢	🔴	🟢	🔴	🟢

Key: 🟢 = Positive effect 🔴 = Negative effect

In the ***microeconomic analysis***, the results from services export and non-export firms shows that:

- ✓ Both exporting and non-exporting Services firms are highly experienced firms.
- ✓ There has been an increasing tendency to register services exporting firms since 1991.
- ✓ Wholesale services firms dominated followed by professional services
- ✓ Most of the respondent services firms are owned by Nigerians.
- ✓ Joint ventures between Nigerians and foreigners are quite small.
- ✓ About 50% of the services firms are sole proprietorship
- ✓ Males dominated ownership structure and about 10% are owned by females.
- ✓ The age bracket of 41 to 60 and 31 to 40 dominate ownership.
- ✓ Majority of services owners are highly educated with first- and higher-degree certificates
- ✓ Most services exports are made through cross border supply and Intra-corporate transferees (Mode 4) export.
- ✓ Consumption abroad (basically tourism) mode of export constitutes a low proportion of services exports
- ✓ Services exporting firms create more employment compared to non-exporting firms.
- ✓ Services exporting firms also employ a larger share of full-time workers compared to non-export firms.
- ✓ The ratio of services firms' export earnings to total earnings is on the upward trend.
- ✓ A substantial proportion of Nigeria's services export firms export services to other African countries, and then the United States of America (USA).
- ✓ The United Kingdom does not have impressive imports of services from Nigeria.
- ✓ Exporting activities to China is also low
- ✓ In terms of constraints to production and exports,
    - ➢ Access Services firms to public power supply is perceived better than affordability of same.
    - ➢ There is need for syncronisation of rates when on estimated billing and when billed using pre-paid meters.
    - ➢ Water supply is also accessible and affordable.
    - ➢ There is problem of sustainability of utilities' facilities.
    - ➢ Only lower proportion of respondent firms attested to the improvement of public power supply.
    - ➢ An appreciable proportion of respondents agreed that there are improvements regarding water supply, telephone and communication, internet and transportation services.
- ✓ Services non-export firms are confronted more by insufficiency of funds compared to in services export firms.
    - ➢ It is quite difficult to access funds from formal financial institutions. This is especially the case for start-ups compared with established businesses.
    - ➢ Relationship with fund managers matter for access and rates of loans.
    - ➢ Corruption and grace period granted before commencing repayment of loans also play some role:
        - Fund managers are more willing to grant loans to start-ups to get bribes
        - Repayment starts too early, well before businesses begin to yield profits.
- ✓ Respondents were not aware of services export promotion schemes.

Services Imports and Exports

- ✓ Financial services, insurance and pension services lead Nigeria's services imports.
- ✓ Imports of construction as well as personal, cultural and recreational services are generally low.
- ✓ Telecommunications import is low, other business services, transport and travel services have greatly increased.
- ✓ Exports of travel have grown phenomenally, comparable to that of financial services but contrast to insurance and pension services.
- ✓ Exports of telecommunications, computer, and information services also recorded appreciable growth
- ✓ Nigeria does not export construction services.
- ✓ An increase in services share of total export is being recorded in recent times.
- ✓ Overall, Nigeria does not have competitive advantage in any subsector going by recorded deficits.
    - ➢ Nigeria has high deficits in personal, cultural and recreational services, insurance and pension services and travel services.

Multilateral Commitments

- ✓ In Nigeria's horizontal commitment, there are restrictions on commercial presence (mode 3) and presence of natural persons (mode 4) for supply of services.
    - ➢ Local incorporation by foreign service-providers is required in accordance with Nigerian law.
- ✓ Nigeria's sector-specific commitments are made in 4 of the GATS' 12 main services sectors.
- ✓ There is no market access and national treatment limitation placed on commercial presence of almost all sectors. Others include:
    - ➢ Communications (mobile): cross-border supply and consumption abroad are unbound.
    - ➢ Sale/installation of terminal, and value-added services: no market access and national treatment restrictions for modes 1-4.
    - ➢ Financial (banking): no limitation to market access and national treatment for Modes 1 and 3; unbound for Modes 2 and 4.
    - ➢ Insurance (life, accident and health insurance services): unbound for Mode 1, none for Mode 2; (reinsurance and retrocession): Mode 3 market access granted only subject to approval by the appropriate authority in Nigeria, and insurers are required to cede 20% of their business to Nigeria Reinsurance Corporation that has the right of First Refusal; Mode 2,none.
    - ➢ Tourism and travel related: none for Modes 1-4.
    - ➢ Maritime transport: no limitations for Mode 1.
    - ➢ Rail transport (maintenance and repairs): No limitation on Modes 3 and 4; unbound on Modes 1 and 2.
- ✓ In the Doha Initial Offer, there are six categories of offer. In summary, Nigeria's initial offer is quite liberal to the import of scheduled services.

Regional Commitments

- ✓ The draft Nigeria's Schedule of Specific Commitments for Trade in Services in ECOWAS for the AfCFTA is being worked and not made public yet.

Recommendations

Services Growth and Employment Potentials

- ✓ Policies are required for services sector growth. E.g.
    - ➢ The trade (wholesale and retail services): enhanced delivery and storage logistics
    - ➢ Information and communication services: improved delivery quality and standards, quality inputs.
    - ➢ The Arts, Entertainment & Recreation: protection of intellectual property, export incentives, tax incentives
- ✓ Policy Focus is required for the following sectors:
    - ➢ Accommodation: review of land use law; reduction of multiple taxation
    - ➢ Food Services: human capital development, quality and standards, reduced cost of inputs
    - ➢ Human Health & Social Services: upgrade the quality of training for practitioners, stem the brain drain
    - ➢ Transport: create multi-modal services infrastructure, formalisation of transporters; reduce foreign competition from multinationals
    - ➢ Utilities such as electricity and water: real liberalisation of sectors, reduction of transmission leakages.

Services Domestic Policies and Regulations

- ✓ Create Holistic services sector policy with strategic development plans for priority sectors.
- ✓ Formulate Services sector Enabling Domestic regulation.

Services Trade and Services Export Promotion

- ✓ Services export Policy is urgently needed, in particular:
    - ➢ Services export promotion policy
- ✓ Government should:
    - ➢ Create market opportunities in export markets through bilateral and multilateral negotiations.
    - ➢ Overhaul foreign road shows and trade fairs to include services
    - ➢ Implement general policy shakeups: Sector-enhancing liberalization, sector-targeted promotion policies, human capital development, strong institutions, provision of critical infrastructure to promote the services production and export.

Future Multilateral and Regional Services Trade Policy

- ✓ Establish capacity building channels for private sector stakeholders to cover:
    - ➢ services trade, services export potential
    - ➢ services import impacts
    - ➢ implications of impending trade agreements e.g. AfCFTA, ACP-EU Post-Cotonou Agreement, WTO-related Trade in Services Agreement (TISA).

- ✓ Develop a likely workable proposal for mode 3 commitments in priority sectors in the AfCFTA
- ✓ Undertake a 'none' entry for market access and national treatment in the priority sectors given:
  - ➢ 100% foreign participation is allowed in the regulations,
  - ➢ No significant discrimination between domestic and foreign services providers.
  - ➢ The exception to this recommendation is in the professional services sector
    - There are significant restrictions to market entry and national treatment of foreign practitioners.
    - Any liberalization should be discussed with relevant business membership organisations (BMOs).
- ✓ Envisage and work towards commitments in the AfCFTA that will be better in terms of quality of offer than at the multilateral level.
- ✓ With respect to mode 4, due to youth unemployment, the country should schedule 'unbound' for Mode 4 in all the sectors under the multilateral framework.
- ✓ For African countries, rules affecting movement of workers can be negotiated in the AfCFTA.
- ✓ Area of further research should include:
  - o Conduct research on identification of services exports opportunities and how to remove impediments to exports in countries of export destinations through negotiations in multilateral and regional services negotiations.
  - o When Regional Services Offer is made public, analysis will be needed on its impact on the economy in general and tangible goods production in particular.

1. Introduction

1.1. Preamble

Nigeria's services economy is one of the largest, fastest growing and most open (as revealed by the World Bank Services Trade Restrictions Index - STRI) on the African continent[1]. In the last decade, services sector has emerged as the highest contributor to the national output, absorbing large proportion of unemployed youth, enhancing prospect for inclusive growth and offering promising opportunities for export diversification. The sector offers immense potentials to change the dynamics of the diversification agenda initiated by the Federal Government of Nigeria (FGN) which has overly concentrated on agriculture and manufacturing for more than four decades. Services now contribute the highest proportion of the overall domestic activities and economic growth moving from less than 30 percent of Gross Domestic Product (GDP) in the 1990s to over 50 percent in 2010. The sector accounted for 50.79 percent of the GDP in 2010, and 52.4 percent, 58.2 percent and 55.8 percent in 2013, 2015 and 2017 respectively, and 53 percent in 2019[2]. Six key services sectors - wholesale and retail trade, telecommunications, banking, franchising, education and health services subsectors – are contributing enormously to employment and economic growth.

Africa's export potential in traditional services, such as tourism, is well recognised and pursued in enhancing economic opportunities, but the emerging success in the exports of non-traditional services, such as business services, has been underexploited[3]. Traditionally, less emphasis has been placed on the sector in cross-border trade, but this attitude is fast changing across the continent, including Nigeria. Countries now have better understanding of the crucial roles of services in growing other sectors and efficient functioning of the overall economy. Both formal and informal trade in services create massive opportunity for inclusive growth and poverty reduction in Africa, including Nigeria. Services trade will constitute a significant component of the African Continental Free Trade Area (AfCFTA) when implementation of the agreement commences. Nigeria has been identified as the country with the highest services trade potential in the continent[4]. However, despite the huge possibility, the sector has contributed

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[1] World Bank, 2019 and https://nipc.gov.ng/opportunities/services/

[2] See National Bureau of Statistics, 2020.

[3] World Bank, 2016. Africa's Unexplored Potentials in Trade in Services. Washington D. C (Aug). https://www.worldbank.org/en/news/feature/2016/08/04/africas-unexplored-potential-of-trade-in-services

[4] African Services Trade Potential Indices (2007-2017) in African Continental Free Trade Area (AfCFTA): Impact and Readiness Assessment – Vol 1 (Executive Summary).

only a little to Nigeria's basket of trade. To maximise benefits that AfCFTA and other multilateral, regional and bilateral agreements offer, there is the need to translate the huge potentials to service market access by paying attention to creating an environment that enhances services production, investment and trade.

Unlike other types of non - oil trade, services sector is a very sensitive sector, sometimes requiring huge capital for enabling infrastructure with commensurate risks. The space is also sometimes too lean for the survival of MSMEs, there is also difficulty in sourcing funds to operate in the sector due to nature of trade. It is envisaged that thorough understanding of the sector will facilitate public and private investment structures and finance infrastructure that may enable overall competitiveness of Nigeria's MSMEs in the sector.

It is important to note however, that strategic reform in several services subsectors such as arts, entertainment and recreation, construction, transport and storage, electricity supply, water supply, waste management, and health, will go a long way to unleash a bourgeoning sector growth and diversification opportunity. This expectation rests on the premise that services empower manufacturing, agriculture and agri-business, oil production and trade, mining and quarrying, among others as intermediate or infrastructural services. It has the highest number of activities in the agricultural value chain and can catalyse the agricultural transformation agenda thus stabilising the macroeconomy, through employment generation, domestic investment and foreign direct investment (in)flows. Besides the sector's high employment elasticity, and some subsectors' high-income elasticity implying employment and tax revenue generation capacities, services sector's commercial presence and movement of professionals are easily traded and contribute to foreign direct investments.

Despite these enormous potentials, Nigeria does not possess a holistic services sector policy which should contain vision, plans and strategies of sector development. What exist are fragmented sub-sectoral policies such as the telecommunications, tourism, housing and health policies.

The employment, growth and export potentials of the services sector are not evidently known. Evidence is also lacking regarding sector interactions with the rest of the economy, stakeholder - determined challenges and supply capacity constraints including those related to investment, regulatory environment, capacity needs, export trade potentials among others.

1.2. Study Specific Objectives (SSOs)

This study is focused on the following specific objectives and seeks to address the issues discussed in the previous subsection:

i. Attempt a comprehensive mapping and profiling of key components of the services sector in Nigeria;
ii. Review domestic regulations relating to services sector and its components;
iii. Analyse the contributions of the sector and its components to facilitating other sectors of the economy – such as Agriculture and manufacturing;
iv. Estimate the current and future potentials of the sector for growth and trade – domestic and international trade, particularly services export;
v. Provide recommendations on specific sectors Nigeria should consider for liberalisation in the World Trade Organization's Negotiations, and potential benefits; and

vi. Provide recommendations on domestic policies and strategies required to enhance the performance of the services sector.

1.3. Scope of the Study and Data Collection Strategy

This study provided evidence on services production, investment and trade, particularly export in the last fifteen (15) years, with emphasis on mode of supply where data was available[5]. This generated trends which will serve as a useful tool to relevant exporter groups, policy makers, and investors in Nigeria for interrogating the sector's capacity and potential to provide jobs, increase household incomes, enhance foreign exchange earnings and improve livelihood.

The study also surveyed service providers in different subsectors to determine their export supply response capacity and challenges hindering responses to market opportunities. It targeted state actors and services operators (managers or chief executives) in Lagos, Abuja and Kano. Key services subsectors driving growth, investment and employment were targeted in these cities. The study identified case study firms to obtain in - depth information regarding production, employment and exports in order to understand key supply response capacity challenges and design actionable sector development plans and strategies to impact future activities in the sectors. The study also captured women participation and challenges they experience in the value chains of services.

Secondary sources of data were used to trend and rank the contribution of services subsectors to the economy as well as determine the type of association that affective factors have regarding the development of the services sector[6]:

- ✓ Trade - Related Infrastructure
- ✓ Direct Inputs Vector
- ✓ Trade - Related Input services
- ✓ Compensatory/Complementary Measures
- ✓ Macroeconomic Environment Vector
- ✓ Foreign Market Access Condition

Primary source of data[7] was generated from field survey. The field survey required the determination of the sampling frame developed from databases of regional chambers of commerce. These are regional chambers of commerce of the South West, South East, North Central and North West. A combination of purposive and random sampling were applied to obtain sampled firms.

Two types of questionnaires were drawn up for administration; structured and mostly quantitative-type questions were administered on randomly selected firms. 3-8 firms per region participated in

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[5] The Services Trade Restrictions Index (STRI) is a measure of the restrictiveness of an economy's regulatory and policy framework with respect to trade in services. It is available on three out of the four modes of supply in the GATS, namely cross-border supply (mode 1), commercial presence (mode 3) and presence of natural persons (mode 4). The measure ranges from 0 to 100, where 0 is no restrictions underlying the index is applied, and 100 shows the sector/mode is completely closed to foreign services and service suppliers. An overall STRI index combines the three modes of supply in a sector-level index.

[6] See Table A1 at the appendix for details

[7] Coverage of primary survey is found in the appendix

focused group discussions using an unstructured questionnaire. Complementary data were drawn from World Bank Development Indicators. The structured questionnaires asked questions regarding some of the issues itemized below.

1.4. Methodology

The study involved a desk review of relevant materials, trend analysis of secondary data, input - output analysis of sectoral interactions and employment generation[8], and econometric estimation of services sector components to reveal current and future potentials for growth and exports. Table 1.1 presents an objectives-methodology map:

Table 1.1: Objective-Methodology Map

S/N	**Specific Objective**	**Methodology**
1.	Attempt a comprehensive mapping and profiling of key components of the services sector in Nigeria	Trend analysis of secondary data
2.	Review domestic regulations relating to services sector and its components	Desk review of domestic regulations of significant services subsector
3.	Analyse the contributions of the sector and its components to facilitating other sectors of the economy – Agriculture, manufacturing etc	Trend analysis of secondary data analysis of input - output table for sectoral interactions and employment generation
4.	Estimate the current and future potentials of the sector for growth and trade – domestic and international trade, particularly services export	a) Survey of services providers with export potentials b) Econometric estimation of services sector components to reveal current and future potentials for growth and exports

[8] Input-output(I-O) analysis is a macroeconomic analysis using the interdependencies between economic sectors or industries represented in the input-output table-a series of columns and rows of input and outputs (respectively) on sectors in the economy that quantify the supply chain for all sectors of an economy.

5.	Provide recommendations on specific sectors Nigeria should consider for liberalisation in the World Trade Organization's Negotiations, and the potential benefits	Survey service providers with export potentials according to services exportability ranking to discern their supply capacity constraints to provide relevant and useful recommendations
6	Provide recommendations on domestic policies and strategies required to enhance the performance of the services sector	Survey service providers with export potentials according to services exportability ranking to discern their supply capacity constraints to provide relevant and useful recommendations

1.4.1 General Principles: Factors influencing Export supply

Literature[9] suggests that export supply of services is influenced by:

- ✓ *Relative prices*, *trade - related infrastructure* such as firms' establishment costs, transport costs, contract enforcement costs, information costs, and time costs;
- ✓ *Trade - related inputs and services* such as finance and insurance services, energy and other utilities, export quality assurance services and trade facilitation;
- ✓ *Compensatory/complementary arrangements* and measures including export/investment promotion, information gathering services on foreign markets regarding competitors and their products, as well as entry barriers;
- ✓ *Special export re*gimes cognisant of 'aid - to – discovery' measures as well as 'aid - for – trade' measures.
- ✓ *The macroeconomic environment* encompassing inflation rate and volatility, trade regime for imported inputs, exchange rate changes and volatility, black-market premium, investment regime, and domestic regulatory framework.
- ✓ *Direct input variables* embedded in relative prices including productive capacity measured by firm size, quality of work force, investment level, growth and technology, competitiveness factors (productivity measured by unit input (labour) costs), and ratio of wages to productivity.
- ✓ *Foreign market access conditions* such as export market standards, as well as technical and domestic regulations in destination countries.

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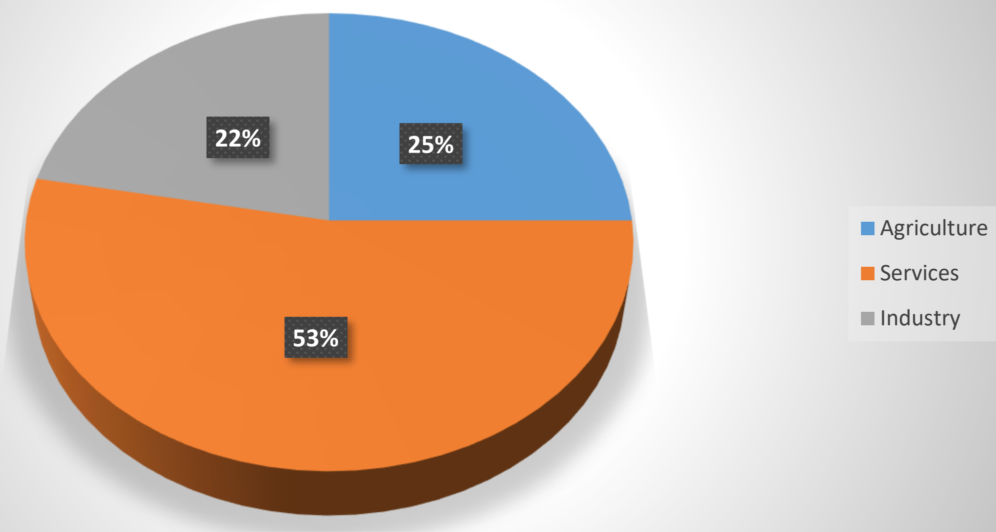
9 Michealy, Papageorgiou and Choski, 1991; Thomas and Nash, 1991; Jenkins,1996; Lyakurwa, 2007; Ahmed, 2000; Oyejide 2007; Bacchetta, 2007; and Oyejide, 1990.

2. Nigeria's Services Sector and Trade Outlooks

2.1. Mapping and profiling of key services sector components in Nigeria

The services sector has continued to dominate domestic economic activities in the last decade generating more than half the value of Gross Domestic Product (GDP). Over the years, the contribution of Nigeria's services sector to Gross Domestic Product (GDP) recorded an increase compared with other sectors of the economy. Services contributed about 54.1%, 57.6% and 57% to Nigeria's GDP in the years 2010, 2015 and 2017 respectively. In 2018 and 2019, the sector contributed about 53% of the GDP while agriculture and industry combined contributed 47%.

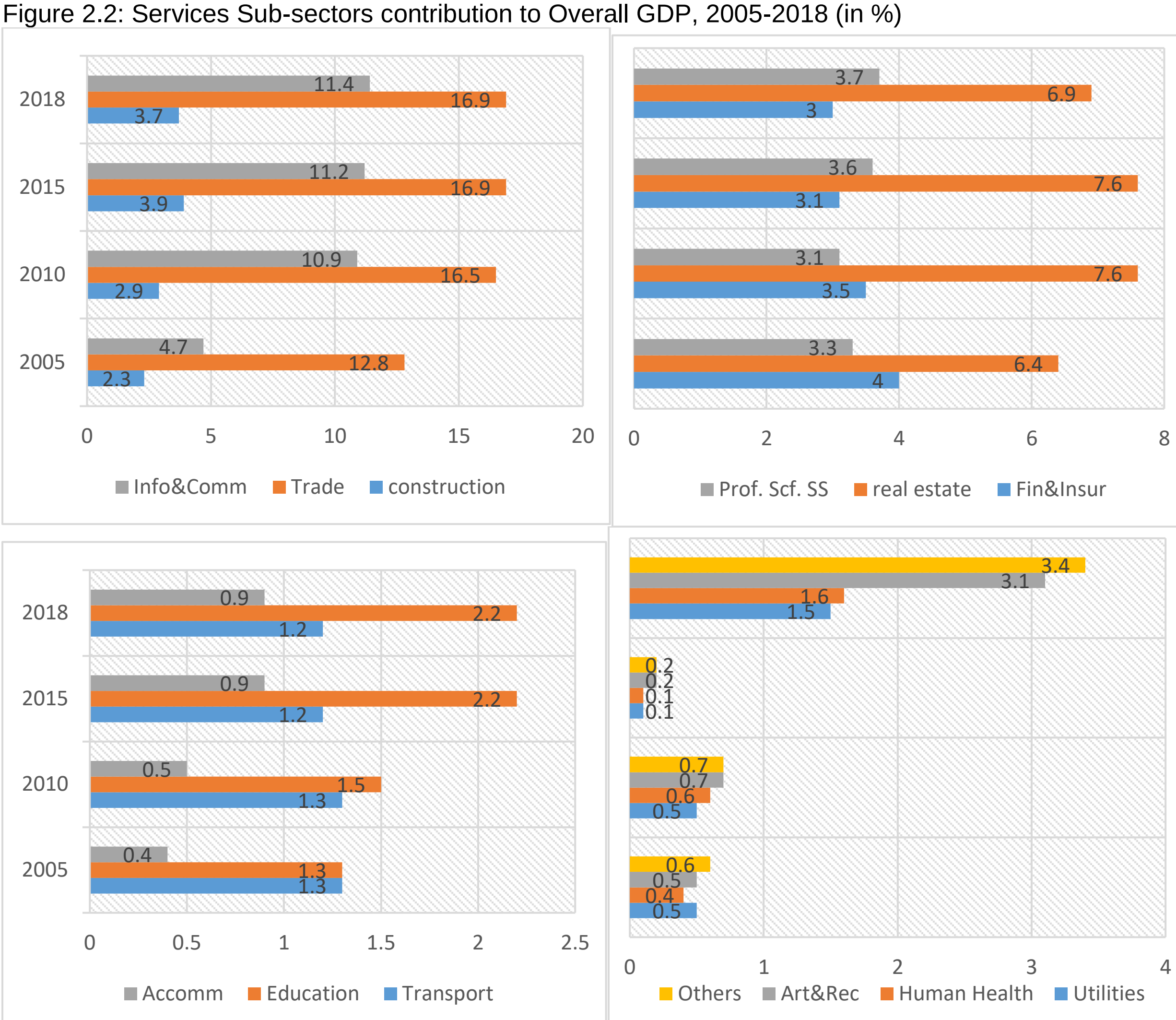
Figure 2.1: Sectoral Contributions to GDP in 2018 and 2019 in %



Source: National Bureau of Statistics (NBS), 2020

Composition and structure of contribution to the overall economy is given by the sectoral trend presented in figure 2.2. It illustrates trade, information and communication technology, as well as real estate as the leading sub-sectors in driving services and overall domestic activities.

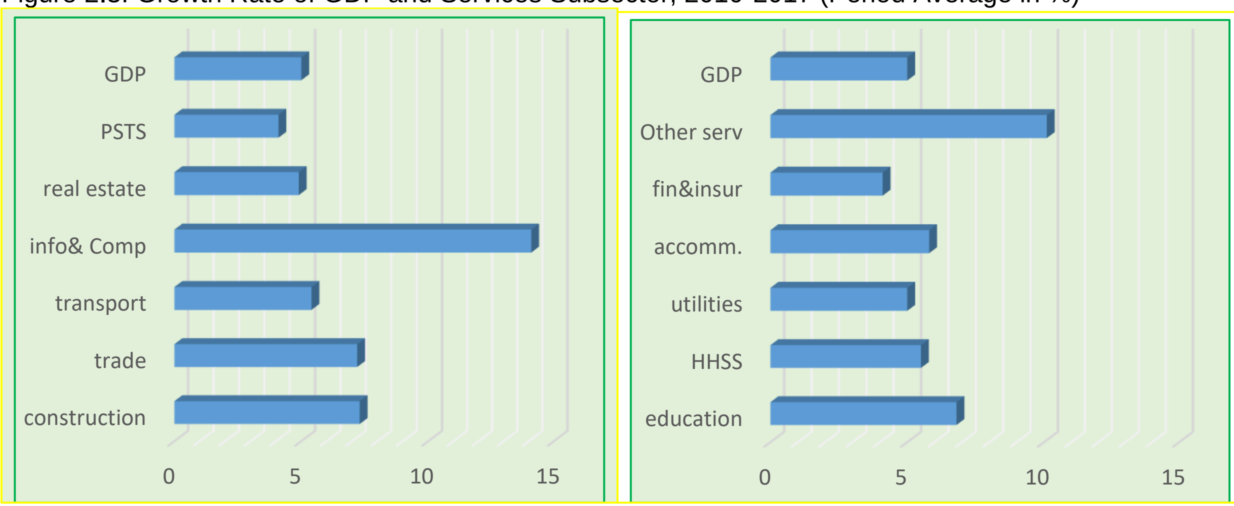
Figure 2.2: Services Sub-sectors contribution to Overall GDP, 2005-2018 (in %)



Trade (wholesale and retail services) is the largest single contributor to GDP, with approximately 17% share across the years except in 2005, when it recorded 12.78%. Information and communication (ICS) sub-sector follows approximately with 10.9%, 11.17%, and 11.35% in the years 2010, 2015 and 2017 respectively. The least contribution (0.02%) was made by administrative, support and business services (ASBS) (see figure 2.2).

In terms of contribution to overall GDP growth, the average growth rate of many services sub sectors is higher than the growth rate of GDP itself from 2010-2017. Higher growth services sub-sectors are information and communication services, other services, arts, entertainment & recreation (AER), construction, trade, education, accommodation and food services (ACCM), human health & social services (HHSS), transport and utilities (see figure 2.3 below).

Figure 2.3: Growth Rate of GDP and Services Subsector, 2010-2017 (Period Average in %)



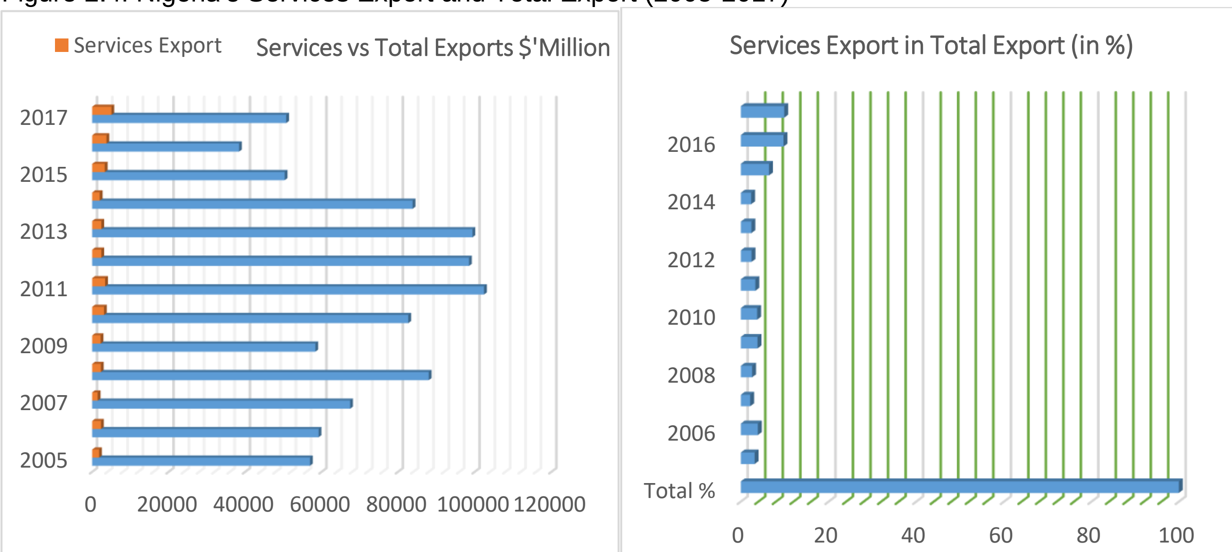
Only four of the thirteen domestic services sub-sectors recorded less the overall GDP growth rate from 2010-2017. These services sub-sectors are real estate , professional, scientific & technical services, finance & insurance, administrative and support business services.

2.2 Nigeria's International Services Trade Outlooks

2.2.1 Services Contribution to Total Export

Despite huge potentials in the services sector as indicated by its contributions to the GDP in the last decade, services sector's contribution to overall export remains insignificant. Until 2015 when it grew above 5% of total export (at 6.4% in 2015, 9.7% in 2016 and 9.9% in 2017), services export contribution to total export have always been lower than 4%. Figure 2.4 profiles services export vis-a-vis total export and proportion of services export in total export in Nigeria between 2005 and 2017.

Figure 2.4: Nigeria's Services Export and Total Export (2005-2017)

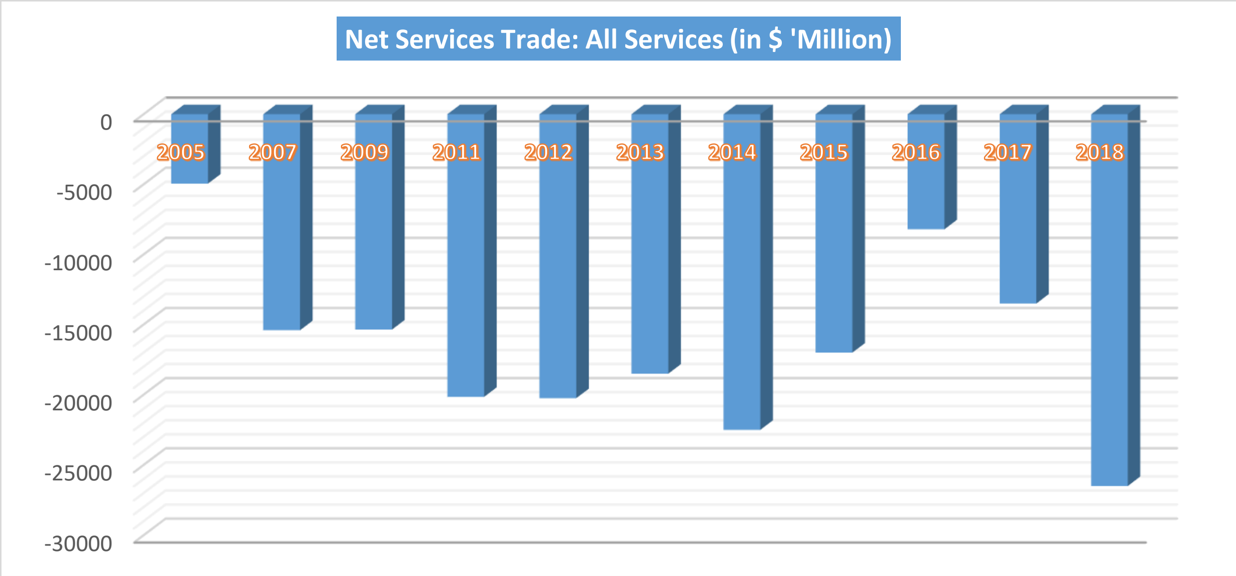


Nigerian export of goods and services rose from US$57billion in 2005 to the highest value of about US$102.44 billion in year 2011 and took a consistent dive since then to US$50.76 billion in 2017. On the other hand, the Nigerian services export rose from about US$1.79 billion (about 3.15% of total export) in 2005, to about US$3.39 billion (about 3.31% of overall export) in 2011. The percentage share of services in total export later rose to 6.43%, 9.74%, and 9.89% in the years 2015, 2016 and 2017 respectively. This picture shows that potential of services sector for international trade is not exploited for the diversification drive of the Federal Government of Nigeria (FGN).

2.2.2 **Services Trade Balance**

The dominance of the services sector in GDP has not translated positively to Nigeria's trade balance. This suggests that services production and trade in Nigeria is far less competitive compared with many other services trading partners. Figure 2.2 shows that services trade negative balance has widened significantly within the last two decades.

Figure 2.2 Trend in Services Trade Balance, 2005-2018 (US$ 'Million)



There is a need to work on services exports by subsectors to enable services to contribute meaningfully to Nigeria's growth and generate employment. Sub-sectoral contributions to overall services trade deficit in 2018 shows that "other services" contributed the highest to the negative trend (figure 2.3). Travel and transport are also major contributors to the overall negative balance.

Figure 2.3: Disaggregation of Nigeria's Services Trade Balance, 2018 (US$ 'Million)

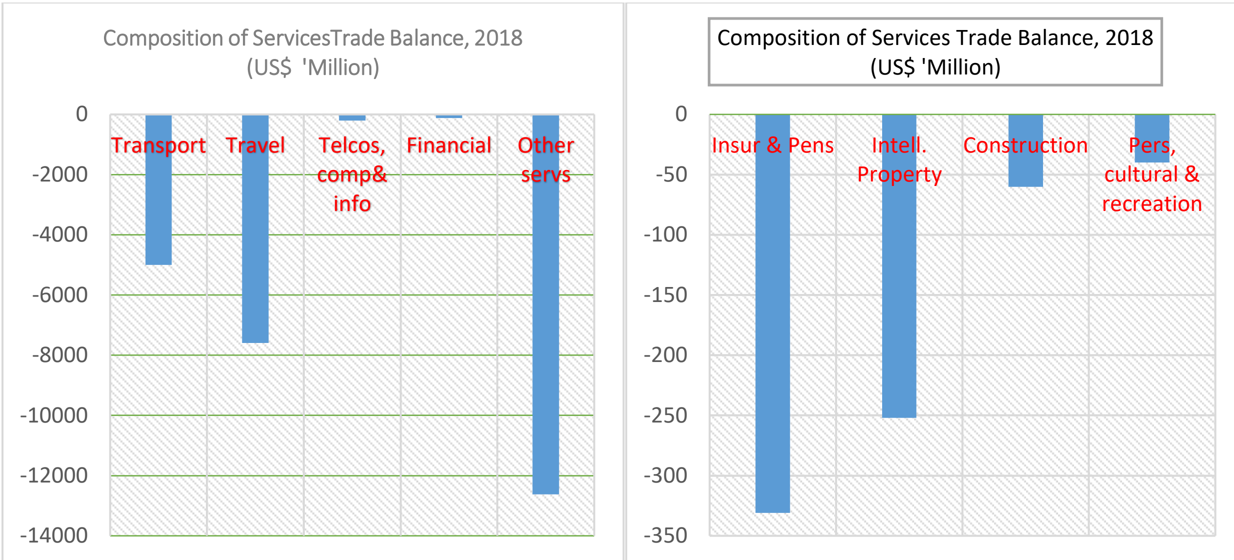
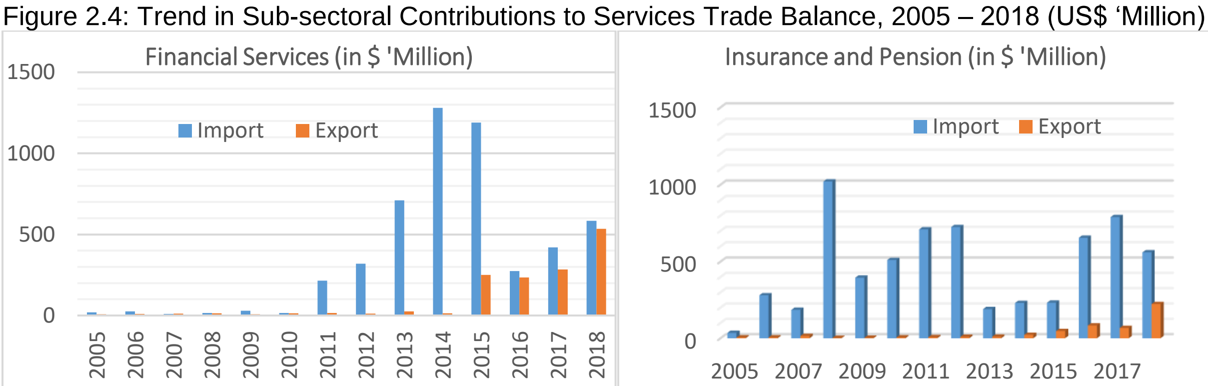
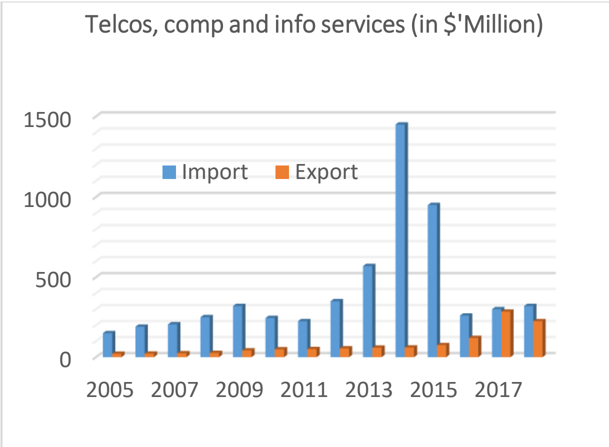
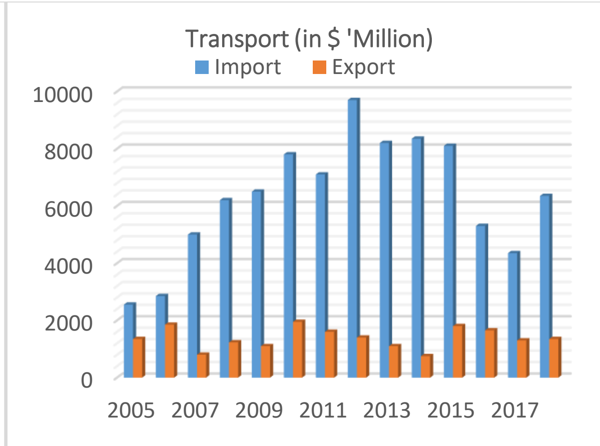


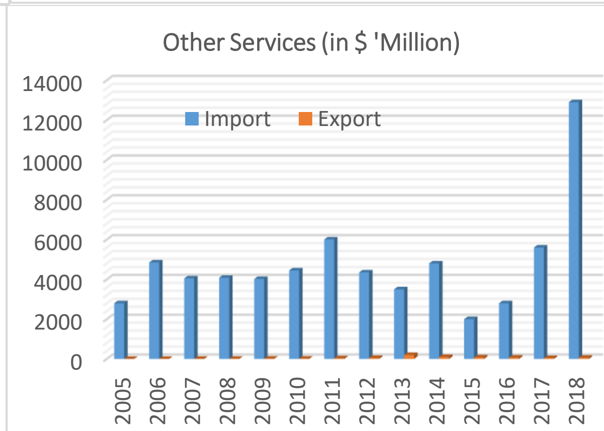
Figure 2.3 reveals that four major services sub-sectors – financial services; telecommunication, computer and information services; construction, and personal, cultural and recreational services respectively contributed the least to the overall services trade deficit between 2015 and 2018. Mismatch between import and export of services is clearer in figure 2.4 which gives information on sub-sectoral trends in services trade across six major services subsectors.

Figure 2.4: Trend in Sub-sectoral Contributions to Services Trade Balance, 2005 – 2018 (US$ 'Million)









Trends across all services sub-sectors suggests Nigeria's import of services is multiple its export. This makes the services sector a major burden to overall trade balance in Nigeria for all years, in at least the last two decades.

3.0 Services Trade Policy, Domestic Regulations and Cross-border Commitments

3. 1 Services Trade Policy and Domestic Regulations

Although array of services sector domestic regulations impacting upon trade in services exist, it is difficult to find documents detailing services trade policy and strategy, particularly those relating to export policy, strategy and promotion. Participants at the focused group discussion agreed on the absence of targeted and systematic export promotion strategies for exporting services in Nigeria. Nigeria services trade policy largely follows the World Trade Organization's (WTO) General Agreements on Trade in Services (GATS). There are two types of services commitments taken at the level of the World Trade Organisation (WTO). These are horizontal commitments- rules and regulation that cut across all services sectors, and sector specific commitments which are market access and national treatment rules applicable to individual sectors. These commitments are classified into four modes, describing modes of supply.

Table 3.1 presents components and definitions of modes of supply.

Table 3.1: WTO Classification of Cross-border Services Trade

Head	Component	Definition
Mode1	Cross-border	Services supplied from the territory of one WTO member into the territory of any other member. *Example*: a user in country A receives services from abroad through its telecommunications or postal infrastructure.
Mode 2	Consumption Abroad	Services supplied in the territory of one WTO member to the service consumer of any other member. *Example*: nationals of a country that moved abroad as tourists, students, or patients to consume respective/relevant services.
Mode 3	Commercial Presence	Services supplied by a service supplier of one WTO member, through commercial presence in the territory of any other member. *Example*: service provided with country A by a locally established affiliate, subsidiary, or representative of foreign-owned-and-controlled company (e.g. bank, hotel group, construction company etc).
Mode 4	Presence of Natural Persons	Services supplied by a service supplier of one WTO member, through the presence of natural persons of a member country in the territory of another member. *Example*: a foreign national provides a service with country A as an independent supplier (e.g. consultants, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company etc).

Source: https://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm

In Nigeria's horizontal commitment, there are restrictions on mode 3 and mode 4 for supply of services. In the case of the former, the restriction consists of local incorporation by foreign service-providers in accordance with the relevant provisions of Nigerian law. However, Nigeria's schedule does not explicitly specify the measures affecting the presence of natural persons and unbound entry[10], except for entry and temporary stay of personnel employed in senior management and expert jobs for the implementation of foreign investment. This implies that the regulations can be altered even though the general understanding is that the rules cannot be more stringent than they already are.

In the General Agreement on Trade in Services (GATS) of the Uruguay Round of 1995, Nigeria's sector-specific commitments are made in 4 of the GATS' 12 main services sectors. Nigeria's commitments vary across sub-sectors of communications, financial services, transport services, and tourism and travel related services (see Appendix 3.1). Nigeria participated in WTO services negotiations on maritime transport services and also signed the instrument of acceptance of the Fifth Protocol to the GATS on the Financial Services Protocol.

[10] All commitments in a schedule are bound unless otherwise specified as 'unbound' or 'none'; unbound means a Member wishes to remain free in a given sector and mode of supply to introduce or maintain measures inconsistent with market access or national treatment; none means there are no limitations on market access or national treatment specific to a given sector and mode of supply.

In the case of domestic regulations, Nigeria has robust domestic regulations and policies that govern services production and trade. These domestic regulations cover requirements for business creation/entry in the case of foreign firms, laws and regulations affecting foreign investment, operations and supervisions, local content requirements, and dispute management. Details of domestic regulations on various components of services sector is given in appendix 3

3.2. Review of Nigeria's Conditional Initial Offer (Doha Round)

Two approaches to determining the extent of liberalization of the conditional initial offer in the Doha Round were applied. The first compares the Doha offer with the Uruguay round commitments while the second approach evaluates sector commitments in the Doha offer itself. In the case of the first, 4 main sectors and 20 subsectors were committed in the Uruguay Rounds GATS, while 9 main sectors and 83 subsectors were offered in the Doha schedule of commitments as initial offers. In the case of telecoms, 14 subsectors were offered compared to the 4 in the UR, and also, featuring such subsectors such as courier services and audio-visuals. The new commitments in the Doha offer are in business services, courier services, construction and related engineering, distribution services, educational services, environmental services and transport services sectors. Banking services under which 5 subsectors were scheduled in the UR now feature 6 subsectors, with the sixth being the trading on own or customers' account.

Evaluating the sector commitments in the Doha offer, there were six categories of sector commitments in Nigeria's initial conditional offer. These are: 1) None, None, None, None (NNNN) in Modes 1, 2, 3 and 4 respectively; 2) None, None, None, Unbound (NNNU); 3) 'Unbound, Unbound, None, Unbound' (UUNU); 4) 'None, Unbound, None, Unbound (NUNU); 5) 'Unbound, None, Unbound, Unbound' (UNUU); and 6) 'Unbound, None, None, Unbound' (UNNU). Table 3.2 gives detail of the six categories of commitments in the Doha rounds.

Table 3.2: Details of Commitments in the Doha Offer

Key:		
Category	Initial Commitments	Detail
1	NNNN	Other Sale/installation of terminal equipment (CPC 7521, 7522, 7523)
2	NNNU	Telecommunications except mentioned in 4 and 1; Construction Works
3	UUNU	Courier services; Audio visuals; a) Life, accident and health insurance Services (CPC 8121) d) Maintenance and repair of rail transport equipment (CPC 8868)
4	NUNU	Other Business services (technical testing and analysis); some telecom services; Distribution services; educational services; environmental services; non-life insurance; some banking services
5	UNUU	Architectural services, engineering services
6	UNNU	Professional Services except Architectural and engineering services; Computer and related services, Research and development services, Real estate, Rental/Leasing, other business services except technical testing and analysis, Maritime transport, Air transport;

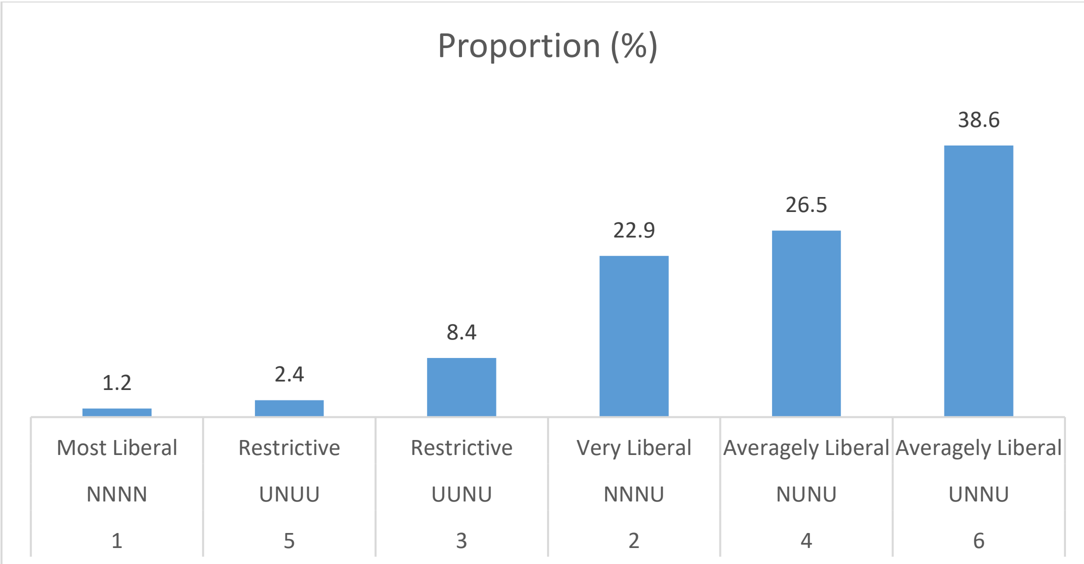
Source: Summarised from Nigeria's Initial Offer in the Doha Round

Category (1) offer is the most liberal, though it represents only 1.2% of total commitments, because no limitation is placed on any of the modes for either market access or national treatment.

Category (2), which constitutes 22.9% of the total commitment in the offer, is the next very liberal commitment with no limitations on Modes 1-3 and unbound entry in mode 4. Categories (4) and (6) have the same liberalization status with different modes configuration. These two have no limitation to market access and national treatment in two modes, and 'unbound' entries in two modes, and are classified as averagely liberal. Up to 65.1% of total offer is composed of the averagely liberal categories. Categories (3) and (5) similarly have comparable liberalization status but also with different mode configuration as both have three 'unbound' entries and one entry for no limitation on market access and national treatment. These categories represent the restrictive commitment in the conditional offer and account for 10.8% of total commitment in the initial offer. Summarising, Nigeria's initial offer is quite liberal to the import of scheduled services.

The analysis of the extent of liberalization commitments can also be made by modes. Hence, mode 3 is the most liberal, with no limitation on market access and national treatment in all sectors on offer except architectural and engineering services. Following this is mode 2 with a very liberal commitment as this mode has unbound entries in categories 3 and 4. Mode 1 is averagely liberal because it tends to have equal distribution of 'unbound' and 'none' entries across the categories. Mode 4 is the restrictive commitment in the initial offer as all entries feature 'unbound' across all categories except category 1. The commitment in mode 4 is consistent with the expectations of a labour and human capital surplus country like Nigeria which needs to protect employment of its citizens against displacement from more competitive economies possessing more productive human capital. Liberalization categorization is given in figure 3.1 below:

Figure 3.1: Summary of Nigeria's Services Conditional Initial Offer



3.3 Regional and Future Multilateral Commitments and Potential Benefits

Nigeria's draft Schedule of Specific Commitments for Trade in Services in ECOWAS for the AfCFTA is being worked on and not made public yet.

Market entry for foreign companies in many services sectors in Nigeria is allowed especially with respect to the direct opening of one subsidiary even though incorporation is required with 100% maximum foreign ownership. Also, acquisition of a national private entity is allowed with 100% accumulation of foreign assets. Except in few cases such as in Legal profession where government do not own firms, acquisition of a national private entity is also allowed. Joint ventures are also allowed, so is maximum accumulation of foreign assets. A distinct legal entity and adherence to an international association is allowed and there is no restriction on the repatriation of profits.

A license is mandatory to gain access into some of the markets such as the legal profession, financial and telecommunications. The license award criteria are accessible to the public and licenses are automatically awarded, provided these criteria accessible to the public are met with no difference for foreign and national applicants. With respect to the nationality for employees, the minimum percentage and number for national employees is open and varied while the minimum percentage for the nationality also varies but residency is compulsory especially in banking. While there is generally no restriction on the repatriation of profits for foreign investments. Association with registered local professionals as partners or shareholders is allowed, so also is the hiring of registered local professionals as salaried employees.

Most of the services sectors have regulatory authorities some of which are independent of the Ministry in charge of the sector. Apart from the central banks, regulatory authorities' budgets are funded by the government, but operators' profits are taxed. Most of the regulatory authorities' members are appointed by the executive and need not be sworn-in before the National Assembly. The right to appeal against regulatory decisions by foreign service providers is allowed while a notice for regulatory changes is discretionary in many cases depending on public – private sector relationship.

With respect to the liberalisation of mode 4, analysis show that many countries have ‘unbound’ commitments regarding most sectors. This is because most countries are wary of youth unemployment and for developed countries, there are issues of illegal migration. For Nigeria and other African countries, it may be reasonable to maintain the status-quo regarding the rules affecting movement of workers to their countries.

4.0 Analysis of Contribution of Services to Nigerian Economy

4.1 Macro-level Econometric Analysis

4.1.1 Analysis of Determinants of Services Export [11]

Macroeconomic analysis focused on factors influencing services production and export supply responses for All (aggregate) services, financial, insurance, other business, telecommunication, transport, and travel (tourism) services. The factors which may affect export supplies in the services sector components are: trade related infrastructure: business regulatory environment rating; new businesses registered; quality of port infrastructure; access to the internet (internet); and fixed telephone subscription per 1000 people. Other independent variables are for direct input vector: total natural resources rent as % of GDP; gross fixed capital formation; and permanent cropland as % of land area. Trade related input services: energy use (kg of oil equivalent) per $1,000 GDP; air transport, freight Macroeconomic environment: official exchange rate; foreign direct investment, net inflows as % of GDP (FDI); consumer price index; tariff rate, applied, simple mean, all products; real GDP and secondary school enrolment. Table 4.1 gives results of short and long run effects of the listed determinants on all (aggregate) services, its components are also illustrated within the table. Traffic light approach was adopted to present the direction of impact of the drivers of services trade listed above. Green represents a positive/progressive impact and red a negative/regressive impact on services export.

[11] Technical results are contained in appendix 7a-b.

Table 4.1: Long run effects of Factors Influencing Services Export Supply

	Financial	Insurance	Other business	Telecoms	Transport	Travel &Tourism	All Services
Trade-related infrastructure:							
Business regulatory environment indicator	🟢	🔴	🟢	🔴	🔴	🔴	🔴
New businesses registered	🔴	🔴	🔴	🟢	🟢	🟢	🟢
Quality of port infrastructure	🔴	🔴	🔴	🟢	🔴	🟢	🔴
Internet	🟢	🔴	🔴	🔴	🔴	🟢	🟢
Fixed telephone subscription per 1000 people	🔴		🔴	🟢	🟢	🟢	🟢
Direct Input vector:							
Total natural resource rents as % of GDP	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Gross fixed capital formation	🔴	🔴	🔴	🟢	🟢	🟢	🟢
Permanent cropland as % of land area	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Human Capital (School enrolment, secondary)	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Trade-related input services:							
Energy use (kg of oil equivalent) per $1,000 GDP	🟢	🔴	🟢	🔴	🟢	🔴	🟢
Air transport, freight	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Macroeconomic Environment:							
Official exchange rate	🔴	🟢	🔴	🟢	🟢	🟢	🟢
Foreign direct investment, net inflows as % of GDP	🟢	🟢	🟢	🔴	🔴	🔴	🔴
Real GDP	🟢	🟢	🔴	🔴	🟢	🟢	🟢
Consumer price index	🟢	🟢	🟢	🔴	🟢	🔴	🔴
Tariff rate, applied, simple mean	🟢	🔴	🟢	🔴	🟢	🔴	🟢

Key: 🟢 = Positive effect 🔴 = Negative effect

Source: Appendix Tables

4.1.2 Determinants of Services Production and Employment[12]

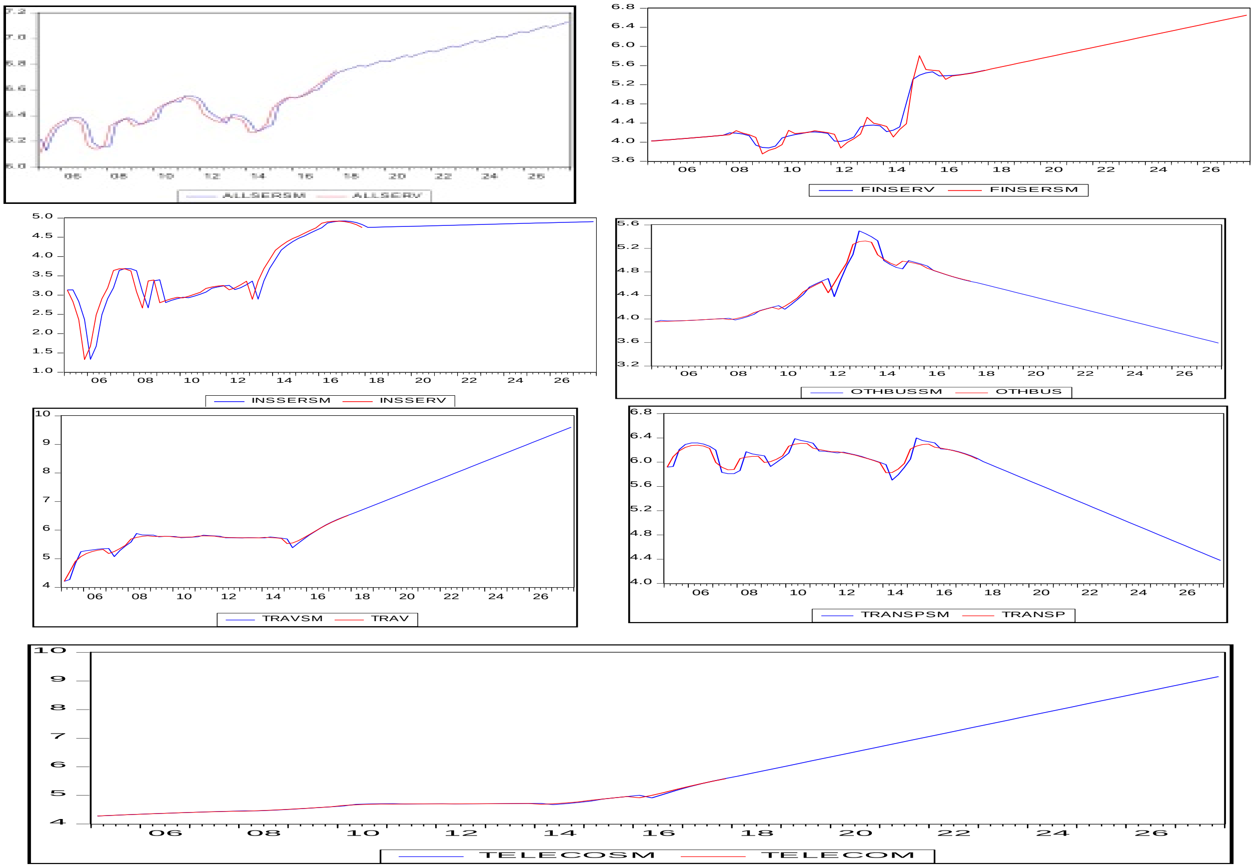
The result of the investigation into the drivers of services production whose increase should normally lead to additional job creation indicates that a growing economy driven by new business registrations, good quality port facilities and ICT infrastructure are quite germane to services production growth. However, this growth can be dampened by lack of dependable energy, shortage of human and physical capital stock, and unfriendly trade policy especially in goods and services sectors. This calls for improvement in the policy environment that enhances services production. This is important because services export is a resultant effect of excess services production over domestic demand.

4.1.3 Forecasting Services Export potential

Figure 4.1 reveals that there is potential for enhanced services exports as shown by the upward dynamic export forecast of total, financial, telecommunication and travel (tourism) services. This suggest that Nigeria will likely increase the exports of these services in the future because the country has comparative advantage in their export. In view of this result, there is need to enhance factors that positively encourage these services. However, there will likely be a persistent fall in the dynamic export forecast of other business services and transport services in the future while export of Insurance services is not expected to rise as the dynamic forecast of the subsector indicates.

[12] Technical results are contained in appendix 7c

Figure 4.1: Dynamic forecast of total Services export potentials



This calls for the provision of requisite government policy towards the development of the sectors. In other words, policies that would increase domestic and foreign investors' confidence in the economy, enhance energy use through increasing electricity generation and distribution while reducing leakages and theft, ensure a growing economy and enhance ICT technology adoption and use. Ensuring high quality port infrastructure, quality education to improve skills in the labour force and grow the human capital stock, good business regulatory environment, and a stable exchange rate, will enhance future export development of financial, insurance, telecommunications, and tourism services. Policies directed at the aforementioned, including those encouraging increase in a highly educated middle class are also required to boost transport services exports.

4.2. Micro-level Analysis: Survey Results

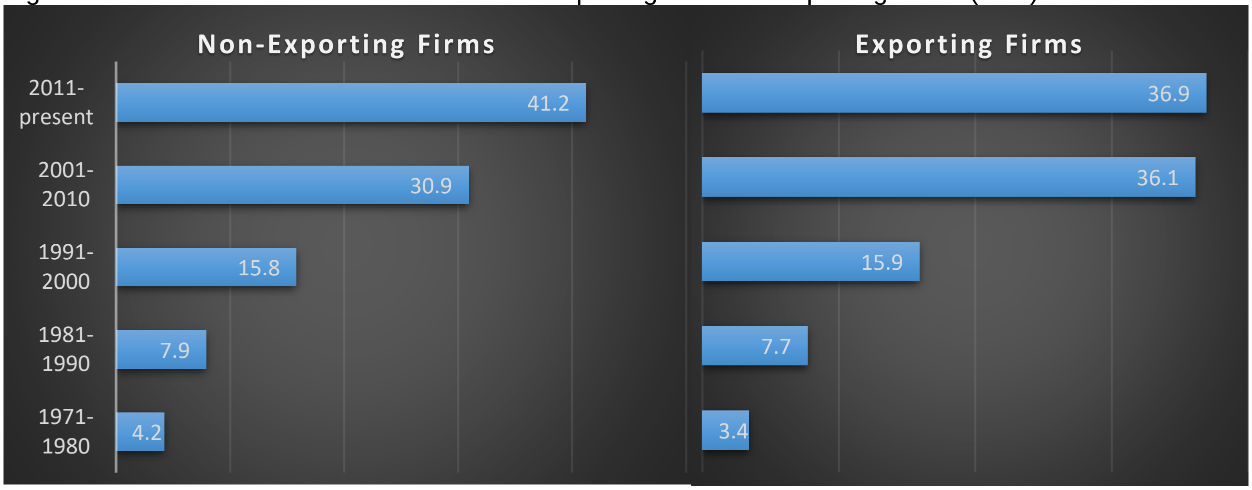
4.2.1 General Information

<u>Classification of Firms</u>

The survey and analysis cover services exporting and non-exporting firms. It investigates export supply response capacity; competitiveness of exporting firms and why experienced non-exporting firms have not been participating in services export. The analysis also profiles both categories of firms by years of establishment to determine experiences in service production and trade, to as much as possible, determine their experiences in the sector since establishment. This section provides comparative analysis of both groups - non-exporting and exporting services firms. This allows for experience sharing and learning about the characteristics of both groups of services firms.

Overall, 398 firms well selected across all services sub-sectors, 59% have participated in services export at least once; 41% of the sample have never participated in services export, only operating with the domestic services market. In terms of year/period of establishment, 70% of the firms that participated in the survey were established after the year 2000. Figure 4.2 provides information about the period/year firms covered in the survey were established.

Figure 4.2: Date of Establishment of Services Exporting and Non-Exporting Firms (in %)



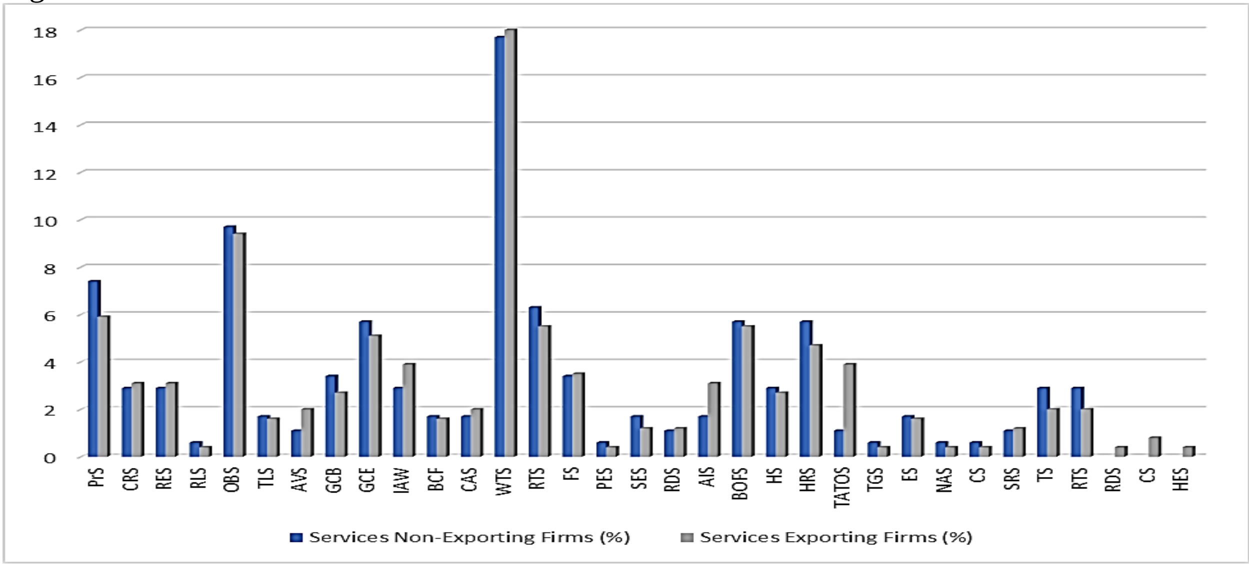
Source: Survey, 2020

In both categories, less than 30% of firms were established between 1971 and 2000, of these, 16% in each group were established between 1991 and 2000. This suggests that the boom in services sector contribution to GDP experienced in the last decade has its roots in the last decade of the 20th century. Before year 1970, only two of the exporting services firms were established based on our survey sample. This suggests that, majority of non-exporting and exporting services firms selected for the study were established between years 1991 and 2019.

Sub-sector Operation of the Selected Services Firms

Wholesale trade services firms dominated the respondent firms for the study. Wholesale services firm are about 17.7% of non-exporting services firms, and 18% of exporting firms. This is followed by other business services that represent about 9.7% and 9.4% of non-exporting and exporting services firms respectively. The professional services constitute about 7.4% and 5.9% of non-exporting and exporting services firms respectively. Retailing, general construction, banking, as well as hotel and restaurant services make up 6.3%, 5.7%, 5.7%, 5.7% and 5.5%, 5.1%, 5.5%, 4.4% of non-exporting and exporting services firms respectively. Rental/Leasing Services, Tourist guides services, News agency services and Cultural services, accounted for about 0.6 of non-exporting services firms. Whereas Research and Development Services, Rental/Leasing Services without Operators, Primary education services, Higher education services, Tourist guides services, News agency services and cultural services represent about 0.4% of non-exporting services firms (see Figure 4.3).

Figure 4.3: Line of business of the selected service firms



Source: Survey, 2020.

Key

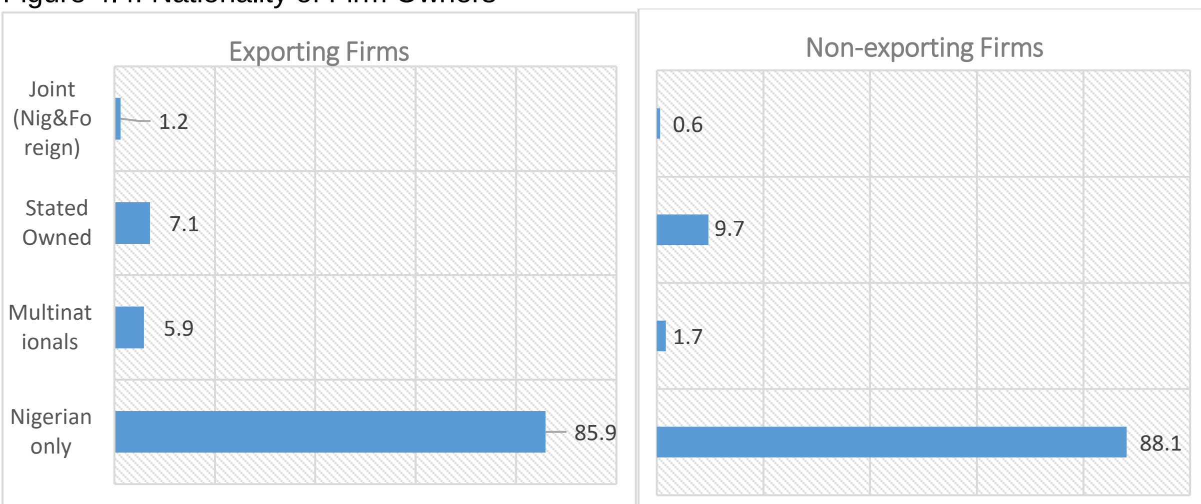
PrS	Professional services	SES	Secondary education services
CRS	Computer and Related Services	RDS	Refuse disposal services
RES	Real Estate Services	AIS	All insurance and insurance-related services
RLS	Rental/Leasing Services	BOFS	Banking and other financial services
OBS	Other Business Services	HS	Hospital services
TLS	Telecommunication services	HRS	Hotels and restaurants
AVS	Audio-visual services	TATOS	Travel agencies and tour operators' services
GCB	General construction work for buildings	TGS	Tourist guide services
GCE	General construction work for civil engineering	ES	Entertainment services
IAW	Installation and assembly work	NAS	News agency services
BCF	Building completion and finishing work	CS	Cultural services
CAS	Commission agents' services	SRS	Sporting and recreational services
WTS	Wholesale trade services	TS	Transport Services
RTS	Retailing services	RTS	Road Transport Services
FS	Franchising	RDS	Research and Development Services

PES	Primary education services	CS	Courier services
		HES	Higher education services

Ownership Structure of Services Firms

Most of the respondent services firms are owned by Nigerians. About 88% and 86% of the selected non-exporting and exporting services firms respectively are owned by Nigerians. About 1.7% of non-exporting services firms and about 5.9 of exporting services firms selected are Multinational companies.

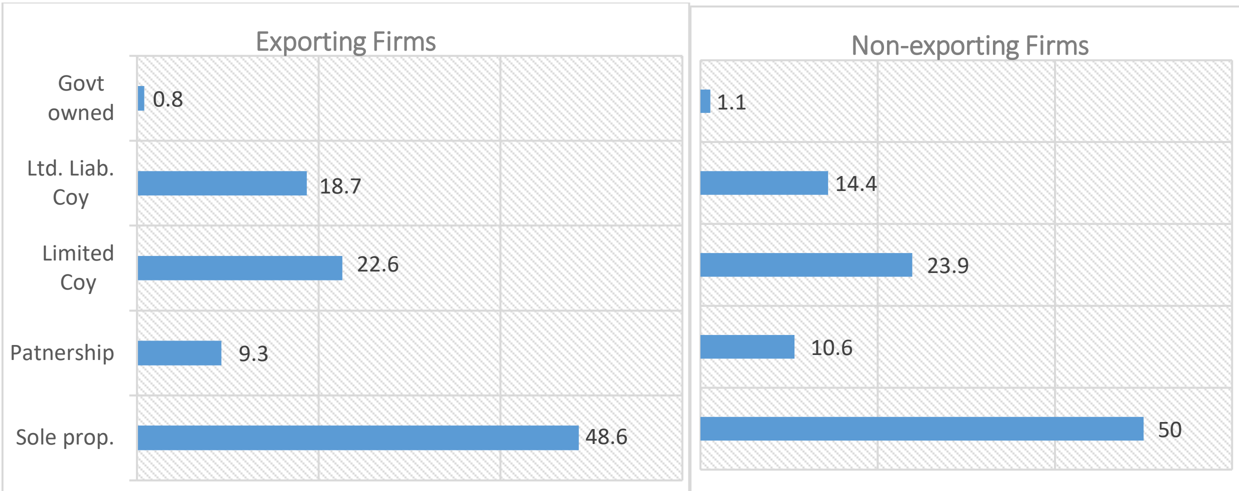
Figure 4.4: Nationality of Firm Owners



The state-owned enterprise among the selected firms represent about 9.7% and 7.1% of non-exporting and exporting services firms respectively. The services firms that are Joint ventures between Nigerians and Foreigners are about 0.6% and 1.2% of non-exporting and exporting services firms respectively (Figure 4.4).

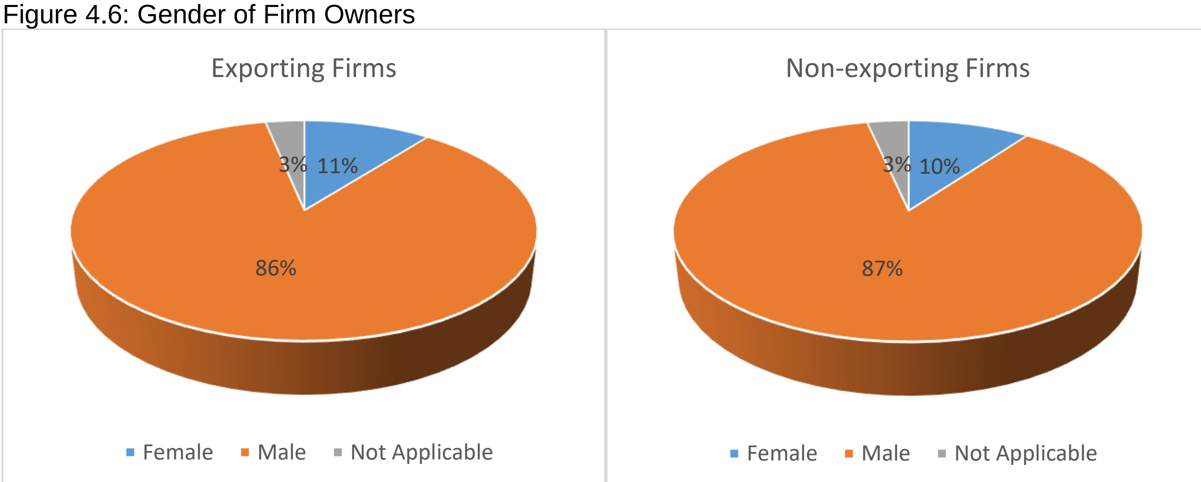
The ownership structure of the respondent services firms suggests that about 50% of the services firms are Sole proprietorship. This is followed by limited company that are about 23.9% and 22.6% of non-exporting and exporting services firms respectively. About 10.6% and 9.3% of non-exporting and exporting services firms respectively, represent partnership firms (Figure 4.5).

Figure 4.5: Ownership Structure of Services Firms



Males dominated the ownership of the respondent services firms. Males own above 85% of the services firms selected for the study, while about 11% and 10% respectively are owned by females (Figure 4.6).

Figure 4.6: Gender of Firm Owners



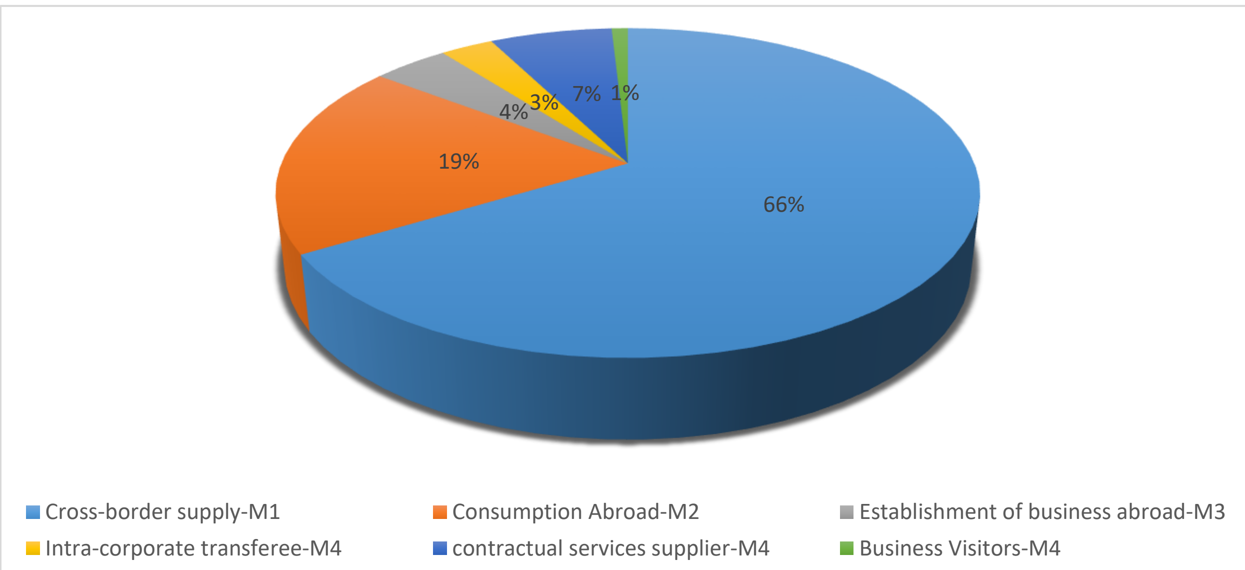
Source: Field Survey (2020)

4.2.2. Export Activities of Services Firms

Activities of services firms were classified by mode of supply as indicated in the WTO GATS. The mode of export activities for these services firms also determine the export potentials. The four categories of services trade include cross-border supply (Mode 1), consumption abroad (Mode 2), establishment of services business abroad (Mode 3), and movement of natural persons (Mode 4).

The largest share of the Nigerian services sector export activities surveyed are made through cross border supply which is about 52.6% of total export activities (Figure 4.7). This is followed by Intra-corporate transferees (Mode 4) export, which is about 23% of the exporting activities.

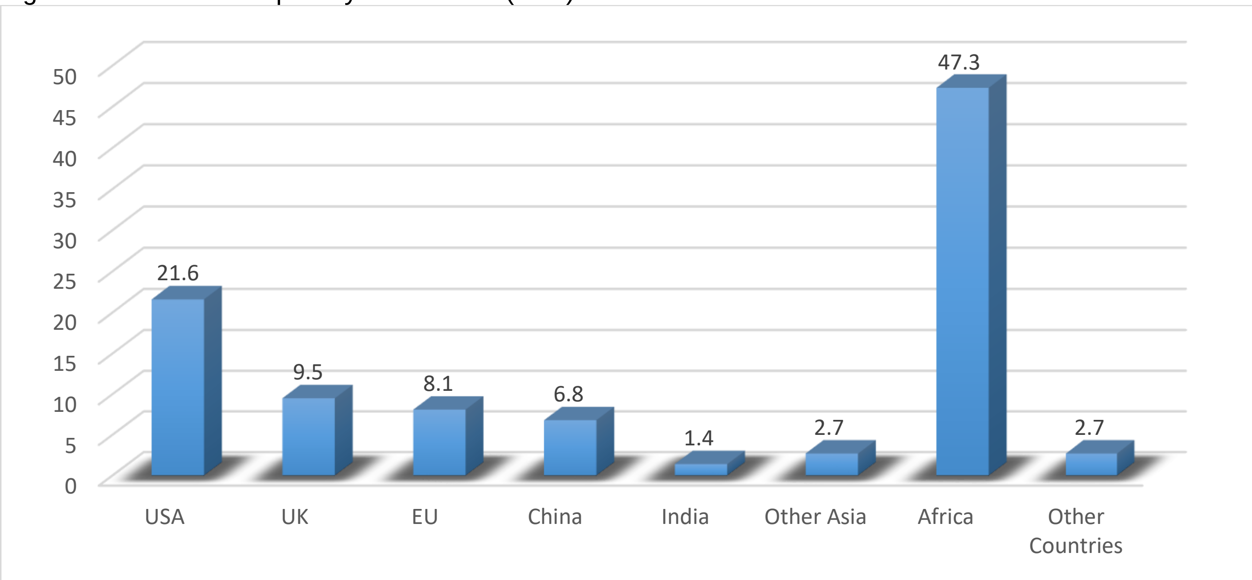
Figure 4.7: Services Export Activities by Mode of Supply



Consumption abroad mode of export constitutes (mode 2) about 15.1% of the exporting firms surveyed. Also, about 5.3% and 3.3% are exported through Contractual services suppliers and commercial presence abroad (establishment of Service Business abroad – mode 3) respectively. This indicates that other aspects of services trade such as Modes 2, 3 and 4 portend export potentials for these services export firms in Nigeria. These firms must develop the export potentials in these areas; especially that of Mode 4 with intra-corporate transferees. Understandably, Modes 2 and 3 might be difficult to develop fully due to local content policies and regulatory requirements of those countries demanding for such services.

In terms of direction of services export, our data shows majority of Nigerian services exporting firms do so to African markets. Specifically, 47.3 percent of the responding firms export their services to African countries. This suggests that Nigeria has potentially to compete in the new Free Trade Area (AfCFTA) arrangement. Understandably, the no visa arrangement or the visa on arrival policies of most of these African countries to Nigeria made it easy for bilateral services trade. The United States of America (USA) has a long history of trading activities with Nigeria. The USA is second in terms of export destination regarding Nigerian services exporters as 21.6% of these firms confirmed that their services were exported to the USA.

Figure 4.8: Services Export by Destination (in %)



Source: Survey, 2020

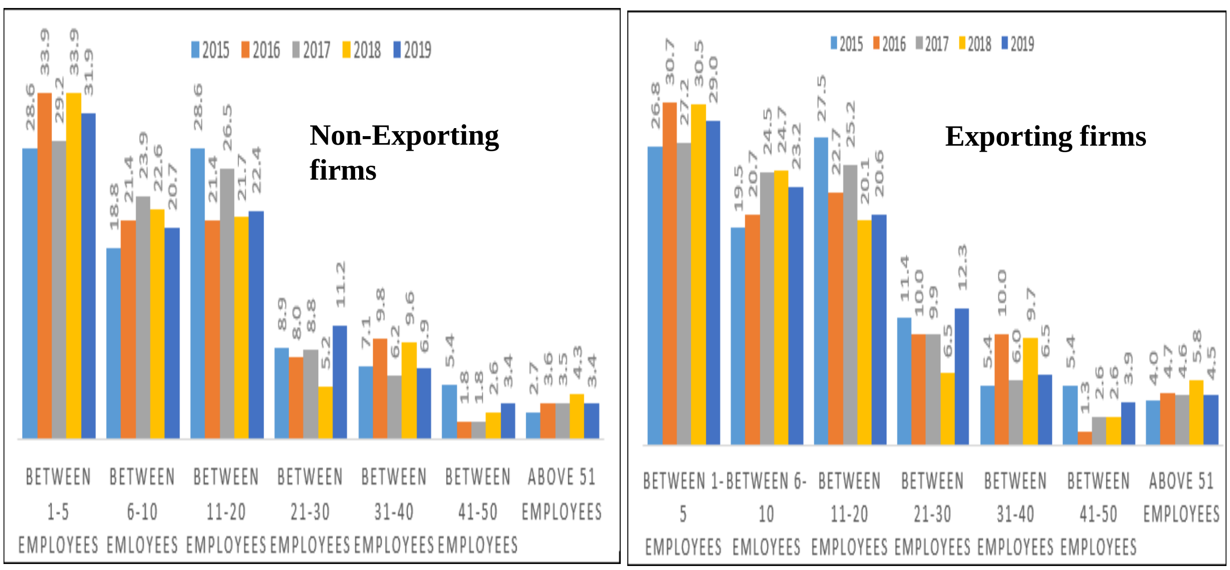
The United Kingdom with its colonial ties to Nigeria has unimpressive imports of services from Nigeria as only 9.5 percent of the latter's exporting activities are destined to the former. India and other Asian countries are the least patronised destination of services export firms from Nigeria. Exporting activities to China accounted for 6.8 percent and the various memoranda of understandings (MOUs) between the two countries suggest that Nigeria's exporting potentials with China could be higher in the coming years. Currently, China is engaged in various development programmes in Nigeria. These include aid, infrastructural development, technology transfers and foreign exchange arrangements. These are avenues for possible export opportunities for services export firms in Nigeria.

Although there are many considerations determining services trade between and among countries, services export firms in Nigeria would have to create a competitive edge for their services in the international markets by devising cost-cutting strategies, cost-saving technologies, good corporate governance policies, sound business ethics and efficient internal control measures. Full disclosures should be encouraged for transparency of transactions and client's loyalty and confidence gained for the sustainability of those exporting activities to destination countries and further win new international trading partners. The collection of these factors stand as motivating factors for potential business partners; especially within the international community.

4.2.3. Potentials of Nigeria's services sector for employment creation

Exporting services firms create more employment compared to non-exporting services firms. This justifies the employment generation potentials of the services sector, especially the exporting services firms.

Figure 4.9: Exporting and Non-Exporting Services firms' casual employment (in percentage)

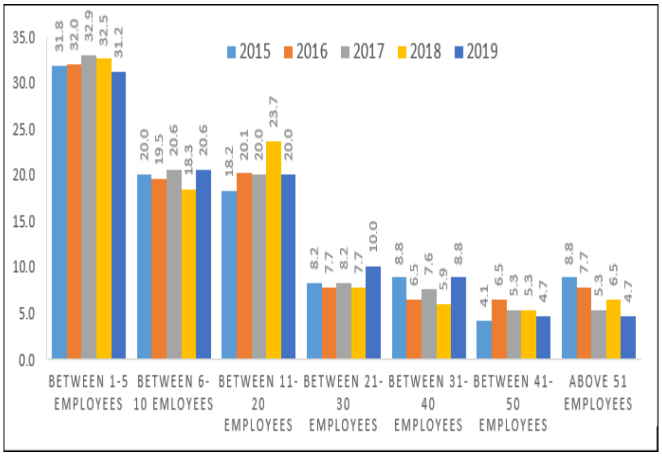


The proportion of casual employees above 50 by exporting services firms increased from 4% to 5.8% in years 2015 and 2018 respectively while the same increased with about 2.7% and 4.3% for non-exporting services firms during the same period. The proportion of casual employees below 20 percent by respective firms are more than those above 20 (Figure 4.9).

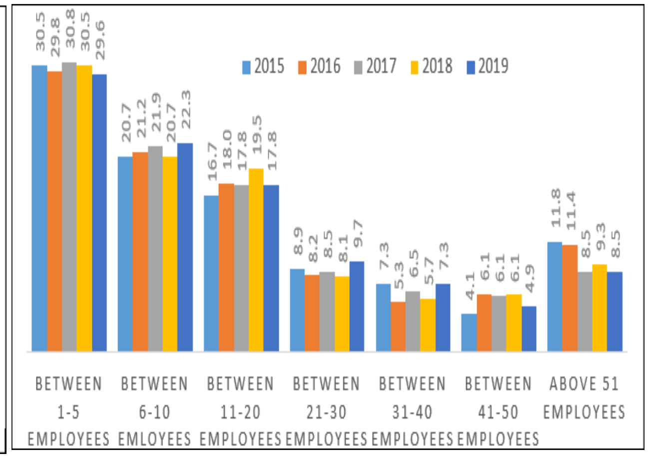
Although there is a reduction in the proportion of services firm's full-time employment above 50 people from about 11.8% to 8.5% in years 2015 and 2019 respectively, exporting services firms employ the larger share of the full-time workers (Figures 4.10).

Figure 4.10: Export Services Firms' Full Time Employment (in %)

Non-Exporting



Exporting



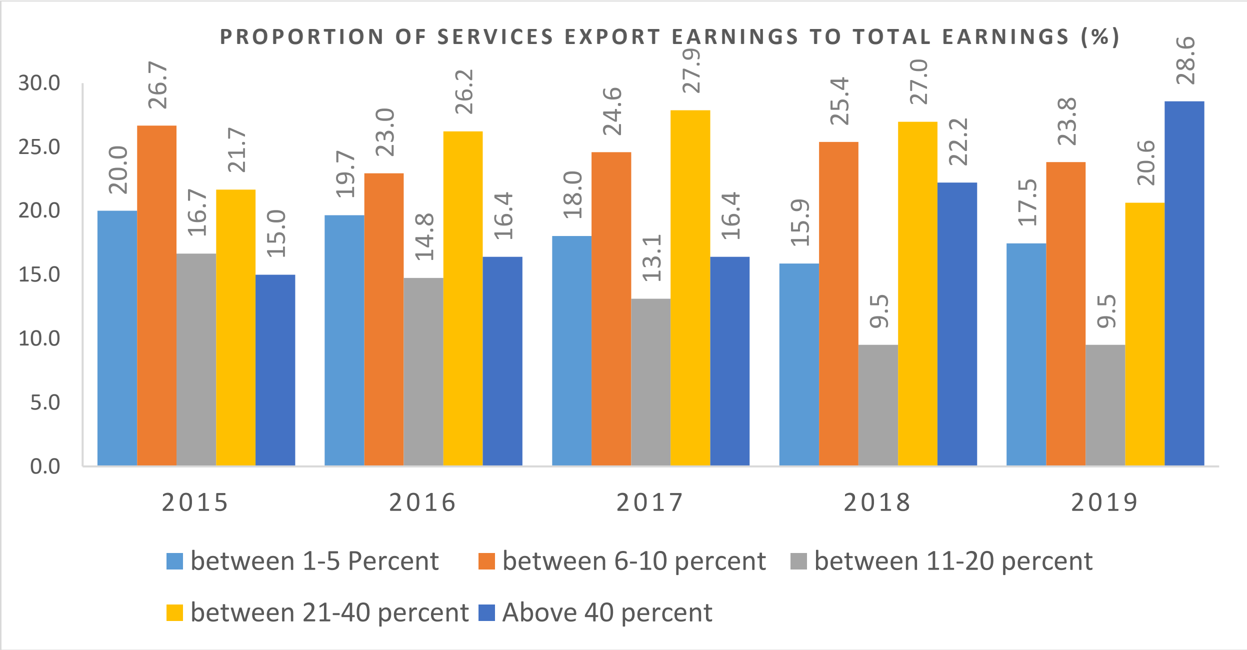
Source: Survey, 2020

The proportion of full-time employees above 50 people by non-exporting services firms reduced from about 8.8% in 2015 to 4.7% in 2019. However, the proportion of full-time employees below 20 by respective firms are more than those above 20.

4.2.4. Field Responses on Nigerian services sector potentials for export

In terms of export potentials of services export firms in Nigeria, Figure 4.11 provides an indication regarding growth of the proportion of export earnings to total services firms' earnings for the years 2015 to 2019. In 2015, proportion of export earnings out of total firms' earnings is highest (26.7%) amongst category of firms earning 6 – 10% of their revenue through export in 2015. There was a significant leap in export earnings to total earnings ratio in 2016 as majority of firms (26.2) are in the category with 21 – 40% total revenue generated through service exporting.

Figure 4.11: Proportion of Export Earnings to Total Earnings of Services export Firms in Nigeria



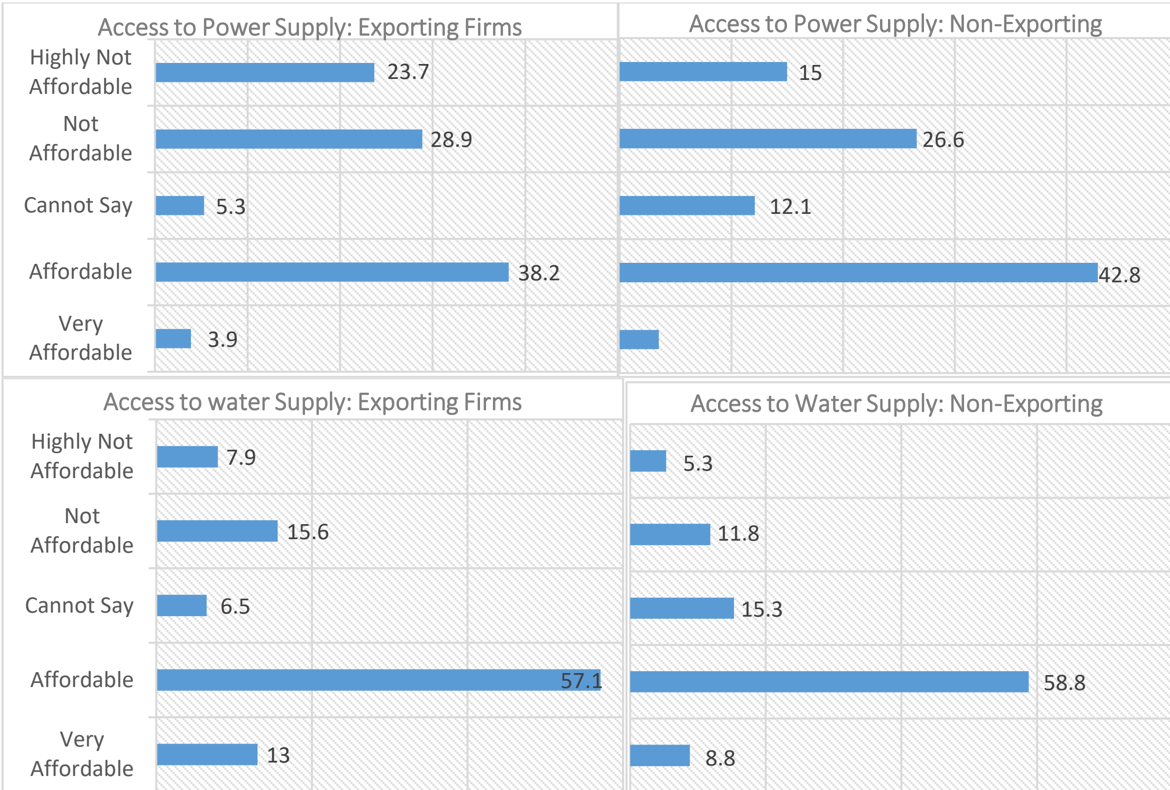
In fact, increasing proportion of respondents' services export firms in Nigeria (26.2, 27.4 and 27.0) report that the proportion of their export earnings to total is between 21 and 40% for the respective years of 2016, 2017 and 2018. In addition, those firms with export earnings proportion above 40% increased from 16% in 2015 to 28.9% in 2019. This implies that export markets are becoming quite significant and important for Nigeria's services firms.

In addition, this trend suggests that some of Nigeria's services export firms have substantial export potentials as these firms have continued to increase the ratio of their export earnings to total earnings, especially those in the category of exporting 'above 40%' of their total output. This portends great opportunities to increase capital inflows for the country and create job opportunities in the domestic economy. Despite this statistical result, most of the services export firms record declining proportion of export earning in total earnings between 2015 and 2019. These are firms in the categories of export earning shares of 1-5, 6-10, 11-20 and 21-40% as a proportion of total earnings. These are firms which need export market access support to not only create export market but to maintain it.

4.2.5. Constraints Confronted by Services Export and Non-Export Firms in Nigeria

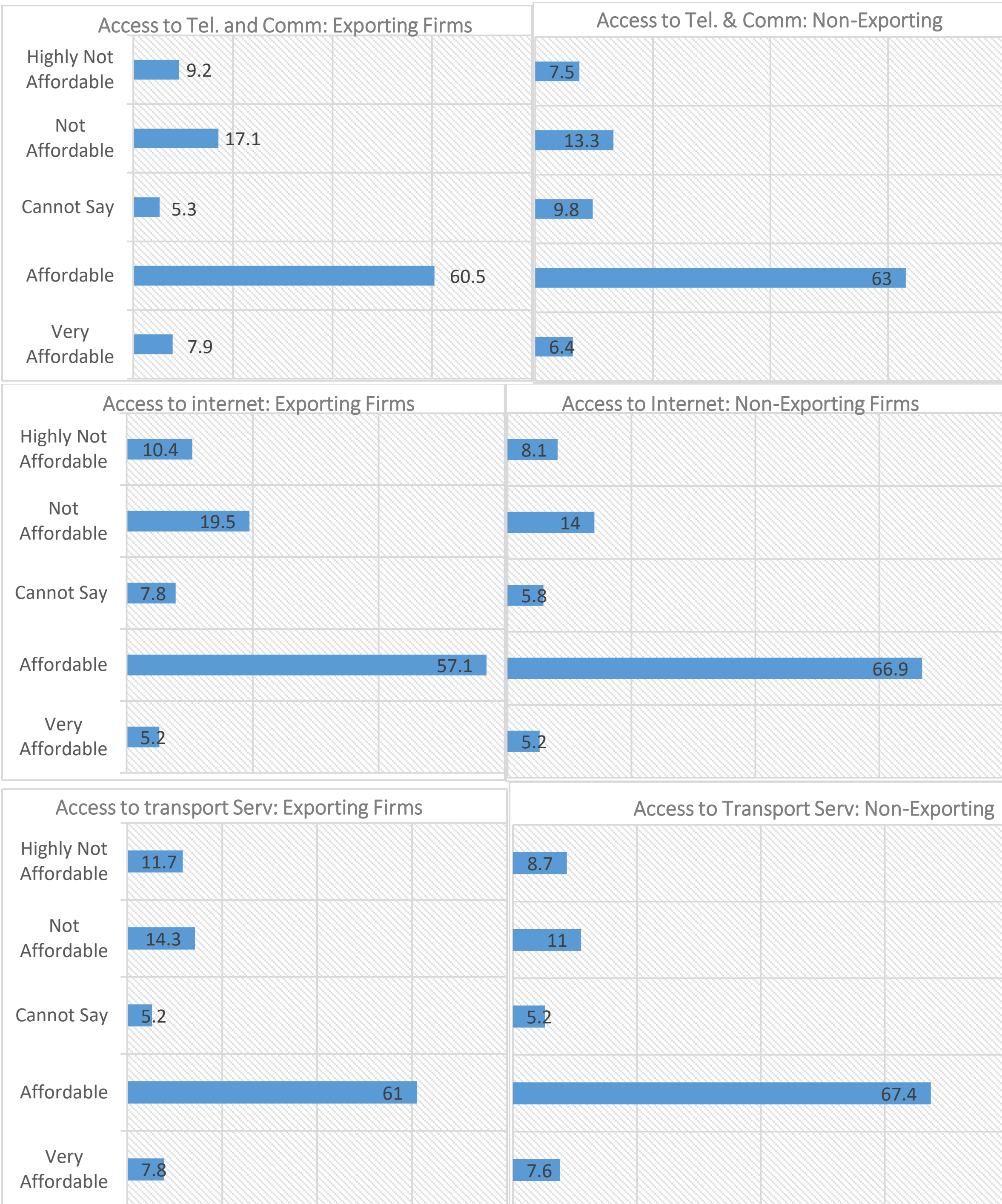
In Figure 4.12, the economic infrastructure and ease of doing business as evaluated by services firms in Nigeria was captured. The components of economic infrastructure included access to public power supply, access to water supply, access to telephone and communication, access to internet services and access to transportation services. The responses elicited suggest that 42.1% of the services export firms could afford public power supply while 52.6% of these firms could not afford same. Only 5.3% could not decide whether access to public power supply is affordable or not. The corresponding responses from the services non-export firms that could afford public power supply are 46.3% while 41.6% could not. The services non-export firms that could not decide the affordability of public power supply is 12.1%.

Figure 4.12a: Response on Challenges Confronting Services Firms in Nigeria



Source: Survey, 2020

Figure 4.12b: Response on Challenges Confronting Services Firms in Nigeria



Source: Survey, 2020

These elicited responses indicate more services export firms, as compared to non- service export firms, could not afford public power supply in Nigeria. This is a strong indication of poor access to public power supply experienced by these firms due to its non-affordability. However, the service non-export firms are not considered decisive enough in terms of affordability or non-affordability of public power supply. The implication is that affordability and accessibility of public power supply for these firms are simultaneously inhibiting to services non-export firms in the country. Concerning water supply, both the services export and non-export firms agreed to its accessibility as substantial proportion of respondent firms, 70.1% and 67.6% respectively, indicated that water supply is affordable for their business operations. However, 23.3% and 17.1% of the services export and non-export firms respectively indicate that water supply is not affordable for their business operations. Also, 6.5 and 15.3% of these respective firms could not ascertain the affordability or otherwise of water supply to their business operations. By implication, there is sufficient accessibility as well as affordability of water supply for the operations of these firms. This is also the case for telephone and communication, internet and the transportation services. About 68.4 and 69.4% of services export and non-export firms respectively attest to the affordability of telephone and communication while the corresponding proportion of firms that indicated the affordability of internet services were 62.3% and 72.1% respectively. For the transportation services, also, 68.8 and 72.1% of export and services non-export firms attested to the affordability of transportation services for their business operations.

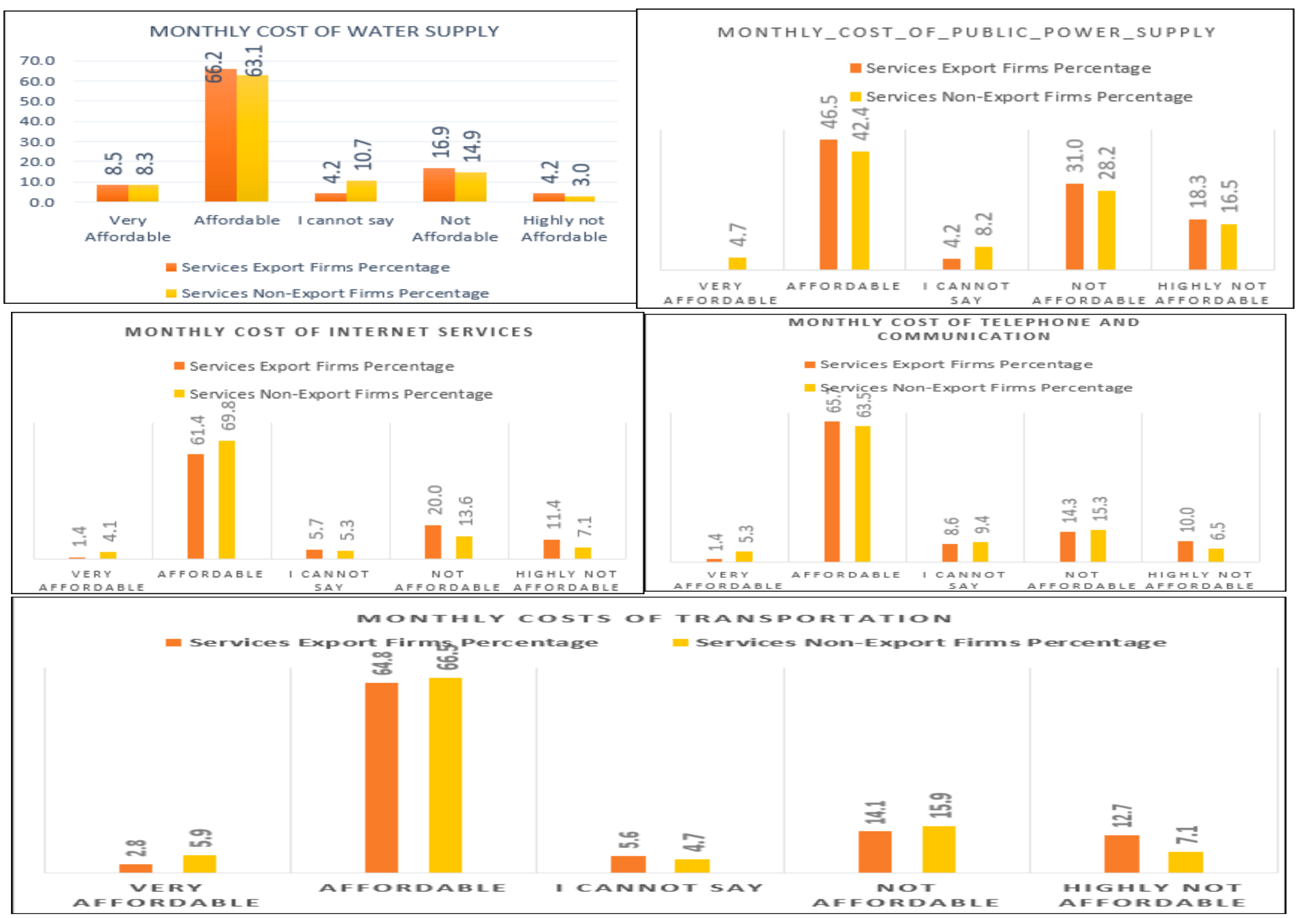


Figure 4.13: Monthly Cost of Power, Water, Telephone and Internet services

For in-depth analysis of affordability, the monthly costs of these economic infrastructures were depicted in Figure 4.13. Slightly over 47% of the services non-export firms indicated that the cost of public power supply is affordable while the corresponding proportion for services export firms in Nigeria is 46.5%. By contrast, 49.3% of the services export firms indicated that public power supply is not affordable while 44.7% of the services non-export firms attested to the non-affordability of public power supply in the country. This reinforces the submission that the limitation to the accessibility of public power supply in Nigeria is largely determined by its non-affordability to services firms. Further discussion revealed that there needs to be synchronisation of rates when on estimated billing and when billed using pre-paid metres. For some discussants, estimated billing was better whereas for others pre-paid metres were better. For other economic infrastructure such as water supply, telephone and communication, internet and transportation services, accessibility is also limited by costs of these economic infrastructure. Even though more than 60% of services export and non-export firms attested to their affordability, about 25% of respondents maintain that their costs are considerably high.

With respect to the state of economic infrastructural facilities for the business activities of these services shown in Figure 4.14, the combined responses that quality of these facilities have either deteriorated or remained unchanged indicate that there is problem of sustainability of quality service delivery by these facilities. Specifically, only 31.2% of the services export firms agreed that public power supply has improved while only 21.7% of the services non-export firms attested to the improvement of the public power supply. However, an appreciable proportion of these services firms; both export and non-export, agreed that water supply, telephone and communication, internet and the transportation services have improved. There were 37.7% and 43.9% of services export and services non-export firms respectively that agreed to the improvement of water supply while 42.7% and 55.4% indicated that telephone and communication services have improved over the past years.

Expectedly, the improvement in telephone and communication services has also enhanced the improvement in the internet services as 40.8% and 53.4% of the services export and services non-export firms respectively agreed to its improvements. There is also perception that transportation services have similarly improvement according to 40.0 and 44.5% of services export and non-export firms respectively. The innovation in transportation business in the country and the ingenuity of new entrants have contributed significantly to the improvement of transportation services for businesses and economic transactions in the country.

Figure 4.14: State of power supply, water, telephone, internet, and transportation services

Another significantly binding constraint confronting the business activities and operations of services firms in Nigeria include availability of funds. Figure 4.15 indicates that services non-export firms are confronted more by insufficiency of funds as compared to their counterpart in services export firms. About 58% of the services non-export firms indicated that available funds are either inadequate or very inadequate to manage their business transactions while 40.5% of the services export firms attest to fund inadequacy. Factors that could be responsible would include credit-worthiness, scale of operation, uncertainty and requirements for sourcing loans at formal financial institutions. Altogether, however, both categories of firms were largely affected by insufficient availability of funds in managing their business operations.

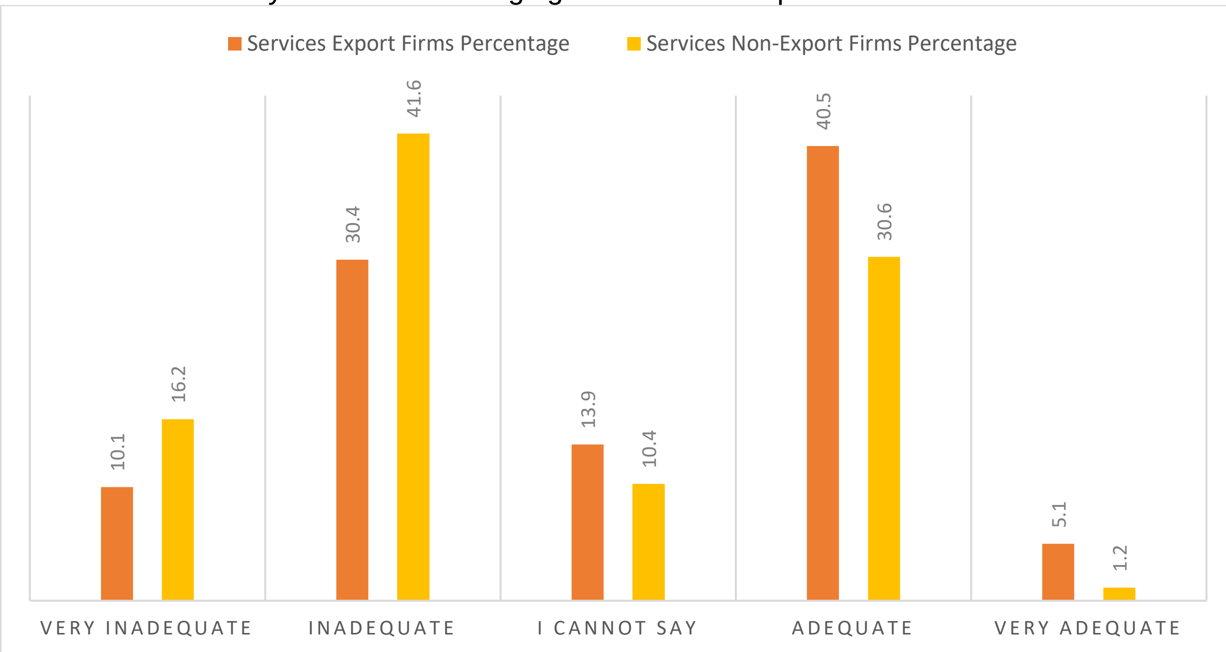


Figure 4.15: Adequacy of Funds for Services Firms

Figure 4.15 is reinforcing in this regard as larger proportion of the respondents believed credit accessibility by services export and non-export firms is difficult or fairly difficult to access from formal financial institutions for the years 2015 to 2019. The proportion of the respondents that share this perception hover around 56.6 – 60.0% for the services export firms but of greater proportion exceeding 75.0% and up to 80.0% during the period under consideration. This further shows that even though credit accessibility is, at least, somewhat difficult for export and services non-export firms in Nigeria; the latter firms bear the effects more than the former.

Insights provided during focus group discussion pointed to the fact that obtaining funds from formal banking channels can be herculean for start-ups whereas for established businesses, it was quite easy to access funds. It was however not agreed that even established firms could obtain funds at single digit interest rates. Some participants' experiences suggest that firms' relationship with fund managers matter for the rates that they obtain for their loans. Another insight gained from discussion related to corruption and grace period granted before the commencement of repayment of loans. In the first case, fund managers were willing to grant loans to start-ups if they could provide bribes, for example, N1million bribe on a loan facility of N10million. In the second case, participants complained that repayment started as soon as they received the loans even before their businesses begun to yield profits.

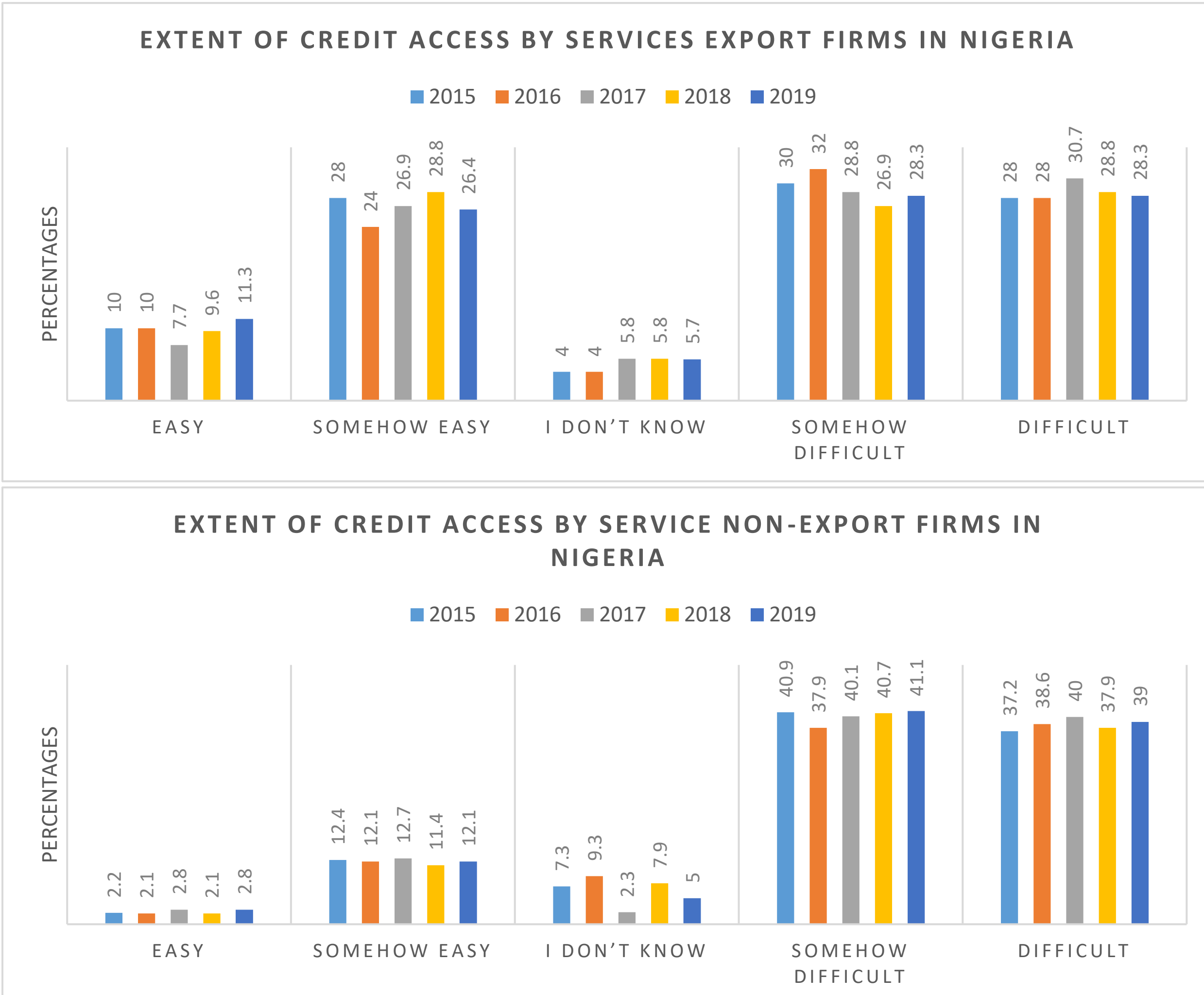
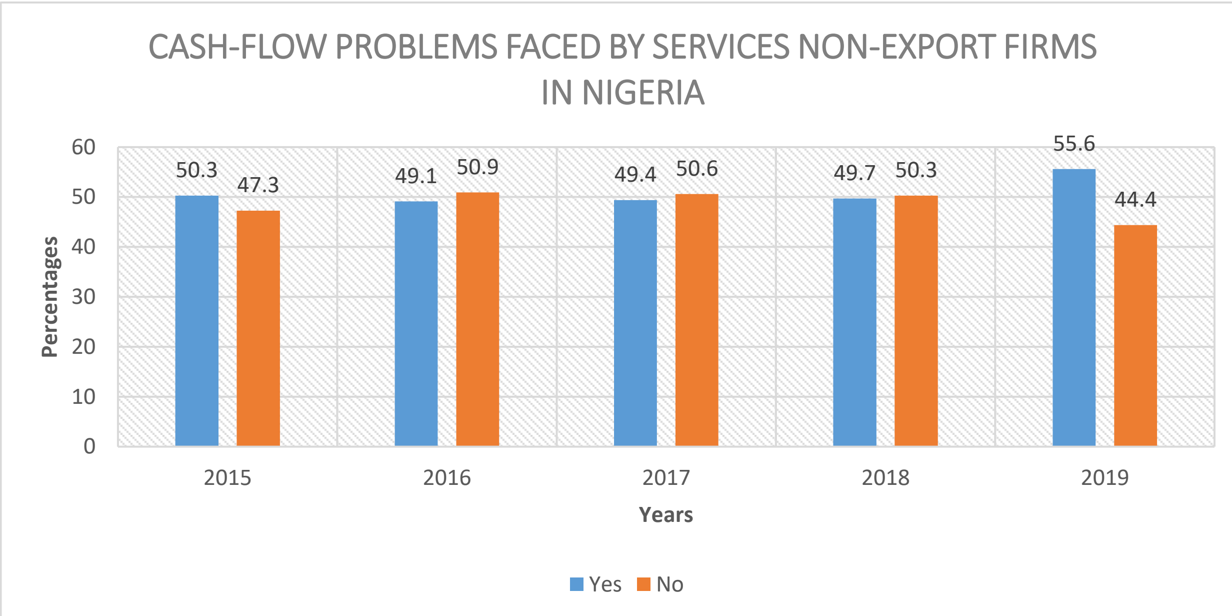


Figure 4.16: Extent of Credit Access

Similarly, services export and non-export firms in Nigeria face cash-flow problems; albeit to varying degrees. In fact, the services non-export firms face cash-flow problems more than the services export firms for the period 2015 – 2019. Specifically, 31.5% and 50.3% of the respondents said that the services export firms and non-export firms respectively suffered cash-flow problems in the year 2015. The corresponding responses for the year 2016 are 30.1 and 49.1% for the services export and non-export firms respectively. In the year 2017, the corresponding responses are 38.7 and 49.4% respectively and 34.5 and 49.7% correspondingly for the year 2018. In the year 2019, the corresponding responses for export and non-services export firms are 35.1 and 55.6 percent respectively (see Figure 4.17).



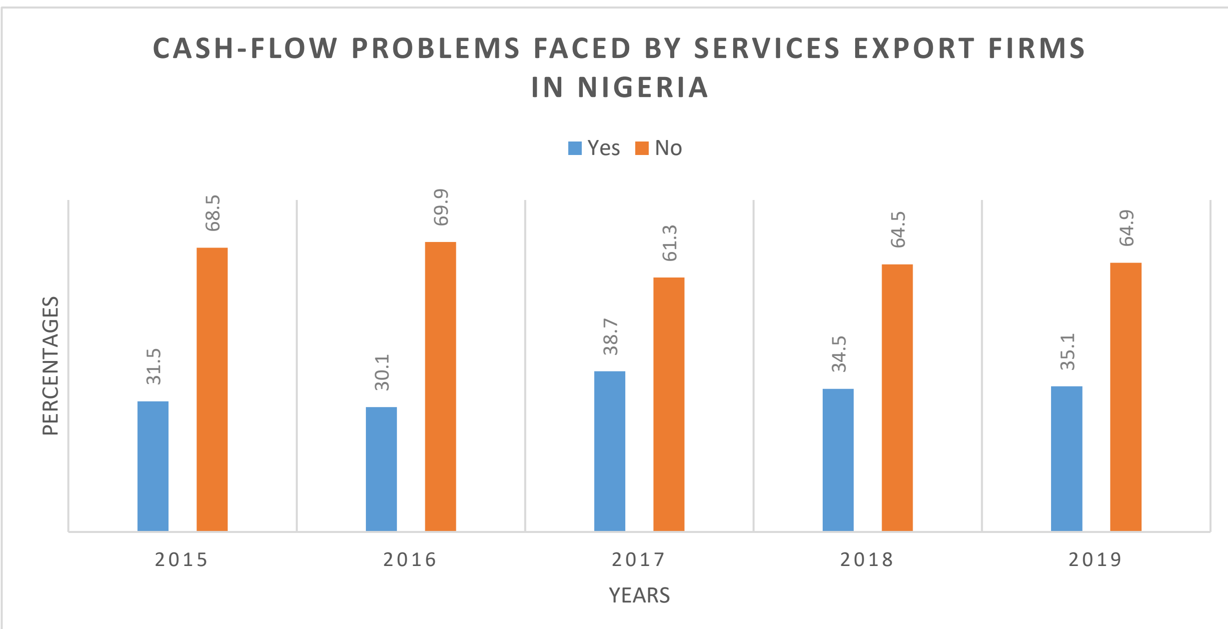


Figure 4.17: Cash-flow Problems faced by Services Non-Export Firms in Nigeria

5.4. Analysis of market access trend and constraints

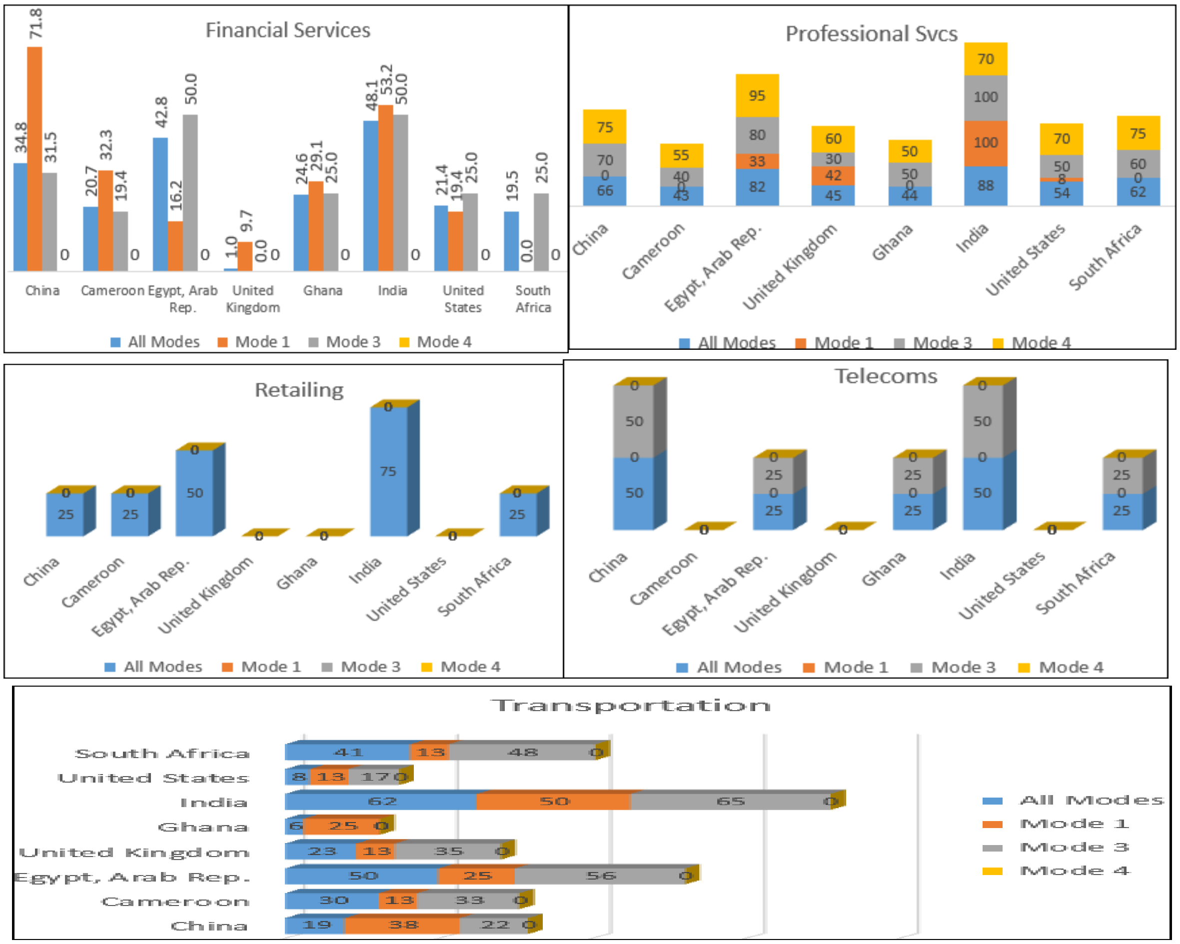


Figure 5.20: STRI Index in Services Export Destinations

Under this section, services trade policy is mapped in services export destinations to trends in the export of services destined for different countries. The assumption is that countries to which little services is exported could have highly restrictive services trade policy. This is captured in the Services Trade Restrictiveness Index. For this study, the STRIs of USA, UK, China, India, and South Africa are analysed by modes of supply. Professional Services is most restricted of all the services considered, across all modes of services supply. This is evident in United Kingdom, United States, South Africa, China, India and Cameroon that have Services Trade Restrictiveness Index (STRI) of 45.00, 54.00, 62.00, 66.00, 87.50 and 43.00 respectively on the average for all the modes of supplying services trade. This could be connected to protections of indigenous professionals. Financial, Telecommunications, and Transportation Services are less restricted in Nigerian services trade partners with less than 50 STRI across the modes of services supply. The least restricted of the services across countries is retailing services. There are no restrictions on modes 1, 3 and 4 across the services trade partners

5. Conclusion and Recommendations

5.1. Conclusion

Africa's contribution to global trade in services has grown slowly over the years despite rapid globalisation and liberalisation. The continent's intra - African trade in services is also relatively little. In Nigeria, services sector contribution is huge, representing over 50% of national output and has become an important driver of growth. Despite this, the sector has contributed little to trade.

The need to effectively diversify the Nigerian economy away from its perennial over reliance on oil is more urgent. Despite efforts overly concentrated on agriculture and manufacturing sectors for diversification, services sector increased its share of GDP from less than 30% to over 50% from the 1990s till date, 50.8% in 2010, 52.4%, 58.2% and 55.8% in 2013, 2015 and 2017 respectively and a growth rate of 1.83% in 2018. Hence, the services sector possesses immense potential to not only promote Nigeria's diversification agenda but also contribute substantially to employment and growth. Notwithstanding, Nigeria does not possess a holistic services sector policy.

There is no doubt that the services sector provides ample opportunity for growth and employment creation. While Nigeria's services contribute significantly to the country's GDP, it also provides employment for a multitude of people in the different fields of human endeavour. Trade in services has expanded since the Uruguay Round GATs and the proliferation of regional trade agreements have also brought to the fore the importance of services sector production and trade as well as the domestic regulations that affect the trade in services. Indeed, services is one of the sectors that is being negotiated in the African Continental Free Trade Area (AfCFTA) agreement.

5.2. Recommendations

5.2.1. On Services Growth and Employment Potentials

- ✓ Policies are required to ensure that services sector growth is enhanced. The trade (wholesale and retail services) subsector which is the largest contributor to GDP followed by information and communication should be enhanced with delivery quality and standards.
- ✓ The growth of the Arts, Entertainment & Recreation which is growing at an average of 8.45% should be enhanced through multifaceted policies of sector promotion, export incentives, tax incentives, protection of intellectual property among others.
- ✓ Slow and low growth sub-sectors such as Accommodation and Food Services, Human Health & Social Services, Transport and Utilities should be focused specially to understand factors impinging on their growth and implement policies to assist their market development.

5.2.2. On Domestic Policies and Regulations

- ✓ There needs to be a holistic services sector policy with strategic development plans for priority sectors.
- ✓ Domestic regulation engendering the profitable production and export of services are required.

5.2.3. On Services Trade and Services Export Promotion

- ✓ Policies encouraging services exports should be urgently established. Of these are those related to services export promotion which is elaborated below:

- The government should be at the forefront of assisting to provide market opportunities for services firms in export markets.
- Foreign road shows and trade fairs should be overhauled to include services
- There should be sector-enhancing liberalisation, sector-targeted promotion policies, development of human capital, strong institutions and provision of critical infrastructure to promote the services sector in Nigeria.

5.2.4. On Future Multilateral and Regional Services Trade Policy

- ✓ There should be capacity building for private sector stakeholders especially services providers on services trade, services export potential and services import impacts to deepen knowledge base about current trade-related practices and implications of impending trade agreements in services such as the AfCFTA, ACP-EU Post-Cotonou Agreement and the WTO-related Trade in services agreement (TISA).
- ✓ The likely workable proposal for mode 3 commitments in priority sectors in the AfCFTA will be to undertake a 'none' entry for market access and national treatment in the priority sectors in view of the fact that 100% foreign participation is allowed in the regulations, and there is no significant discrimination between domestic and foreign services providers. The exception to this recommendation is in the professional services sector, where there are significant restrictions to market entry and national treatment of foreign practitioners. Any liberalisation should be discussed with relevant business membership organisations (BMOs).
- ✓ Commitments in the AfCFTA will be expected to be better in terms of quality of offer than at the multilateral level.
- ✓ Further research is required regarding identification of services exports opportunities in countries of export destinations and impediments through negotiations in multilateral and regional services negotiations.

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Appendices